



Investor Conference Webinar Presentation

Latvenergo Group Unaudited Results – 1H 2016

5 September 2016
Guntars Baļčūns, CFO



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Agenda

Group Profile

Financials 1H 2016

- ▶ Market Overview
- ▶ Revenue and Profitability
- ▶ Segment Results
- ▶ Investments
- ▶ Funding

Current Issues

- ▶ Role of Riga CHPPs in the Electricity Market

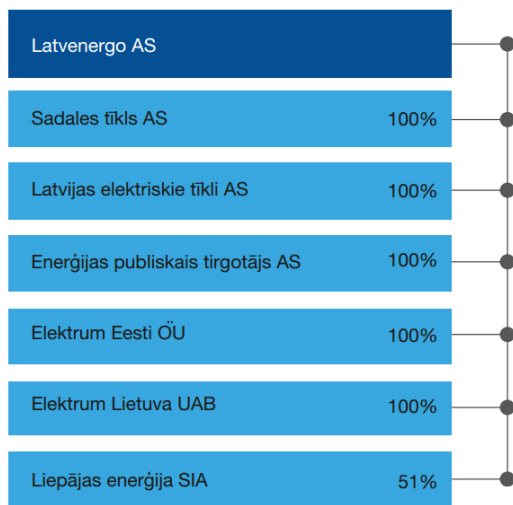
Q&A

Group Profile

General

- Vertically integrated utility
- Wholly-owned by the Republic of Latvia
- 4,187 employees
- Latvenergo Credit rating: Moody`s – Baa2/stable

Latvenergo Group structure



Main facts

- Installed generation capacities:
 - Riga CHPPs – 1,025 MW_{el}; 1,617 MW_{th}
 - Daugava HPPs – 1,536 MW_{el}
 - Liepāja and small plants – 8 MW_{el}; 227 MW_{th}
- Length of power lines:
 - Distribution 94.1 thsd. km
 - Transmission 5.3 thsd. km
- Retail customers – 859 thousands
- Market share in the Baltics ~ 1/3

Operating segments

- Generation and supply (60% of revenues; 61% of EBITDA)
 - Latvenergo AS (LV)
 - Elektrum Eesti OU (EE)
 - Elektrum Lietuva UAB (LT)
 - Liepājas enerģija SIA (LV)
 - Enerģijas publiskais tirgotājs AS (LV)
- Distribution (29% of revenues; 24% of EBITDA)
 - Sadales tīkls AS (LV)
- Transmission assets (5% of revenues; 12% of EBITDA)
 - Latvijas elektriskie tīkli AS (LV)

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Group Profile

Financials 1H 2016

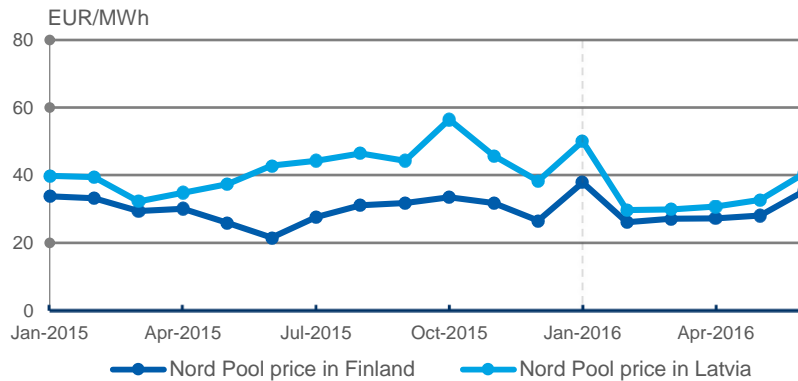
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Current Issues

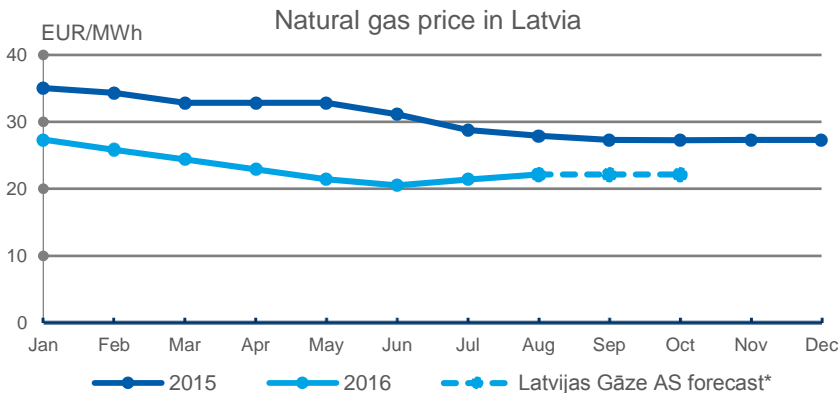
Q&A

Market Overview

Convergence of electricity price



Natural gas price decreases



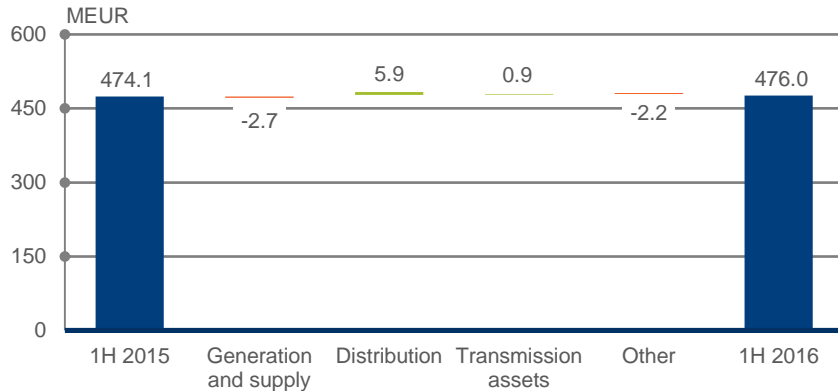
* Forecast of Latvijas Gāze AS (02.08.2016.) <http://www.lg.lv/index.php?id=246&lid=1901>

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

Revenue and Profitability

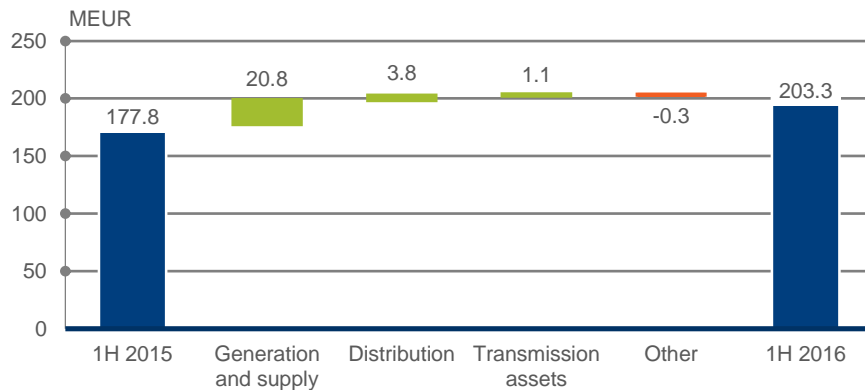
Revenue dynamics by segments



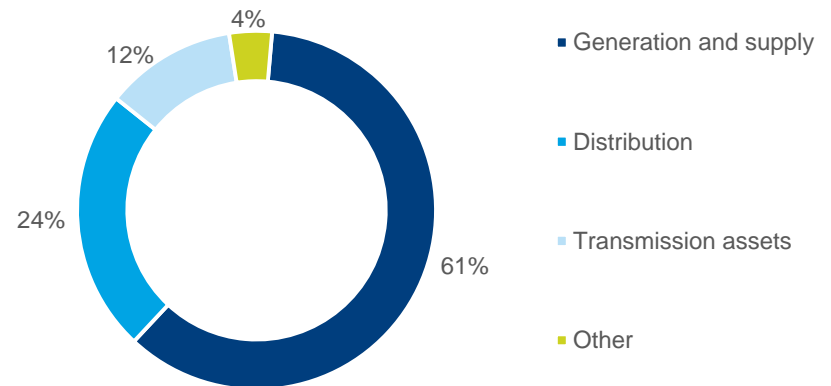
Key highlights

- 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

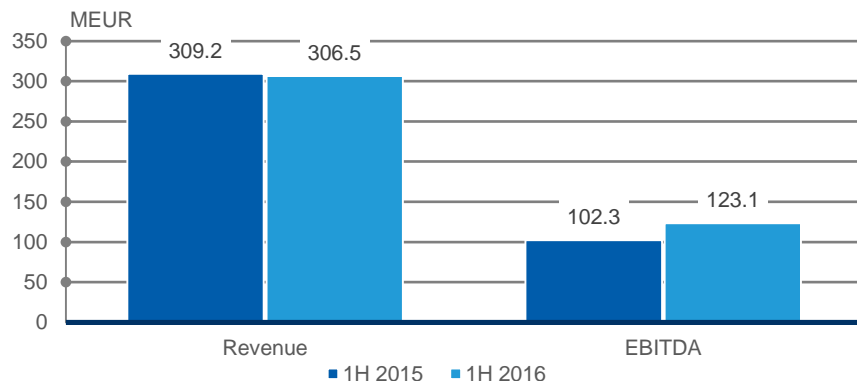


EBITDA weight by segment



Generation and Supply

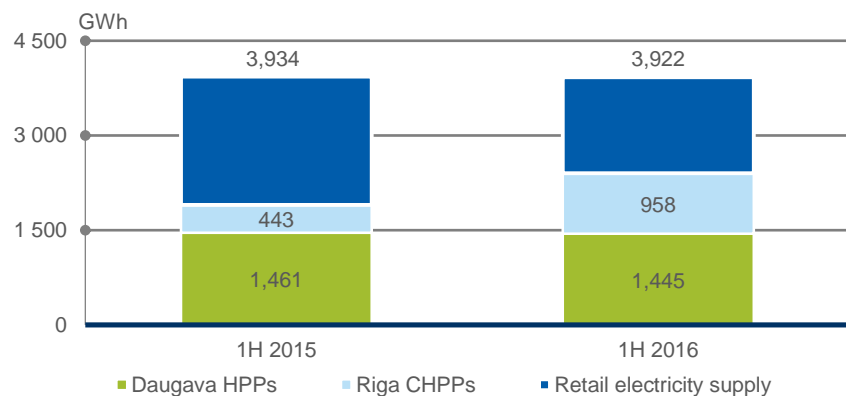
Segment revenue and EBITDA



Key highlights

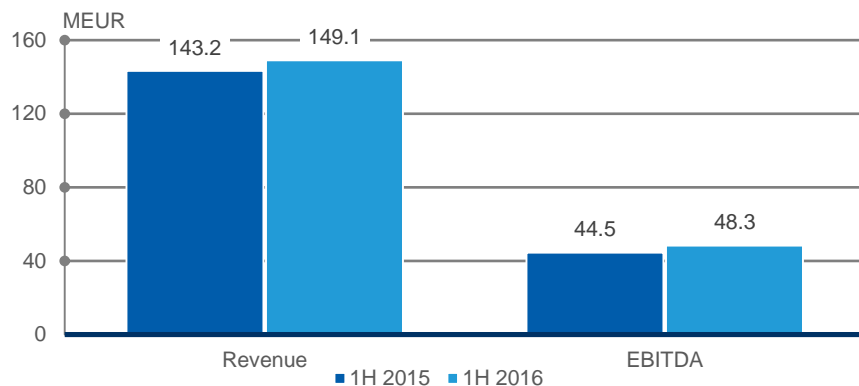
- The results of the segment were positively impacted by lower prices of natural gas and electricity
- Increased output of electricity and thermal energy
- Latvenergo Group maintains leading electricity supplier position in the Baltics with approx. 1/3 of the market share
- Almost 1/3 of electricity is supplied to customers in Lithuania and Estonia
- Client portfolio in Estonia and Lithuania is increased by approximately 1,000 business segment clients

2,431 GWh of electricity generated



Distribution

Segment revenue and EBITDA



Key highlights

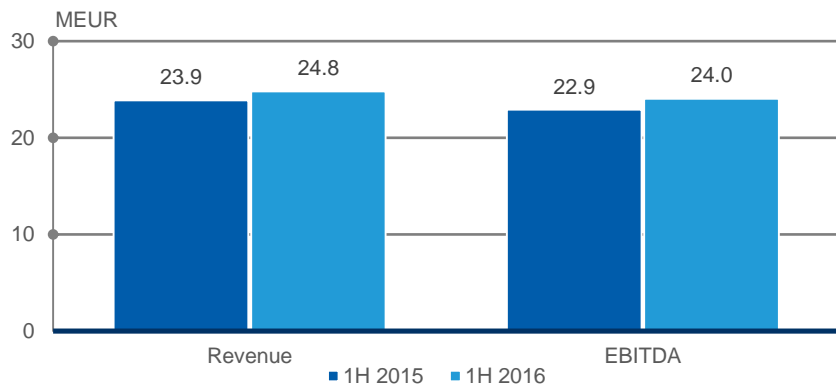
- Positive impact on the results due to increased distribution services revenue (+ 5.4 MEUR), while negative impact – higher purchasing cost of distribution losses (-1.3 MEUR)
- Electricity distributed reached 3,276 GWh (+ 4%)
- Investments in distribution assets reached 47.2 MEUR
- As of 1 August 2016, the new balanced electricity distribution system service tariffs come into force

Assets, investments and distributed electricity

		1H 2015	1H 2016
Assets	MEUR	1,279	1,313
Investments	MEUR	42.6	47.2
Distributed electricity	GWh	3,158	3,276

Transmission Assets

Segment revenue and EBITDA



Key highlights

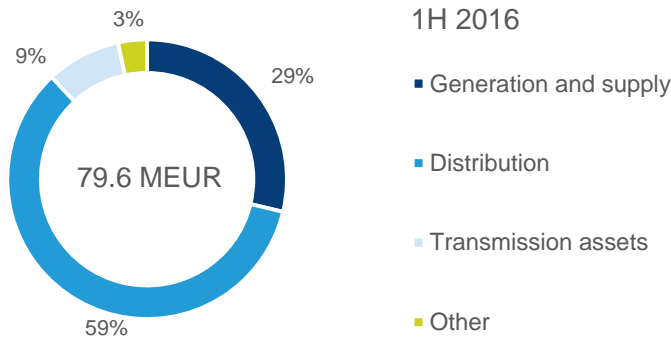
- Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- Investment in transmission system assets 6.9 MEUR, which is by 14% more than in the 1H last year

Assets and investments

		1H 2015	1H 2016
Assets	MEUR	451	422
Investments	MEUR	6.0	6.9

Investments

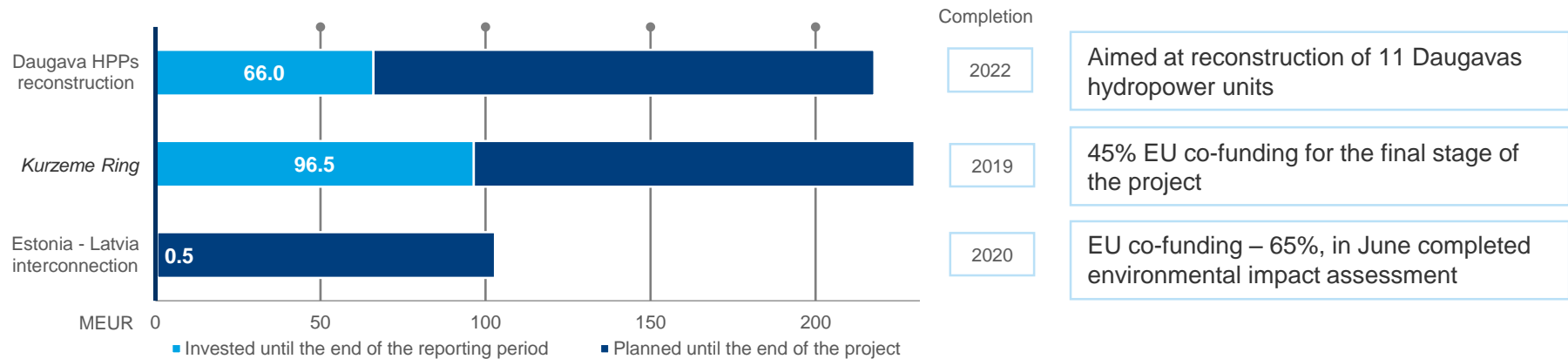
Investment division by segment



Key highlights

- Large part of investment goes in the modernisation of power network with an aim to improve the quality of network service in Latvia
- Investments in Daugava HPPs hydropower unit reconstruction amounted to 14.6 MEUR

Major investment projects

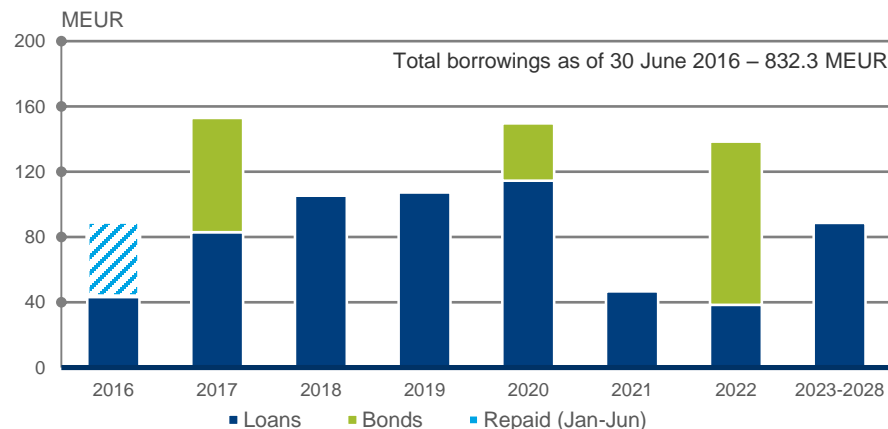


Funding

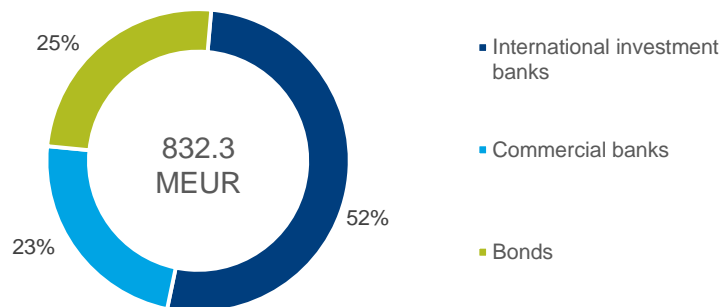
Key highlights

- On 14 April 2016, *green* bonds in the amount of 25 MEUR were issued, thus the second bond offering programme of 100 MEUR was completed
- Total amount of bonds issued reached 205 MEUR
- Capital ratio – 59%, net debt to equity ratio – 31%
- At the beginning of 2016 *Moody's* reconfirmed credit rating – Baa2 (stable)

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

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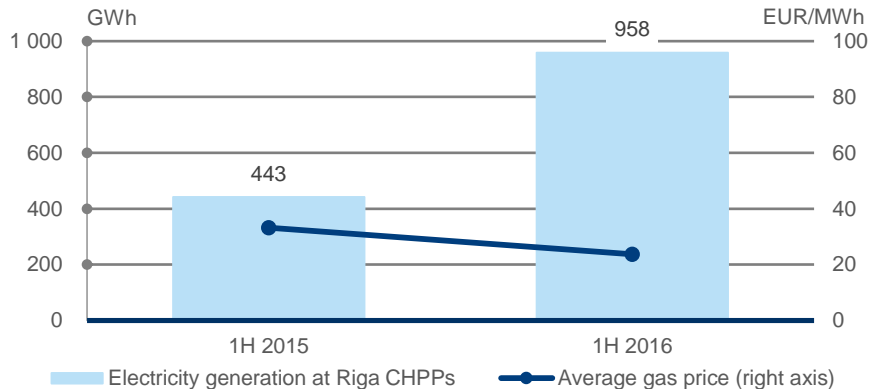
Current Issues

- ▶ Role of Riga CHPPs in the Electricity Market

Q&A

Role of Riga CHPPs in the Electricity Market

Electricity generation increased



Key highlights

- Electricity output increased more than twofold
- Gas price decreased by 28%
- Riga CHPPs provided for significant input in stabilizing electricity price in market deriving from unstable interconnection operation

General benefits of Riga CHPPs

- Guarantee of electricity base-load capacity - almost fully covering the entire Latvian electricity consumption under limited electricity import conditions
- Efficient and flexible – operational modes easily adjustable to market conditions
- Fulfill all environmental requirements, minimize CO₂ and other emissions per unit of energy produced



Riga CHPP-2

Q&A

or send to:

E-mail: investor.relations@latvenergo.lv

Website: www.latvenergo.lv

AS Latvenergo

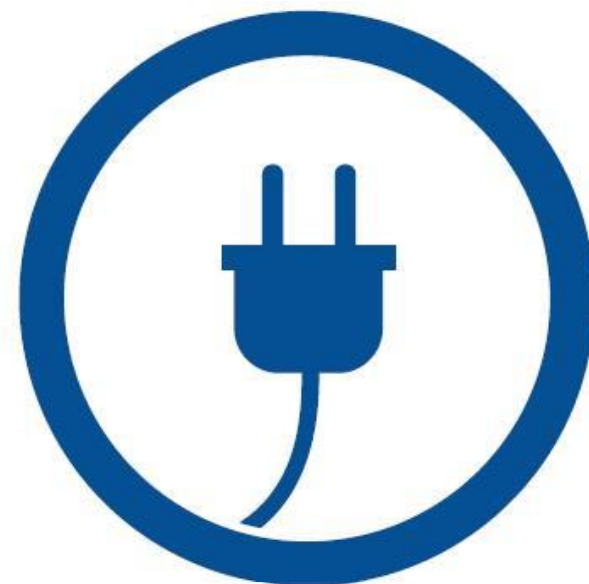
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Consolidated Statement of Profit or Loss*

	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)
Operating profit	91,711	79,055
Finance income	1,211	1,443
Finance costs	(7,386)	(9,853)
Profit before tax	85,536	70,645
Income tax	(10,905)	(8,947)
Profit for the year	74,631	61,698

Consolidated Statement of Financial Position*

	30/06/2016	31/12/2015
	EUR'000	EUR'000
ASSETS		
Non-current assets		
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
Total non-current assets	3,076,195	3,113,719
Current assets		
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
Total current assets	469,305	403,653
TOTAL ASSETS	3,545,500	3,517,372
EQUITY		
Share capital	1,288,531	1,288,531
Reserves	666,839	669,596
Retained earnings	128,261	131,662
Equity attributable to equity holders of the Parent Company	2,083,631	2,089,789
Non-controlling interests	7,858	6,913
Total equity	2,091,489	2,096,702
LIABILITIES		
Non-current liabilities		
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
Total non-current liabilities	1,251,600	1,208,939
Current liabilities		
Trade and other payables	124,373	121,256
Borrowings	73,134	83,192
Derivative financial instruments	4,904	7,283
Total current liabilities	202,411	211,731
Total liabilities	1,454,011	1,420,670
TOTAL EQUITY AND LIABILITIES	3,545,500	3,517,372

* 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
Cash flows from operating activities		
Profit before tax	85,536	70,645
Adjustments :		
– Amortisation, depreciation and impairment of non-current assets	112,746	100,904
– Net financial adjustments	1,753	10,455
– Other adjustments	460	(791)
Operating profit before working capital adjustments	200,495	181,213
Decrease / (increase) in current assets	18,228	(38,295)
Decrease in trade and other payables	(9,312)	(20,070)
Cash generated from operating activities	209,411	122,848
Interest paid	(8,458)	(9,688)
Interest received	1,530	808
Corporate income tax and real estate tax repaid / (paid)	(4,031)	4,490
Net cash flows from operating activities	198,452	118,458
Cash flows from investing activities		
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
Net cash flows used in investing activities	(77,156)	(82,891)
Cash flows from financing activities		
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)
Net cash flows generated from financing activities	(41,973)	(4,462)
Net increase in cash and cash equivalents	79,323	31,105
Cash and cash equivalents at the beginning of the period	104,543	91,747
Cash and cash equivalents at the end of the period	183,866	122,852 **

** 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