



Latvenergo Group Unaudited Interim Results – 9M 2015

Keguma HES

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Agenda

Group Profile

Financials 9M 2015

- ▶ Market Overview
- ▶ Revenue and Profitability
- ▶ Segment Results
- ▶ Investments
- ▶ Debt and Liquidity

Current Issues

- ▶ Management Board
- ▶ Audit Committee

Q&A

Group Profile

General

- ▶ Vertically integrated utility
- ▶ Wholly-owned by the Republic of Latvia
- ▶ 4,180 employees
- ▶ Latvenergo Credit rating: Moody`s – Baa2/stable

Main Facts

- ▶ Installed generation capacities:
 - ▶ Riga CHPPs – 1,025 MW_{el}; 1,617 MW_{th}
 - ▶ Daugava HPPs – 1,536 MW_{el}
 - ▶ Liepaja and small plants – 8 MW_{el}; 227 MW_{th}
- ▶ Length of power lines:
 - ▶ Distribution ~ 95 thous. km
 - ▶ Transmission ~ 5 thous. km
- ▶ Retail customers – 864 thousands
- ▶ Market share in the Baltics ~ 1/3

Financial Ratios

		2012	2013	2014	9M 2015
Revenue	MEUR	1,064	1,100	1,011	686
EBITDA Margin ¹⁾	%	23%	23%	23%	31%
Profit	MEUR	51	46	30	69
Net Debt to EBITDA ²⁾	times	2.5	2.8	3.0	2.3
Assets	MEUR	3,518	3,575	3,487	3,531
Investments	MEUR	264	225	178	138

Operational Figures

		2012	2013	2014	9M 2015
Retail electricity supply	GWh	8,287	7,954	8,688	5,801
Electricity generation	GWh	5,077	4,854	3,625	2,676
Thermal energy supply	GWh	2,669	2,517	2,442	1,525
Distributed electricity	GWh	6,468	6,447	6,421	4,646

- 1) EBITDA margin: EBITDA / revenue (12-month rolling)
- 2) Net Debt to EBITDA: net debt to EBITDA ratio (12-month rolling)
- 3) Capital ratio: total equity / total assets

Latvenergo Group Structure



Operating Segments

Generation and supply (61% of revenues; 52% of EBITDA)

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

Distribution (29% of revenues; 28% of EBITDA)

- ▶ Sadales tīkls (LV)

Transmission assets (5% of revenues; 15% of EBITDA)

- ▶ Latvijas elektriskie tīkli (LV)

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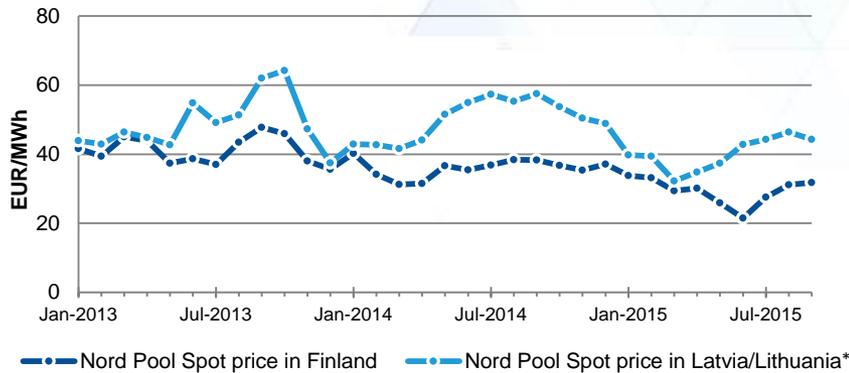
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Q&A

Market Overview

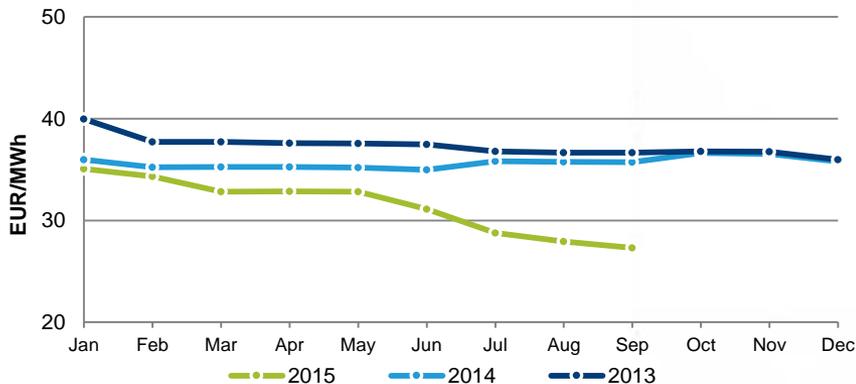
Price decrease in the Nordics/ Baltics



Main facts – 9M 2015

- ▶ Nord Pool Spot price decreased by 18% in Estonia and Finland (30.9 EUR/MWh and 29.3 EUR/MWh respectively) and by 19% in Latvia/Lithuania* (40.2 EUR/MWh)
- ▶ Electricity price decrease was determined higher rainfall in Nordic countries and, respectively, higher electricity generation in hydro power plants
- ▶ Transmission system capacity shortage determines price differences between the Latvia/Lithuania and Estonia bidding areas
- ▶ Natural gas price in Latvia decreased by 11% reaching 31.4 EUR/MWh
- ▶ Similarly to 2014, in 2015 unusually low water inflow remained in the Daugava River

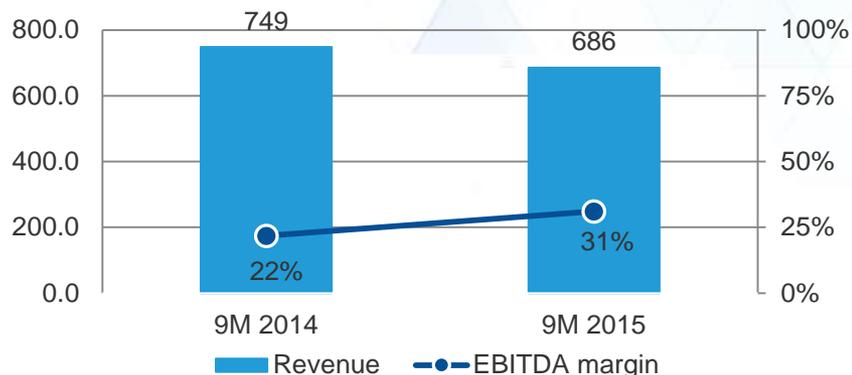
Natural gas price gradually declining



* In 9M 2015, electricity prices in the Latvia and Lithuania bidding areas were equal 99% hours

Latvenergo Group

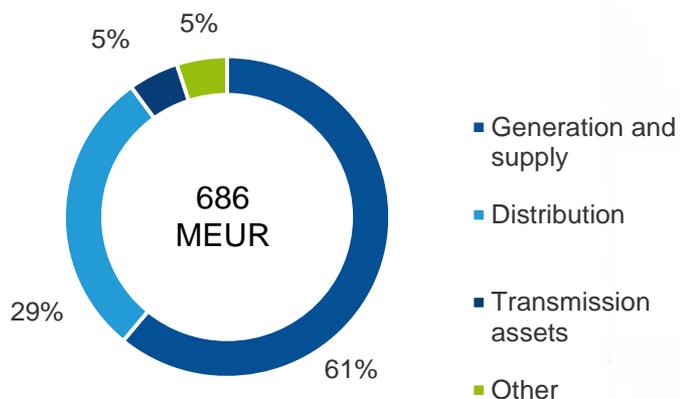
Revenue and EBITDA Margin



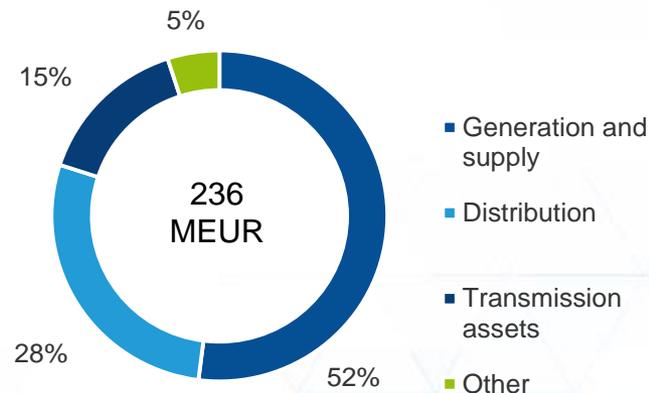
Key highlights

- ▶ Decrease in revenues due to change in accounting principles along with establishment of Enerģijas publiskais tirgotājs AS from 1 April 2014
- ▶ Increase in EBITDA due to:
 - ▶ Market opening for households in Latvia on 1 January 2015
 - ▶ Lower electricity prices in the market
- ▶ In 9M 2014, lost revenues due to electricity supply at the regulated tariff were 37.8 MEUR

Revenue by segment

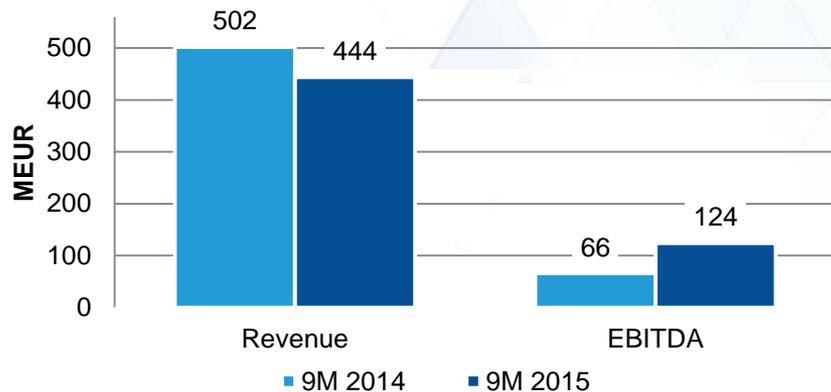


EBITDA by segment



Generation and Supply

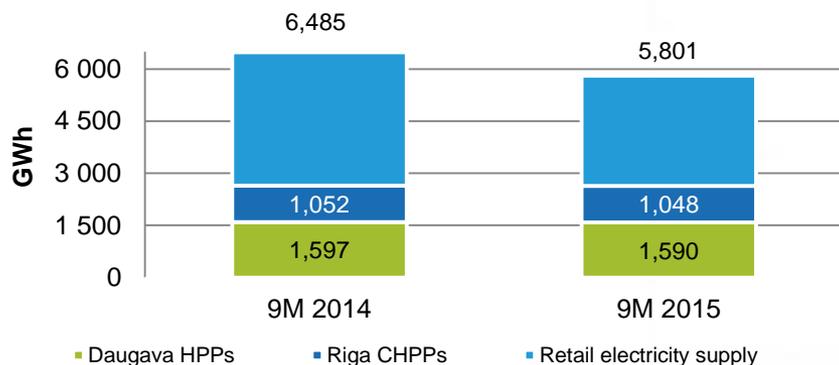
Segment revenue and EBITDA



Key highlights

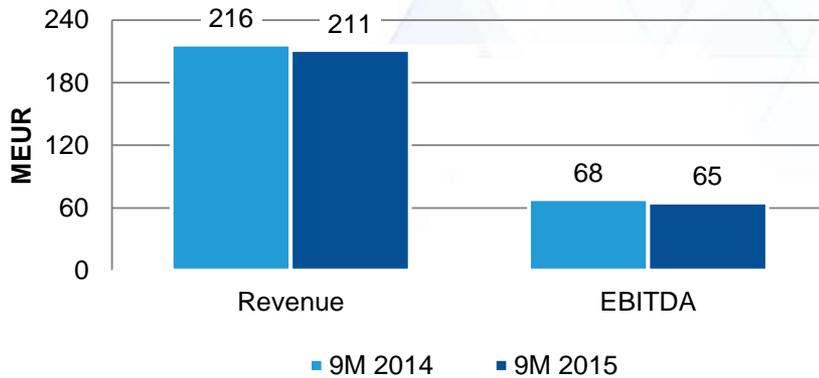
- ▶ Increase in EBITDA due to:
 - ▶ Market opening for households in Latvia on 1 January 2015
 - ▶ Lower electricity prices in the market
- ▶ Market share ~ 1/3 of the Baltic electricity retail market
- ▶ Number of customers in Lithuania and Estonia increased by 5%
- ▶ Electricity generation – 2,676 GWh (9M 2014: 2,688 GWh).
- ▶ Thermal energy generation – 1,584 GWh (9M 2014: 1,658 GWh)

Retail electricity supply – 5,801 GWh



Distribution

Segment revenue and EBITDA



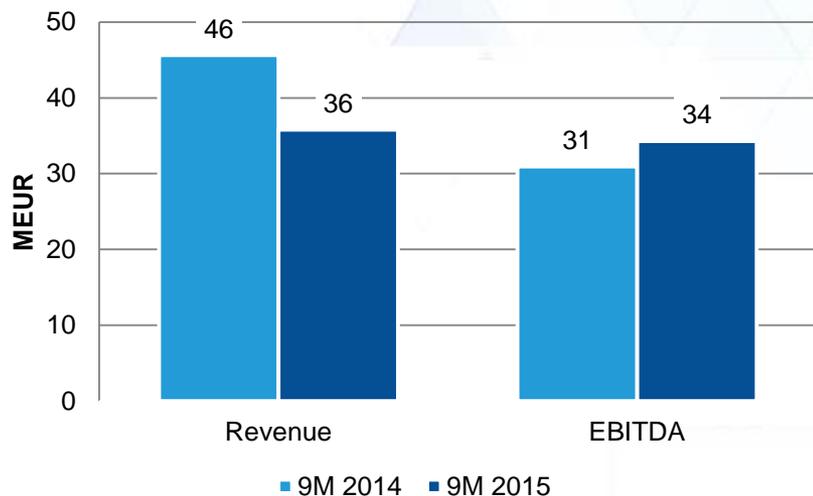
Key highlights

- ▶ Decrease of revenues and EBITDA is mainly due to lower electricity consumption and correspondingly to lower level of distributed electricity by 2%
- ▶ Investments in distributed assets increased by 18% and reached 71 MEUR (9M 2014: 60 MEUR)

		9M 2014	9M 2015
Assets	MEUR	1,269	1,281
Investments	MEUR	60	71

Transmission assets

Segment revenue and EBITDA



Key highlights

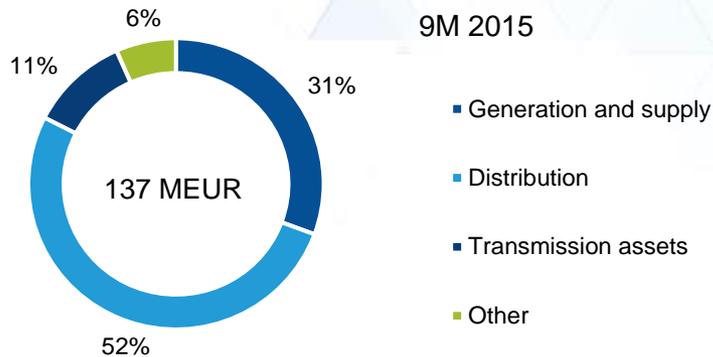
- ▶ Revenue decrease was influenced by asset construction and maintenance function transfer to TSO as of 1 January 2015
- ▶ Positive impact on profitability due to a gradual increase of regulatory asset base into the lease for Augstsprieguma tīkls
- ▶ Return on transmission assets* – 4.5%

		9M 2014	9M 2015
Assets	MEUR	439	435
Investments	MEUR	25	15
incl. Kurzeme Ring		11	0

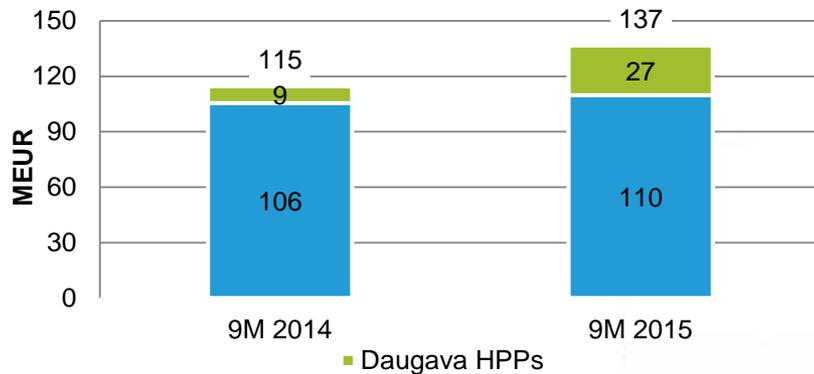
* Return on segment assets – operating profit of the segment (12-month rolling) / average segment assets ((assets at the beginning of the period + assets at the end of the period) / 2)

Investments

Investments by segment



Investments: 2014 - 2015



Largest investment projects

- ▶ **Daugava HPPs hydropower unit reconstruction:**
 - ▶ Estimated costs > 200 MEUR
 - ▶ Completion in 2022
 - ▶ Reconstruction will provide for further 40-year operation of hydropower units

- ▶ **NordBalt 02 -330kV, Kurzeme Ring:**
 - ▶ Total costs ~220 MEUR
 - ▶ incl. 95 MEUR in the 1st and 2nd stage of the project
 - ▶ Completion in 2019
 - ▶ EU co-funding for the final stage – 45%

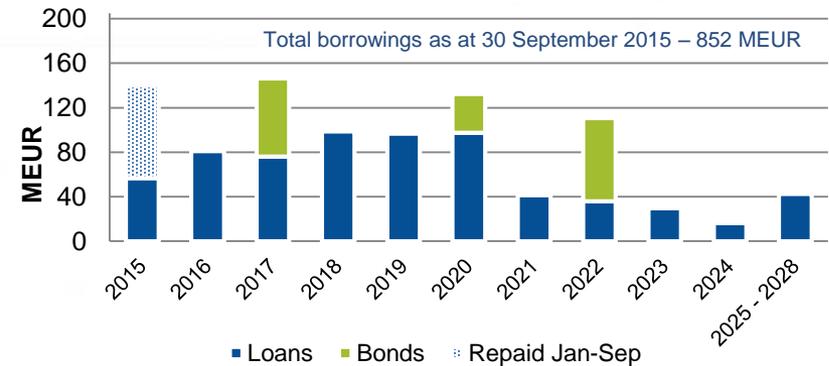
- ▶ **Third electricity transmission interconnection between Estonia and Latvia:**
 - ▶ Estimated costs ~ 100 MEUR
 - ▶ Completion till 2020
 - ▶ EU co-funding – 65%
 - ▶ Environmental impact assessment of the interconnection project is being carried out

Debt and Liquidity

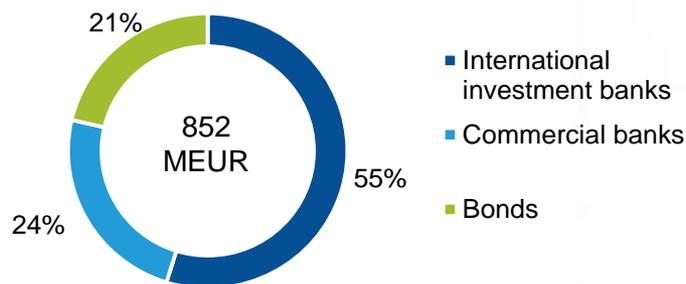
Key highlights

- ▶ EUR 180 million, or approximately 1/5, of the total borrowings is covered by bonds
- ▶ *Green* bonds EUR 75 million were issued in June (Baa2, stable by *Moody's*)
- ▶ Balanced debt repayment schedule
- ▶ Good liquidity position
- ▶ Strong capital structure (capital ratio – 58%)

Debt repayment schedule



Lenders by category



Liquidity

Liquid assets (cash and short term bank deposits with maturity up to 3 months)	169 MEUR
Committed long-term loans	290 MEUR
Investment in liquid financial assets	29 MEUR
Additional liquidity reserves	319 MEUR

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Management Board

- ▶ Appointed by the Shareholders' Meeting for a five-year term

Approved for a further term



Āris Žīgurs
Chairman of the
Management Board,
CEO



Uldis Bariss
Member of the
Management Board,
CCO



Māris Kuņickis
Member of the
Management Board,
COO

New members



- ▶ 2007 – until appointment: the Director of Business Planning and Control of Latvenergo AS
- ▶ 2014 – until appointment: the Member of the Management Board of Enerģijas publiskais tirgotājs AS (responsible for CFO duties)

Guntars Baļčūns, Member of the Management Board, CFO



- ▶ 2011 – until appointment: the Chairman of the Management Board/ CEO of Latvijas elektriskie tīkli AS

Guntis Stafekis, Member of the Management Board, CBDO

Audit Committee

- ▶ Appointed by the Shareholders Meeting for three- years term
- ▶ Main tasks are to supervise the preparation of the company's financial statements and consolidated financial statements and to monitor the efficiency of company's internal control and risk management systems

Approved for a further term



Torben Pedersen

Member of the Audit Committee

- ▶ 2011 – present: Danish Chamber of Commerce in Lithuania
- ▶ 2001 – 2011: Deloitte, Partner



Svens Dinsdorfs

Member of the Audit Committee

- ▶ 2015 – present: Elko Grupa AS, Director, Member of the Management Board
- ▶ 2006 – 2014: Elko Grupa AS, Finance Director, Member of the Management Board

New member



Marita Salgrāve

Member of the Audit Committee

- ▶ 2015 – present: Advisor to the Auditor General of the Republic of Latvia in strategic issues
- ▶ 2007 – 2015: the State Audit Office of the Republic of Latvia, Member of the Supervisory Board, Director of Fourth Audit Department

Q&A

or send to:

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Latvenergo AS

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Latvija

Appendices

Consolidated Statement of Profit or Loss*

	01/01-30/09/2015	01/01-30/09/2014
	EUR'000	EUR'000
Revenue	685,945	748,885
Other income	3,630	2,155
Raw materials and consumables used	(336,343)	(454,364)
Personnel expenses	(71,151)	(73,323)
Depreciation, amortisation and impairment of property, plant and equipment	(149,040)	(131,843)
Other operating expenses	(45,873)	(44,712)
Operating profit	87,168	46,798
Finance income	2,192	2,227
Finance costs	(14,557)	(15,206)
Share of profit / (loss) of associates	–	(493)
Profit before tax	74,803	33,326
Income tax	(6,208)	(3,308)
Profit for the period	68,595	30,018

Consolidated Statement of Financial Position*

	30/09/2015	31/12/2014
	EUR'000	EUR'000
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,063,833	3,079,327
Investment property	751	1,343
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	20,623	28,528
Other non-current receivables	7	14
Total non-current assets	3,085,255	3,109,253
Current assets		
Inventories	26,783	22,560
Trade receivables and other receivables	241,244	233,752
Investments in held-to-maturity financial assets	7,860	-
Cash and cash equivalents	169,407	121,011
Total current assets	445,294	377,323
TOTAL ASSETS	3,530,549	3,486,576
EQUITY		
Share capital	1,288,446	1,288,446
Reserves	649,320	645,829
Retained earnings	116,269	79,995
Equity attributable to equity shareholder of the Parent Company	2,054,035	2,014,270
Non-controlling interests	6,245	6,531
Total equity	2,060,280	2,020,801
LIABILITIES		
Non-current liabilities		
Borrowings	747,986	688,297
Deferred income tax liabilities	269,788	268,026
Provisions	14,971	15,588
Derivative financial instruments	10,391	11,698
Other liabilities and deferred income	195,001	194,474
Total non-current liabilities	1,238,137	1,178,083
Current liabilities		
Trade and other payables	120,011	139,912
Borrowings	103,955	138,925
Derivative financial instruments	8,166	8,855
Total current liabilities	232,132	287,692
Total liabilities	1,470,269	1,465,775
TOTAL EQUITY AND LIABILITIES	3,530,549	3,486,576

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

Consolidated Statement of Cash Flows*

	01/01-30/09/2015	01/01-30/09/2014
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	74,803	33,326
Adjustments:		
- Amortisation, depreciation and impairment of non-current assets	152,263	133,946
- Net financial adjustments	14,893	4,649
- Other adjustments	(579)	732
Operating profit before working capital adjustments	241,380	172,653
Increase in current assets	(56,012)	(73,748)
(Decrease) / increase in trade and other payables	(26,748)	20,588
Cash generated from operating activities	158,620	119,493
Interest paid	(10,364)	(10,310)
Interest received	1,454	1,860
Taxes repaid / (paid)	4,094	(4,604)
Net cash flows from operating activities	153,804	106,439
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(132,790)	(117,868)
Proceeds on financing from European Union funds and other financing	17,971	2,073
Proceeds from redemption of held-to-maturity assets	45	45
Net cash flows used in investing activities	(114,774)	(115,750)
Cash flows from financing activities		
Proceeds from issued debt securities (bonds)	74,898	-
Proceeds on borrowings from financial institutions	30,000	22,600
Repayment of borrowings	(83,240)	(93,880)
Dividends paid to non-controlling interests	(1,148)	(1,197)
Dividends paid to equity holders of the Parent Company ***	(31,479)	(12,649)
Received compensation of mandatory procurement public service obligation	20,335	-
Dividends received from associates	-	2,473
Net cash flows used in financing activities	9,366	(82,653)
Net increase / (decrease) in cash and cash equivalents	48,396	(91,964)
Cash and cash equivalents at the beginning of the period	91,747	255,423
Cash and cash equivalents at the end of the period **	140,143	163,459

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

**Received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 (30/09/2014 - nil) has not been included in cash and cash equivalents as at 30th of September 2015 because it is defined as restricted cash and cash equivalents

*** Dividends declared for 2013 in the amount of EUR 23,605 thousand are settled partly by corporate income tax overpayment in the amount of EUR 10,956 thousand