

# LATVENERGO CONSOLIDATED UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE 3-MONTH PERIOD  
ENDING 31 MARCH 2017

31.05.2017 / RIGA

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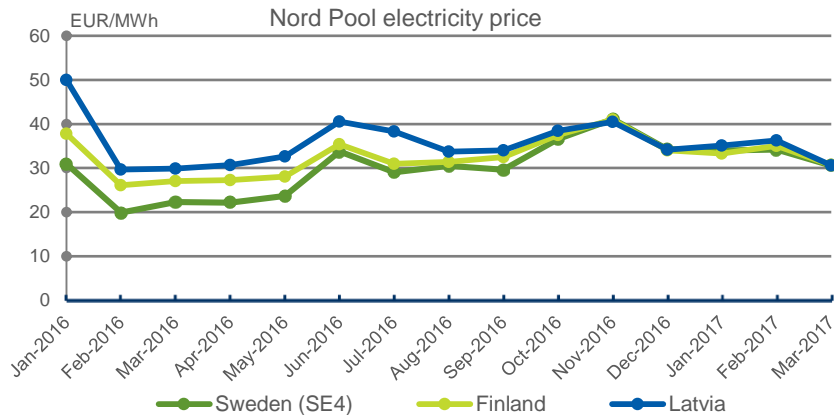
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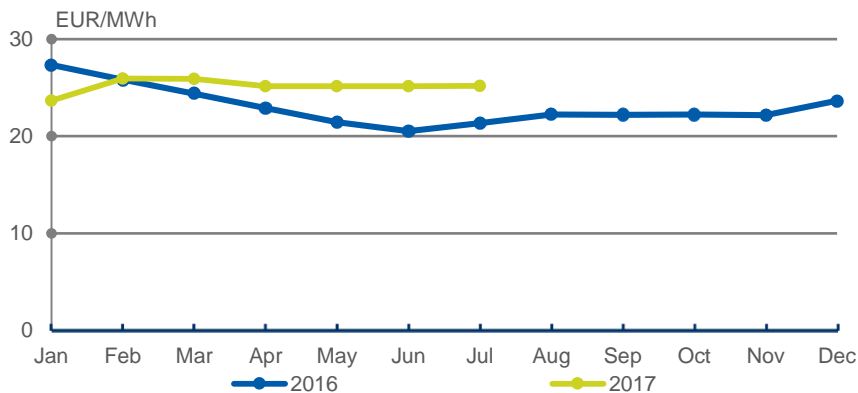
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# Operation of new interconnections contributes to electricity price convergence in the Baltics

## Convergence of electricity price



## Natural gas price in Latvia

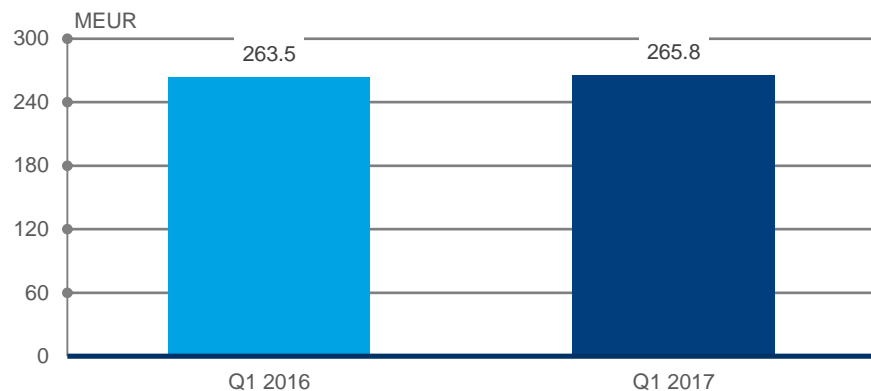


## Main facts – Q1 2017

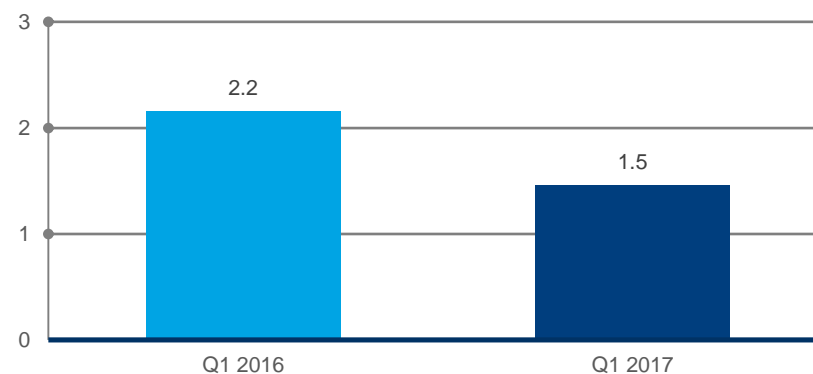
- Nord Pool price in Latvia and Lithuania decreased by 7% and 6% respectively (34.0 EUR/MWh and 34.9 EUR/MWh), while it increased in Estonia and Finland by 4% and 9% respectively (33.0 EUR/MWh and 33.0 EUR/MWh)
- Electricity price increase in the Nordic countries determined by lower water levels at Scandinavian hydropower reservoirs
- New interconnections have contributed to convergence of electricity spot prices between the Nordic countries and the Baltics
- As of 3 April 2017, Latvia's natural gas market is open
- Natural gas price in Latvia decreased by 3% reaching 25.2 EUR/MWh

# Key Financial Figures

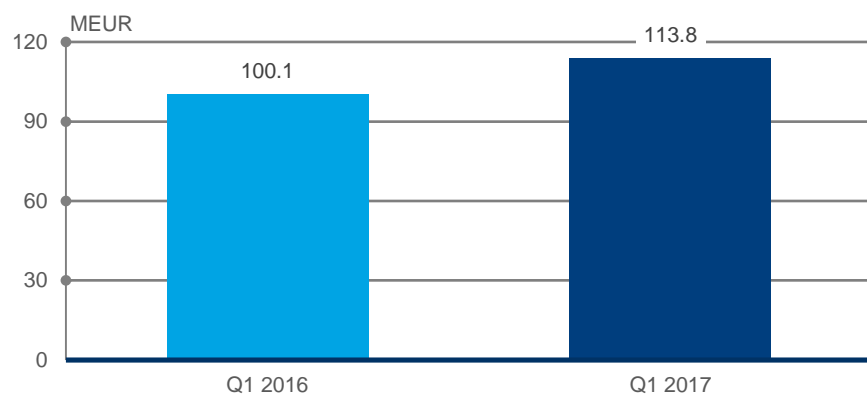
## Revenue



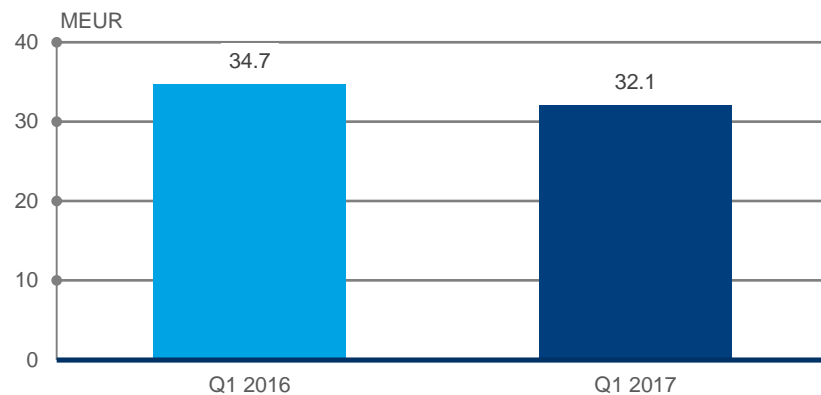
## Net debt/EBITDA



## EBITDA

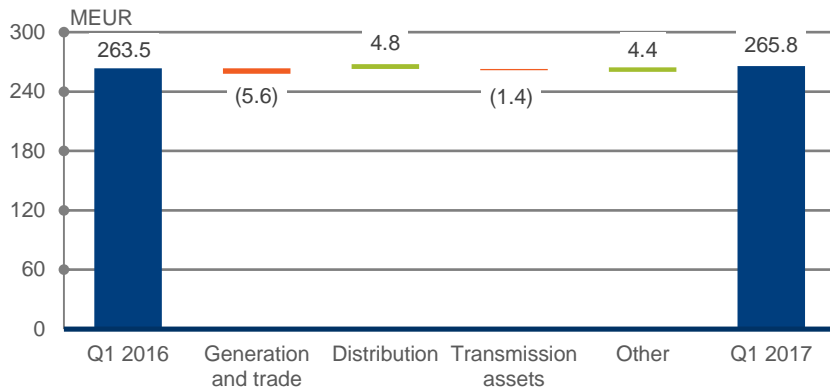


## Investments



# The Group's EBITDA and profit increased

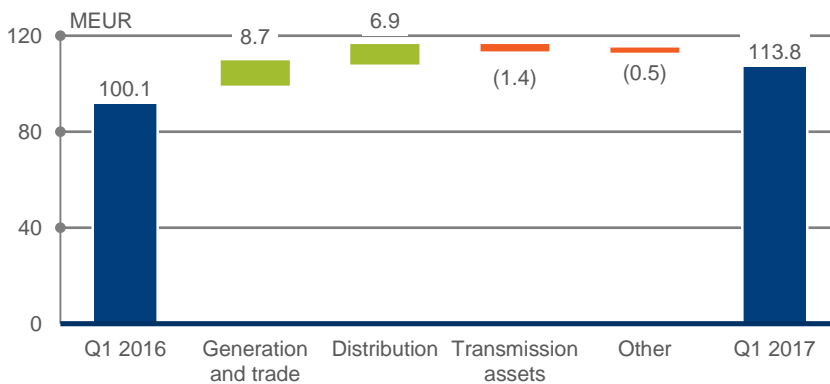
## Revenue dynamics by segments



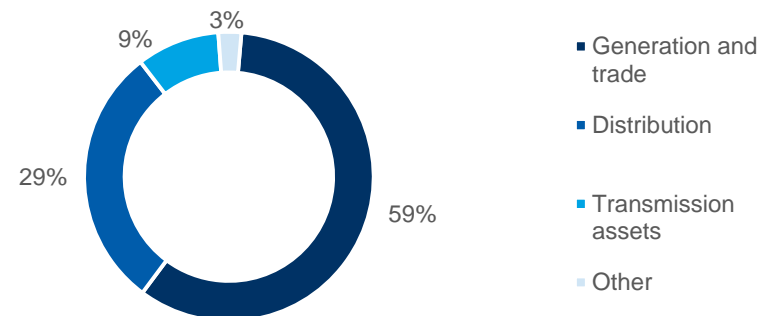
## 14% EBITDA growth

- The results were mainly positively impacted by:
  - 91% greater electricity output at the Daugava HPPs
  - increase in distribution service revenue
- The results were mainly negatively impacted by lower electricity trade price in the Baltics
- EBITDA margin – 44% (Q1 2016: 33%)
- ROE – 6.4% (Q1 2016: 4.0%)

## EBITDA dynamics by segments



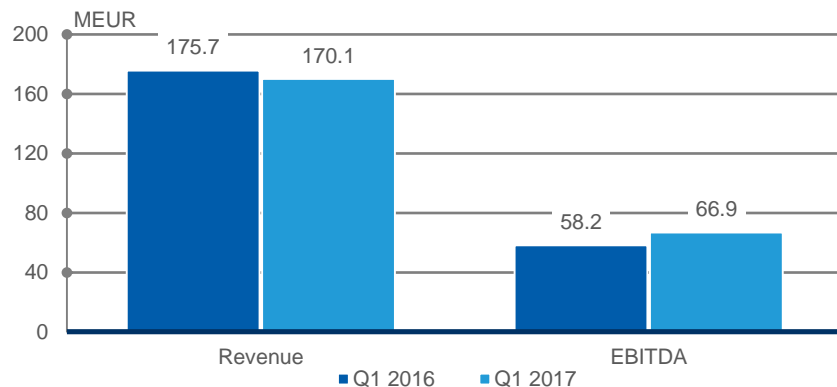
## EBITDA weight by segments



# Generation and trade



## Segment EBITDA increased



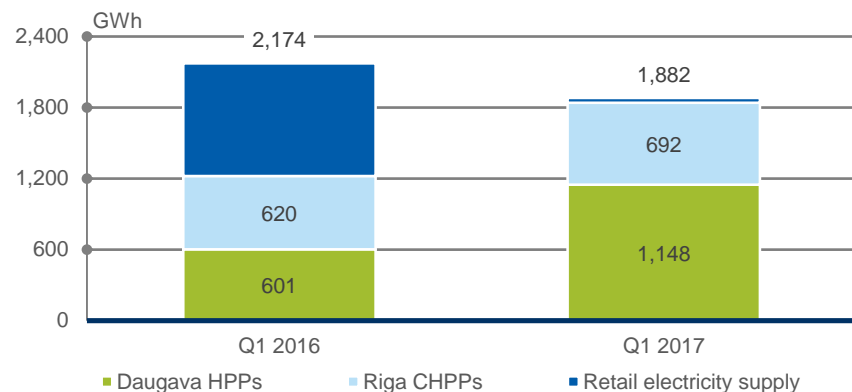
## The largest segment of the Group

- Results of the segment were positively impacted by higher electricity output at the Daugava HPPs, while negatively – lower electricity sales prices in the Baltics
- Generation of electricity increased by 50%
- Latvenergo Group has maintained the position of leading electricity supplier in the Baltics
- As of 1 April 2017, PSO fee remains at the previous level (2.679 cents/kWh)

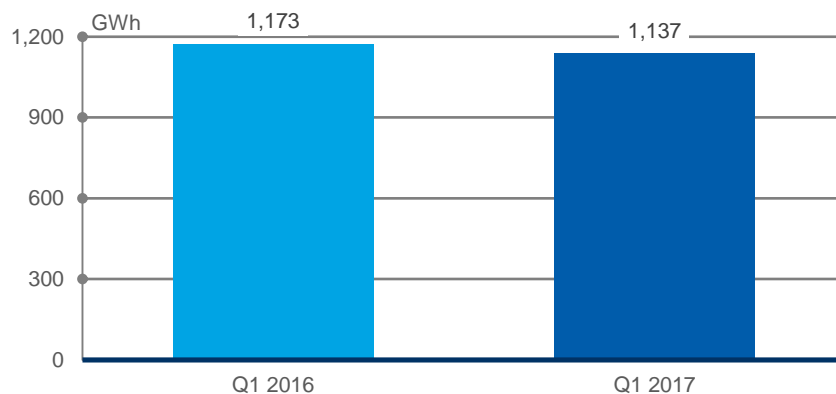
# Effective and balanced generation sources



## 1,855 GWh of electricity generated



## 1,137 GWh of thermal energy generated



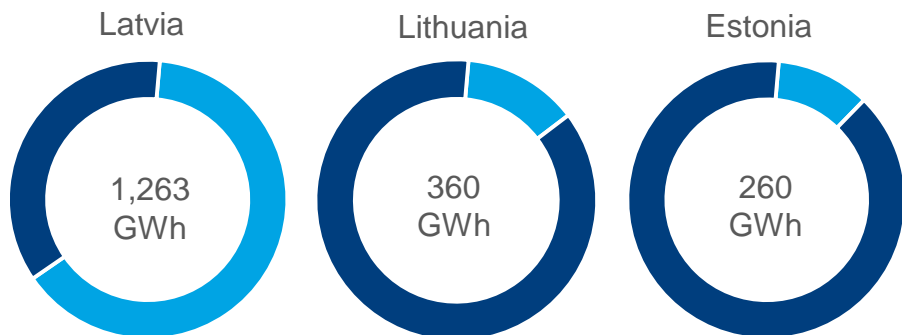
## Generation of electricity increased by 50%

- Higher level of water inflow in the Daugava River due to the earlier start of the spring flood – power generated by the Daugava HPPs increased by 91%
- Effective and operative operations of Riga CHPPs precluded the electricity price increase risk in the region
- Amount of electricity generated by Riga CHPPs increased by 12%
- Total electricity generated is approximately the same as retail electricity supply (Q1 2016: 57%)
- Higher average temperature in Riga determined lower consumption of thermal energy – generation decreased by 3%

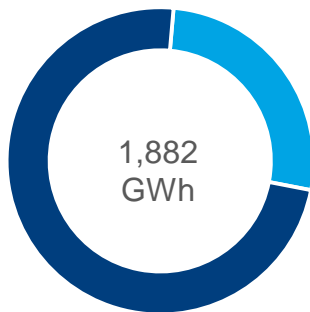


# Electricity trade

## Retail electricity supply\*



## The Baltics



■ Latvenergo Group ■ other suppliers

## Main facts – Q1 2017

- Retail electricity supply\* reached 1,882 GWh, 1/3 supplied outside Latvia
- The total number of clients outside Latvia exceeds 34,6 thousand
- Latvenergo Group's electricity trading brand's *Elektrum* products tailored to customer needs

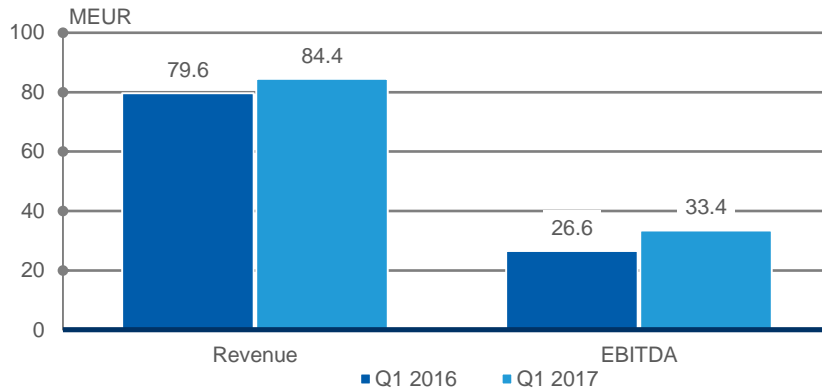
\* including operational consumption



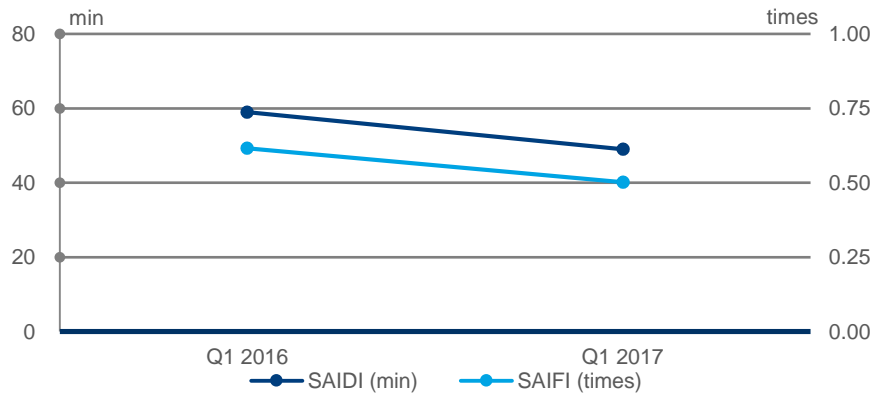
# Distribution asset value exceeds 1.6 billion EUR



## Distribution revenue and EBITDA



## Distribution service quality ratios



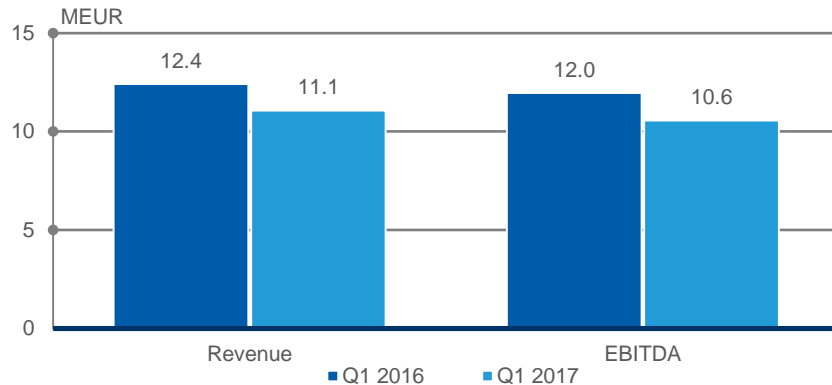
## Segment revenue and EBITDA increased

- Electricity distributed reached 1,739 GWh (Q1 2016: 1,761 GWh)
- Positive impact on the results due to increased distribution services revenue (4.8 MEUR) and lower cost of distribution losses (1.3 MEUR)
- Distribution service revenue growth resulted from the new rebalanced distribution system services tariff that came into force on 1 August 2016
- Investment in distribution assets reached 24.0 MEUR (Q1 2016: 20.2 MEUR)
- Due to investments and revaluation of distribution assets made in 2016 the value of distribution assets increased by 25% reaching 1,628.1 MEUR

# Transmission asset value reaches 450 MEUR



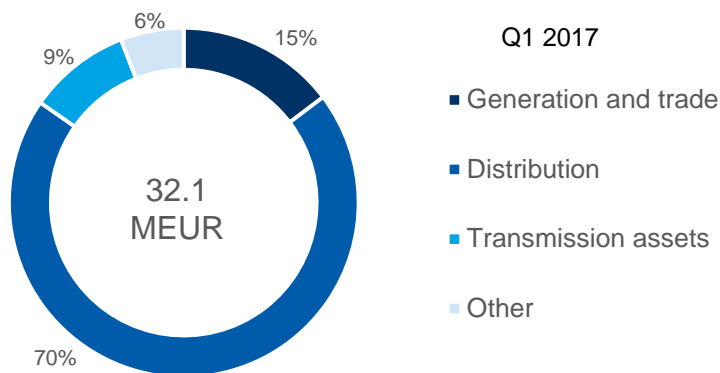
## Segment revenue and EBITDA



## Main facts – Q1 2017

- Investment in transmission system assets 3.2 MEUR, (Q1 2016: 3.8 MEUR)
- Major investment projects are *Kurzeme Ring* and third power transmission interconnection between Estonia and Latvia
- Due to investment and revaluation of transmission assets made in 2016 the value of transmission assets reached 445,8 MEUR (31 March 2016: 434.8 MEUR)

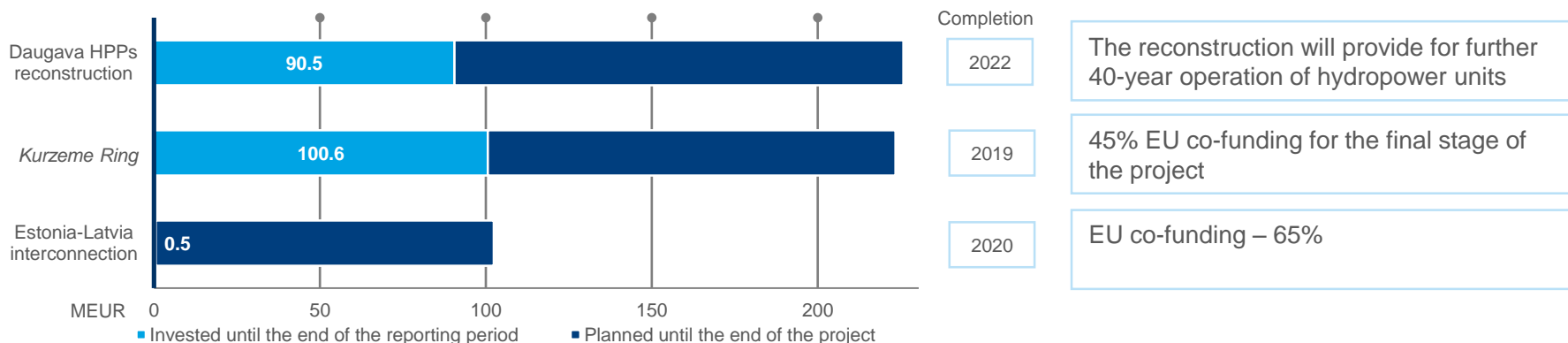
# Investment in network assets – 80% of the total



## Investments in environmentally friendly projects

- Investments in the Daugava HPPs hydropower unit reconstruction amounted to 3.8 MEUR
- Network service quality and technical parameters gradually improved by investments in networks assets

## Major investment projects

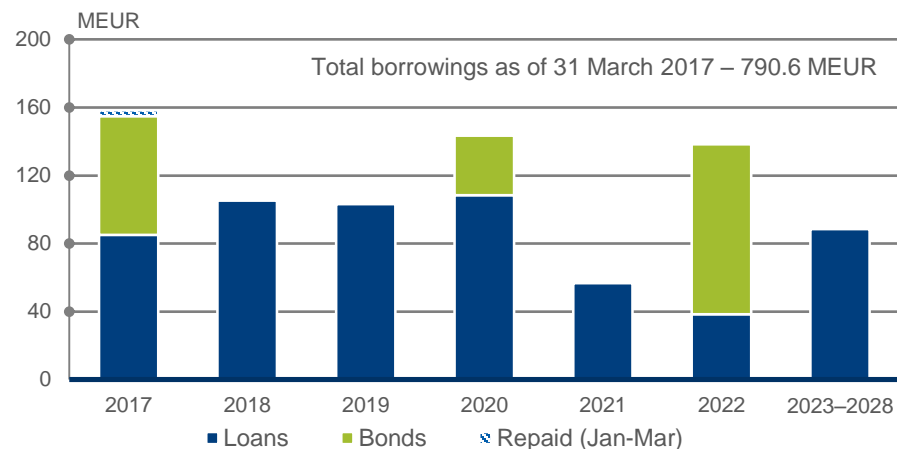


# Diversified borrowing sources

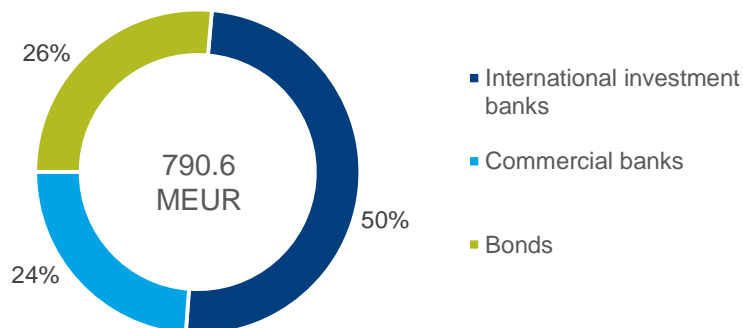
## Bonds represent 1/4 of total borrowings

- Total amount of bonds issued reached 205 MEUR, incl. 100 MEUR *green* bonds
- Latvenergo AS is the first company in the Baltics receiving the Nasdaq Baltic market award “Best Investor Relations in Baltics among Bond Issuers”
- On 16 February 2017, Moody’s credit rating reaffirmed – Baa2 (stable)
- Capital ratio – 62%

## Debt repayment schedule



## Lenders by category



## Main figures

31.03.2017

Share of fixed interest rate\* 62%

Duration 2.0 years

Effective weighted average interest rate\* 1.8%

\* with interest rate swaps

# Contacts

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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 – Million euros

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

PSO fee – Public service obligation fee

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\*

	01/01-31/03/2017	01/01-31/03/2016
	EUR'000	EUR'000
Revenue	265,816	263,533
Other income	1,638	1,470
Raw materials and consumables used	(109,680)	(125,182)
Personnel expenses	(25,926)	(24,456)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(47,012)	(52,459)
Other operating expenses	(18,061)	(15,219)
<b>Operating profit</b>	<b>66,775</b>	<b>47,687</b>
Finance income	310	654
Finance costs	(3,058)	(3,756)
<b>Profit before tax</b>	<b>64,027</b>	<b>44,585</b>
Income tax	(8,940)	(5,996)
<b>Profit for the period</b>	<b>55,087</b>	<b>38,589</b>

# Consolidated Statement of Financial Position\*

	31/03/2017	31/12/2016
	EUR'000	EUR'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets and property, plant and equipment	3,354,762	3,370,331
Investment property	579	563
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	17,022	17,034
Other non-current receivables	986	986
<b>TOTAL non-current assets</b>	<b>3,373,390</b>	<b>3,388,955</b>
<b>Current assets</b>		
Inventories	44,238	41,458
Prepayment for inventories	–	–
Trade receivables and other receivables	274,854	273,957
Deferred expenses	2,024	3,227
Derivative financial instruments	1,700	6,134
Investments in held-to-maturity financial assets	–	3,520
Cash and cash equivalents	260,020	183,980
<b>TOTAL current assets</b>	<b>582,836</b>	<b>512,276</b>
<b>TOTAL ASSETS</b>	<b>3,956,226</b>	<b>3,901,231</b>
<b>EQUITY</b>		
Share capital	1,288,715	1,288,715
Reserves	934,684	937,074
Retained earnings	240,047	185,840
<b>Equity attributable to equity holder of the Parent Company</b>	<b>2,463,446</b>	<b>2,411,629</b>
Non-controlling interests	8,192	7,084
<b>TOTAL equity</b>	<b>2,471,638</b>	<b>2,418,713</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	639,969	635,620
Deferred income tax liabilities	314,227	315,759
Provisions	18,901	18,643
Derivative financial instruments	7,838	7,946
Other liabilities and deferred income	194,076	195,407
<b>Total non-current liabilities</b>	<b>1,175,011</b>	<b>1,173,375</b>
<b>Current liabilities</b>		
Borrowings	150,613	155,946
Trade and other payables	114,023	117,817
Income tax payable	26,913	17,718
Deferred income	14,115	14,022
Derivative financial instruments	3,913	3,640
<b>TOTAL current liabilities</b>	<b>309,577</b>	<b>309,143</b>
<b>TOTAL liabilities</b>	<b>1,484,588</b>	<b>1,482,518</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,956,226</b>	<b>3,901,231</b>

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



# Consolidated Statement of Cash Flows\*

	01/01-31/03/2017	01/01-31/03/2016
	EUR'000	EUR'000
<b>Cash flows from operating activities</b>		
Profit before tax	64,027	44,585
<b>Adjustments:</b>		
- Amortisation, depreciation and impairment of non-current assets	47,623	52,993
- Net financial adjustments	5,184	6,809
- Other adjustments	256	150
<b>Operating profit before working capital adjustments</b>	<b>117,090</b>	<b>104,537</b>
Increase in current assets	(1,169)	(37,353)
Increase in trade and other payables	4,155	4,157
<b>Cash generated from operating activities</b>	<b>120,076</b>	<b>71,341</b>
Interest paid	(180)	(850)
Interest received	1,129	1,171
Corporate income tax and real estate tax paid	(1,266)	(686)
<b>Net cash flows from operating activities</b>	<b>119,759</b>	<b>70,976</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible assets and property, plant and equipment	(43,995)	(33,148)
Proceeds from redemption of held-to-maturity assets	3,532	19
<b>Net cash flows (used in) / generated from investing activities</b>	<b>(40,463)</b>	<b>(33,129)</b>
<b>Cash flows from financing activities</b>		
Proceeds on borrowings from financial institutions	–	40,000
Repayment of borrowings	(3,256)	(6,411)
<b>Net cash flows (used in) / generated from financing activities</b>	<b>(3,256)</b>	<b>33,589</b>
<b>Net increase in cash and cash equivalents</b>	<b>76,040</b>	<b>71,436</b>
Cash and cash equivalents at the beginning of the period	183,980	104,543
<b>Cash and cash equivalents at the end of the period</b>	<b>260,020</b>	<b>175,979</b>