



LATVENERGO GROUP PRESENTATION

June 2020

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1. Group profile

Latvenergo Group profile 2019



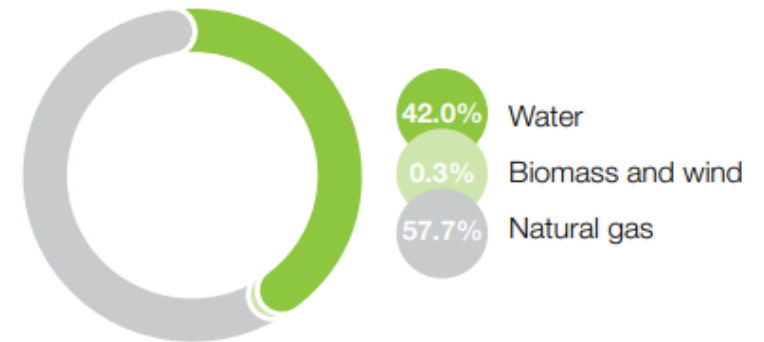
- One of the leading energy suppliers and leader in green energy generation in the Baltics

Balanced and environmentally friendly energy generation portfolio

- Low-cost hydropower plants
- Highly efficient combined heat and power plants

Share of renewable resources in the electricity output

42%



Sound business model

- ~45% of EBITDA by regulated distribution network activities
- 35% of retail electricity trade supplied to customers in Lithuania and Estonia
- Broad customer base



- **Baa2** credit rating with stable outlook by Moody's
- 100% owned by the Republic of Latvia A3 / A+ / A-
- 80 years of experience in energy sector

Latvenergo Group 2019



Latvenergo Group is one of the largest power suppliers in the Baltics, which operates in

- electricity and thermal energy generation and trade
- natural gas trade
- electricity distribution services
- lease of transmission system assets (until 9 June 2020)

MISSION

To ensure high-quality, safe and environmentally friendly energy generation and supply to customers sustainably, thus promoting an increase in the long-term value of the Group

VISION

To be one of the leading and primary customer-chosen providers of sustainable and high-quality power supply services in the Baltic markets.



VALUES

RESPONSIBILITY

We are reliable

EFFICIENCY

We strive for excellence

OPENNESS

We are transparent and open to new ideas

Operating segments 2019

Generation and trade



- Electricity and thermal energy generation and trade
- Natural gas trade
- Administration of mandatory procurement in Latvia

The Group is one of the largest energy trading companies in the Baltics with a market share of around 23%.

59 % of revenues
37 % of EBITDA



LIEPĀJAS ENERĢIJA



Distribution



- Electricity distribution in Latvia

Sadales tīkls AS is the largest state distribution system operator, covering approximately 99% of the territory of Latvia.

36 % of revenues
45 % of EBITDA



Transmission system asset leasing



- Lease of transmission system assets to the transmission system operator

Latvijas elektriskie tīkli AS is separated from the Group from 10 June 2020 –
No impact on credit rating of Baa2/stable

4 % of revenues
14 % of EBITDA



Latvenergo Group

Latvenergo AS

Elektrum Eesti OÜ (EE) 100%

Elektrum Lietuva UAB (LT) 100%

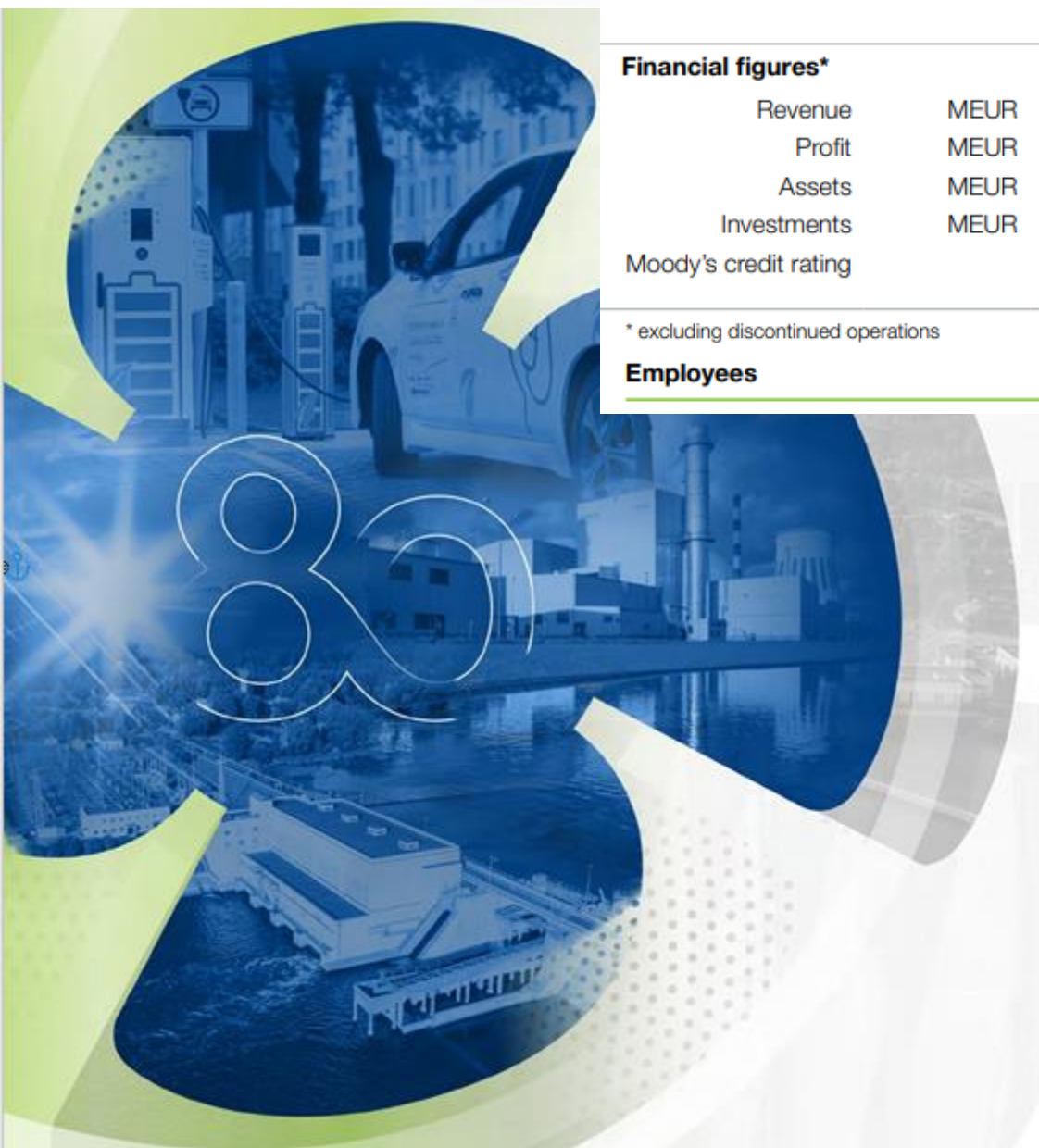
Enerģijas publiskais tirgotājs AS 100%

Liepājas enerģija SIA 51%

Sadales tīkls AS 100%

Latvijas elektriskie tīkli AS 100%

Facts 2019



		2019	2018
Financial figures*			
Revenue	MEUR	841.6	838.8
Profit	MEUR	94.4	76.0
Assets	MEUR	3,864.9	3,798.8
Investments	MEUR	229.4	220.6
Moody's credit rating		Baa2	Baa2

* excluding discontinued operations

Employees 3,423

		2019	2018
Generation and trade			
Installed electrical capacity	MW	2,591	2,591
Installed thermal capacity	MW	1,838	1,838
Electricity output	GWh	4,880	5,076
Thermal energy output	GWh	1,842	2,274
CO ₂ emission intensity	t/MWh	0.18	0.16
Market share in the Baltics	%	23	25
Retail electricity supply	GWh	6,505	6,954
Retail natural gas supply	GWh	303	147
Retail customers	thsd.	757	789
Distribution			
SAIDI	min	246	228
SAIFI	number	2,7	2,5
Length of distribution lines	km	92,958	93,175
Transformer capacity	MVA	5,922	5,930
Lease of transmission assets			
Length of transmission lines	km	5,424	5,243
Transformer capacity	MVA	9,339	9,165

Group strategy 2017-2022



Trade

Strengthen a sustainable and economically sound market position in home markets (in the Baltics) while considering geographical and/or product/service expansion

- In 2019, the Group is one of the largest energy traders and the most valuable energy company in the Baltics
- Retail supply of natural gas also to Latvian households was started
- One of the leaders of the Baltic region in retail supply of solar panels
- First publicly available high-speed charging stations were launched



Generation

Development of a generation portfolio adequate for synergy with trade and increasing the Group's value

- In 2019, the renewal of the Daugava HPPs' hydropower units continued successfully
- In order to increase generation efficiency in cogeneration mode, the construction of the largest heat storage tank in the Baltics at CHPP-2 is scheduled for completion in 2020
- Activities to diversify generation portfolio were started



Networks

Development of a functional, safe and efficient network corresponding to customer needs

- In 2019, the distribution network was further reconstructed and upgraded, achieving a significant improvement in power supply continuity indicators
- Project for improvement of the operational efficiency of Sadales tīkls AS is continuing
- Digitisation of the distribution network continued – at the end of 2019, smart meters were metering 86% of the total amount of electricity distributed

Profitability	Capital structure		Dividend policy
Return on equity (ROE)	Net debt to equity	Net debt to EBITDA	Dividend payout ratio
> 6%	< 50%	< 3	> 80%
Industry average: 5–8%	Industry average: 30–50%	Industry average: 2.5–3	Industry average: 60–70%

Efficient generation capacities

Hydropower plants (HPP)



- 100% green energy
- 1,558 MWeI
- 3 HPPs
- Generation ability depends on water inflow in the Daugava River
- Possibility to accumulate water and adapt generation

Combined heat and power plants (CHPP)



- Electricity and thermal energy
- 1,025 MWeI; 1,617 MWth
- 2 CHPPs
- Upgraded and highly efficient
- Uses natural gas – the most environmentally friendly type of fossil fuel

Liepaja plants



- Electricity and thermal energy
- 6 MWeI; 221 MWth
- Mainly use a renewable energy source - woodchips

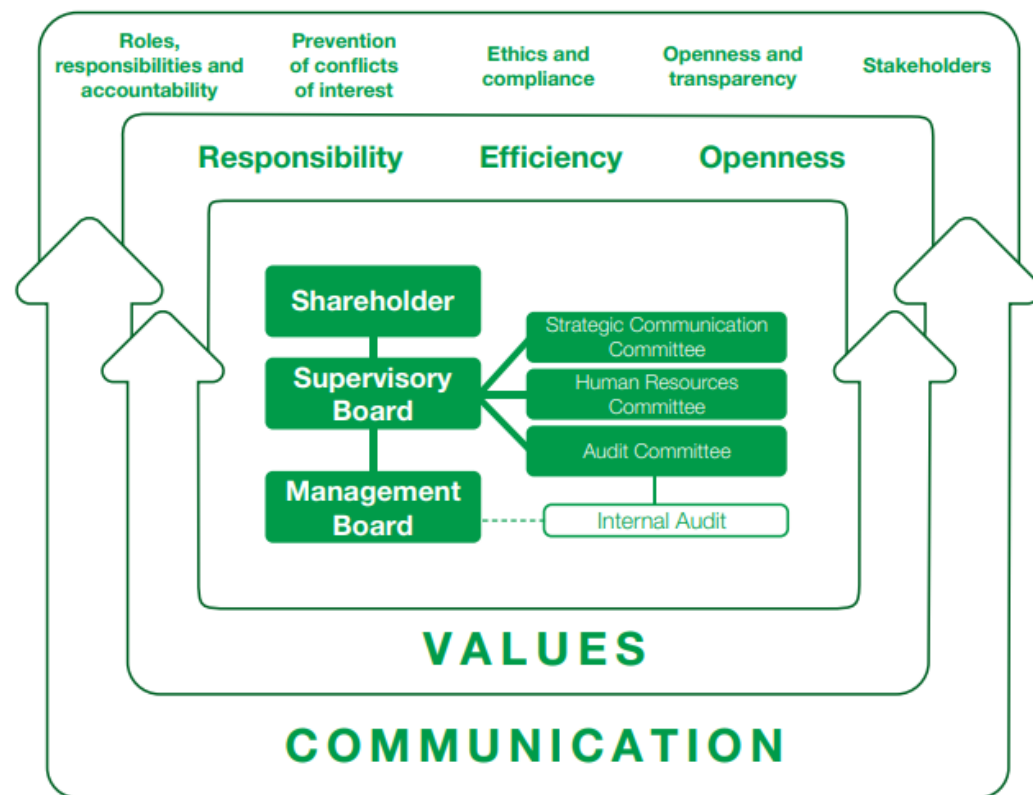
Small plants



- 100% green energy
- Aiviekste HPP (0.8 MWeI)
- Ainazi WPP (1 MWeI)
- Focusing on the possibilities of developing new WPP/renewables

Corporate governance

Corporate governance model



Corporate Governance Report 2019 is available [here](#)

- **Roles, responsibilities and accountability**

The roles, responsibilities and accountability are clearly defined by laws and regulations and by the Group's internal documents. The most important of these are the companies' Articles of Association and regulations of the governance bodies.

- **Prevention of conflict of interest**

Members of supervisory board and management board have the status of public officials, and they are obliged to submit annual declarations of public officials. The Group's Code of Ethics defines the types of conflict of interest and the measures to prevent such situations. New employees must confirm their commitment to prevent conflicts of interest within their activities. Employees who, as a part of their official duties, participate in decision-making, submit conflict of interest declarations annually.

- **Ethics and compliance**

Employees are regularly informed about ethics and compliance standards and the internal regulations of the Group are continuously improved. The Group also urges its partners to comply with the same ethical principles and, when entering into contracts, it asks for confirmation that mutual cooperation will be based on the principles of fair business cooperation.

Openness and transparency

Financial and non-financial information is published on the Latvenergo website and the Nasdaq Baltic website. Webinars on the Group's financial results and business developments are held every six months.

- **Stakeholders**

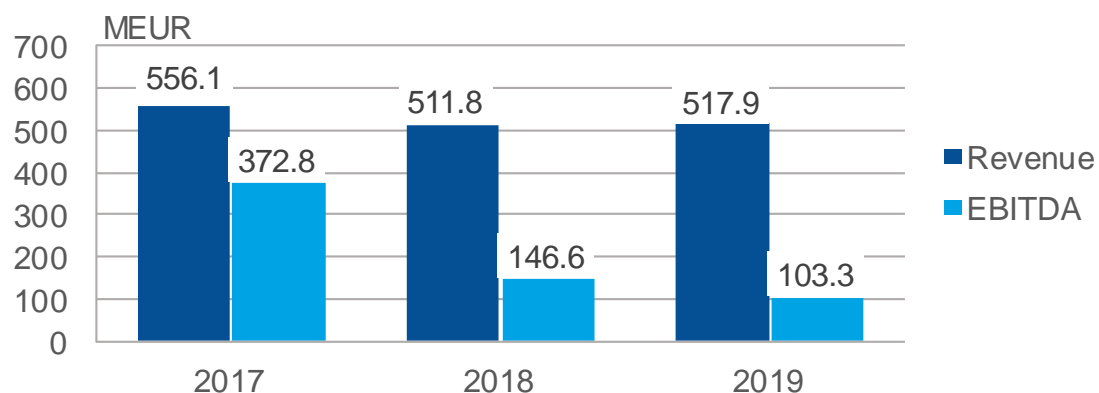
Latvenergo Group is aware of its impact on stakeholders and vice versa and handles issues of material importance to its stakeholders with a sense of responsibility.

2. Operating segments

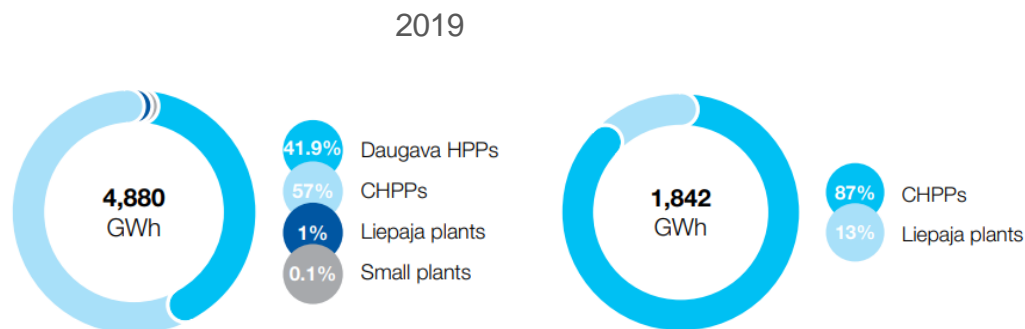
Generation and trade

(2019: 59 % of revenues; 37 % of EBITDA)

Revenue and EBITDA



Electricity and thermal energy output



Key highlights

- Latvenergo Group has a balanced and environmentally friendly energy generation portfolio, consisting mostly of hydropower plants and highly efficient combined heat and power plants
- Installed electrical capacity – 2 591 MW (approx. 90 % of the total capacity in Latvia); installed thermal capacity – 1 838 MW
- Segment results in 2019 were negatively impacted by lower revenue from the installed electrical capacity at the Latvenergo AS CHPPs and lower electricity output at the Daugava HPPs

Latvenergo Group electricity balance sheet*

	Units	2015	2016	2017	2018	2019
Retail electricity supply and operating consumption	GWh	7,961	7,666	7,259	7,281	6,773
<i>incl. retail electricity supply</i>	GWh	7,961	7,666	6,923	6,954	6,505
Wholesale electricity supply	GWh	1,907	2,474	3,448	3,030	2,754
Technological electricity consumption	GWh	95	105	91	124	121
TOTAL	GWh	9,963	10,245	10,798	10,435	9,648
Gross electricity generation	GWh	3,882	4,707	5,734	5 076	4,880
Electricity procured within MP**	GWh	1,380	1,457	1,520	1,339	1,199
Purchased electricity	GWh	4,701	4,081	3,544	4,020	3,569
TOTAL	GWh	9,963	10,245	10,798	10,435	9,648

* the amount of electricity generated at the Group's facilities, which has been traded and procured on the electricity exchange for auxiliary consumption purposes, is not included in the Group's electricity balance sheet

** excluding electricity generated by the Group

Generation and trade

Trade in the Baltic states

Estonia 11% market share



Business customers
~ **2.6 thousand**
Households
~ **25 thousand**

Latvia 58% market share

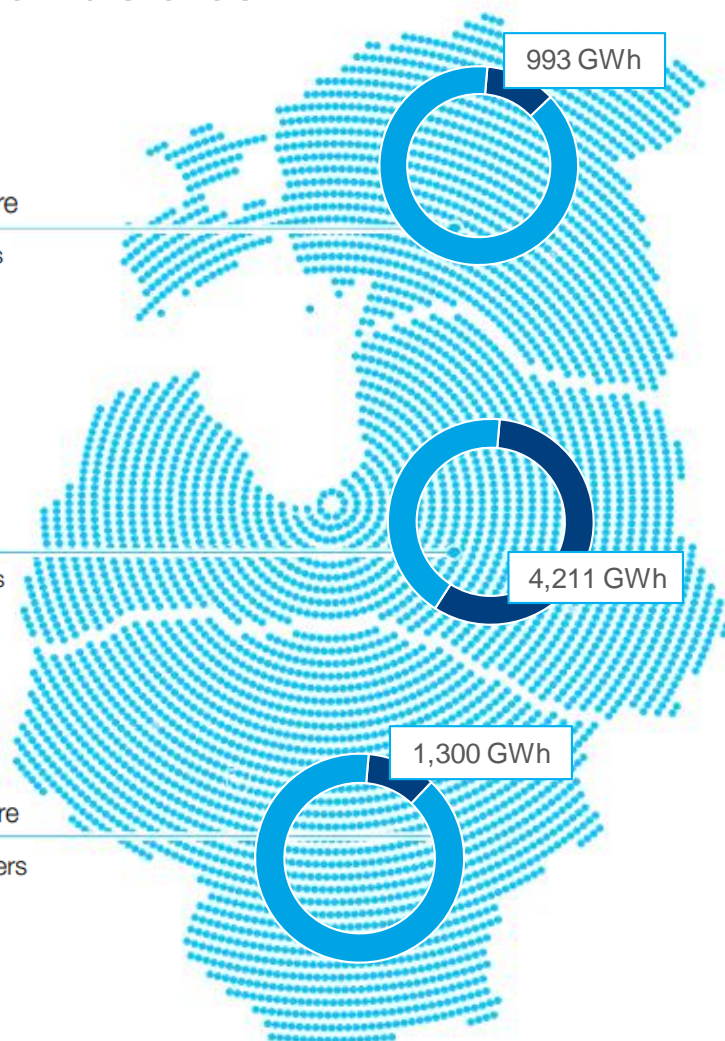


Business customers
~ **20 thousand**
Households
~ **700 thousand**

Lithuania 11% market share



Business customers
~ **7.3 thousand**



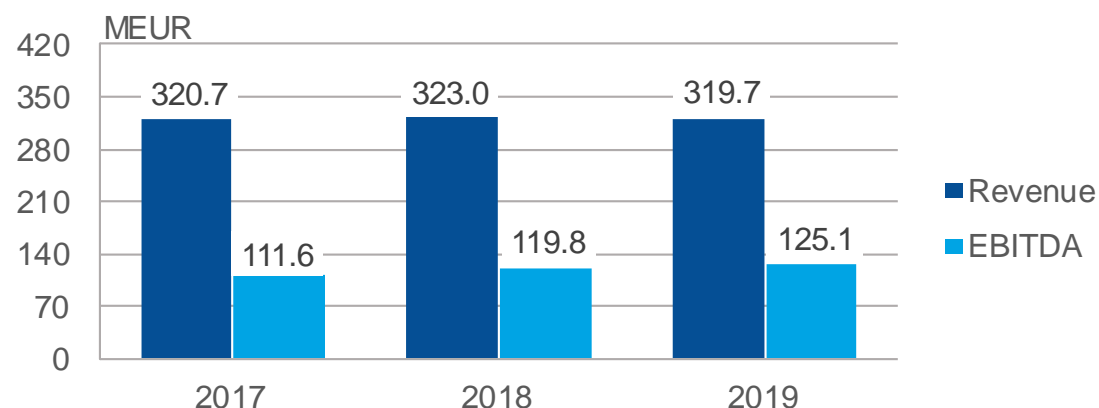
Key highlights 2019

- Latvenergo Group is one of the leading energy trading companies in the Baltics with a market share of ~23% in the Baltic electricity market, where the total consumption is about 28 TWh
- 6.5 TWh of electricity sold to Baltic retail customers
- The amount of natural gas used for both operating consumption and trade reached 7.1 TWh
- The Group has 757 thousand electricity customers in the Baltics, of which 5% are business segment customers and 95% are households
- *Elektrum* e-shop was expanded with *Elektrum Solar* and *Smart House* products
- At the end of 2019, the total number of *Elektrum Insured* customers reached 65,900

Distribution

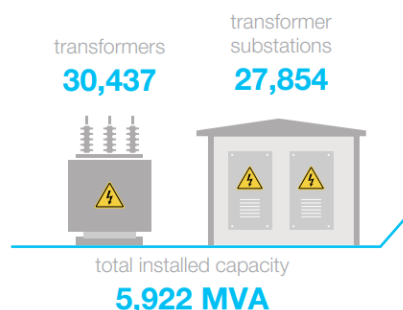
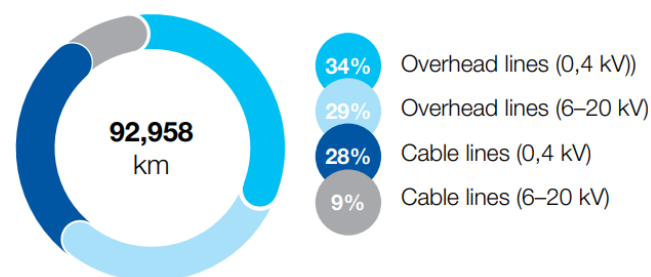
(2019: 36 % of revenues; 45 % of EBITDA)

Revenue and EBITDA



Distribution network

Length of electricity distribution lines in 2019



Key highlights 2019

- Operations involve the provision of distribution system services to more than 815 thousand customers in Latvia at regulated tariffs
- Since the launch of the efficiency programme in 2017, the number of employees at [Sadales tīkls AS](#) has been reduced by about 500 jobs
- Smart electricity meters installed in the company reaches 706,8 thousand or 60% of all electricity meters
- Results were positively impacted by the decrease in costs (efficiency programme) and by 18% lower distribution losses, negatively – by a decrease in distributed electricity

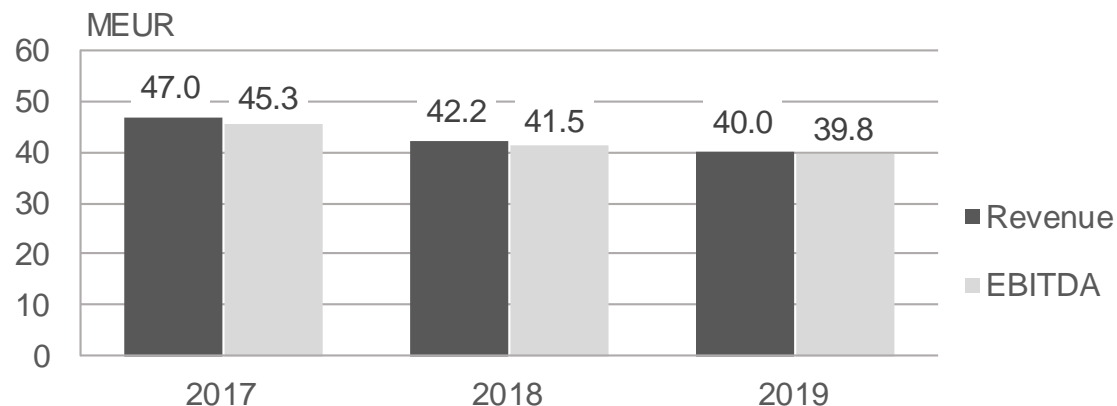
Distributed electricity and losses

	Units	2015	2016	2017	2018	2019
Distributed electricity	GWh	6,263	6,465	6,463	6,600	6,532
Electricity distribution losses, technological and operating consumption	GWh	328	334	337	327	268
TOTAL	GWh	6,591	6,799	6,800	6,927	6,800
Electricity losses	%	4.6%	4.6%	4.6%	4.4%	3.7%

Lease of transmission system assets

(2019: 4 % of revenues; 14 % of EBITDA)

Revenue and EBITDA



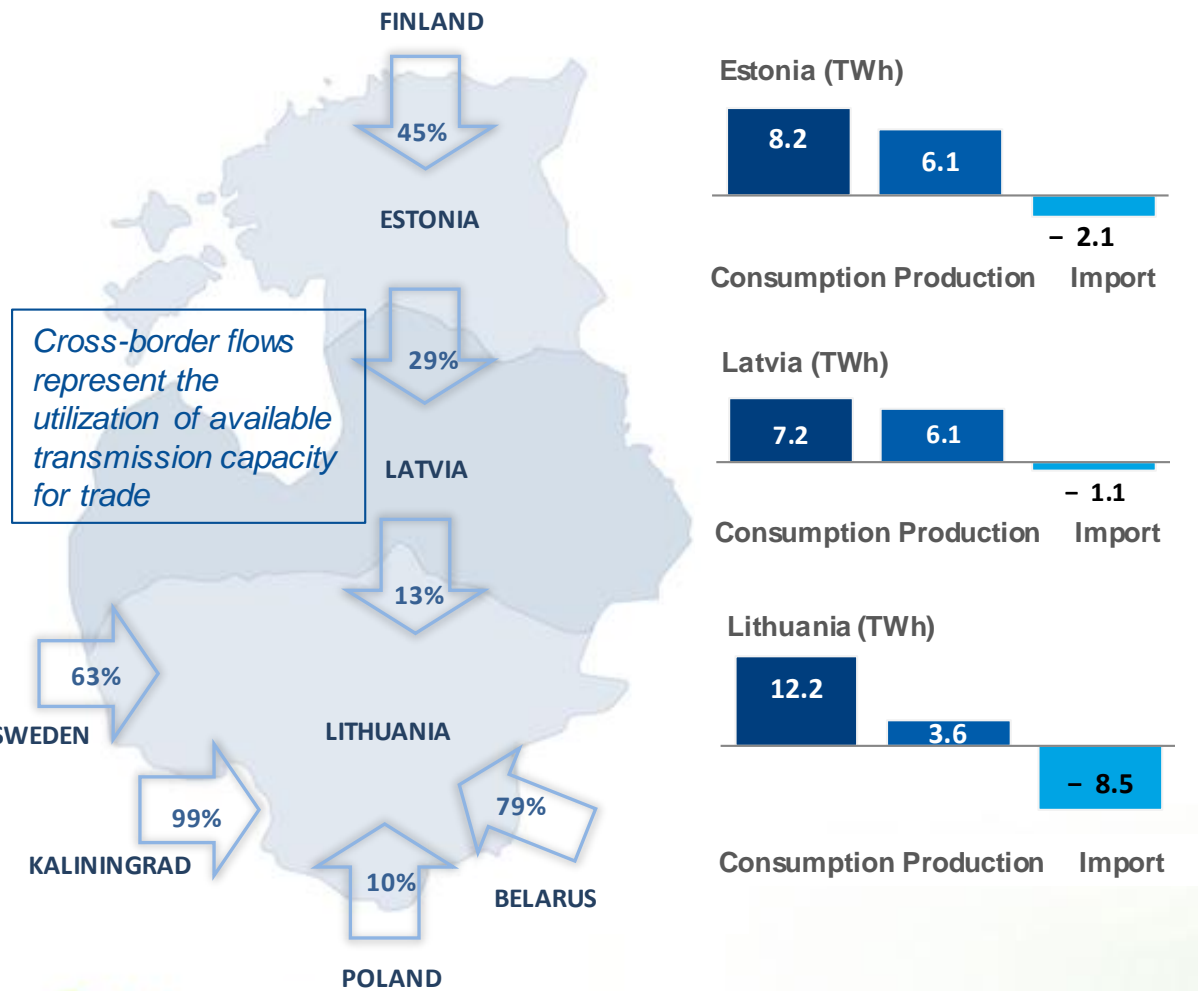
Key highlights

- Operations include lease of transmission system assets (330 kV and 110 kV electricity transmission lines, substations and distribution points) in Latvia owned by Latvijas elektriskie tīkli AS to the transmission system operator Augstsprieguma tīkls AS
- Lease of transmission system assets is a regulated segment, and the revenues are calculated according to the methodology approved by the Public Utilities Commission
- **On 10 June 2020, Latvijas elektriskie tīkli AS was unbundled from Latvenergo Group**
 - The unbundling was made on the basis of the decision of the Cabinet of Ministers of 8 October 2019 to complete the ownership unbundling of the transmission system operator by 1 July 2020, transferring all transmission system assets (owned by Latvijas elektriskie tīkli AS) to the transmission system operator Augstsprieguma tīkls AS
 - On 15 October 2019, the international credit rating agency Moody's reaffirmed the credit rating of Latvenergo AS at Baa2 with a stable outlook, taking into account the planned unbundling of electricity transmission system assets

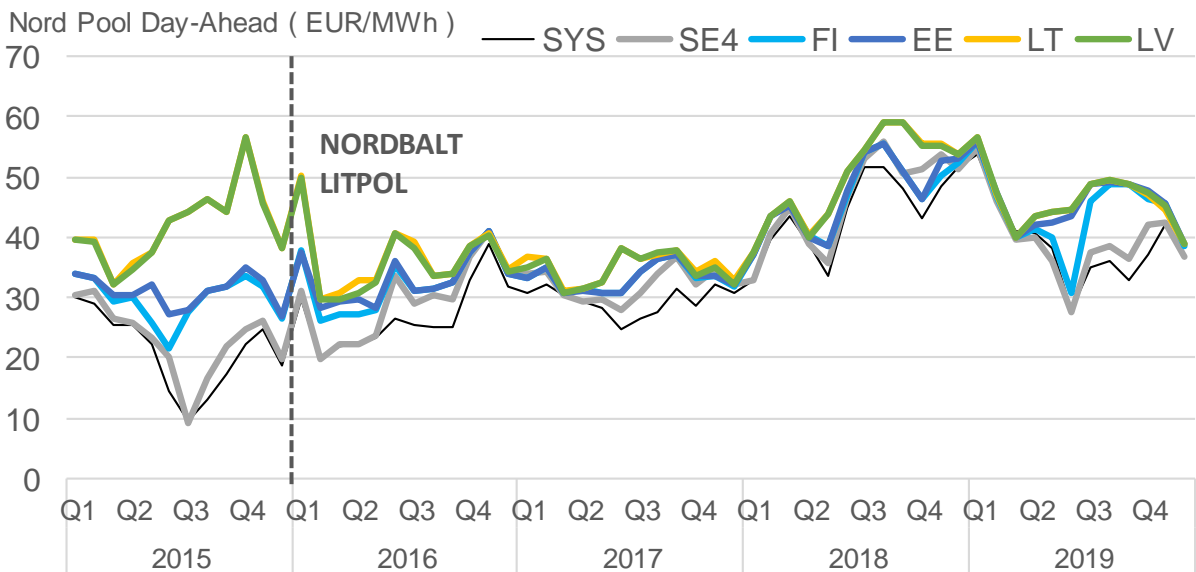
3. Baltic electricity market

Baltic States in common European market

Typical market balance in the Baltics during high demand hours in 2019



Monthly average Nord Pool spot price

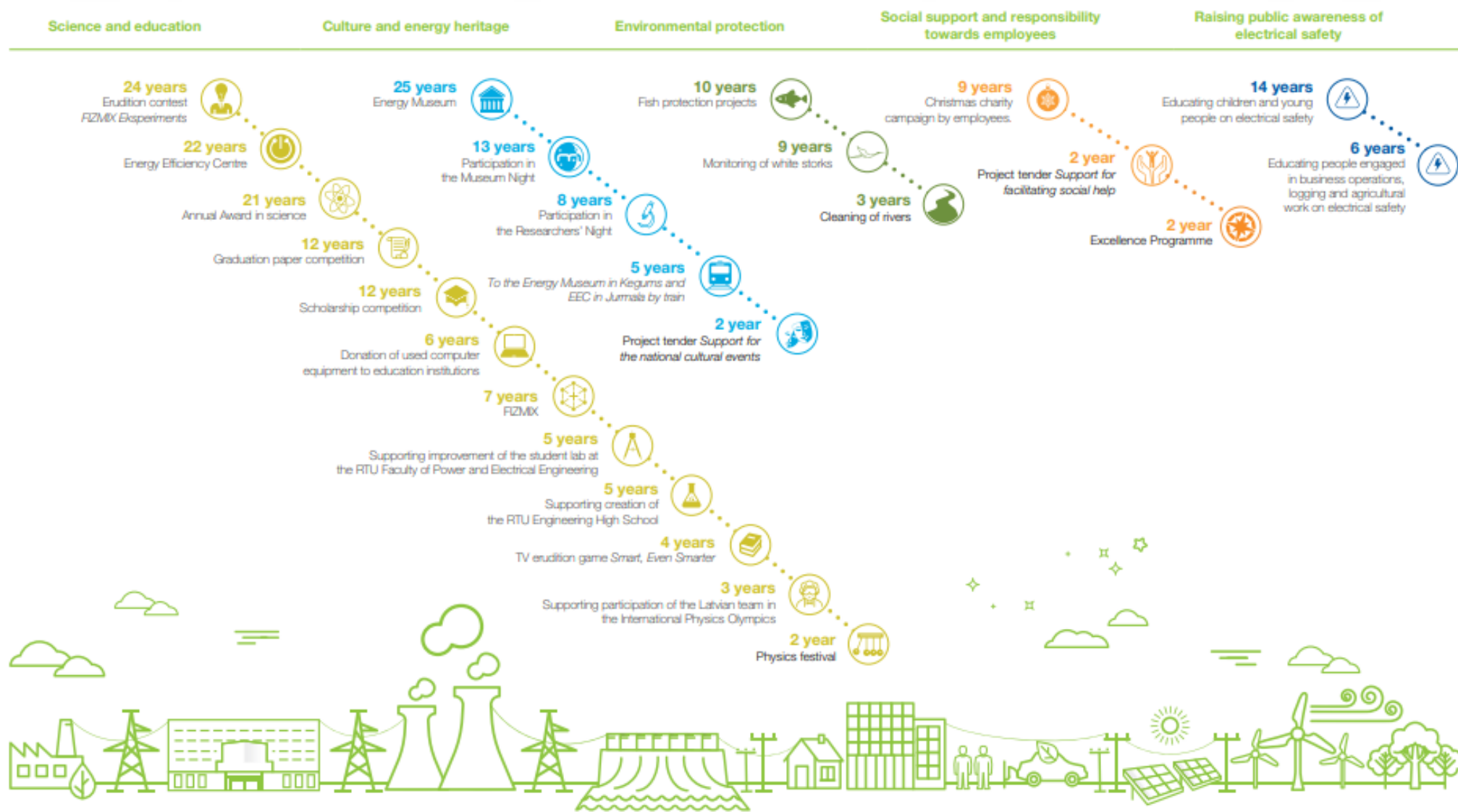


- Consumption in the Baltics 28 TWh/year that is 7% of Nordic 387 TWh/year
- Since 2016, prices in the Baltics are mainly determined by the Nordic market after the commissioning of NordBalt and LitPol
- Restrictions on interconnection capacity between Estonia and Latvia, and Lithuania is the major obstacle to a fully unified Baltic price area
- Significant price differences in the Baltic States may arise in the event of interconnection capacity constraints and renewable energy system fluctuations

4. Corporate social responsibility and awards

Corporate social responsibility

Activities in 2019 by the duration of Group's involvement



Awards

External parties appreciated the sustainability and social responsibility of the Group

- Latvenergo AS and Sadales tīkls AS received the Platinum category from the Latvian Sustainability Index. Both companies also obtained the status of a family-friendly company
- Latvenergo AS was recognised as one of the fairest remuneration payers, as well as the top employer in the production sector and the fourth most popular employer in Latvia
- *SmartEnerGo*, the Group's employee involvement programme, was awarded third place in the competition *Mi:t&links: Baltic Communication Awards 2020*, in the internal communication category
- The Golden Awards in the contest *The Safest Company Car Fleet*
- The modernised Plavinas HPP history exposition received an award in the category Tourism at Aizkraukle Municipality's Annual Event 2019

The digital transformation of Sadales tīkls AS was appreciated

- The highest award in the category Digital Transformation of an Enterprise at the Latvian Annual Technology Awards Platinum Mouse 2019
- An award from the Building Information System as the most active user of the closed portal of issuers of technical rules

Latvenergo Group – the most valuable company in Latvia

- The most valuable company in the TOP 101 Most Valuable Companies of Latvia and the most valuable power utility in the Baltics
- In the Latvian Business Annual Report 2019, Latvenergo AS retained its leading position in the electricity and gas sector, while Sadales tīkls AS was in second place by turnover
- The largest EBITDA maker, the largest state-owned company and the largest company in the energy sector in the TOP 500 of Latvian Companies



5. Financial performance

Key financials

Income Statement (MEUR)	2015	2016	2017	2018	2019
Revenue*	885	886	881	839	842
EBITDA*	263	347	498	282	244
Profit	85	131	322	76	94
Balance Sheet (MEUR)	2015	2016	2017	2018	2019
Assets	3,517	3,901	4,416	3,799	3,865
Equity	2,097	2,419	2,847	2,320	2,265
Borrowings	797	792	827	814	883
Net Debt (adjusted)* ¹⁾	605	529	497	505	564
Investments	190	201	244	221	229
Key Financial Ratios	2015	2016	2017	2018	2019
Net Debt to EBITDA (adjusted)	2.3	1.6	1.0	1.8	2.2
EBITDA Margin (adjusted) ²⁾	30%	39%	56%	34%	29%
Return on Equity (ROE) ³⁾	4.1%	5.8%	12.2%	2.9%	4.1%
Return on Assets (ROA) ⁴⁾	2.4%	3.5%	7.7%	1.8%	2.5%
Return on Capital Employed (ROCE) (adjusted) ⁵⁾	3.2%	5.1%	6.4%	2.5%	3.4%
Net Debt to Equity (adjusted)	0.29	0.22	0.17	0.22	0.25
Capital Ratio ⁶⁾	60%	62%	64%	61%	59%
Moody's Credit Rating	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

Information about the financial indicators and coefficients used by the Latvenergo Group is available in Latvenergo Group's consolidated and Latvenergo AS Annual Report, see the section "Key Figures"

* Excluding discontinuing operations (unbundling transmission system asset ownership) see Note 30 to the Latvenergo Group's consolidated and Latvenergo AS 2019 Annual Financial statements

1) Net debt: (borrowings at the end of the period - LET borrowings) - (cash and cash equivalents at the end of the period - LET cash)

2) EBITDA Margin: EBITDA / revenue * 100%

3) Return on Equity (ROE): net profit (12-months rolling) / average value of equity * 100%

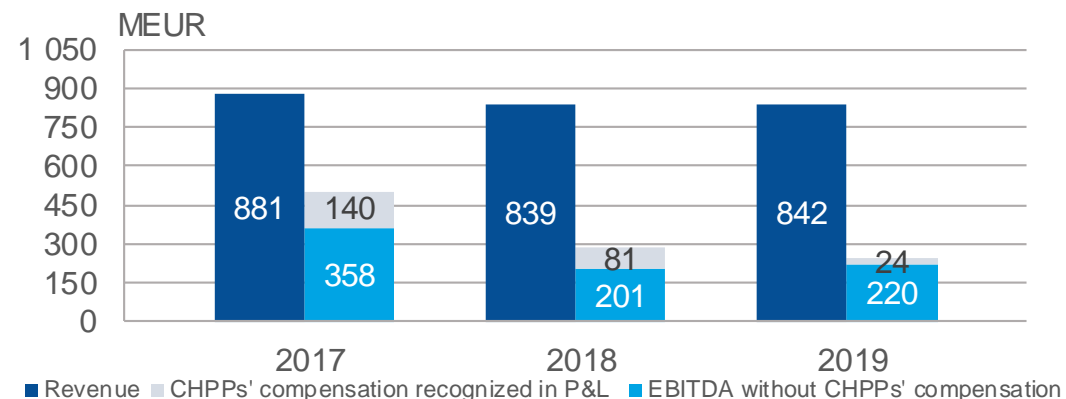
4) Return on Assets (ROA): net profit (12-months rolling) / average value of assets * 100%

5) Return on Capital Employed (ROCE): operating profit of 12 months period / (average value of equity + average value of borrowings) * 100%

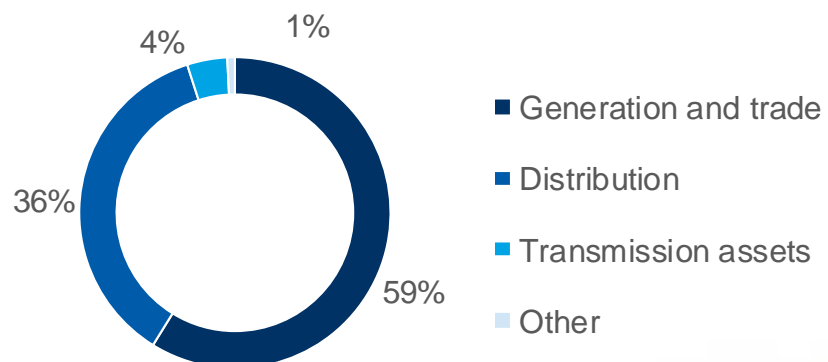
6) Capital Ratio: total equity / total assets * 100%

Revenue and profitability 2019

Revenue and EBITDA



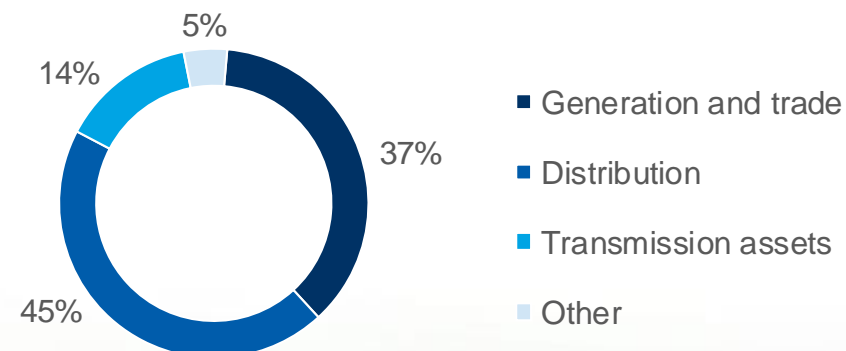
Revenue by segment



Key highlights

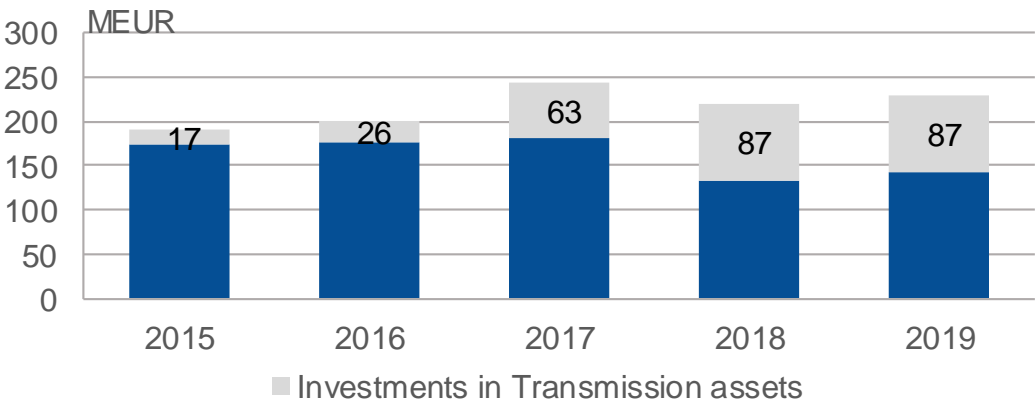
- EBITDA were negatively impacted by:
 - 57 MEUR lower compensation for the Latvenergo AS CHPPs' capacity payments recognised in the profit and loss statement
 - 14% lower electricity output at the Daugava HPPs
- Profit for the year: 94 MEUR (2018: 76 MEUR)

EBITDA by segment

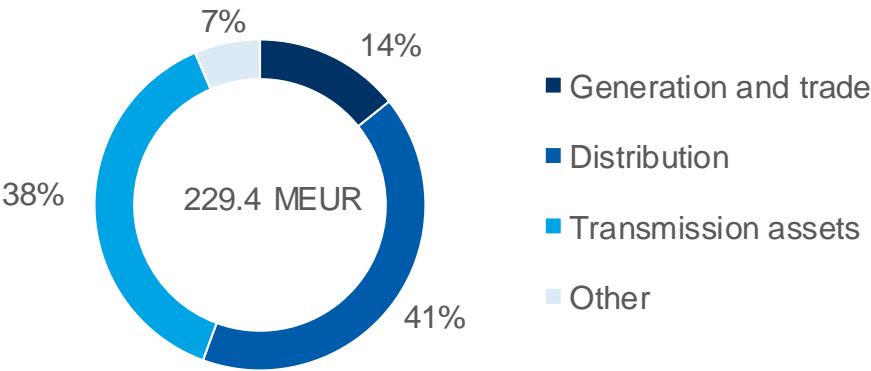


Investments 2019

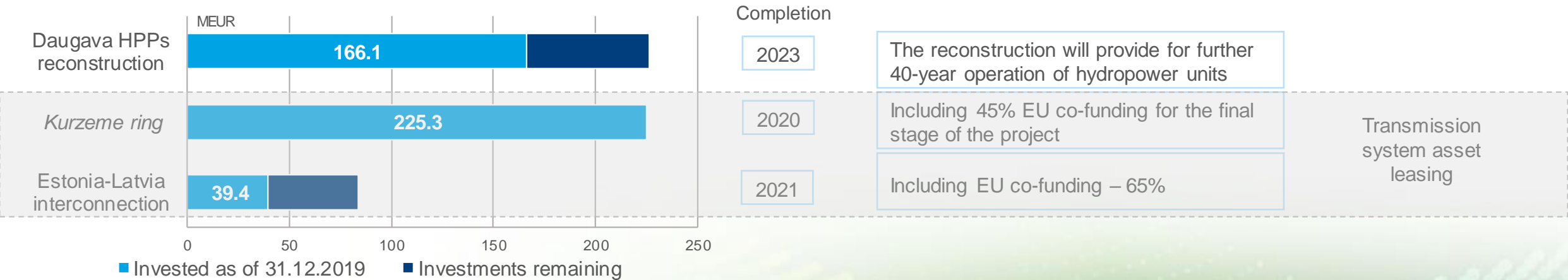
Investments by year



Investments by segment

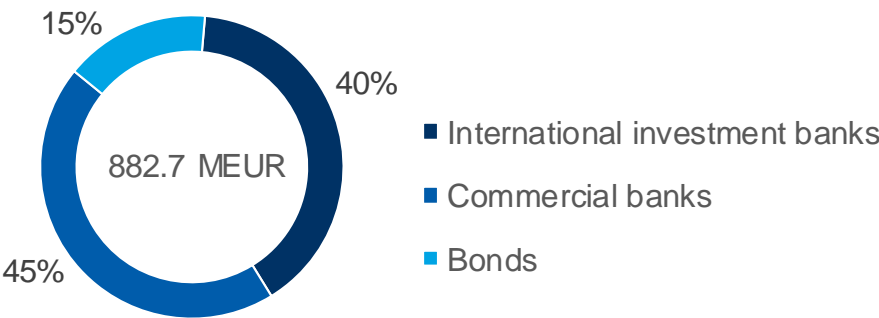


Major investment projects



Funding and liquidity 2019

Debt by source

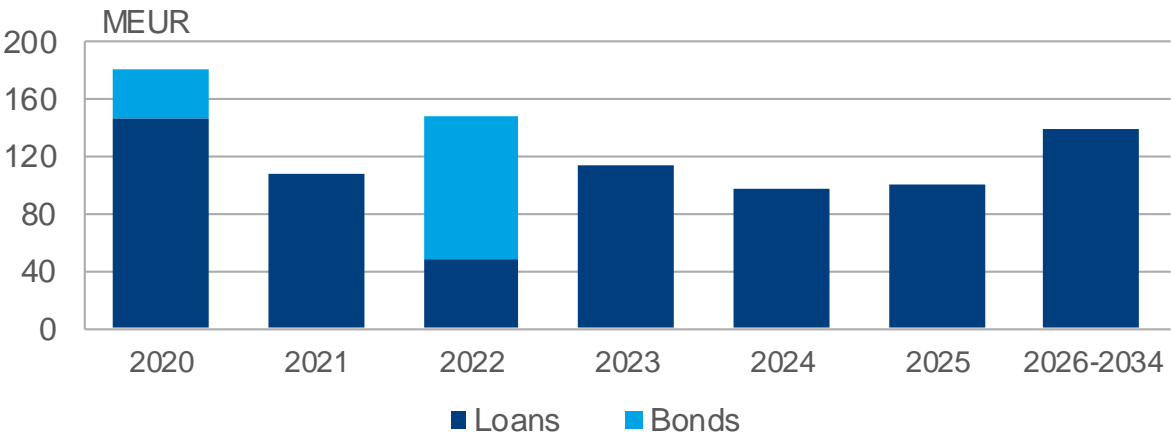


Key highlights

- Bonds – 135 MEUR, of which 100 MEUR *green bonds*
- *Moody's* credit rating – Baa2 (stable)
- Share of fixed interest rate* – 45%, duration – 1.8 years, effective weighted average interest rate* – 1.5%
- All financial covenants have been met

* with interest rate swaps

Debt repayment schedule



Liquidity

Cash and short term bank deposits with maturity up to 3M	122 MEUR
Committed long-term loans	70 MEUR
Investment in liquid financial assets	17 MEUR
	209 MEUR

Bonds 2019

	35 MEUR bonds 2.8% annual coupon due 22 May 2020	100 MEUR Green bonds 1.9% annual coupon due 10 June 2022
ISIN	LV0000801165	LV0000801777
Issued in	2013 (2 tranches)	2015-2016 (2 tranches)
Use of proceeds	Financing of capital expenditures programme	In accordance with the Green Bond Framework
Programme	Latvenergo AS 85 MLVL (~121 MEUR) Programme	The second Latvenergo AS 100 MEUR Programme

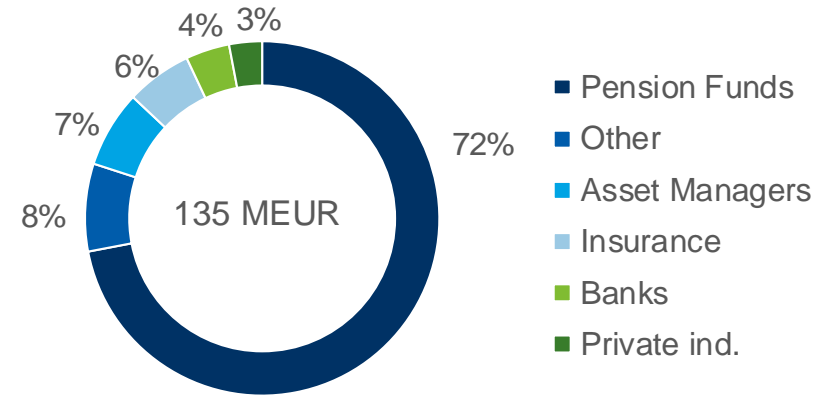


Green bonds

- Second opinion on Green Bond Framework provided by CICERO*; strongest rating assigned – dark green shading
- Rated by Moody’s – Baa2/stable, as well as the highest Green Bond Assessment grade GB1 (excellent)
- Green Bond Report is beeing published annually (as part of Sustainability Report)

* Center for International Climate and Environmental Research – Oslo

Investors by type*



* according to the coupon payment of 2019

First state-owned and investment grade green bond issuer in Eastern Europe

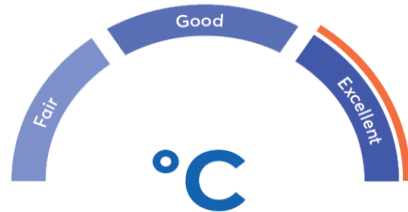
First green bond in CEE rated by international credit rating agency



New green bond programme 2020

- On 28 April 2020, the Financial and Capital Market Commission has registered the Base Prospectus of the **Third Programme for the Issuance of Notes of Latvenergo AS up to the total nominal amount of 200 MEUR**

- Dark Green Shading assigned by CICERO to Updated Green Bond Framework**



The overall assessment of governance structure and processes - **Excellent**

Highlights from the Second Opinion

“Latvenergo has in place a **sound management and governance structure** as well as regular and transparent reporting on own activities and green bond projects”

“It is a clear strength that Latvenergo **participates in the national adaptation plan of Latvia**”

- Eligible green project categories

Renewable energy and related infrastructure



Energy efficiency



Environmentally sustainable management of living natural resources and land use



The Group is committed to processes, products and services that contribute to the UN's Sustainable Development Goals ("SDG"). The Group prioritizes the following goals:



Goal 7: Affordable and clean energy




Goal 9: Industry, innovation and infrastructure



Goal 13: Climate action

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