

Latvenergo Group Unaudited Results 2017

Investor Conference Webinar Presentation

7 March 2018
Guntars Baļčūns, CFO



Disclaimer

This presentation and any materials distributed or made available in connection herewith (collectively, the "presentation") have been prepared by Latvenergo AS (the "Company") solely for your use and benefit for information purposes only. By accessing, downloading, reading or otherwise making available to yourself any content of the presentation, in whole or in part, you hereby agree to be bound by the following limitations and accept the terms and conditions as set out below.

You are only authorized to view, print and retain a copy of the presentation solely for your own use. No information contained in the presentation may be copied, photocopied, duplicated, reproduced, passed on, redistributed, published, exhibited or the contents otherwise divulged, released or disseminated, directly or indirectly, in whole or in part, in any form by any means and for any purpose to any other person than your directors, officers, employees or those persons retained to advise you, who agree to be bound by the limitations set out herein.

The presentation does not constitute or form part of, and should not be construed as, an offer, solicitation or invitation to subscribe for, underwrite or otherwise acquire, any securities of the Company or any member of its group nor should it or any part of it form the basis of, or be relied on in connection with, any contract to purchase or subscribe for any securities of the Company or any member of its group, nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Any person considering the purchase of any securities of the Company must inform himself or herself independently before taking any investment decision. The presentation has been provided to you solely for your information and background and is subject to amendment. Further, the information in this presentation has been compiled based on information from a number of sources and reflects prevailing conditions as of its date, which are subject to change.

The information contained in this presentation has not been independently verified. The following consolidated financial statements are unaudited and no auditor has opined that these unaudited financial statements present fairly, in all material respects, the financial position and the results of operations of the Company for the period reported in accordance with generally accepted accounting principles. Therefore, once audited by an independent auditor, the audited financial statements of the Company may differ from the unaudited financial statements presented. However, the Company has prepared the unaudited financial statements on the same basis as its audited financial statements, and in the opinion of the Company's management, the unaudited financial statements include all adjustments that the Company considers necessary for a fair presentation of its financial position and results of operations for the period presented.

The information in this presentation is subject to verification, completion and change without notice and the Company is not under any obligation to update or keep current the information contained herein. Accordingly, no representation or warranty, express or implied, is made or given by or on behalf of the Company or any of its respective members, directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this presentation, and any reliance you place on such information or opinions will be at your sole risk. Neither the Company nor any of its respective members, directors, officers or employees nor any other person accepts any liability whatsoever for any loss howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith.

This presentation includes "forward-looking statements," which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets," "believes," "expects," "aims," "intends," "will," "may," "anticipates," "would," "plans," "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Accordingly, any reliance you place on such forward-looking statements will be at your sole risk. These forward-looking statements speak only as at the date as of which they are made. Past performance of the Company cannot be relied on as a guide to future performance. No statement in this presentation is intended to be a profit forecast.

This presentation is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Agenda

Group Profile

Financials 2017

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

Current Issues

Q&A

Group Profile

General

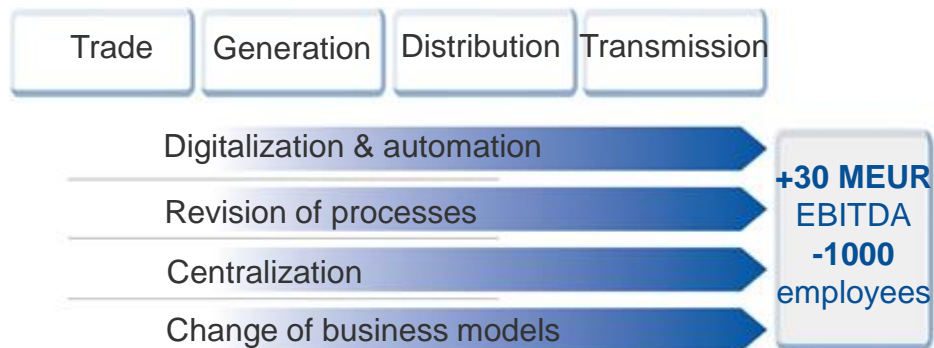
Vertically integrated utility

Wholly-owned by the Republic of Latvia

3,908 employees

Latvenergo credit rating: Moody`s – Baa2/stable

Strategic Development & Efficiency



Main facts

Installed generation capacities:

- Riga CHPPs – 1,025 MWel; 1,617 MWth
- Daugava HPPs – 1,536 MWel
- Liepaja and small plants – 8 MWel; 225 MWth

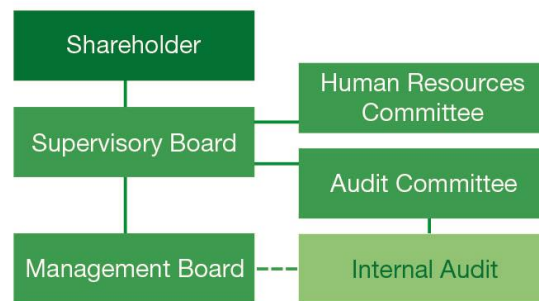
Retail customers – 834 thsd.

Market share in the Baltics – 27%

Length of power lines:

- Distribution 93.7 thsd. km
- Transmission 5.2 thsd. km

Governance structure of Latvenergo AS



- Supervisory Board comprises 5 independent members
- Two members of the Supervisory Board have been elected in the Audit Committee

Agenda

Group Profile

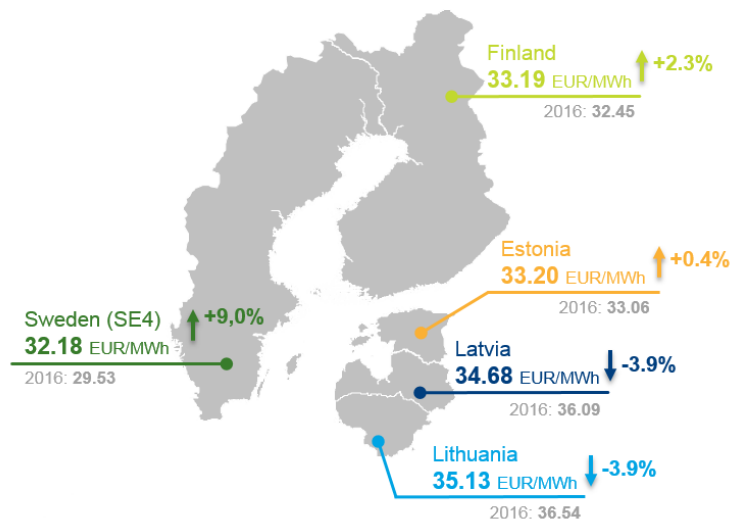
Financials 2017

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

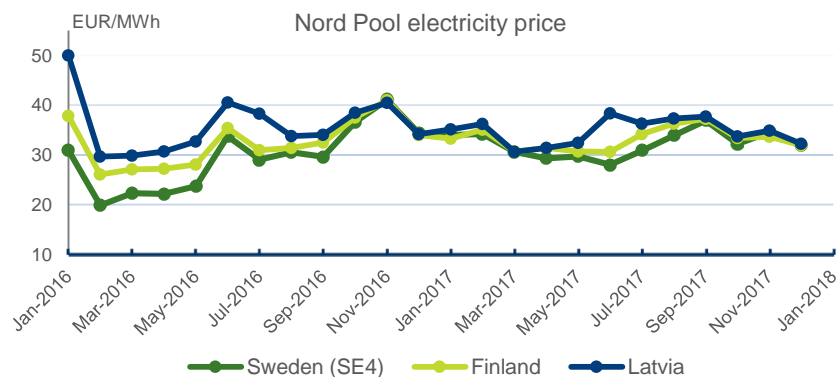
Current Issues

Q&A

Market Overview



Electricity price convergence

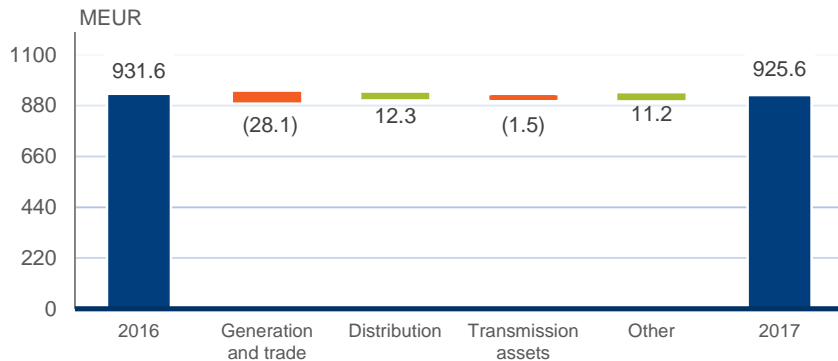


Key highlights – 2017

- *NordBalt* interconnection contributed to convergence of electricity spot prices between the Nordic countries and the Baltics
- The price dynamics in the Baltics was also influenced by higher level of electricity generation in the Daugava HPPs
- The gas market is open in Latvia
- Latvenergo Group under the *Elektrum* brand launched gas trade to customers in Latvia and Estonia
- Latvenergo AS receives a one-off compensation from the state 454.4 MEUR, simultaneously opting out 75% of annual electrical capacity payments for Riga CHPPs
- The average PSO fee decreased by 1 EUR/MWh from 1 January 2018

Revenue and Profitability

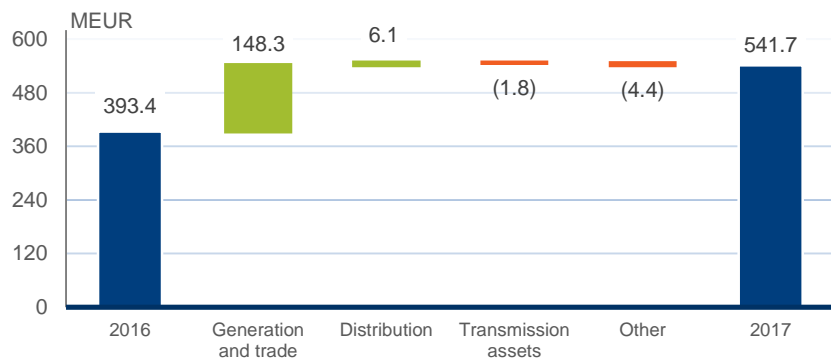
Revenue dynamics by segment



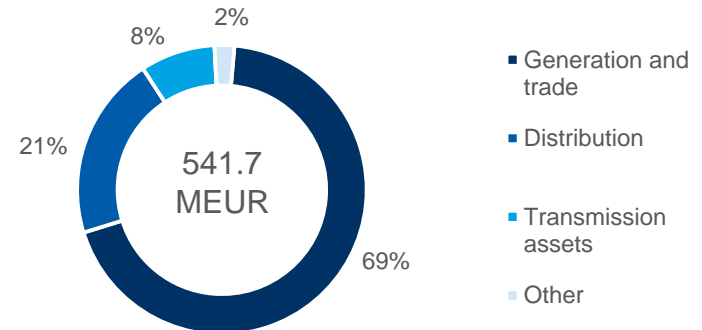
Key highlights

- The results were positively impacted mainly by:
 - one-off compensation for the Riga CHPPs' capacity payments (2017 – 140 MEUR)
 - 74% greater electricity output at the Daugava HPPs
 - increase in distribution service revenue by 11.8 MEUR
- The results were negatively impacted mainly by lower electricity sales price in the Baltics

EBITDA dynamics by segment



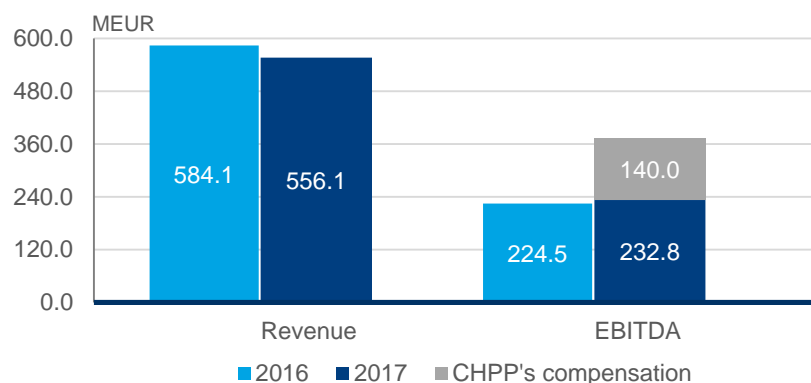
EBITDA weight by segment



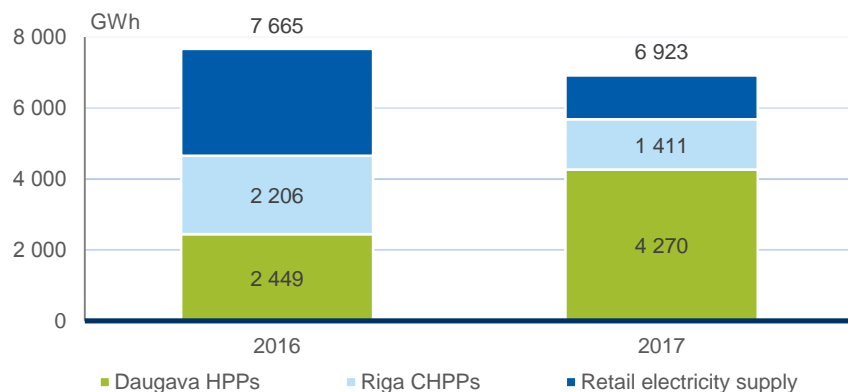
Generation and Trade



Segment EBITDA increased

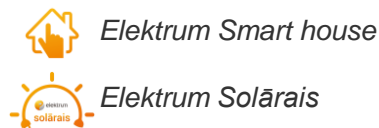


Retail sales and electricity generated

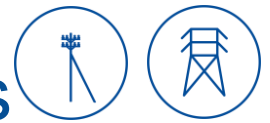


Key highlights

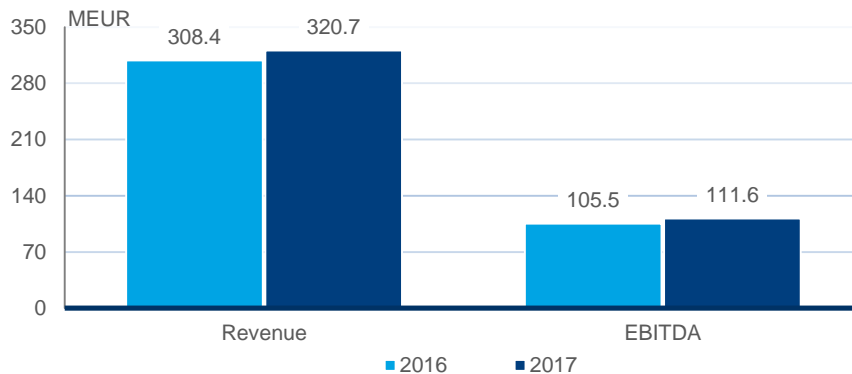
- Impact on the results:
 - + higher electricity output at the Daugava HPPs,
 - + one-off compensation for Riga CHPPs' capacity payments
 - lower electricity sales prices in the Baltics
- Latvenergo AS receives a one-off compensation in the amount of 454.4 MEUR for the reduction of Riga CHPPs' capacity payments (140 MEUR is recognized as *Other income* in 2017)
- Generation of electricity increased by 22%
- Green energy: 75%
- Retail electricity supply reached 6,923 GWh, 1/3 of it supplied outside Latvia
- New products to households have been launched



Distribution and Lease of Transmission Assets



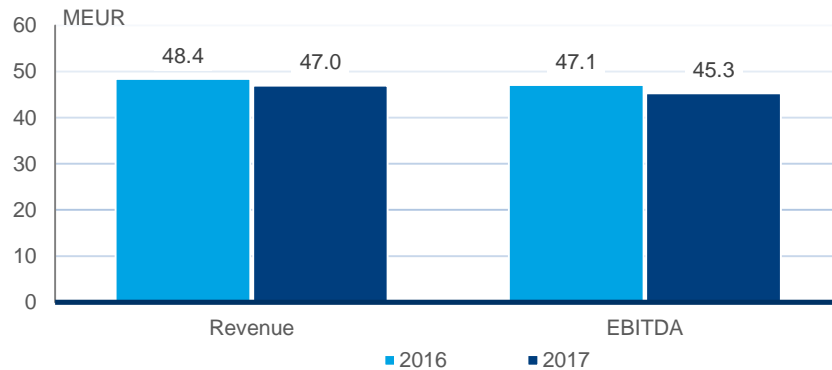
Distribution revenue and EBITDA



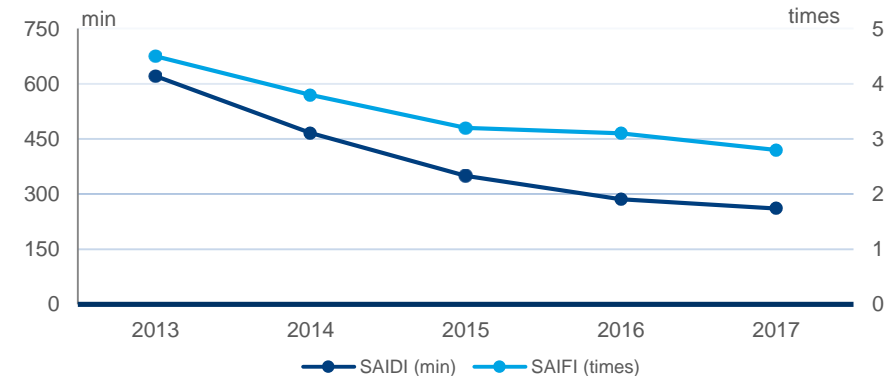
Key highlights

- Electricity distributed reached 6,463 GWh (2016: 6,465 GWh)
- Impact on the distribution segment results:
 - + increase in distribution services revenue (11.8 MEUR) resulting from the rebalanced distribution system services tariff that came into force on 1 August 2016
 - increase in employee termination costs of 8.4 MEUR in line with the Group's Efficiency programme

Transmission revenue and EBITDA

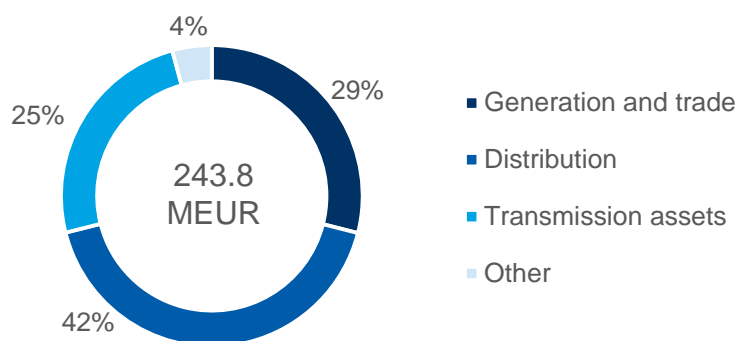


Improved distribution system indicators



Investments

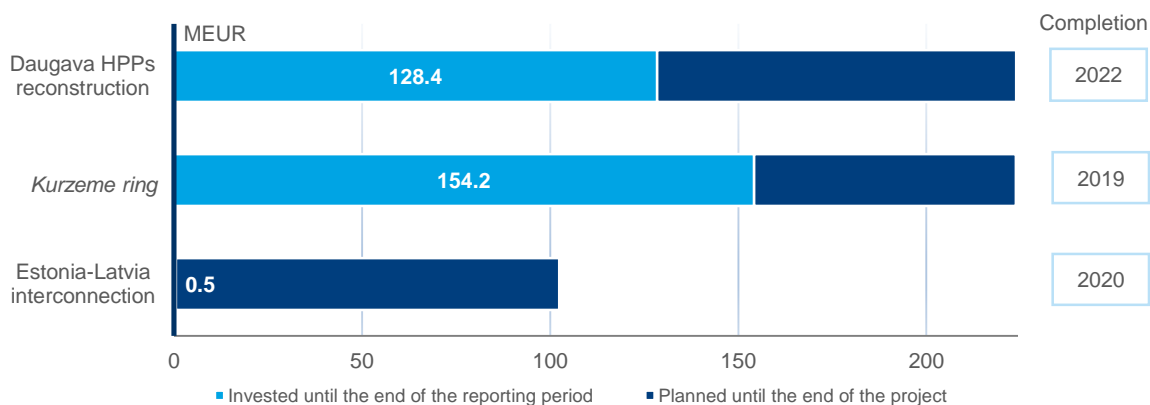
Investments increased by 21%



Investments in environmentally friendly projects

- Total investments in 2017 – 243.8 MEUR (2016: 200.7 MEUR)
- Investments in the Daugava HPPs hydropower unit reconstruction amounted to 41.8 MEUR
- Distribution service quality and technical parameters gradually improved by investments in power network assets

Main ongoing projects



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

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

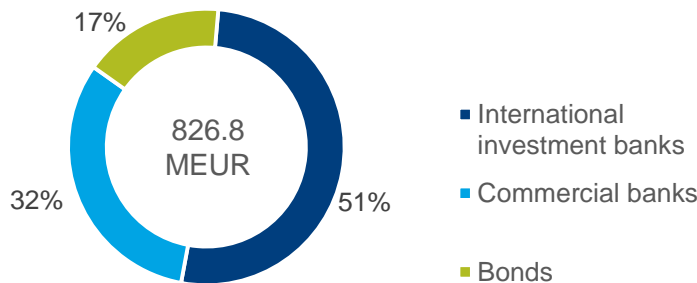
EU co-funding – 65%

Funding

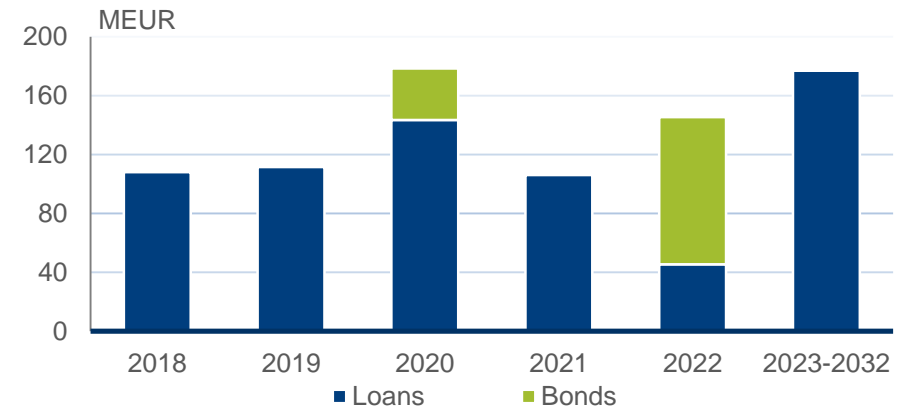
Key highlights

- Total borrowings – 826.8 MEUR
 - incl., bonds – 135 MEUR, of which 100 MEUR *green* bonds
- Moody's credit rating – Baa2 (stable)
- Capital ratio – 65%
- All financial covenants have been met

Debt by source of financing



Debt repayment schedule



Liquidity

Liquid assets (cash and short term bank deposits with maturity up to 3 months) 236 MEUR

Investment in liquid financial assets 17 MEUR

Agenda

Group Profile

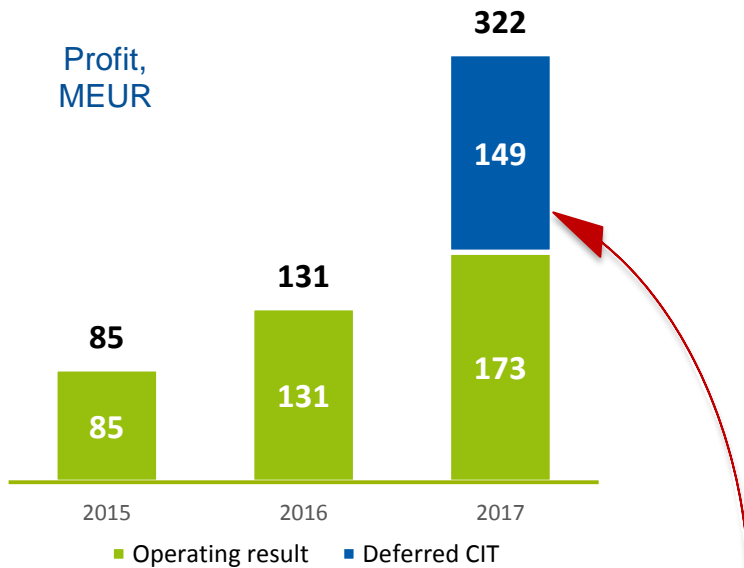
Financials 2017

Current Issues

- ▶ Corporate Income Tax Reform in Latvia
- ▶ Improving financial performance

Q&A

Corporate Income Tax Reform in Latvia



BALANCE SHEET	
Non-current assets	Equity
	Borrowings
Current assets	Deferred CIT
	Other creditors

Key highlights

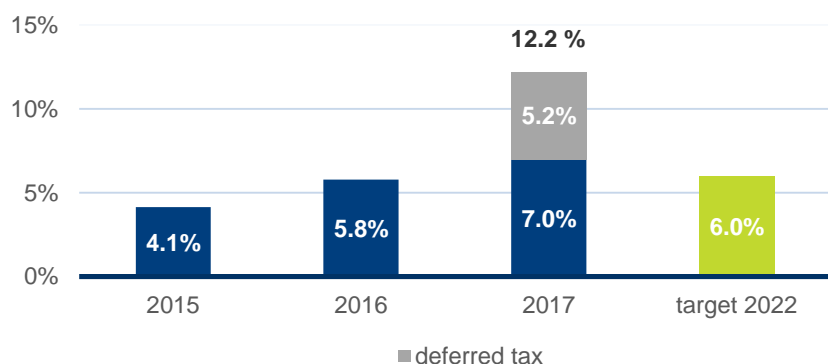
- Corporate income tax (CIT) reform
 - 2017: 15% of profit
 - 2018: 20% of dividends
- Annual investments ~200 MEUR
- Due to large investments Latvenergo has accrued significant amount of deferred CIT that arises from difference in financial and tax depreciation
- The new system excludes deferred corporate income tax liabilities therefore one-off reversal is required
- Tax reversal has no effect on cash flow positions
- Net profit: 322.2 MEUR
 - annual operating result 173.1 MEUR
 - deferred tax reversal in the amount of 149.1 MEUR as a result of the corporate income tax reform

Improving financial performance

Financial targets

Target group	Ratio	2016	2017	Year 2022	Industry*
Profitability	Return on equity	5.8%	12.2%	> 6%	5 – 8%
	Net debt to equity	25%	21%	< 50%	30 – 50%
Capital structure	Net debt to EBITDA	1.7	1.1	< 3 times	2.5 – 3
Dividend policy	Dividend payout ratio**	77.4 MEUR	90.1 MEUR	> 80%	60 – 70%

ROE



Key highlights

- In 2017, financial ratios are in line with the Strategy
- Impact of the deferred tax reversal on ROE as a result of the corporate income tax reform – 5.2%
- ROE is in line with the industry

* Data at the time of development of the Strategy
 ** Dividend payout according to the Latvian legislation

Summary

Successful implementation of the objectives set in the Strategy 2017 – 2022

2017 – one of the most successful years in the Group's history

Electricity output in the Daugavas HPP's in 2017 was the largest since 1998 and was the third largest since 1966

Q&A

or send to:

investor.relations@latvenergo.lv

www.latvenergo.lv

Latvenergo AS

P. Brieža iela 12, Rīga, LV-1230



/Latvenergo



/Latvenergo



/LatvenergoVideo

Consolidated Statement of Profit or Loss*

	2017	2016
	EUR'000	EUR'000
Revenue	925,627	931,619
Other income	149,950**	6,656
Raw materials and consumables used	(346,911)	(385,813)
Personnel expenses	(113,289)	(96,019)
Other operating expenses	(73,681)	(63,044)
EBITDA	541,696	393,399
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(307,614)	(232,626)
Operating profit	234,082	160,773
Finance income	1,243	2,328
Finance costs	(11,211)	(14,156)
Profit before tax	224,114	148,945
Income tax	(51,029)	(23,498)
Deferred tax changes	149,106***	5,146
Profit for the year	322,191	130,593
Profit attributable to:		
- equity holder of the Parent Company	319,840	129,045
- non-controlling interests	2,351	1,548

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

** Other income in 2017 includes one-off compensation payment for the electric power capacity installed at Latvenergo AS Riga TEC-1 and Riga TEC-2 CHPPs in the amount of EUR 140,000 thousand

*** In 2017 deferred tax liabilities reversed in the Statement of Profit or Loss in accordance with the changes of tax regulations and laws of the Republic of Latvia starting from 1 January 2018

Consolidated Statement of Financial Position*

	31/12/2017	31/12/2016
	EUR'000	EUR'000
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,322,398	3,370,331
Investment property	753	563
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	16,984	17,034
Other non-current receivables	286	986
TOTAL non-current assets	3,340,462	3,388,955
Current assets		
Inventories	76,247	41,458
Prepayment for inventories	81	–
Trade receivables and other receivables	751,427	273,957
Deferred expenses	3,241	3,227
Derivative financial instruments	4,619	6,134
Investments in held-to-maturity financial assets	–	3,520
Cash and cash equivalents	236,003	183,980
TOTAL current assets	1,071,618	512,276
TOTAL ASSETS	4,412,080	3,901,231
EQUITY AND LIABILITIES		
Equity		
Share capital	1,288,715	1,288,715
Reserves	1,126,520	937,074
Retained earnings	423,783	185,840
Equity attributable to equity holder of the Parent Company	2,839,018	2,411,629
Non-controlling interests	8,042	7,084
TOTAL equity	2,847,060	2,418,713
Liabilities		
Non-current liabilities		
Borrowings	718,674	635,620
Deferred income tax liabilities**	–	315,759
Provisions	21,910	18,643
Derivative financial instruments	4,914	7,946
Other liabilities and deferred income	522,362***	195,407
TOTAL non-current liabilities	1,267,860	1,173,375
Current liabilities		
Borrowings	108,083	155,946
Trade and other payables	143,428	117,817
Income tax payable	27,555	17,718
Deferred income	14,924	14,022
Derivative financial instruments	3,170	3,640
TOTAL current liabilities	297,160	309,143
TOTAL liabilities	1,565,020	1,482,518
TOTAL EQUITY AND LIABILITIES	4,412,080	3,901,231

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

** Deferred tax liabilities in the amount of 149,106 thousand EUR (the Company: 10,082 thousand EUR) are reversed in the Statement of Profit or Loss for 2017 and 166,653 thousand EUR – in the equity on 31 December 2017 (the Company: 116,178 thousand EUR), as initially they were accounted for within the equity, in accordance with the amendments to the laws and regulations of the Republic of Latvia that entered into force from 1 January 2018

*** Recognised compensation in the amount of EUR 314,413 thousand for abandonment from State-guaranteed fee for the electric power capacity installed at Latvenergo AS Riga TEC-1 and Riga TEC-2 CHPPs in the support period, to be recognised as revenue in the next periods by fulfilling the commitments stated in the Regulations No. 221 of the Cabinet of Ministers of the Republic of Latvia till the end of State support - 23 September 2028

Consolidated Statement of Cash Flows*

	2017	2016
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	224,114	148,945
Adjustments:		
– Amortisation, depreciation and impairment of non-current assets	312,878	236,769
– Net financial adjustments	12,038	4,579
– Other adjustments	6,703	(313)
Operating profit before working capital adjustments	555,733	389,980
Increase in current assets	(497,053)	(26,837)
Increase / (decrease) in trade and other payables	330,844	(844)
Cash generated from operating activities	389,524	362,299
Interest paid	(11,484)	(15,529)
Interest received	1,390	2,457
Corporate income tax and real estate tax paid	(41,221)	(8,041)
Net cash flows generated from operating activities	338,209	341,186
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(233,744)	(185,674)
Proceeds from redemption of held-to-maturity assets	3,569	7,914
Proceeds on financing from EU funds and other financing	–	242
Net cash flows used in investing activities	(230,175)	(177,518)
Cash flows from financing activities		
Proceeds from issued debt securities (bonds)	–	26,267
Repayment of issued debt securities (bonds)	(70,000)	–
Proceeds on borrowings from financial institutions	186,500	55,744
Repayment of borrowings	(80,976)	(87,452)
Dividends paid to equity holder of the Parent Company	(90,142)	(77,413)
Dividends paid to non-controlling interests	(1,393)	(1,377)
Net cash flows used in financing activities	(56,011)	(84,231)
Net increase in cash and cash equivalents	52,023	79,437
Cash and cash equivalents at the beginning of the year	183,980	104,543
Cash and cash equivalents at the end of the year	236,003	183,980

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