



# Unaudited Interim Condensed Consolidated Financial Statements

for the 6 month period ended  
30 June 2016

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31.08.2016 / RIGA

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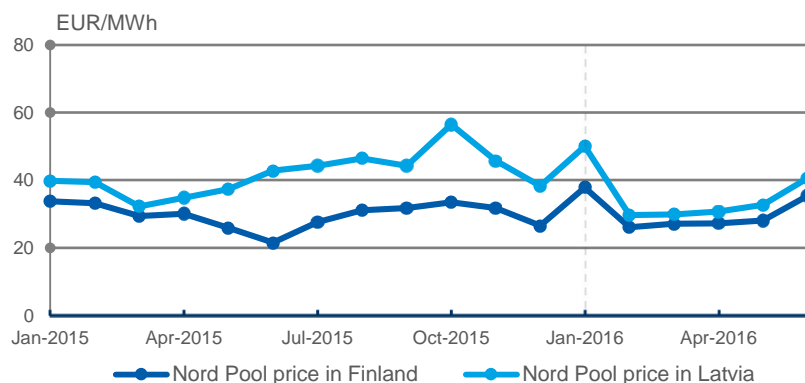
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# The construction of new interconnections contribute to electricity price convergence in the Baltics

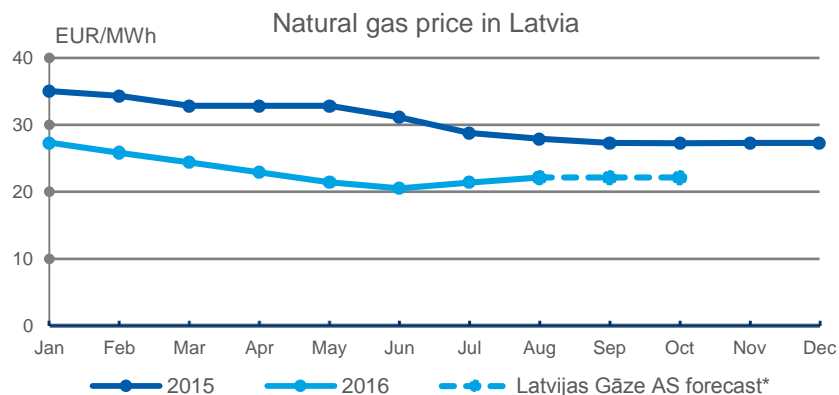
## Convergence of electricity price



## Main facts – 1H 2016

- Nord Pool price decreased by 6% in Latvia (35.6 EUR/MWh) and by 4% in Lithuania (36.2 EUR/MWh), while it increased in Estonia and Finland by 1% (31.6 EUR/MWh) and 5% (30.3 EUR/MWh) respectively
- Electricity price increase in the Nordic countries determined by colder weather conditions at the beginning of 2016 and repair works of power plants and transmission infrastructure in June
- New interconnections have contributed to electricity spot price convergence between Finland and the Baltics
- Natural gas price in Latvia decreased by 28% reaching 23.7 EUR/MWh

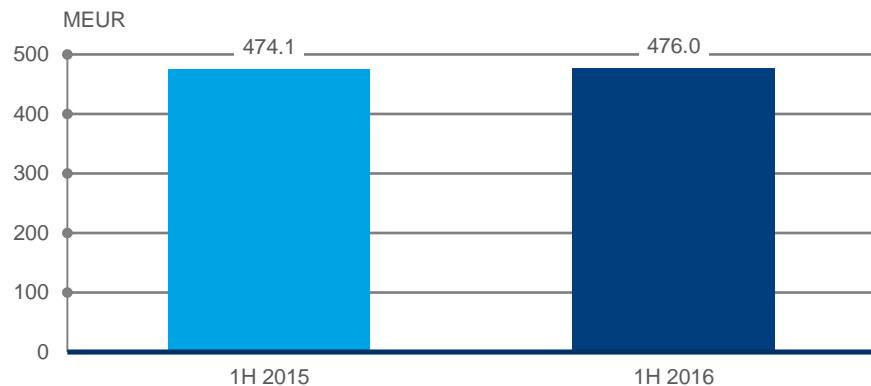
## Natural gas price decreases



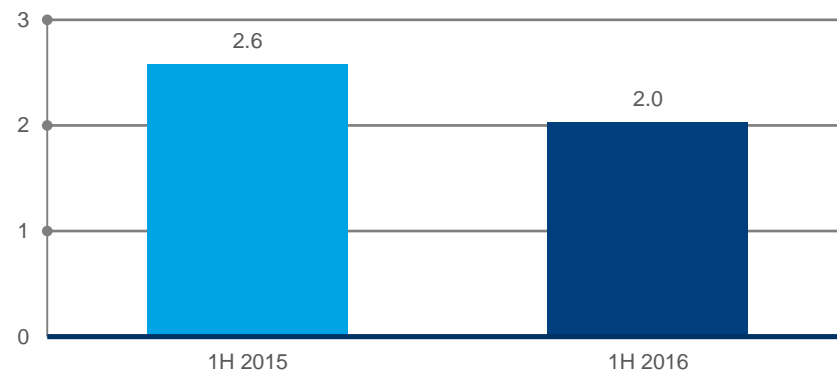
\* Forecast of Latvijas Gāze AS (02.08.2016.) <http://www.lg.lv/index.php?id=246&lid=1901>

# Key Financial Figures

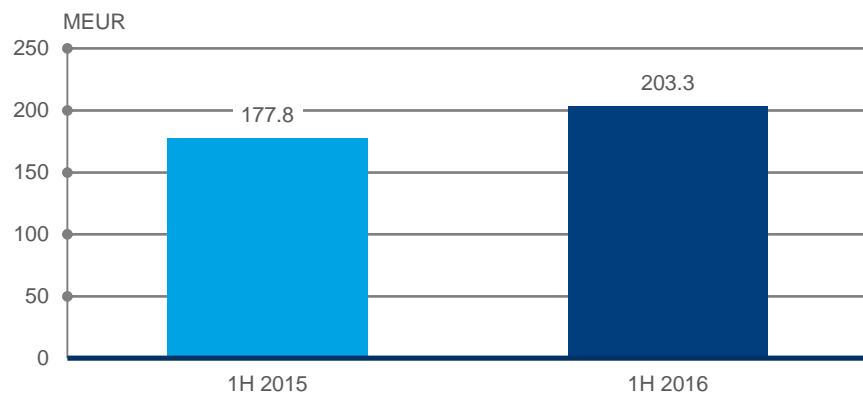
## Revenue



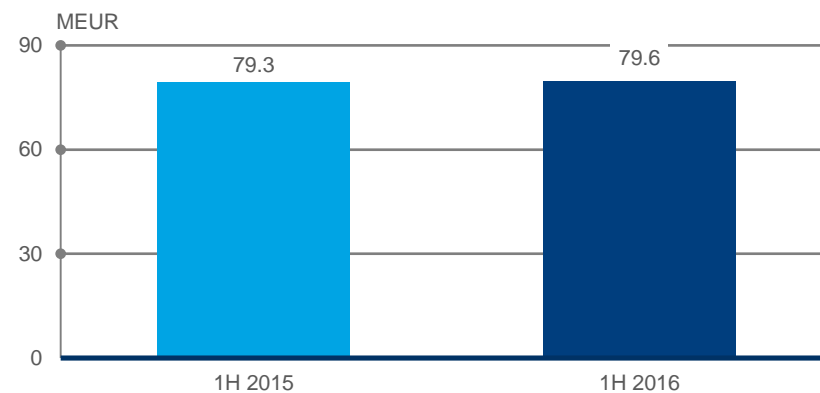
## Net debt/EBITDA



## EBITDA

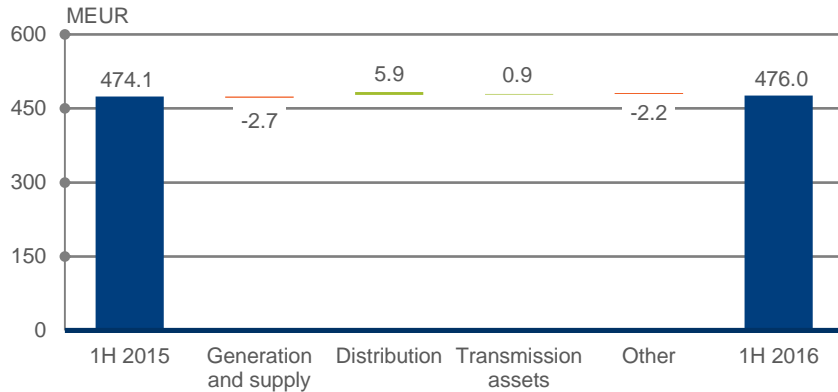


## Investments



# EBITDA of the Group has increased

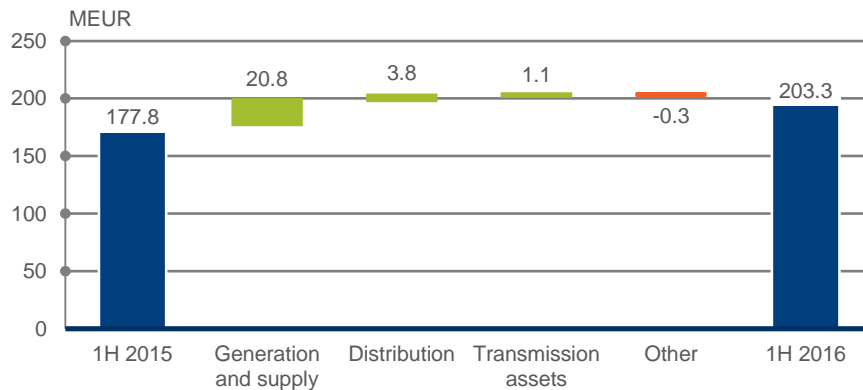
## Revenue dynamics by segments



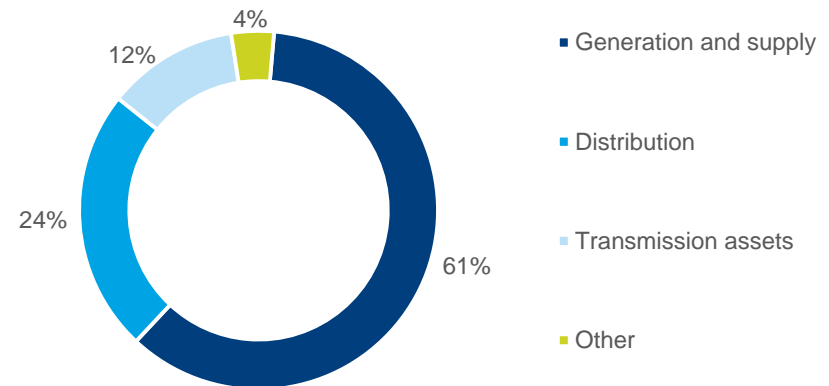
## EBITDA reached 203.3 MEUR

- The results were mainly positively impacted by lower prices of natural gas and electricity
- EBITDA margin – 36% (1H 2015: 29%)
- ROE – 4.7% (on 30 June 2015: 2.4%)

## EBITDA increased in all segments



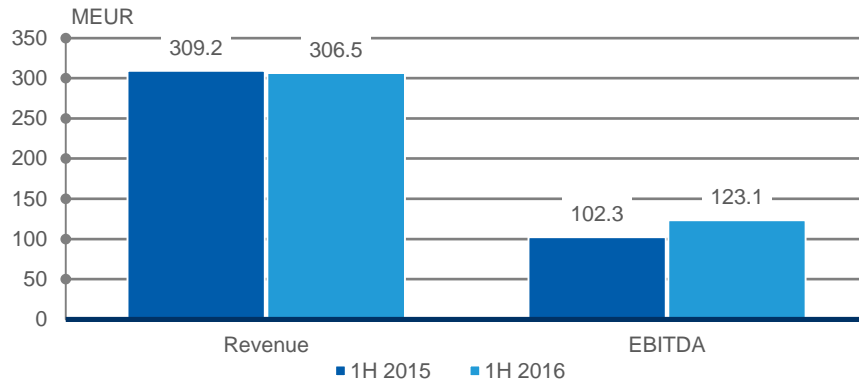
## EBITDA weight by segments



# Generation and supply



## Segment EBITDA increased



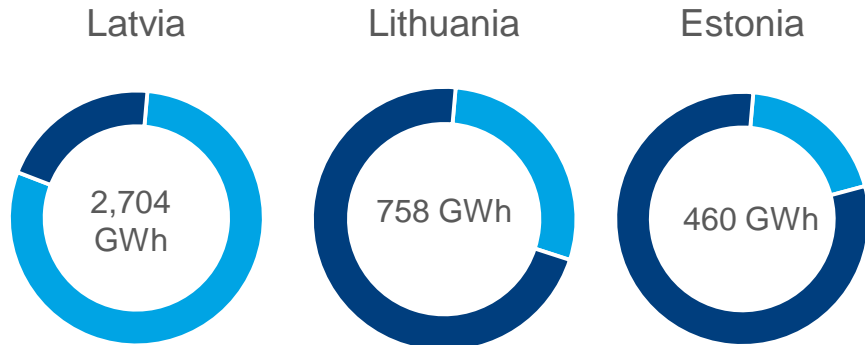
## The largest segment of the Group

- The results of the segment were positively impacted by lower prices of natural gas and electricity
- Latvenergo Group maintains leading electricity supplier position in the Baltics
- Increased output of electricity and thermal energy
- As of 1 April 2016, PSO fee remains at the previous level (EUR 2.679 cents/kWh)
- In order to maintain the mandatory procurement PSO fee at the same level, a State grant in the amount of 78.9 MEUR has been taken into account upon the calculation of the fee, of which 59.2 MEUR were received in April 2016

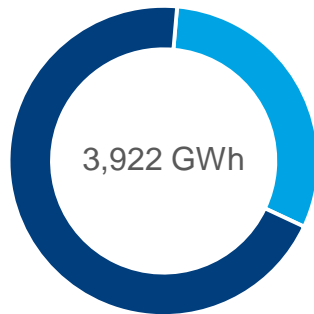
# Elektrum electricity products – the most purchased in the Baltics



## Retail electricity supply



## The Baltics



■ Latvenergo Group ■ other suppliers

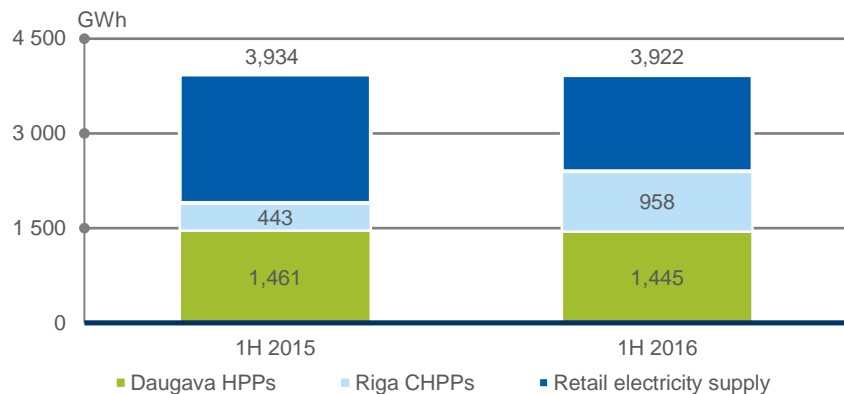
## Focused and successful operations in the market

- The number of business customers in Lithuania and Estonia increased by more than one thousand
- Retail electricity supply in neighbouring countries reached 1,218 GWh, which is more than 1.3 times higher than the amount provided by competing electricity suppliers in Latvia
- Latvenergo Group's electricity trading brand's *Elektrum* products are tailored to customer needs

# Effective and balanced generation sources



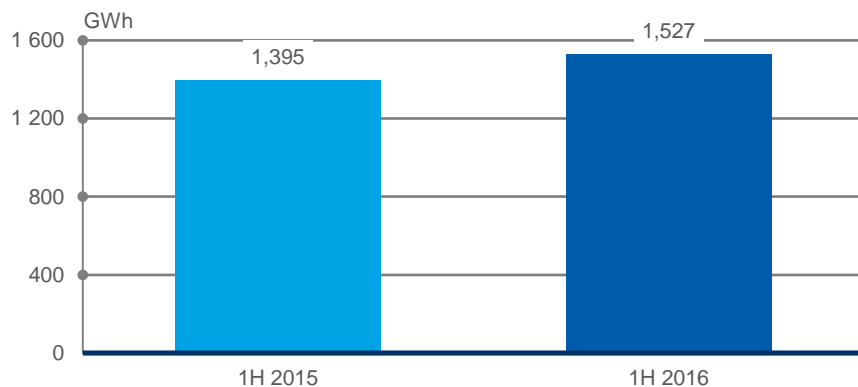
## 2,431 GWh of electricity generated



## Riga CHPPs electricity generation increased more than twice

- Effective and operative operations of Riga CHPPs precluded the electricity price increase risk
- Total electricity generated represents 62% of retail electricity supply (1H 2015: 49%)
- Lower ambient air temperature determined higher consumption of thermal energy – thermal energy generation increased by 10%

## 1,527 GWh of thermal energy generated

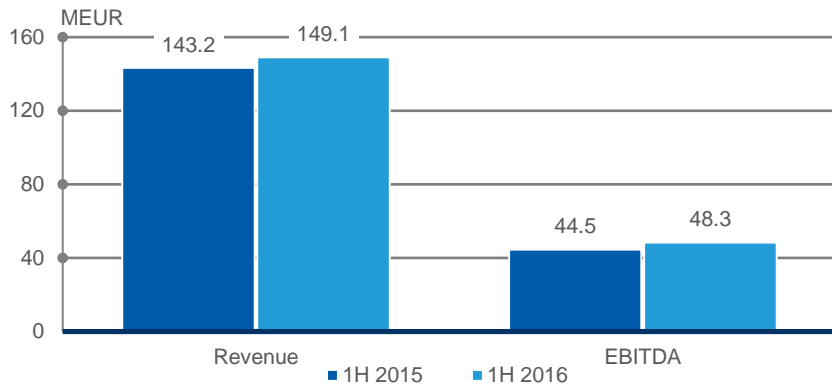




# Increased investments in distribution assets



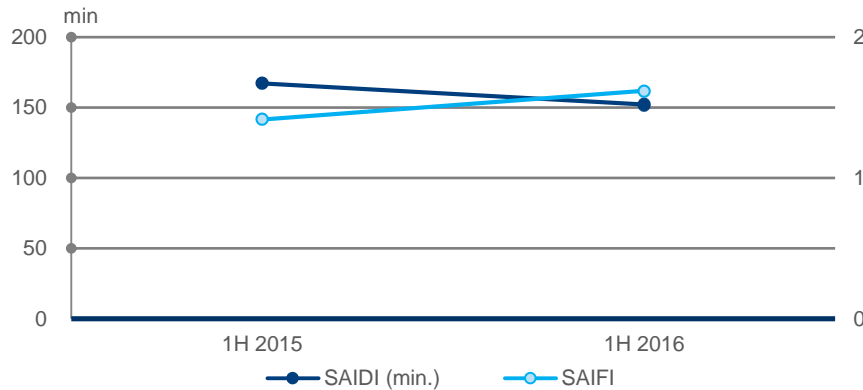
## Segment revenue and EBITDA increased



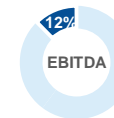
## Investments increased by 11%

- Investments in distribution assets reached 47.2 MEUR (1H 2015: 42.6 MEUR)
- Positive impact on the results due to increased distribution services revenue (+5.4 MEUR), while negative impact – higher purchasing cost of distribution losses (-1.3 MEUR)
- As of 1 August 2016, the new balanced electricity distribution system service tariffs come into force
- Electricity distributed reached 3,276 GWh (1H 2015: 3,158 GWh)

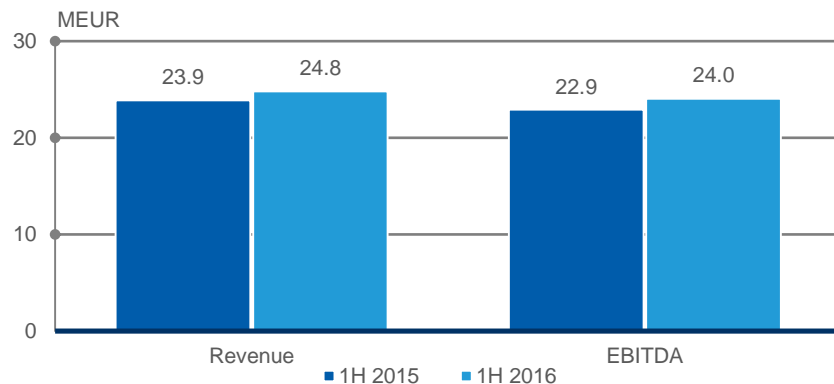
## Distribution service quality ratios



# Lease of transmission system assets – gradually improving return ratios



## Segment EBITDA and revenue increased



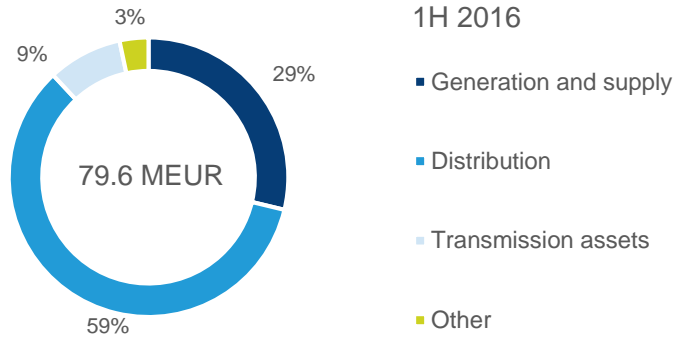
## Return on transmission system assets\* – 3.8%

- Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- Investment in transmission system assets 6.9 MEUR, which is by 14% more than in the 1H last year

\* Return on segment assets: operating profit of the segment (12-months rolling) / ((assets at the beginning of the 12 month period + assets at the end of the period) / 2)

# Investments in transmission network assets – 2/3 of the total

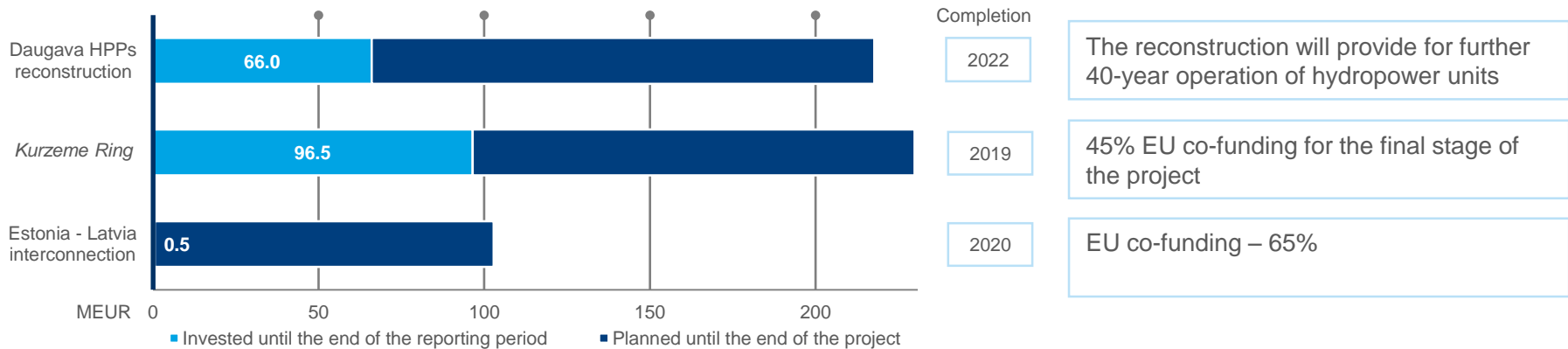
## Investment division by segments



## Investments in environmentally friendly projects

- Investments in Daugava HPPs hydropower unit reconstruction amounted to 14.6 MEUR
- Network service quality and technical parameters gradually improved by investments in networks assets

## Major investment projects

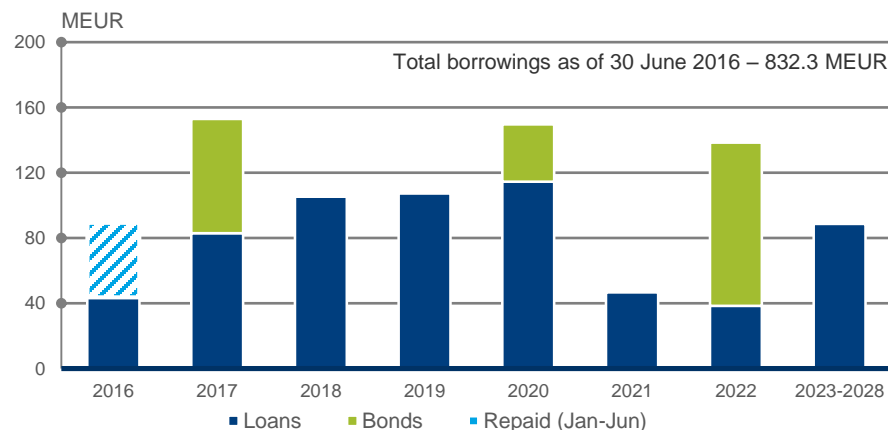


# Green bond offering programme successfully completed

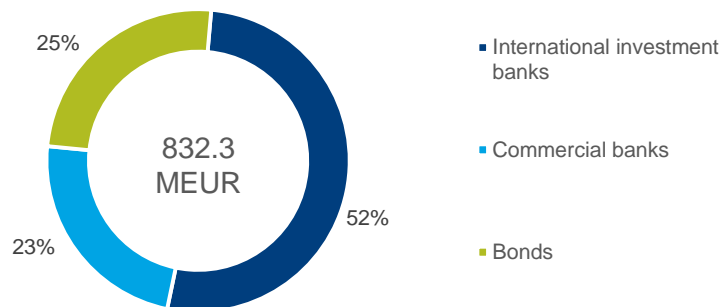
## Bonds constitute 1/4 of total borrowings

- On 14 April 2016, *green* bonds in the amount of 25 MEUR were issued, thus completing the second bond offering programme of 100 MEUR
- Total amount of bonds issued reached 205 MEUR
- At the beginning of 2016 *Moody's* reconfirmed credit rating – Baa2 (stable)
- Net debt to equity ratio – 31%

## Debt repayment schedule



## Diversified sources of financing



## Loan portfolio figures

	30.06.2016
Share of fixed interest rate*	59%
Duration	2.4 years
Effective weighted average interest rate*	1.9%

\* with interest rate swaps

# Contacts

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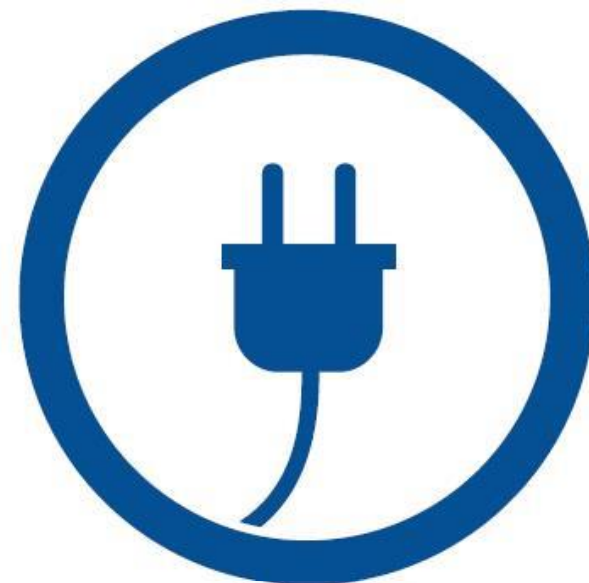
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# Abbreviations

Daugava HPPs – Daugava hydropower plants

EBITDA – Earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortization, and impairment of intangible and fixed assets

EU – European Union

IFRS – International Financial Reporting Standards

MEUR – Euro millions

MWh – Megawatt hour (1,000,000 MWh = 1,000 GWh = 1 TWh)

PSO fee – Public service obligation fee

PUC – Public Utilities Commission

Riga CHPPs – Riga combined heat and power plants

SAIDI – System Average Interruption Duration Index

SAIFI – System Average Interruption Frequency Index

# Consolidated Statement of Profit or Loss\*

	01/01– 30/06/2016	01/01– 30/06/2015
	EUR'000	EUR'000
Revenue	475,998	474,136
Other income	3,372	2,230
Raw materials and consumables used	(195,800)	(219,037)
Personnel expenses	(48,731)	(47,917)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(111,542)	(98,782)
Other operating expenses	(31,586)	(31,575)
<b>Operating profit</b>	<b>91,711</b>	<b>79,055</b>
Finance income	1,211	1,443
Finance costs	(7,386)	(9,853)
<b>Profit before tax</b>	<b>85,536</b>	<b>70,645</b>
Income tax	(10,905)	(8,947)
<b>Profit for the year</b>	<b>74,631</b>	<b>61,698</b>

# Consolidated Statement of Financial Position\*

	30/06/2016	31/12/2015
	EUR'000	EUR'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets and property, plant and equipment	3,057,048	3,090,661
Investment property	764	696
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	17,059	20,609
Other non-current receivables	1,283	1,712
<b>Total non-current assets</b>	<b>3,076,195</b>	<b>3,113,719</b>
<b>Current assets</b>		
Inventories	32,549	24,791
Trade receivables and other receivables	239,321	266,460
Investments in held-to-maturity financial assets	11,379	7,859
Derivative financial instruments	2,190	–
Cash and cash equivalents	183,866	104,543
<b>Total current assets</b>	<b>469,305</b>	<b>403,653</b>
<b>TOTAL ASSETS</b>	<b>3,545,500</b>	<b>3,517,372</b>
<b>EQUITY</b>		
Share capital	1,288,531	1,288,531
Reserves	666,839	669,596
Retained earnings	128,261	131,662
<b>Equity attributable to equity holders of the Parent Company</b>	<b>2,083,631</b>	<b>2,089,789</b>
Non-controlling interests	7,858	6,913
<b>Total equity</b>	<b>2,091,489</b>	<b>2,096,702</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	759,092	714,291
Deferred income tax liabilities	270,544	273,987
Provisions	16,409	15,984
Derivative financial instruments	10,953	8,291
Other liabilities and deferred income	194,602	196,386
<b>Total non-current liabilities</b>	<b>1,251,600</b>	<b>1,208,939</b>
<b>Current liabilities</b>		
Trade and other payables	124,373	121,256
Borrowings	73,134	83,192
Derivative financial instruments	4,904	7,283
<b>Total current liabilities</b>	<b>202,411</b>	<b>211,731</b>
<b>Total liabilities</b>	<b>1,454,011</b>	<b>1,420,670</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,545,500</b>	<b>3,517,372</b>

\* Unaudited Interim Condensed Consolidated Financial Statements. Prepared in accordance with the IFRS as adopted by the EU



# Consolidated Statement of Cash Flows\*

	01/01–30/06/2016	01/01–30/06/2015
	EUR'000	EUR'000
<b>Cash flows from operating activities</b>		
Profit before tax	85,536	70,645
<b>Adjustments :</b>		
– Amortisation, depreciation and impairment of non-current assets	112,746	100,904
– Net financial adjustments	1,753	10,455
– Other adjustments	460	(791)
<b>Operating profit before working capital adjustments</b>	<b>200,495</b>	<b>181,213</b>
Decrease / (increase) in current assets	18,228	(38,295)
Decrease in trade and other payables	(9,312)	(20,070)
<b>Cash generated from operating activities</b>	<b>209,411</b>	<b>122,848</b>
Interest paid	(8,458)	(9,688)
Interest received	1,530	808
Corporate income tax and real estate tax repaid / (paid)	(4,031)	4,490
<b>Net cash flows from operating activities</b>	<b>198,452</b>	<b>118,458</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible assets and property, plant and equipment	(77,186)	(83,070)
Proceeds on financing from European Union funds and other financing	–	149
Proceeds from redemption of held-to-maturity assets	30	30
<b>Net cash flows used in investing activities</b>	<b>(77,156)</b>	<b>(82,891)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issued debt securities (bonds)	26,266	74,894
Proceeds on borrowings from financial institutions	55,000	30,862
Repayment of borrowings	(45,826)	(77,591)
Dividends paid to equity holders of the Parent Company	(77,413)	(31,479)
Dividends paid to non-controlling interests	–	(1,148)
<b>Net cash flows generated from financing activities</b>	<b>(41,973)</b>	<b>(4,462)</b>
<b>Net increase in cash and cash equivalents</b>	<b>79,323</b>	<b>31,105</b>
Cash and cash equivalents at the beginning of the period	104,543	91,747
<b>Cash and cash equivalents at the end of the period</b>	<b>183,866</b>	<b>122,852 **</b>

\*\* Received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 thousand has not be included in cash and cash equivalents as of 30 June 2015 because it was defined as restricted cash and cash equivalents