

Keguma HES

Latvenergo Group Audited Results - 2014



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Agenda

Latvenergo overview

- ▶ Group Profile
- ▶ Electricity market
- ▶ Regulatory framework and strategy

Financials 2014

- ▶ Key financial indicators
- ▶ Balance sheet, revenues and profitability
- ▶ Debt and liquidity
- ▶ Investments

Q&A

Group Profile

General

- ▶ Vertically integrated utility
- ▶ Wholly-owned by the Republic of Latvia
- ▶ 4.6 thousand employees (2014)
- ▶ Latvenergo Credit rating: Moody`s – Baa2/stable*

Main Facts (2014)

- ▶ Installed generation capacities:
 - ▶ Electrical – 2,569 MW
 - ▶ Thermal – 1,844 MW
- ▶ Length of power lines:
 - ▶ Distribution – 94,609 km
 - ▶ Transmission – 5,273 km
- ▶ Retail customers – 876 thousands
- ▶ Market share in the Baltics – 35%

Financial Ratios

		2012	2013	2014
Revenue	MEUR	1,064	1,100	1,011
EBITDA Margin	%	23%	23%	23%
Net Debt to EBITDA	times	2.5	2.8	3.0
Capital Ratio	%	57%	57%	58%
Assets	MEUR	3,518	3,575	3,487

Operational figures (2014)

- ▶ Retail electricity supply – 8,688 GWh (9%) ↑
- ▶ Electricity generation – 3,625 GWh (-25%) ↓
- ▶ Thermal energy supply – 2,442 GWh (-3%) →
- ▶ Distributed electricity – 6,421 GWh (-0.4%) →

Latvenergo Group Structure



* Latvenergo Group shareholding

Operating Segments

Generation and supply (62% of revenues; 36% EBITDA)

- ▶ Latvenergo (LV)
- ▶ Elektrum Eesti (EE)
- ▶ Elektrum Lietuva (LT)
- ▶ Liepājas enerģija (LV)
- ▶ Enerģijas publiskais tirgotājs (LV) - 2014

Distribution (27% of revenues; 39% of EBITDA)

- ▶ Sadales tīkls (LV)

Management of transmission system assets (6% of revenues; 17% of EBITDA)

- ▶ Latvijas elektriskie tīkli (LV)

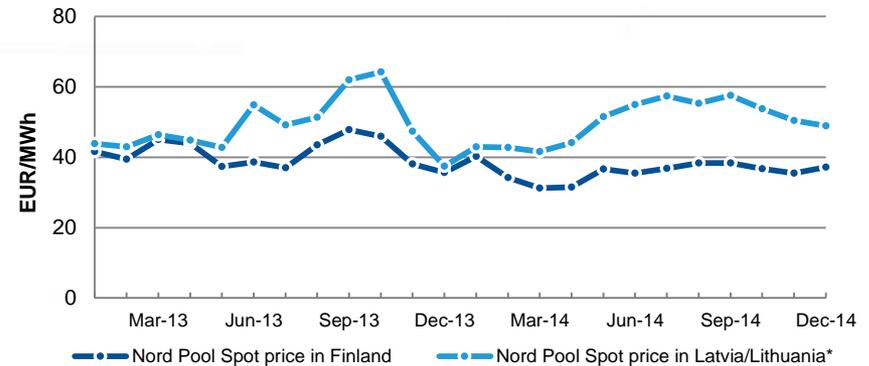
Baltic Electricity Market

Interconnections



Legend: – projected links (MW), – existing links (MW)

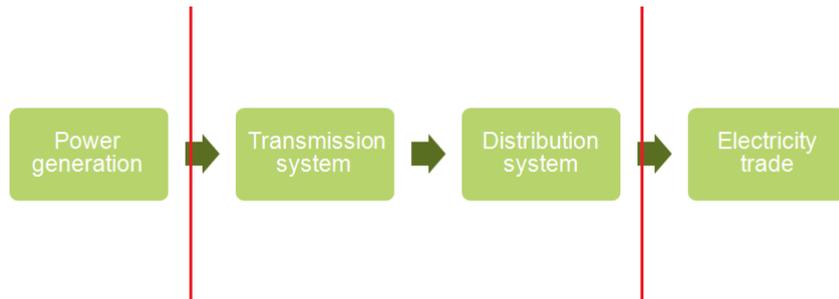
Electricity prices (2014)



- ▶ Common Nordic-Baltic electricity market operational since June 2013, integrating the Baltics into a Nord Pool Spot market
- ▶ Nord Pool Spot price decreased by 13% in Finland and Estonia while it increased by 2% in Latvia/Lithuania
- ▶ Electricity prices in Latvia and Lithuania bidding areas were equal 99.7% hours

* Nord Pool Spot Latvia bidding area was opened on 3 June 2013. In 2014, electricity prices in Latvia and Lithuania bidding areas were equal 99.7% hours

Regulatory Framework



Market opening

- ▶ Estonia: 100% open and deregulated
- ▶ Latvia: 100% open (households from 2015) and deregulated
- ▶ Lithuania: 100% open, 75% deregulated
- ▶ In 2014, lost revenues due to electricity supply at the regulated tariff - EUR 48.2 million

Support mechanism for CHPPs

- ▶ Since 2014, Riga CHPPs no longer receive compensation for natural gas and other variable costs
- ▶ Riga CHPPs receive capacity payments, net of Subsidized Energy Tax introduced as of 1 January 2014

Protection of vulnerable consumers

- ▶ During 2015, Latvenergo has to supply a certain amount of electricity (100 and 300 kWh per month) to vulnerable consumers at discounted price
- ▶ From 1 January 2015, almost 70`000 customers (large families and low-income individuals) receive support
- ▶ From 2016, the State will co-finance the supply to vulnerable consumers by tendering the supply opportunity among the suppliers

Strategy

Strategic targets 2012-2016

- ▶ Strengthening of the market position in the Baltics
- ▶ Balanced distribution network development
- ▶ Diversification of electricity generation

Results

- ▶ Stable and growing share of Baltic electricity market
 - ▶ More than 1/3 of retail electricity supply in Lithuania and Estonia
- ▶ Distribution network modernization launched
- ▶ Roll-out of smart meter installations
- ▶ Modernization of existing electricity generation

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Financials 2014

- ▶ Key financial indicators
- ▶ Balance sheet, revenues and profitability
- ▶ Debt and liquidity
- ▶ Investments

Q&A

Key financials

Revenue exceeds
EUR 1 billion

Income statement (MEUR)	2010	2011	2012	2013	2014
Revenue	804	962	1,064	1,100	1,011
EBITDA	294	255	244	249	237
Profit	63	62	51	46	30

Strong capital
structure

Balance Sheet (MEUR)	2010	2011	2012	2013	2014
Total Assets	3,243	3,256	3,518	3,575	3,487
Total Equity	1,913	1,923	2,007	2,022	2,021
Borrowings from Financial Institutions	776	730	847	945	827
Net Debt ¹⁾	443	575	604	689	706

Stable financial
performance

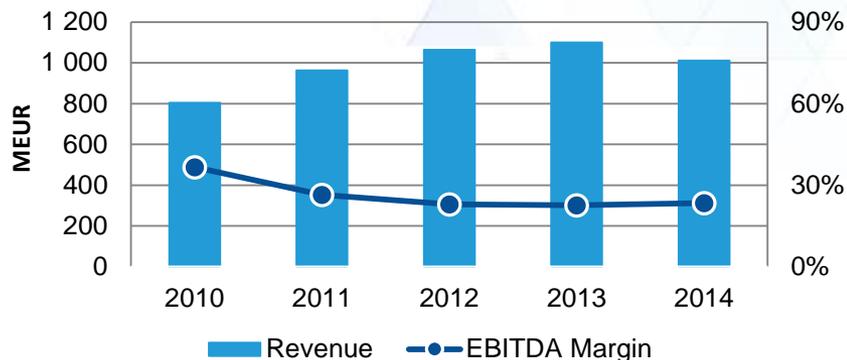
Key Financial Ratios	2010	2011	2012	2013	2014
EBITDA Margin ²⁾	37%	26%	23%	23%	23%
Capital Ratio ³⁾	59%	59%	57%	57%	58%
Debt to Equity	0.4	0.4	0.4	0.5	0.4
Net Debt to EBITDA	1.5	2.3	2.5	2.8	3.0
Investments (MEUR)	181	283	264	225	178
Moody's credit rating	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)	Baa2 (stable)*

* Credit rating upgraded on 16 February 2015

- 1) Net debt: borrowings at the end of the period minus cash and cash equivalents at the end of the period
- 2) EBITDA margin: EBITDA / revenue
- 3) Capital ratio: total equity / total assets

Revenue and Profitability

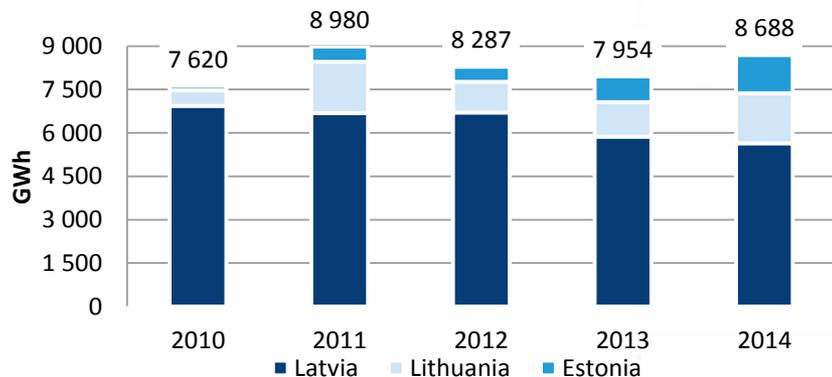
Revenue and EBITDA margin



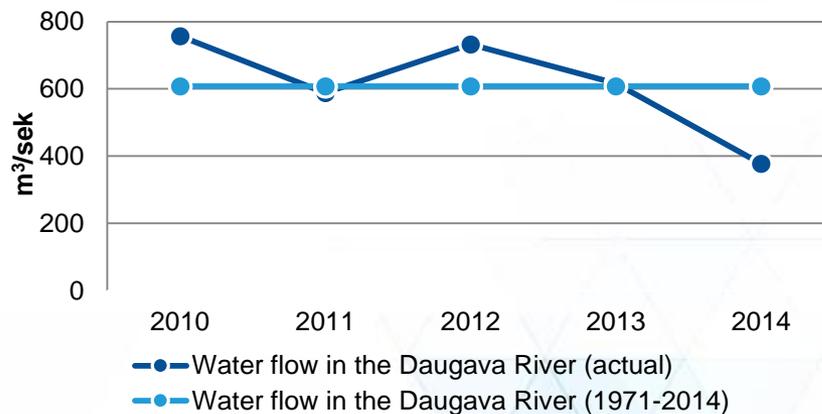
Key Highlights

- ▶ Not gained revenue due to electricity supply at the regulated tariff in Latvia (2014: MEUR 48.2)
- ▶ In 2014, water inflow in Daugava River was the lowest since 1976, thus electricity generated at Daugava HPPs was 35% below the average annual output
- ▶ From 2014, mandatory procurement transactions are recorded based on agency principle

Retail electricity supply by country

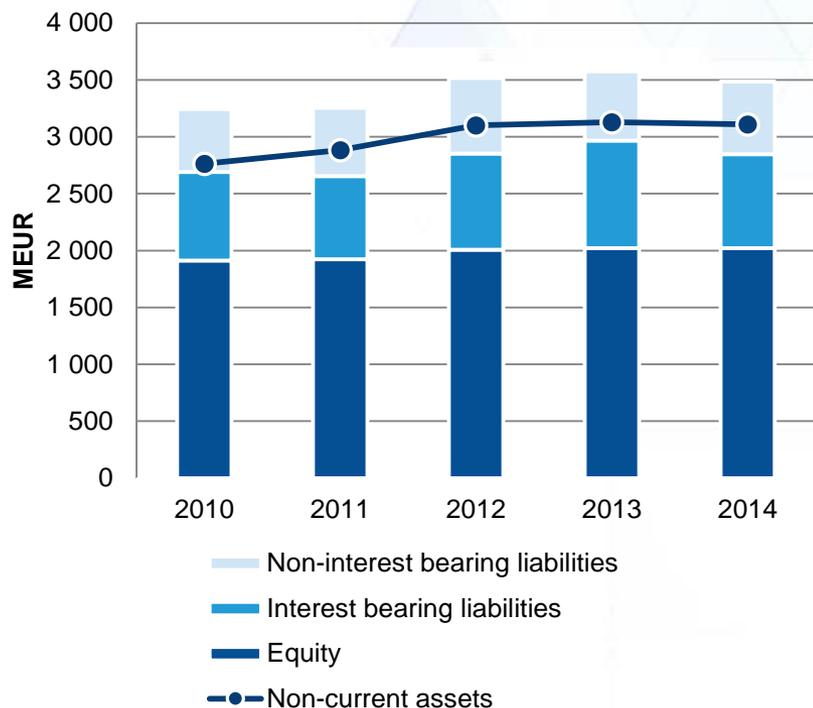


Water flow in Daugava river (2010-2014)



Balance Sheet

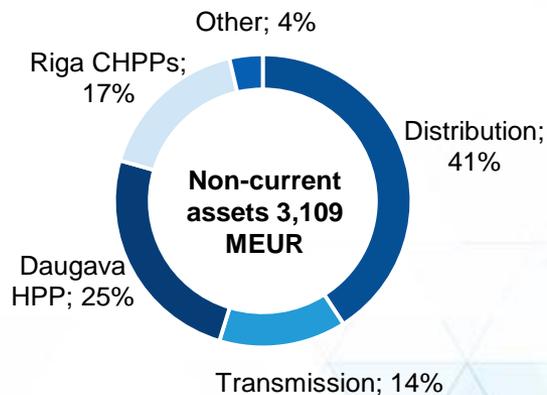
Total Assets 2014: 3,487 MEUR



Key Highlights

- ▶ ~ 90% of assets are non-current
- ▶ Stable and strong capital structure
 - ▶ Capital ratio – 58%
 - ▶ D/E ratio – 0.4
- ▶ All main fixed asset groups are revalued, thus balance sheet recoded at a fair value

Asset Structure 2014



Mandatory procurement

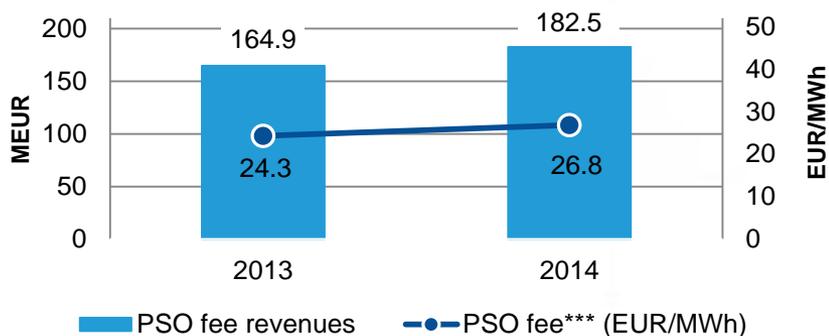
Uncollected PSO fee income recognised in the assets

		2014	2013	Δ	Δ, %
Mandatory procurement PSO fee income (net)*	MEUR	182.5	164.9	17.6	11%
State subsidy	MEUR	29.3	0.0	29.3	–
Mandatory procurement expenditures**:	MEUR	(245.7)	(209.9)	(35.8)	(17%)
Difference	MEUR	34.0	45.0	(11.0)	(24%)

Key Highlights

- ▶ As of 1 April 2014, the public trader functions are performed by Enerģijas publiskais tirgotājs AS
- ▶ To limit the increase of mandatory procurement PSO fee, in 2014, a grant of EUR 29.3 million has been received
- ▶ State subsidy for 2014 received, but the use restricted until Acceptance from EU

Public Service Obligation (PSO) fee



* Mandatory procurement PSO fee income - PSO fee income subtracting mandatory procurement administrative costs

** Mandatory procurement expenditures – costs of electricity purchased within the mandatory procurement and guaranteed fee for electrical capacity installed at power plants minus revenues from sale of purchased electricity on the Nord Pool Spot exchange

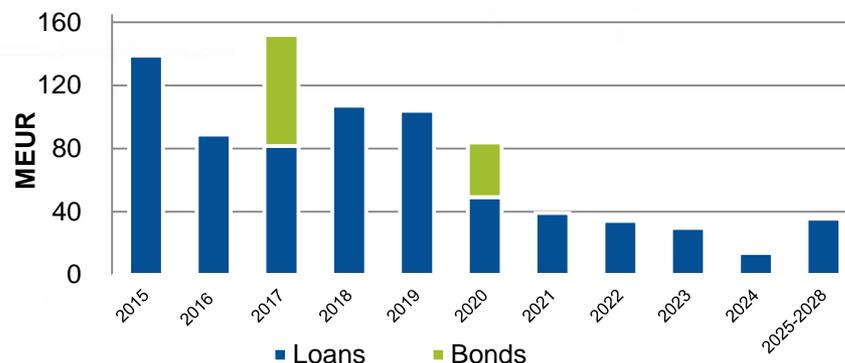
*** Weighted average during the period

Debt and Liquidity as of 31 December 2014

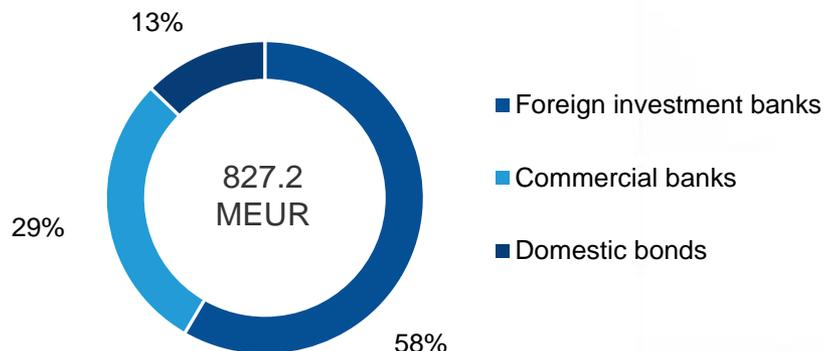
Key Highlights

- ▶ Total borrowings : EUR 827.2 million;
- ▶ Share of fixed interest rate (with IRS) – 42%;
- ▶ Weighted average interest rate (with IRS) – 2.47%;
- ▶ Weighted average time to maturity – 4.4 years;
- ▶ In late 2014, funding of 250 MEUR has been attracted:
 - ▶ Loans from commercial banks – 150 MEUR;
 - ▶ European Investment Bank – 100 MEUR
- ▶ Compliance with all pre-defined financial covenants

Debt Repayment Schedule



Lenders by Category

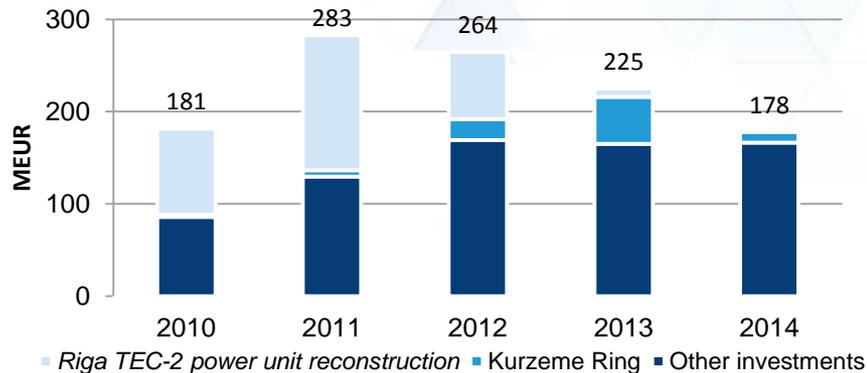


Liquidity position

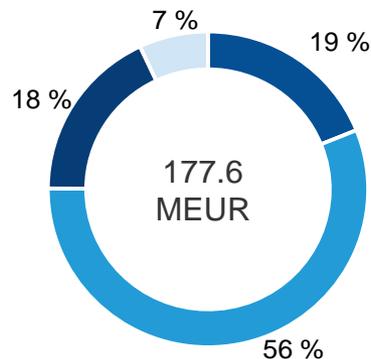
Liquid assets (cash and short term bank deposits with maturity up to 3 months)	121.0 MEUR
Additional liquidity reserves	348.5 MEUR
Including, committed long-term loans	320.0 MEUR
Investment in liquid financial assets	28.5 MEUR

Latvenergo Group Investments

Investments



Investments in network assets - 74 %



2014

- Generation and supply
- Distribution
- Management of transmission system assets
- Other

Key Highlights

- ▶ During 2014 completed construction of 330 kV connection line *Grobiņa-Ventspils* – the second stage of *Kurzeme Ring* project
- ▶ Distribution network development plan 2014 – 2023 launched
- ▶ Modernisation of current generation assets ongoing
 - ▶ TEC-2 - Opflex Reserve Turndown; Opflex Autotune
- ▶ Key projects
 - ▶ *NordBalt* – 330 kV *Kurzeme Ring*, total investments EUR 220 million, completion 2019
 - ▶ Reconstruction of *Daugava HPPs*; total investments EUR 200 million, completion 2022

Q&A

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