Leader of Electricity Trade in the Baltic States

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Chairman of the Management Board

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American Chamber of Commerce in Latvia

Agenda

- Latvenergo Group in Brief
- Strategic Objectives of the Latvenergo Group
- Progress of Baltic Electricity Market Liberalization
- Latvenergo Group in the Baltic Electricity Market

Latvenergo Group Structure

Latvenergo AS

- Latvijas elektriskie tīkli AS 100%
- Sadales tīkls AS 100%
- Elektrum Eesti OÜ 100%
  - Elektrum Latvija SIA 100%
- Elektrum Lietuva UAB 100%
- Liepājas enerģija SIA 51%
- Nordic Energy Link AS 25%
- Pirmais Slēgtais Pensiju Fonds AS 48,15%

Business Segments

- ✓ Generation and supply (approx. 67% of revenues)
  - ✓ Latvenergo (LV)
  - ✓ Elektrum Eesti (EE)
  - ✓ Elektrum Lietuva (LT)
  - ✓ Liepājas Enerģija (LV)
- ✓ Distribution system services (approx. 25% of revenues)
  - ✓ Sadales tīkls (LV)
- ✓ Management of transmission system assets (approx.8% of revenues)
  - ✓ Latvijas elektriskie tīkli (LV)

Latvenergo

Latvenergo Group at a Glance

General

- ✓ Wholly-owned by the State of Latvia
- ✓ Vertically integrated energy utility
- ✓ 4,443 employees (as of 30 June 2012)

Financial Ratios

		2009	2010	2011
Revenue	MLVL	501	567	682
EBITDA Margin	%	29%	37%	27%
Net Debt to EBITDA	times	2.4	1.5	2.3
Capital Ratio	%	52%	59%	59%

✓ Moody's credit rating of Baa3/stable

Main Facts

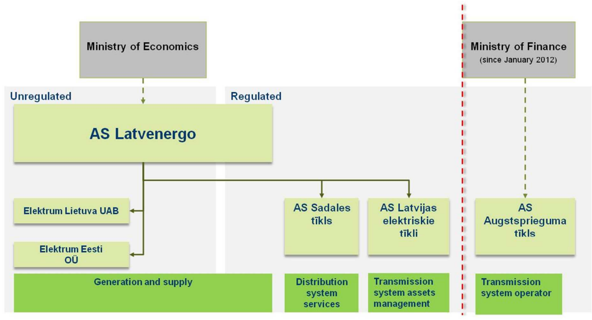
- ✓ Generation – installed capacity
  - ✓ Electric capacity – 2,372 MW (2,543 MW*)
  - ✓ Thermal energy capacity – 2,042 MW
- ✓ Distribution - electricity supply 6 TWh (2011)
- ✓ Installed transmission transformer capacity
  - ✓ 330 kV – 3,200 MVA
  - ✓ 110 kV – 4,829 MVA
- ✓ Market share in Baltic states – 36% (2011)

* after reconstruction of Riga TEC-2

Operational Figures

GWh	2009	2010	2011
Electricity supply	6,659	7,620	8,980
Generation	4,871	5,869	5,285

Regulatory Framework



EU Regulations

- ✓ Unbundling Directive 2009/72/EC
  - ✓ The ownership unbundling model
  - ✓ The independent system operator (ISO)
  - ✓ The independent transmission operator
- ✓ LV approach – 2nd unbundling model
  - ✓ ISO operations divested from Group
  - ✓ Transmission system assets management
- ✓ Nordpool in LV from June 3, 2013

Regulated Activities (Latvenergo)

- ✓ Distribution system services
- ✓ Transmission system asset management
- ✓ End user tariffs (households up to Sept 2013)
- ✓ Procurement of renewable and cogeneration (feed-in tariff)

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Strategy of Commercial Enterprise...

- …is longterm operational plan, which defines objectives, means for achieving objectives, stages and terms

- The Latvenergo Group:
  - **Operates in the market situation;**
  - **Fulfils demands of clients;**
  - **Competes with other energy companies;**
  - **Produces profit for the owner (Republic of Latvia).**




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Overall Strategic Objectives of the Latvenergo Group

2012–2016

- Baltic market position
- Diversification of energy sources
- Balanced development of networks

Strong market player

Baltic Market Position

- Equally positioned trader in all Baltic states (1/3 of Baltic electricity market)
- First choice of Clients in target segments
  - Managing Client demands
  - Innovative solutions
- Electricity retail market share according to generation portfolio and market situation

elektrum

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Liberalized Market Comparison

The Baltic States	Lithuania	Latvia	Estonia
Market opening	Since January 1st 2010	Since May 15th 2008	Since April 1st 2010
Fully open	2015	1 September 2013	1 January 2013
Power Exchange	Baltpool	Nordpool Spot on the 3rd of June 2013	Nordpool Spot with Estlink Price Area
Present free market participation	All legal entities are participants of free market.	All customer segments (except households) are participants of free market. Households can apply to become the participant of the free market.	Every user is free market participant.

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The Latest Stages of the Electricity Market Liberalization in the Baltic States

1 November 2012	1 January 2013	1 September 2013	2015
Open for all customer segments (except households)	**Fully open** (including households) **in Estonia** and **open** for **all legal entities** in **Lithuania**	**Fully open**	**Fully open**

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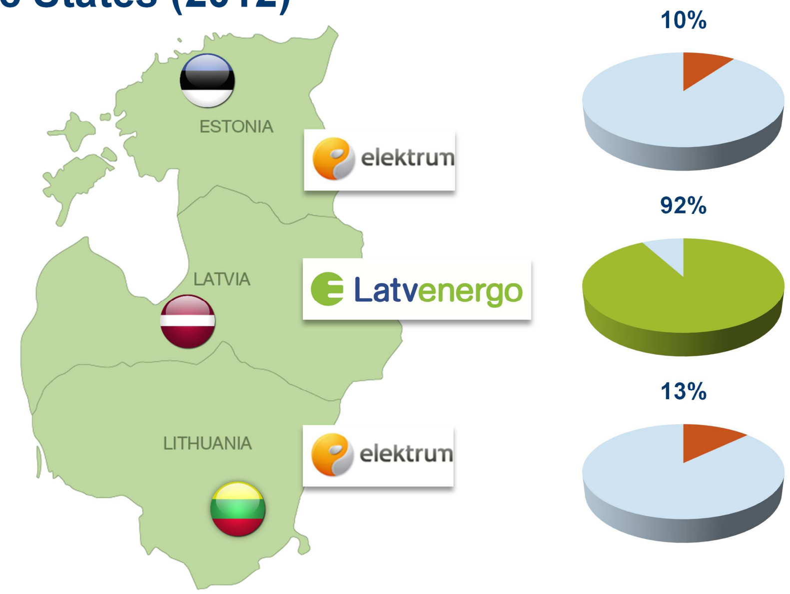
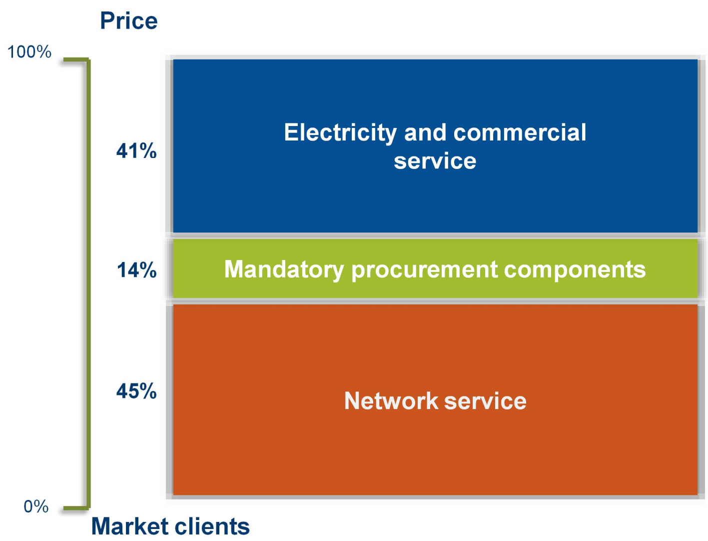
Situation After Market Opening…

Market Share of the Latvenergo Group in the Baltic States (2012)



Electricity Market Price Structure



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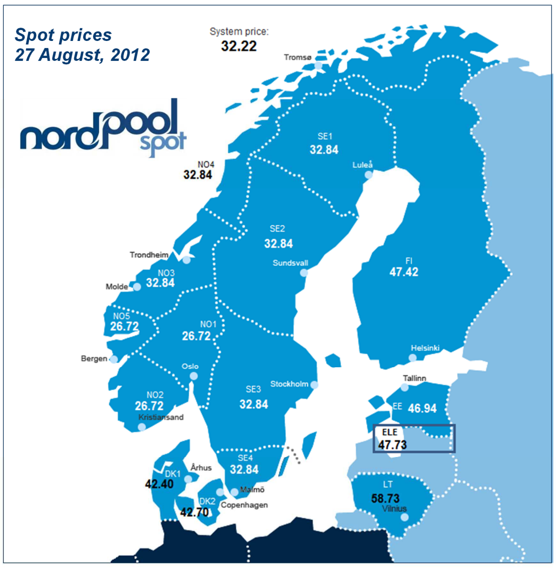
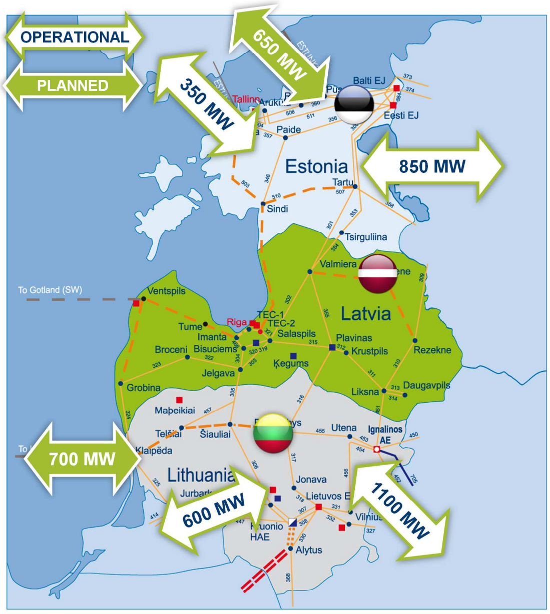
Latvia – Part of Baltic and Nordic Market



- Single market, but different price regions due to insufficient transmission capacity
- Price is higher in region with deficit of electricity
- Market regulates transmission constraints with prices
- Latvia and Lithuania in one price region due to sufficient transmission capacity
- Prices in Lithuania and Latvia are higher than in Estonia at summer provoked by transmission constraints

Interconnections



Key facts

- ✓ Interconnections might replace need for new generations
- ✓ Existing interconnections
  - ✓ Stable system
  - ✓ Limited Nordic supply availability
- ✓ 2014 – Estlink 2 (EE-FI)
- ✓ 2016 – Nordbalt (LT-SE)
- ✓ Foreseen LitPool (LT – POL)
- ✓ Nordic market 16 times bigger than Baltic market
- ✓ Nordic market specifics - high hydro generation
- ✓ Future outlook
  - ✓ Flows both directions
  - ✓ Baltics as price takers

Thank You!

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