

LATVENERGO CONSOLIDATED UNAUDITED CONDENSED FINANCIAL STATEMENTS FOR 2018

28.02.2019, Riga

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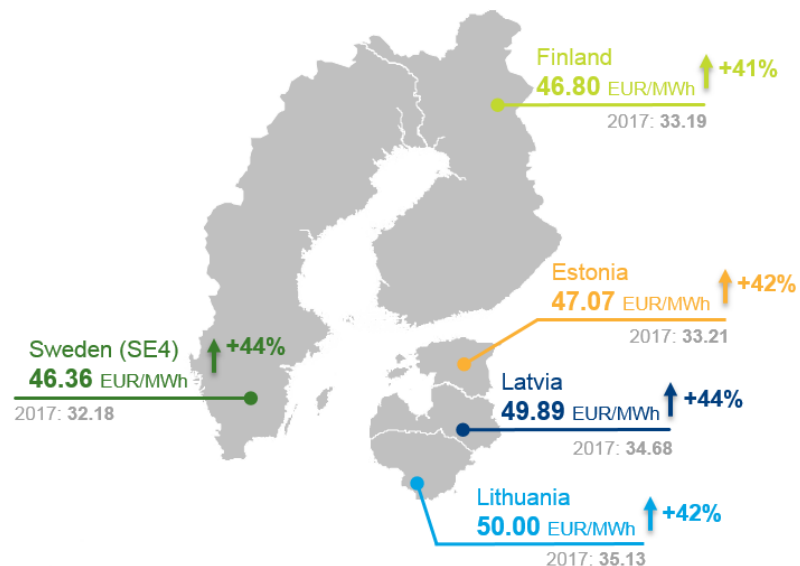
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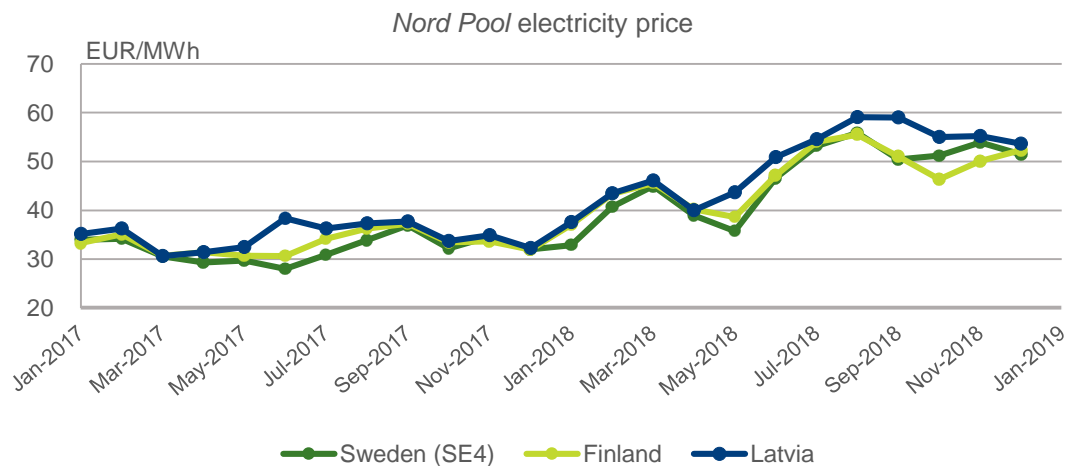
Electricity prices increased by more than 40% in the Baltics



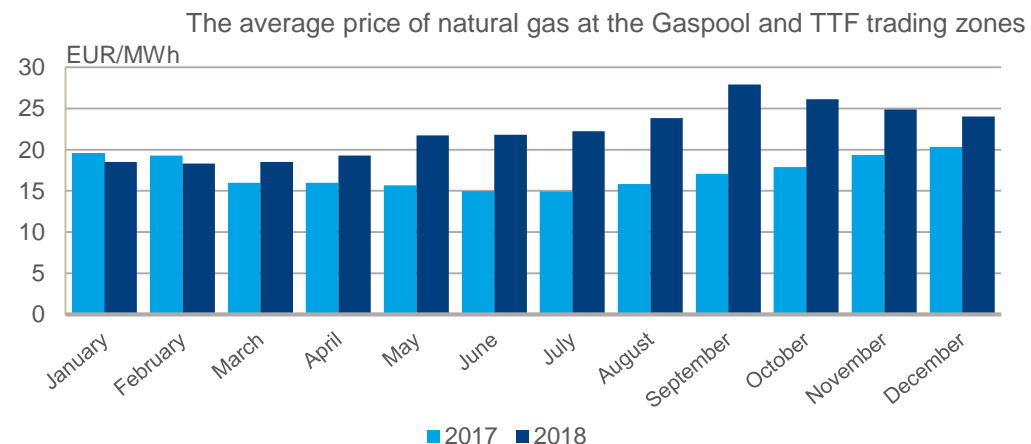
Main facts – 2018

- Electricity prices increased due to:
 - warm and dry weather
 - lower water levels at the Scandinavian hydropower reservoirs
 - lower electricity output at HPPs and WPPs
 - higher prices of energy resources and CO₂ emission allowance
- Transmission interconnection outages resulted in electricity price differences between bidding areas
- CO₂ emission allowance prices increased by 168%

Electricity prices increase

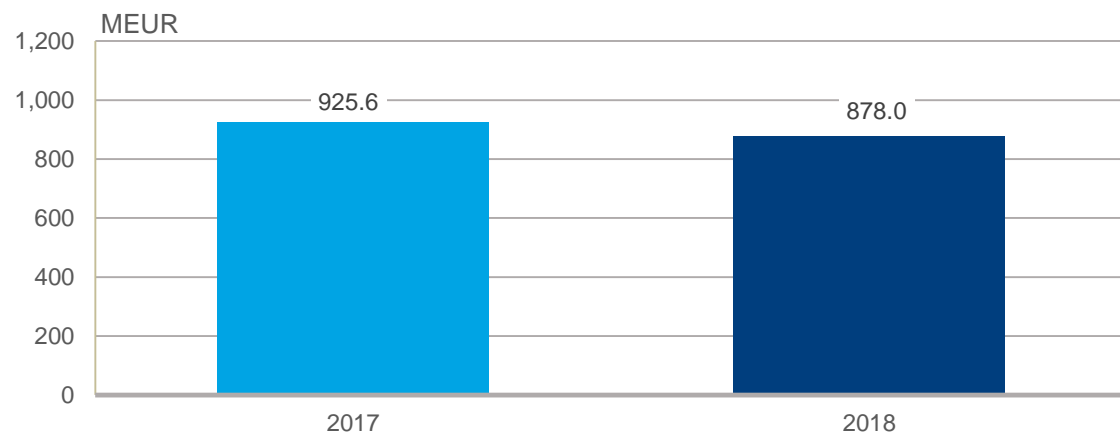


Natural gas price increased by 30%

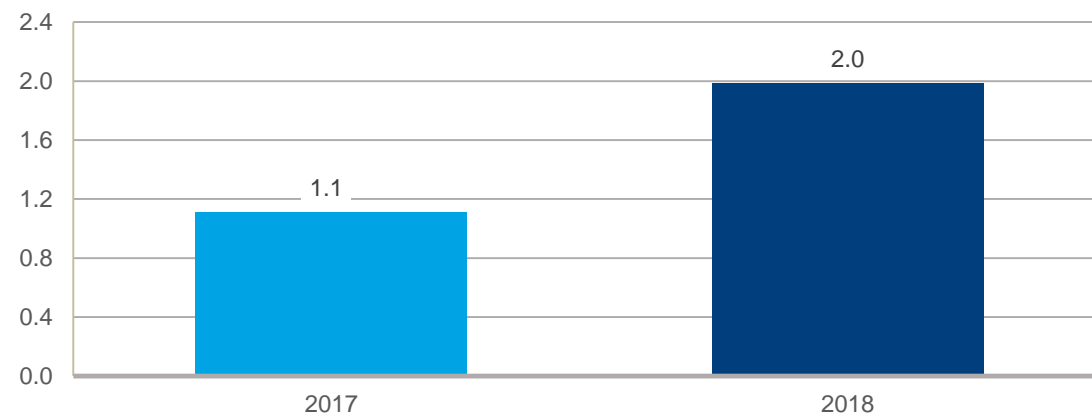


Key financial figures

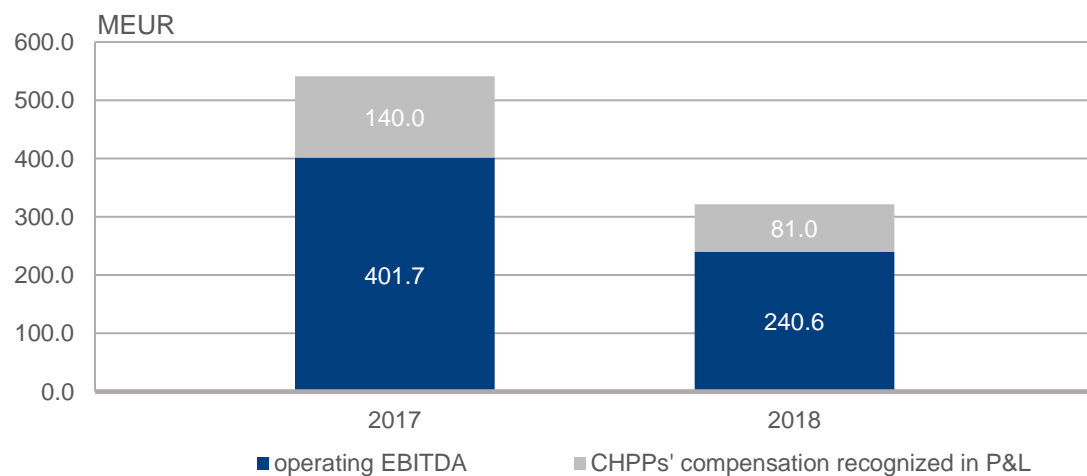
Revenue



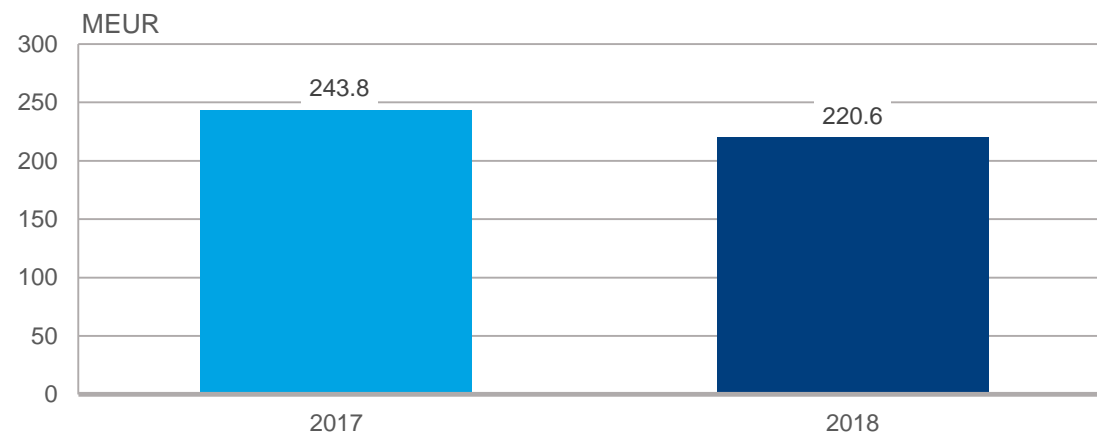
Net debt/EBITDA



EBITDA

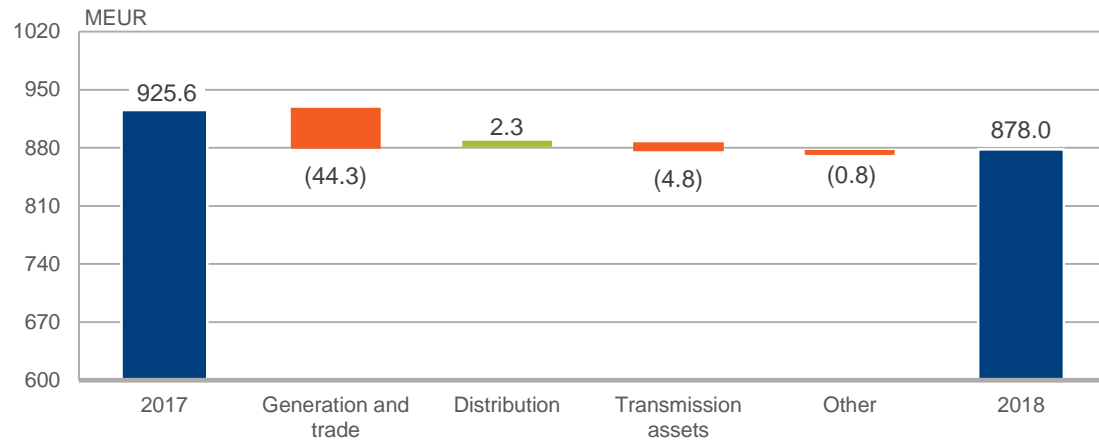


Investments

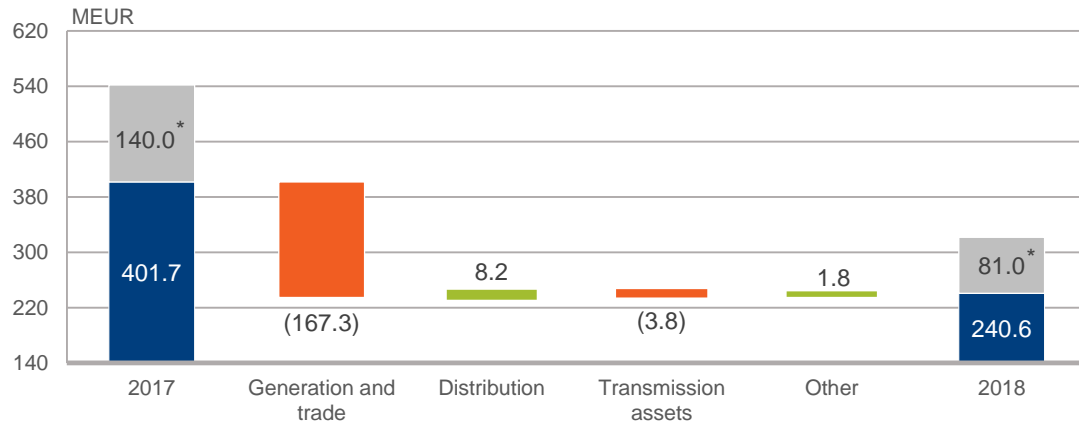


The results were impacted by lower electricity output at the Daugava HPPs and an unfavourable market situation

Revenue dynamics by segments



EBITDA dynamics by segments

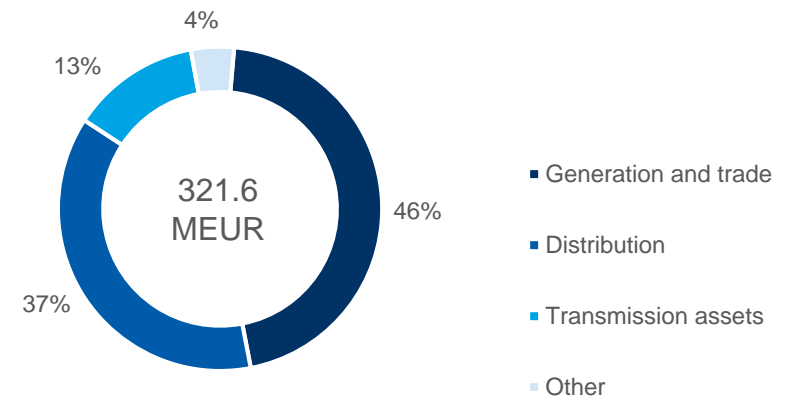


*Compensation for the Latvenergo AS CHPPs' capacity payments recognized in P&L

Main facts – 2018

- The results were negatively impacted by:
 - 44% lower electricity output at the Daugava HPPs
 - 75% lower revenue from the installed electrical capacity at the Latvenergo AS CHPPs
 - 59 MEUR lower compensation for the CHPPs' capacity payments
 - higher prices of energy resources and CO₂ emission allowance
- Net profit: 76.0 MEUR (2017: 322.0 MEUR, from which 149.1 MEUR was deferred tax reversal as a result of the corporate income tax reform)

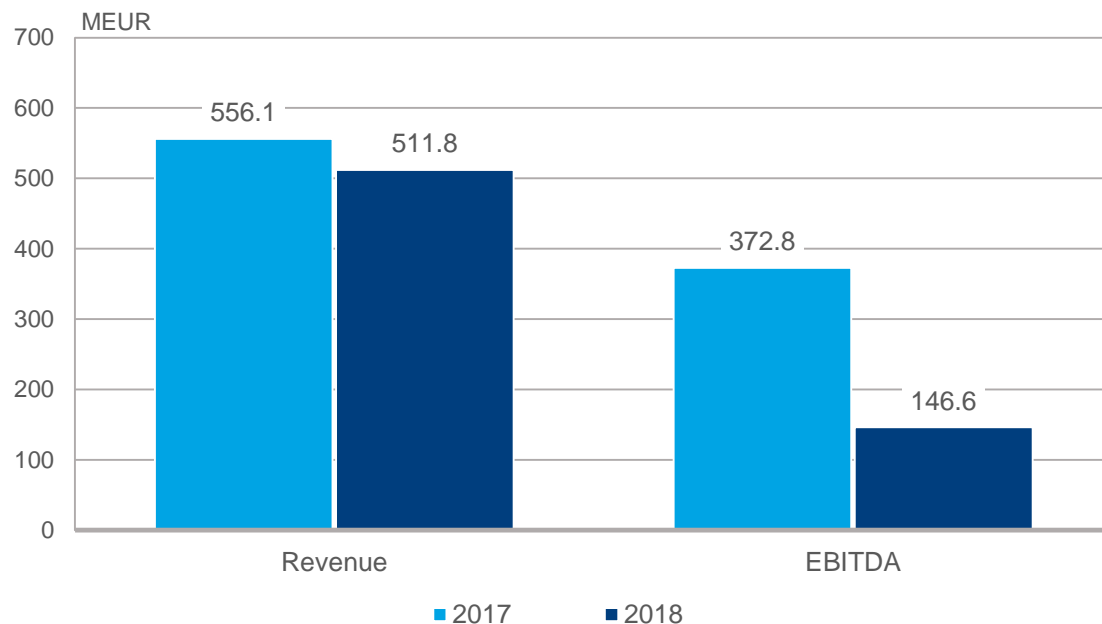
EBITDA weight by segments



Generation and trade



Segment revenue and EBITDA



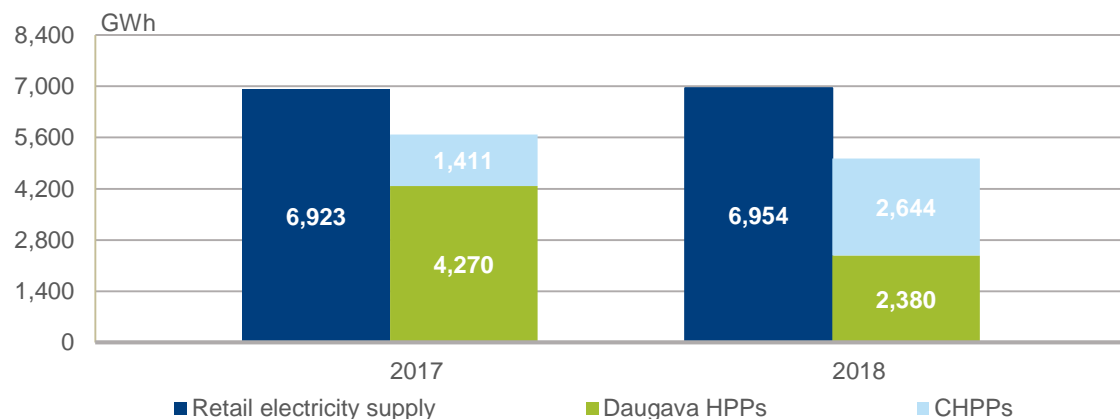
Main facts – 2018

- 87% higher electricity output at the Latvenergo AS CHPPs
- Results of the segment were negatively impacted by lower electricity output at the Daugava HPPs and higher prices of energy resources and CO₂ emission allowance
- 75% lower revenue from the installed electrical capacity at the Latvenergo AS CHPPs
- 59 MEUR lower compensation for the CHPPs' capacity payments
- Latvenergo Group – energy company that operates in all segments of the market in Latvia, Lithuania and Estonia.
- The average mandatory procurement PSO fee decreased by 3.11 EUR/MWh starting from 1 July 2018

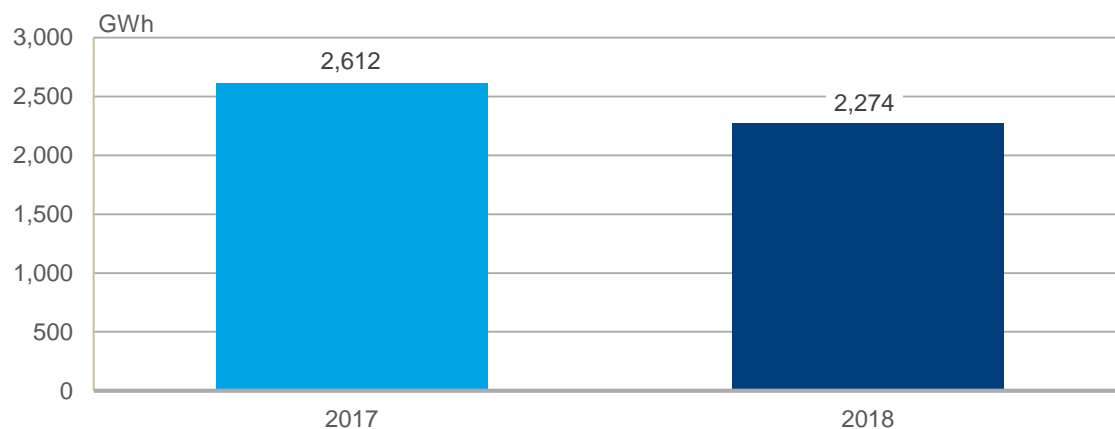


Energy generation

5,076 GWh of electricity generated



2,274 GWh of thermal energy generated



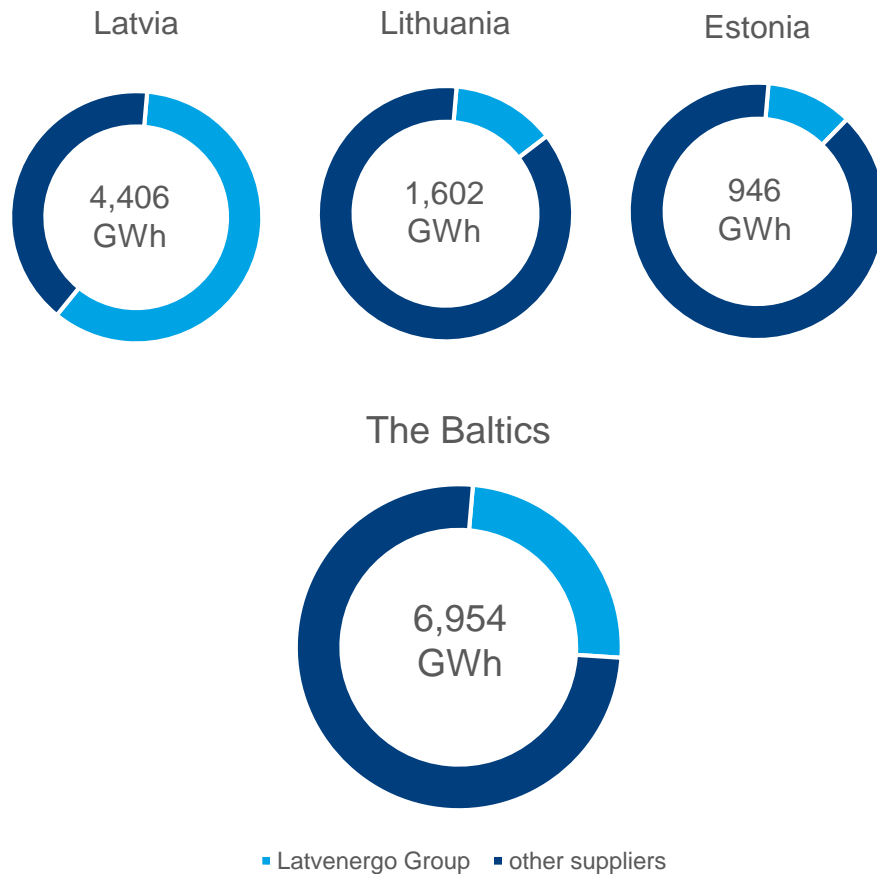
Main facts – 2018

- Power generated at the Latvenergo AS CHPPs increased by 87%
- CHPPs operated in market conjuncture efficiently planning operating modes and fuel consumption
- Power generated at the Daugavas HPPs decreased by 44% due to almost twice lower water inflow in the river Daugava, which was affected by dry and warm weather
- Total amount of electricity generated at Latvenergo power plants corresponds to 73% of the amount of electricity sold to retail customers
- Increasing competition in the thermal energy market determined lower generation of thermal energy – decrease by 13%








Trade of electricity and natural gas

Retail electricity supply*



* including operational consumption

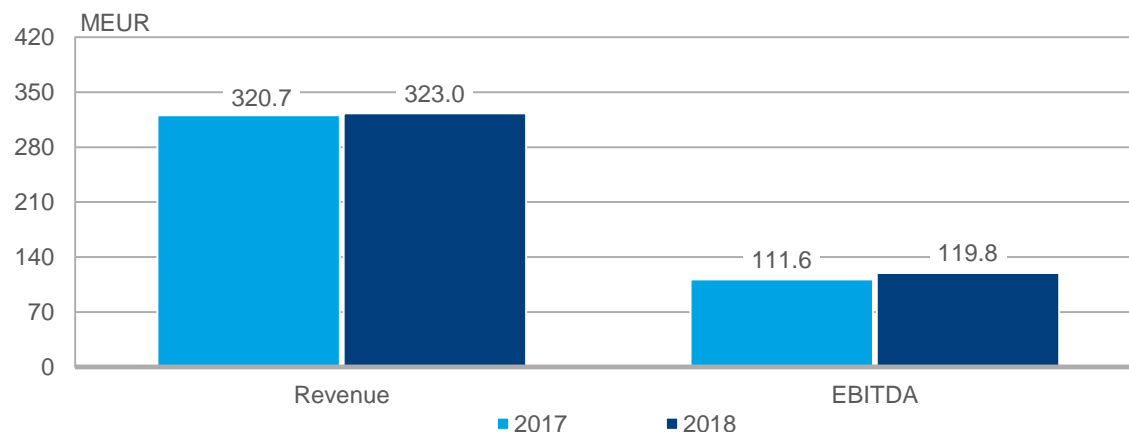
Main facts – 2018

-  7 TWh of electricity sold to Baltic retail customers
-  The Group commenced natural gas trade to business customers in Lithuania. The amount of natural gas used for both operating consumption and trade reached 6.9 TWh.
-  Solar panels installed for about 70 customers in the Baltics with a total capacity of 370 kW
-  At the end of the reporting year, the total number of *Elektrum Apdrošināts* customers exceeded 41,000
-  378 *Smart House* devices installed in the Baltics

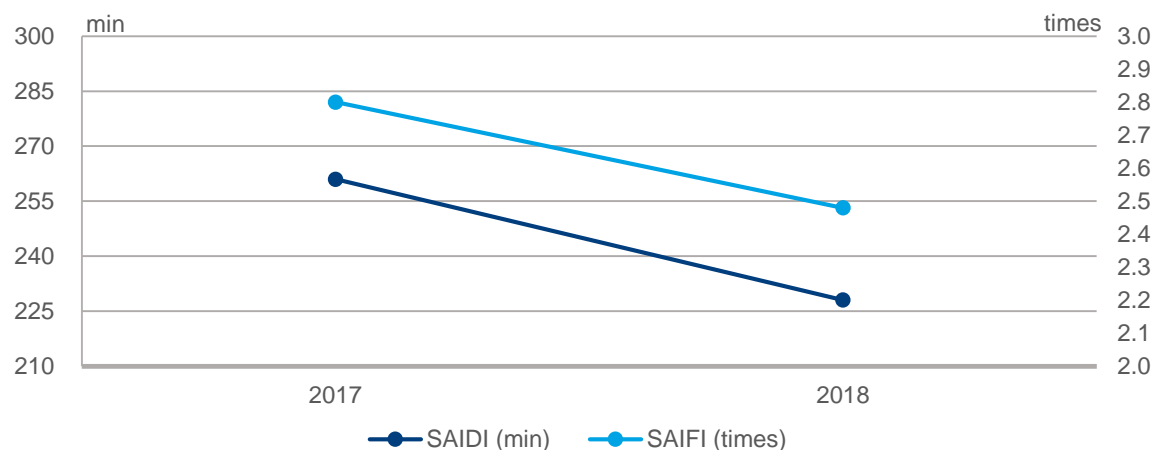
Distribution



Segment revenue and EBITDA



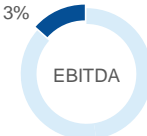
Improved SAIDI and SAIFI ratios



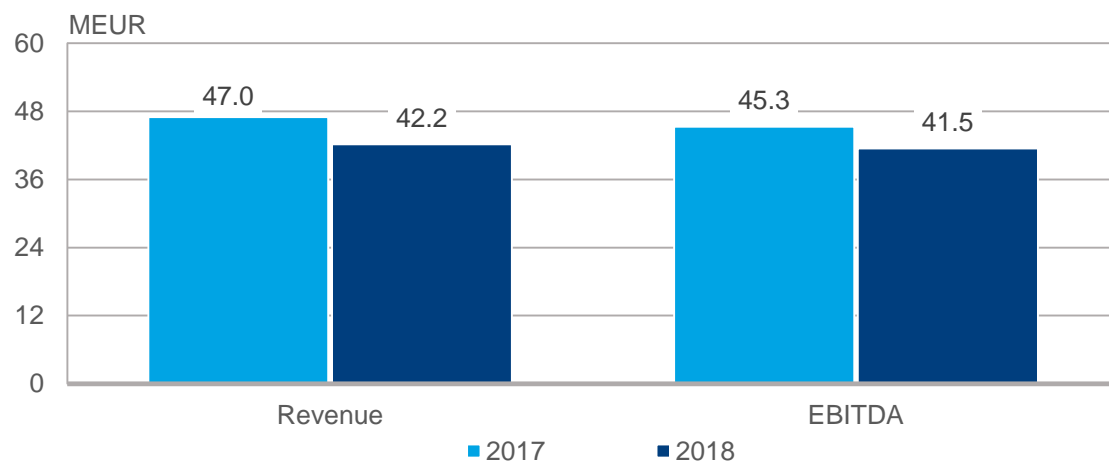
Main facts – 2018

- Electricity distributed: 6,600 GWh (2017: 6,463 GWh)
- Results positively impacted by:
 - 7.2 MEUR lower personnel termination costs associated with the efficiency programme
 - 2% larger volume of distributed electricity
- Results negatively impacted by:
 - higher electricity prices → higher cost of distribution losses
- Within the framework of the efficiency programme, the number of employees at Sadales tīkls AS has been reduced by 500 or 20%
- Smart electricity meters installed in the company reaches 544.3 thousand or 1/2 of the total electricity meters
- Investments in distribution assets: 95.1 MEUR (2017: 107.7 MEUR)
- The value of distribution assets increased to 1,669.7 MEUR

Transmission system asset leasing



Segment revenue and EBITDA

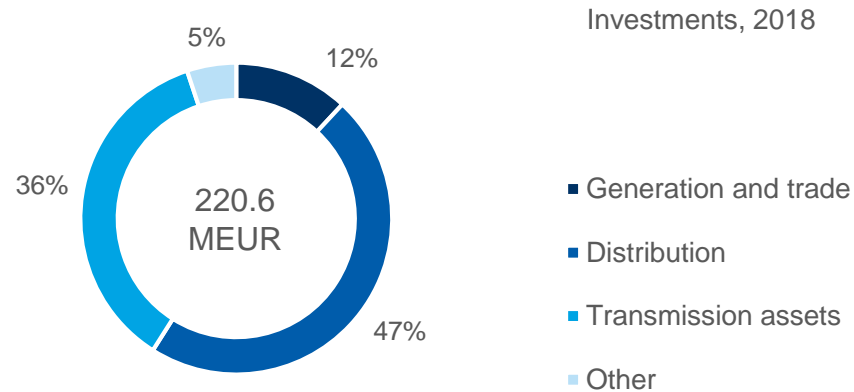


Main facts – 2018

- Segment's revenue is calculated in accordance with the methodology approved by the Public Utilities Commission
- Investments in transmission system assets: 87.1 MEUR (2017: 63.1 MEUR)
- Major investment projects in 2018: *Kurzeme Ring* (65.2 MEUR) and the third power transmission interconnection between Estonia and Latvia (5.3 MEUR)
- Due to the investments, the value of transmission assets increased to 548.8 MEUR

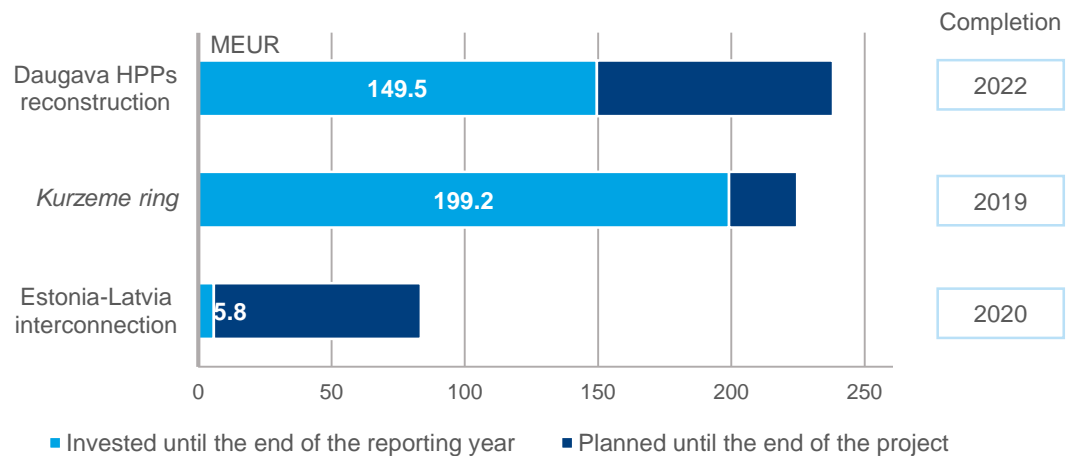
Investments

Investment in network assets – 80% of the total



- Investments in network assets allows to improve the quality of the power network services and technical parameters

Major investment projects



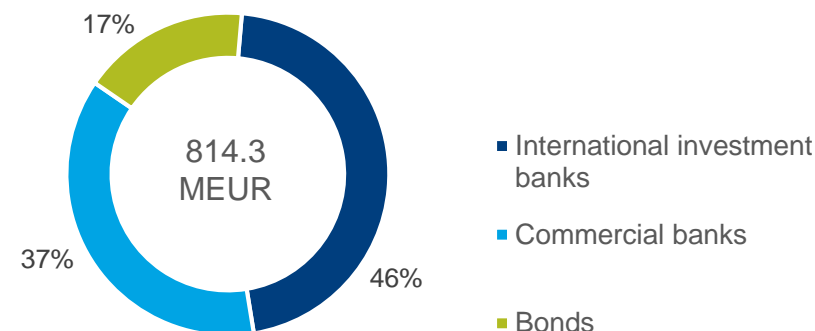
The reconstruction will provide for further 40-year operation of hydropower units

45% EU co-funding for the final stage of the project

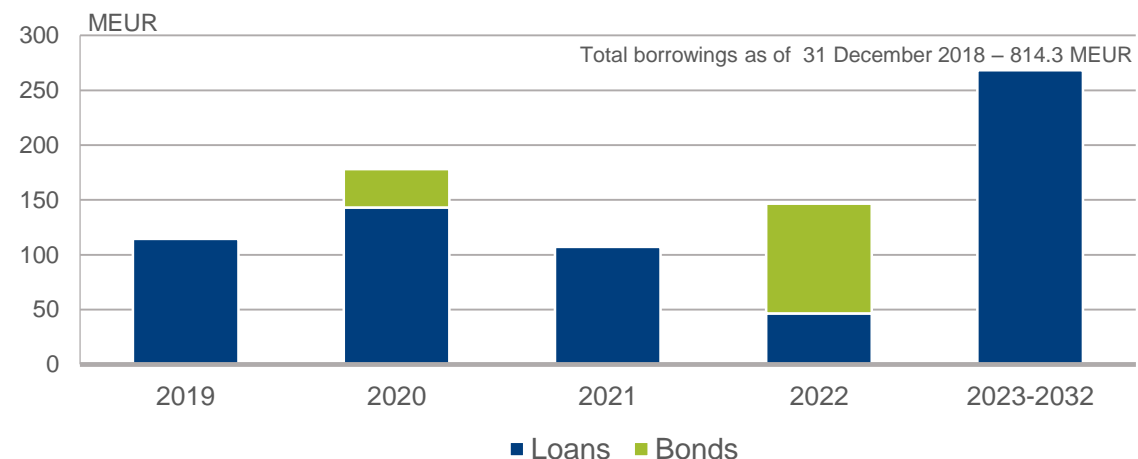
EU co-funding – 65%

Funding and Liquidity

Diversified sources of funding



Debt repayment schedule



Main facts – 2018

- Loans in amount of 240 MEUR attracted from banks for implementation of investment projects
- At the end of the reporting year, the outstanding amount of bonds reached 135 MEUR, incl. 100 MEUR *green* bonds
- On 15 June 2018, International credit rating agency Moody’s Investors Service has affirmed the assessment of Latvenergo AS *green* bonds – GB1 (excellent)
- Moody’s credit rating – Baa2 (stable)
- Capital ratio: 61%

Main figures

	31.12.2018
Share of fixed interest rate*	53%
Duration	2.1 years
Effective weighted average interest rate*	1.3%

* with interest rate swaps

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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

CHPPs – AS Latvenergo combined heat and power plants

SAIDI – System Average Interruption Duration Index

SAIFI – System Average Interruption Frequency Index

Consolidated Statement of Profit or Loss*

	EUR'000	
	01/01- 31/12/2018	01/01- 31/12/2017
Revenue	878,008	925,627
Other income	93,260	149,950
Raw materials and consumables used	(493,826)	(346,911)
Personnel expenses	(103,762)	(113,289)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(225,820)	(307,614)
Changes in the value of financial assets	478	–
Other operating expenses	(52,576)	(73,681)
Operating profit	95,762	234,082
Finance income	1,157	1,243
Finance costs	(8,406)	(11,211)
Profit before tax	88,513	224,114
Income tax	(12,558)	97,907
Profit for the period	75,955	322,021
Profit attributable to:		
– Equity holder of the Parent Company	73,423	319,670
– Non-controlling interests	2,532	2,351

* Unaudited Condensed Consolidated Financial Statements for 2018 prepared in accordance with the IFRS as adopted by the European Union.

Consolidated Statement of Financial Position*

	EUR'000	
	31/12/2018	31/12/2017
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,316,173	3,322,398
Investment property	467	753
Non-current financial investments	40	40
Other financial investments in debt securities (government bonds)	16,935	16,984
Other non-current receivables	30,920	3,229
Total non-current assets	3,364,535	3,343,404
Current assets		
Inventories	71,975	76,328
Receivables from contracts with customers	111,722	105,369
Other current receivables	91,062	646,761
Prepayment for income tax	11,619	–
Deferred expenses	2,598	3,241
Derivative financial instruments	15,853	4,619
Cash and cash equivalents	129,455	236,003
Total current assets	434,284	1,072,321
TOTAL ASSETS	3,798,819	4,415,725
EQUITY AND LIABILITIES		
EQUITY		
Share capital	834,791	1,288,715
Reserves	1,125,823	1,126,521
Retained earnings	350,993	423,613
Equity attributable to equity holder of the Parent Company	2,311,607	2,838,849
Non-controlling interests	8,458	8,042
Total equity	2,320,065	2,846,891
LIABILITIES		
Non-current liabilities		
Borrowings	700,028	718,674
Provisions	20,178	21,910
Deferred income tax liabilities	12,296	–
Derivative financial instruments	3,923	4,914
Deferred income on contracts from customers	143,494	142,132
Other liabilities and deferred income	303,519	350,926
Total non-current liabilities	1,183,438	1,238,556
Current liabilities		
Borrowings	114,315	108,083
Trade and other payables	135,008	147,072
Income tax payable	2	27,725
Deferred income on contracts from customers	13,271	12,500
Other deferred income	26,439	31,728
Derivative financial instruments	6,281	3,170
Total current liabilities	295,316	330,278
Total liabilities	1,478,754	1,568,834
TOTAL EQUITY AND LIABILITIES	3,798,819	4,415,725

* Unaudited Condensed Consolidated Financial Statements for 2018 prepared in accordance with the IFRS as adopted by the European Union.

Consolidated Statement of Cash Flows*

	EUR'000	
	2018	2017
Cash flows from operating activities		
Profit before tax	88,513	224,114
Adjustments:		
– Amortisation, depreciation and impairment of non-current assets	243,458	313,090
– Net financial adjustments	7,570	12,039
– Other adjustments	(1,293)	6,704
Operating profit before working capital adjustments	338,248	555,947
Decrease / (increase) in current assets	102,478	(42,640)
Decrease in trade and other liabilities	(90,344)	(123,783)
Cash generated from operating activities	350,382	389,524
Interest paid	(9,066)	(11,484)
Interest received	1,113	1,390
Paid corporate income tax	(39,560)	(41,221)
Net cash flows from operating activities	302,869	338,209
Purchase of intangible assets and PPE	(238,501)	(233,744)
Proceeds from redemption of other financial investments in debt securities	49	3,569
Net cash flows used in investing activities	(238,452)	(230,175)
Cash flows from financing activities		
Repayment of issued debt securities (bonds)	–	(70,000)
Proceeds on borrowings	93,500	186,500
Repayment of borrowings	(105,931)	(80,976)
Dividends paid to non-controlling interests	(2,116)	(1,393)
Dividends paid to equity holder of the Parent Company	(156,418)	(90,142)
Net cash flows used in financing activities	(170,965)	(56,011)
Net increase in cash and cash equivalents	(106,548)	52,023
Cash and cash equivalents at the beginning of the year	236,003	183,980
Cash and cash equivalents at the end of the year	129,455	236,003

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