Latvenergo Group Unaudited Financial Results 2014

In 2014, the total amount of investments was EUR 177.6 million, EBITDA* amounted to EUR 240.3 million and the revenue exceeds EUR 1 billion. Compared to the previous year, EBITDA and revenue decreased by 3% and 8% respectively. The uncommonly low water inflow in the Daugava River had the major negative impact on the result.

- Electricity supply in Lithuania and Estonia increased almost by a half compared to the previous year;
- The second stage of the project *Kurzeme Ring* has been completed – the new 330 kV power transmission line *Grobiņa – Ventspils* was commissioned;
- In 2014, the total amount of investments was EUR 177.6 million and the profit amounted to EUR 29.7 million.

In 2014, Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics. The market share of Latvenergo Group equals 35% of the total Baltic electricity market. We have supplied 8,688 GWh of electricity to retail customers in the Baltics, which is 9% more than the previous year.

Most significantly electricity supply increased outside Latvia – in Lithuania and Estonia, where it was increased almost by a half compared to the previous year. Also, the number of customers in neighbouring countries has increased by more than one-fifth reaching approximately 34 thousands at the end of 2014. The total electricity supply volume in Lithuania and Estonia reached 3,053 GWh, which is almost twice as much as the amount provided by competing electricity suppliers in Latvia.

Since mid-2014, Latvenergo Group supplies all of its generated electricity on Nord Pool Spot exchange, thus multiple times increasing electricity supply in the Latvian bidding area and ensuring greater liquidity. In 2014, the total amount generated by the power plants of Latvenergo Group comprised 3,625 GWh of electricity and 2,492 GWh of thermal energy, of which Daugava HPPs generated 1,925 GWh of electricity and Riga thermal power plants (Riga CHPPs) generated 1,648 GWh of electricity and 2,236 GWh of thermal energy. Electricity generation decreased by 25% compared to 2013. Electricity output at Daugava HPPs has decreased by 926 GWh or 32% compared to the previous year. The decrease of electricity generation was determined by uncommonly low water inflow in the Daugava River – the lowest since 1976. Taking into account change in support mechanism for large cogeneration plants, not providing compensation for natural gas as well as considerable reduction of the support for cogeneration along with the introduction of the Subsidised Energy Tax as of the beginning of the year, Riga CHPPs operated in market conjuncture effectively planning operating modes and fuel consumption. Thus, the output of Riga CHPPs was by 309 GWh or 16% lower than the previous year.

In 2014, Latvenergo Group revenue amounted to EUR 1,010.8 million and the profit was EUR 29.7 million (2013: EUR 1,099.9 million and EUR 46.1 million respectively). The decrease of the revenue of Latvenergo Group was determined by the change in the accounting principles along with the entrance into operation of Enerģijas publiskais tirgotājs AS as of 1 April 2014. Thus the Income Statement of the Group no longer includes settlements for the mandatory procurement.

The decrease of the profit was caused by a considerably lower output of the Daugava HPPs, besides, the lost revenues of Latvenergo Group due to electricity supply at the regulated tariff was EUR 48.2 million.

In order to improve the transparency of the administration of the electricity mandatory procurement, a new subsidiary *Enerģijas publiskais tirgotājs* AS was established on 25 February 2014 and it has taken-over mandatory procurement administration functions from Latvenergo AS as of 1 April 2014. According to legislation, particular obligations apply to this subsidiary - it is obliged to purchase electricity from generators, who have a granted right to supply the generated electricity for the mandatory procurement under electricity purchase tariffs set by legislation, and to pay guaranteed fee for the electrical capacity installed at cogeneration power plants. In the new estimation of the mandatory procurement public service obligation fee (PSO) for 2014, *Enerģijas publiskais tirgotājs* AS has taken into account the allocation from the State Budget for the reduction of the PSO fee, thus the total PSO fee will remain at 2.679 cents/ kWh as of 1 April 2014.

In August 2014, 330 kV electricity transmission line connection *Grobiņa-Ventspils* of the *Kurzeme Ring* project was commissioned thus completing the second stage of the *Kurzeme Ring* project. The construction of the final stage of the project *Ventpils-Tume-Rīga* has been included in the indicative funding allocation list of the European Commission assigning 45% co-funding. As a result of the project implementation safety in Kurzeme region and in Latvia as whole has been significantly increased enabling future opportunity to use the Lithuania-Sweden marine cable *NordBalt* and access to the Nordic electricity market.

In 2014, the total amount of investments was EUR 177.6 million. We have invested a significant amount in modernisation of the network to improve the quality of network services, technical parameters and safety. In 2014, the amount invested in the network represents 74% of the total investments. Likewise, we continuously invest in environmentally friendly and environmental development projects – in 2014, almost EUR 10 million were invested in Daugava HPPs hydropower unit reconstruction.

By ensuring timely attraction of borrowed capital for funding of the investment programme during the following years and refunding of existing borrowings, at the end of 2014, funding from banks in the amount of EUR 150 million were attracted and a loan agreement for EUR 100 million was signed with the European Investment Bank.

The Latvenergo Group annual audited financial results 2014 and the Corporate Governance Report 2014 will be published on 15 April 2015, and Latvenergo Group interim reports of 2015 will be published on 29 May, 31 August and 30 November.

*EBITDA – earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortisation, and impairment of intangible and fixed assets.

Key Performance Indicators

Operational figures

		2014	2013
Retail electricity supply	GWh	8,688	7,954

Electricity generation	GWh	3,625	4,854
Thermal energy supply	GWh	2,441	2,517
Number of employees		4,563	4,512
Moody's credit rating		Baa2 (stable) [6]	Baa3 (stable)

Financial figures

		2014	2013
Revenue	MEUR	1,010.8	1,099.9
EBITDA [1]	MEUR	240.3	248.7
Profit	MEUR	29.7	46.1
Assets	MEUR	3,502.0	3,575.4
Equity	MEUR	2,020.8	2,021.7
Net debt [2]	MEUR	706.2	689.3
Investments	MEUR	177.6	224.9

Financial ratios

	2014	2013
Net debt / EBITDA [3]	2.9	2.8
EBITDA margin [4]	24%	23%
Capital ratio [5]	58%	57%

1) EBITDA: earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortisation, and impairment of intangible and fixed assets

2) Net debt: borrowings at the end of the period minus cash and cash equivalents at the end of the period

3) Net debt / EBITDA: net debt to EBITDA ratio

4) EBITDA margin: EBITDA / revenue

5) Capital ratio: total equity/ total assets

6) Credit rating upgraded on 16 February 2015

Consolidated Income Statement*

	2014	2013
	EUR'000	EUR'000
Revenue	1,010,757	1,099,893
Other income	5,273	4,050
Raw materials and consumables used	(617,891)	(701,453)
Personnel expenses	(97,983)	(95,074)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(190,989)	(187,603)

Other operating expenses	(59,906)	(58,722)
Operating profit	**49,261**	**61,091**
Finance income	3,004	4,529
Finance costs	(20,380)	(17,840)
Share of profit / (loss) of associates	(357)	1,061
Profit before tax	**31,528**	**48,841**
Income tax	(1,782)	(2,692)
Profit for the year	**29,746**	**46,149**

Consolidated Statement of Financial Position*

	31/12/2014	**31/12/2013**
	EUR'000	EUR'000
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,079,327	3,097,905
Investment property	1,343	1,473
Investments in associates and other financial investments	41	41
Investments in held–to–maturity financial assets	28,528	28,588
Other non–current receivables	14	57
TOTAL non–current assets	**3,109,253**	**3,128,064**
Current assets		
Inventories	22,560	21,634
Trade receivables and other current receivables	249,155	161,560
Current financial investments	-	8,060
Derivative financial instruments	-	617
Cash and cash equivalents	121,011	255,423
TOTAL current assets	**392,727**	**447,294**
TOTAL ASSETS	**3,501,979**	**3,575,358**
EQUITY		
Share capital	1,288,446	1,288,011
Reserves	645,829	652,418
Retained earnings	79,950	74,832
Equity attributable to equity holders of the Parent Company	**2,014,225**	**2,015,261**
Non–controlling interests	6,531	6,453
TOTAL equity	**2,020,756**	**2,021,714**
LIABILITIES		
Non–current liabilities		
Borrowings	688,296	805,192
Deferred income tax liabilities	267,938	269,116
Provisions	15,588	15,597
Derivative financial instruments	11,698	6,238
Other liabilities and deferred income	177,073	170,152

TOTAL non–current liabilities	**1,160,593**	**1,266,295**
Current liabilities		
Trade and other payables	172,850	130,670
Borrowings	138,925	139,483
Derivative financial instruments	8,855	17,196
TOTAL current liabilities	**320,630**	**287,349**
TOTAL liabilities	**1,481,223**	**1,553,644**
TOTAL EQUITY AND LIABILITIES	**3,501,979**	**3,575,358**

* - unaudited consolidated financial reports. Prepared in compliance with the International Financial Reporting Standards approved in the European Union

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About Latvenergo

Latvenergo Group is a pan-Baltic energy company, engaging in electricity and thermal energy generation and supply, electricity distribution services and management of transmission system assets. Latvenergo Group holds one-third of the entire Baltic electricity market, thus ensuring its leadership in the Baltic electricity supply. Latvenergo AS has been acknowledged as the most valuable company in Latvia for several years in a row. International credit rating agency Moody's has assigned Latvenergo AS an investment-grade credit rating of Baa2/stable.

Latvenergo Group includes the parent company Latvenergo AS (electricity and thermal energy generation and supply) and its subsidiaries Latvijas elektriskie tīkli AS (management of transmission system assets), Sadales tīkls AS (electricity distribution), Elektrum Eesti OÜ (electricity supply in Estonia), Elektrum Lietuva UAB (electricity supply in Lithuania), Enerģijas publiskais tirgotājs AS (administration of electricity mandatory procurement process) and Liepājas enerģija SIA (electricity and thermal energy generation and supply), as well as Elektrum Latvija SIA (electricity supply), a subsidiary of Elektrum Eesti OÜ.