

# Latvenergo Group Presentation

July 2022

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# Content

1. Group profile
2. Financial performance
3. Operating segments
4. Baltic electricity market
5. Sustainability and awards

# 1. Group profile

# Group profile 2021

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 generation
- Highly efficient combined heat and power plants

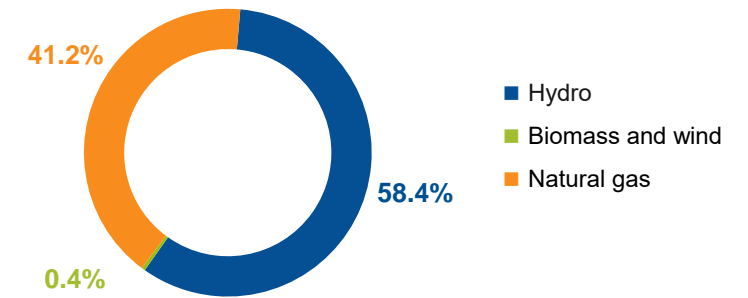
## Sound business model

- 50% of EBITDA from regulated distribution network activities
- 40% of retail electricity trade supplied to customers in Lithuania and Estonia
- Broad customer base



Share of renewable resources in the electricity output

**59%**



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

# Group profile 2021

## We energize the growth of society!

It is in our hands to take care of our customers today while also considering the impact on our future generations. We are well aware that natural resources are scarce, thus we are already looking for solutions to handle and utilize them wisely. We want to see a world in which every move is initiated by sustainable energy. We believe that you get what you give – as the energy always transfers from one form to another. Therefore, by transforming the power of nature into energy, we help to start the movement of growth for all of us! Innovation helps us to make our services sustainable and suitable for everyone's needs, encouraging others to change their habits and grow, as well as to stand up for the wellbeing of our society.

### Vision

We are the leading sustainable solutions provider in the energy industry.

### Mission

We drive the development of the energy industry by providing friendly, innovative and sustainable solutions



#### WITH HEART

We are open and passionate



#### WITH MIND

We do the right things and learn continuously



#### WITH ENERGY

We are brave and persistent

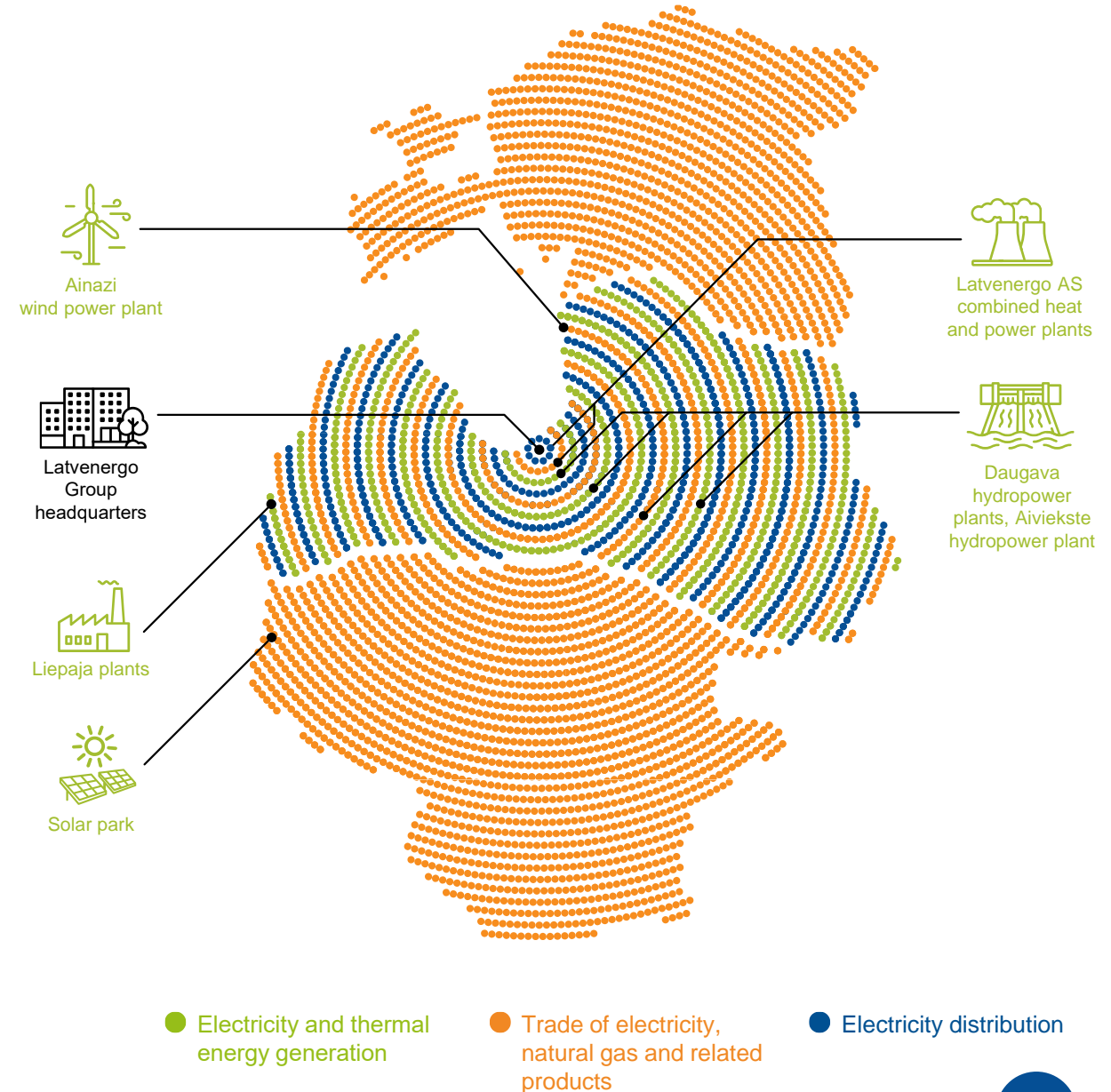


#### WITH FUTURE OUTLOOK

We do good for clients and society

**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
- trade in products and services related to electricity consumption and energy efficiency
- electricity distribution



# Operating segments 2021

## Generation and trade



- Electricity and thermal energy generation
- Electricity trade in wholesale and retail
- Other (natural gas trade, solar, EV charging, etc.)

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

## Distribution



- Electricity distribution in Latvia
- Sadales tīkls AS is the largest state distribution system operator, covering approximately 98% of the territory of Latvia.**



## Latvenergo Group

Latvenergo AS

Sadales tīkls AS 100%

Elektrum Eesti, OÜ (EE) 100%

Energiaturu Võrguehitus, OÜ (EE) 100%

SNL Energia 1, OÜ (EE) 100%

Baltic Energy System, OÜ (EE) 100%

Elektrum Lietuva, UAB (LT) 100%

Enerģijas publiskais tirgotājs SIA 100%

Liepājas enerģija SIA 51%



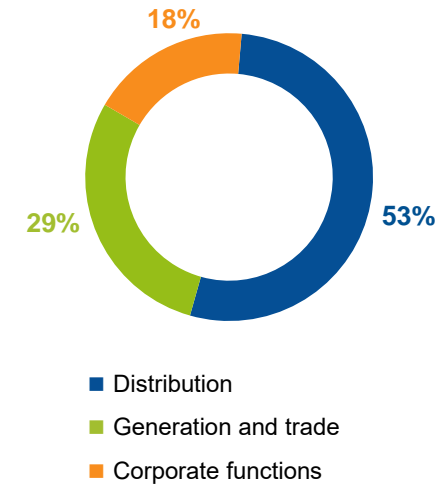
# Facts 2021

			2021	2020
<b>Financial figures*</b>				
	Revenue	MEUR	1,065.2	773.4
	Profit	MEUR	71.6	116.3
	Assets	MEUR	3,475.9	3,358.8
	Investments	MEUR	126.7	168.9
	Moody's credit rating		Baa2	Baa2
	Moody's ESG credit impact score		CIS-2	
<b>Generation and trade</b>				
	Installed electrical capacity	MW	2,606	2,605
	Installed thermal capacity	MW	1,797	1,838
	Electricity output	GWh	4,517	4,249
	Thermal energy output	GWh	2,072	1,702
	Generation efficiency of the Daugava HPPs	m <sup>3</sup> /kWh	17.9	18.1
	Generation efficiency of the Latvenergo AS CHPPs	%	81	76
	CO <sub>2</sub> emission intensity	t/MWh <sub>el</sub>	0.12	0.12
	Market share in the Baltics	%	23	23
	Retail electricity supply	GWh	6,706	6,394
	Retail natural gas supply	GWh	1,026	516
	Electricity retail customers	thsd.	755	744
<b>Distribution</b>				
	SAIDI	min	208	219
	SAIFI	number	2.3	2.3
	Length of distribution lines	km	92,430	92,656
	Transformer capacity	MVA	5,951	6,118

\* excluding discontinued operations (see Note 30 of the financial statements)

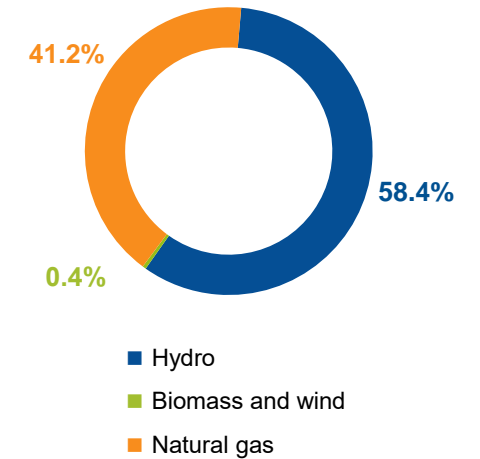
## Employees

3,153

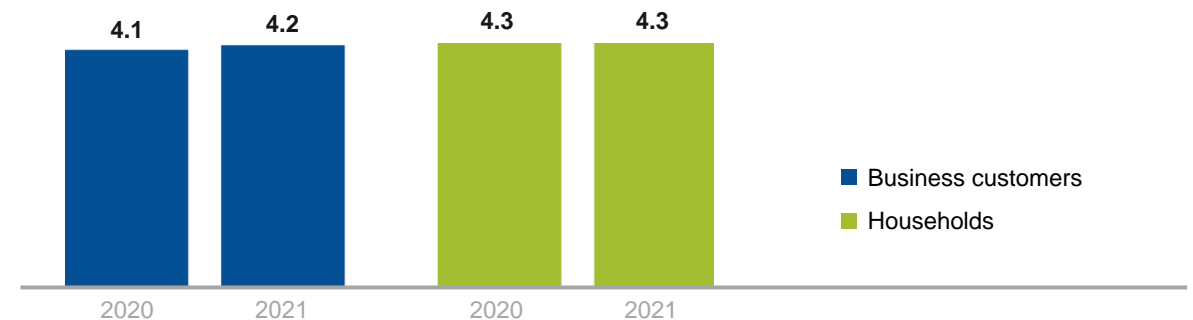


## Share of renewable resources in the electricity output

59%



## Elektrum customer satisfaction (on a scale 1–6)





# Highlights 2021

## The strategy of Latvenergo Group for 2022–2026 has been developed and approved in March 2022

As part of the new strategy, Latvenergo Group plans to develop generation capacities using renewable energy sources, to strengthen the position of the most valuable energy trader in the Baltic market, to promote sustainable and smart electromobility, and to ensure a sustainable and flexible distribution system.

## Elektrum has doubled its number of customers outside Latvia

Elektrum Eesti has acquired several distribution microgrid service companies in Estonia to develop new products and services in the field of microgeneration and electromobility. In addition, Elektrum Eesti took over a portfolio of approximately 20,000 customers from the Finnish company Imatra Elekter. With the opening of the household market in Lithuania, the number of Elektrum Lietuva customers has also increased significantly.

## Elektrum solar park has started operating in Lithuania

The first Elektrum solar park in Lithuania with a capacity of 1.5 MW has been put into operation. Customers can purchase the capacity installed at the park within the remote net billing system. More and more solar panels are also being installed in customer facilities. At the end of 2021, the total capacity of the panels installed by Elektrum for their customers in the Baltics reached 10.7 MW.

## We continue to improve the distribution service quality

In the last five years, the System Average Interruption Duration Index (SAIDI) decreased by 20% and the System Average Interruption Frequency Index (SAIFI) decreased by 16%. The installation of smart meters has also continued successfully; at the end of the year, they already accounted for 90% of the entire meter fleet and metered 94% of all electricity consumed by customers.

## Latvenergo Group – one of the leaders in electromobility in Latvia

At the end of 2021, the Elektrum charging network already included 90 charging ports in nine Latvian cities. Some of them were installed in cooperation with partners. The number of charges performed has increased by about 50%, reaching 162 MWh.

## The CHPP-2 heat storage system is put into operation

The CHPP-2 heat storage tank, which is the largest project of its kind in the Baltics, was commissioned in March 2021. It ensures thermal energy storage, primary energy savings and reduced CO<sub>2</sub> emissions.

## Nasdaq award for the best investor relations

At the beginning of 2021, Latvenergo AS once again received the Nasdaq award for best investor relations on the bond market in the Baltic states.

## Latvenergo AS has issued green bonds worth EUR 50 million

In May 2021, Latvenergo AS issued green bonds for a total amount of EUR 50 million. The funds obtained are invested in the implementation of environmentally friendly projects. The growing interest in this type of securities is evidenced by the demand, which exceeded the supply 4.5 times.

## Reconstruction of Aiviekste HPP has been completed

In 2021, a large-scale reconstruction of Aiviekste HPP, which is one of the first hydropower plants in Latvia, was completed. Two existing hydropower units were renovated, and two new ones were installed.



# Group strategy 2022–2026

### Generation

Grow and diversify portfolio with wind and solar




### Trade

Strengthen market position and diversify products



### Electromobility

Develop charging network



### Distribution


Render sustainable and economically justifiable service



### New wind and solar capacities

2026

600 MW



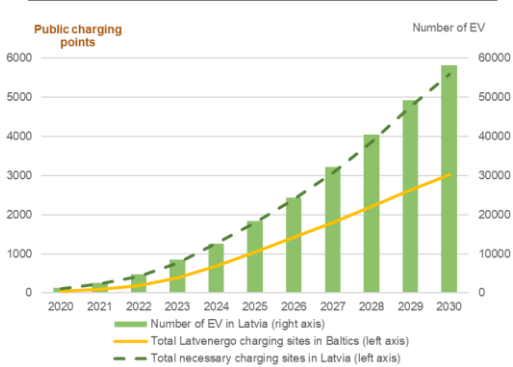
### Elektrum – the most valuable energy retailer in the Baltics

- Growing customer portfolio
- Microgeneration
- Electrification and energy efficiency
- Product innovation
- Launching operation in Poland

### Electric car charging points in the Baltics

2026

1,200-1,500



### Two-way network of balanced development of microgeneration and charging network

	2020	2026
SAIDI /min	184	164
SAIFI /times	2.07	1.92

Digital transformation and efficiency outpaces inflation

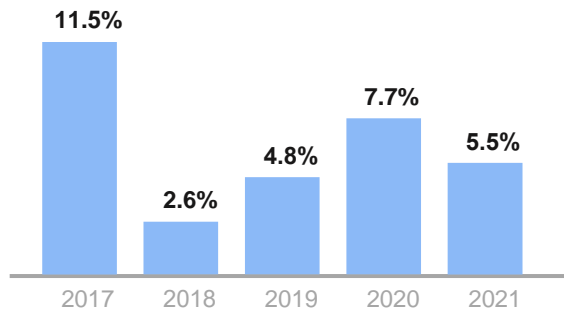
# Group strategy 2022-2026: financial targets

## Profitability

ambitious, yet achievable profitability, which is consistent with the average ratios of benchmark companies in the European energy sector and provides for an adequate return on the business risk

Return on equity (ROE) excluding distribution\*

> 7%

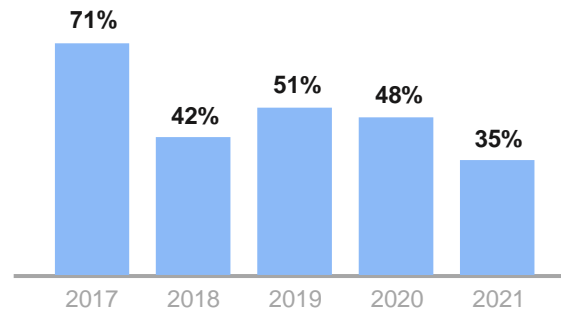


## Capital structure

an optimal and industry-relevant capital structure that limits potential financial risks

Ratio between adjusted funds from operations and net debt (FFO / Net Debt)\*

> 25%

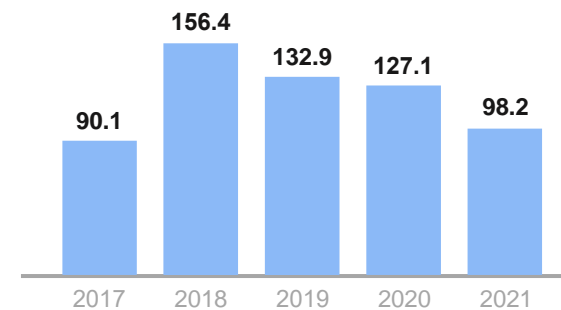


## Dividend policy

a dividend policy that is consistent with the planned investment policy and capital structure targets

Dividend payout ratio

> 64%

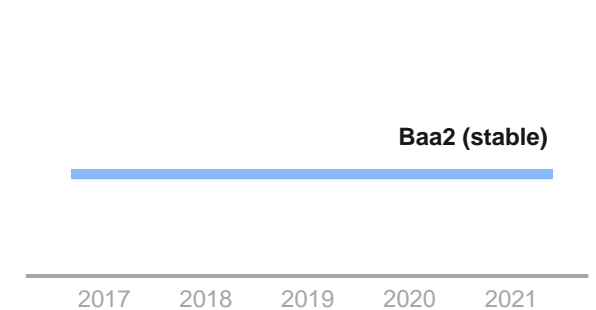


## Credit rating

investment-grade credit rating to ensure financing for the ambitious investment programme set out in the strategy

Moody's credit rating

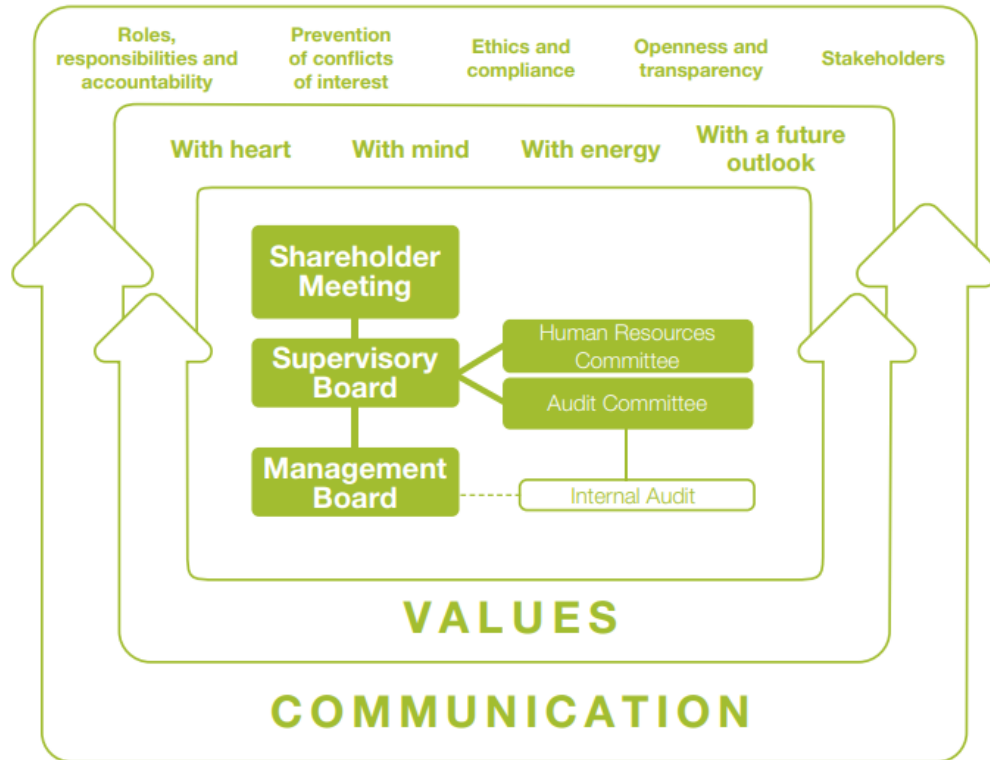
To maintain an investment-grade credit rating



\* For definitions of the financial ratios, see the section Key Figures in the Annual Report.

# Corporate governance

## Corporate governance model



### Roles, responsibilities and accountability

The roles, responsibilities and accountability of the governance bodies are defined by laws and regulations of the Republic of Latvia and by the Group's internal documents. The most important of these are the companies' Articles of Association and regulations of the governance bodies, which are published on the Group's website.

### Prevention of conflict of interest

Members of supervisory boards and management boards of state capital companies have the status of public officials, which restricts their activities that fall outside the framework of their official powers to prevent personal or financial interests in their activities. Members of supervisory boards and management boards are obliged to submit annual asset declarations as public officials. The Group's Code of Ethics defines the types of conflict of interest and the measures for the prevention of conflicts of interest situations.

### Ethics and compliance

Latvenergo Group follows high standards of professional ethics, ensures the compliance of its operation with legislative requirements and does not engage in anti-competitive, corrupt or discriminatory transactions.

### 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 assesses and takes into consideration its impact on stakeholders and vice versa and handles issues of material importance to its stakeholders with a sense of responsibility.

## 2. Financial performance

# Key financials

Financial figures (MEUR)	2017	2018	2019	2020	2021
Revenue*	881	839	842	773	1 065
EBITDA*	498	282	244	278	199
Profit	322	76	94	116	72
Assets	4,416	3,799	3,865	3,359	3,476
Equity	2,847	2,320	2,265	2,118	2,123
Borrowings	827	814	883	743	795
Net Debt*	497	505	564	556	698
Adjusted funds from operations (FFO)	365	210	272	269	220
Capital expenditure	244	221	229	169	127
Key Financial Ratios	2017	2018	2019	2020	2021
Net Debt to EBITDA	1.0	1.8	2.2	2.0	3.2
EBITDA Margin	56%	34%	29%	36%	19%
Return on Equity (ROE)	12.2%	2.9%	4.1%	5.3%	3.4%
ROE excluding distribution	11.5%	2.6%	4.8%	7.7%	5.5%
Adjusted FFO / net debt	71%	42%	51%	48%	35%
Return on Assets (ROA)	7.7%	1.8%	2.5%	3.2%	2.1%
Return on Capital Employed (ROCE)	6.4%	2.5%	3.4%	4.2%	2.9%
Net Debt to Equity	0.17	0.22	0.25	0.26	0.33
Capital Ratio	64%	61%	59%	63%	61%
Dividend pay-out ratio	66%	104%	62%	126%	63%
<b>Moody's Credit Rating</b>	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

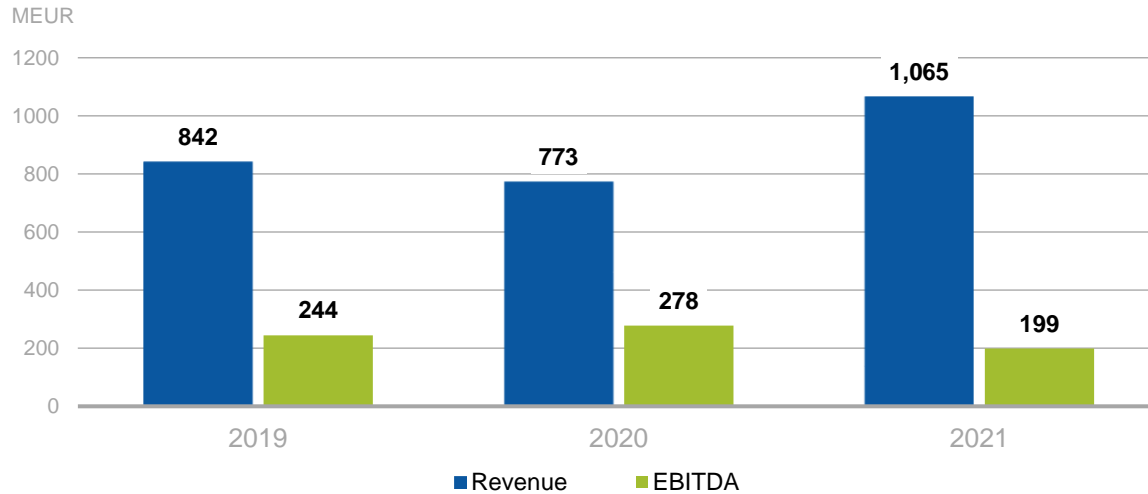
Information about the financial indicators and coefficients used by the Latvenergo Group is available in Latvenergo Group's consolidated and Latvenergo AS Annual Report, see the section “Key Figures”

\* Figures and ratios for 2017 – 10 June 2020 are presented by excluding discontinuing operations (unbundling transmission system asset ownership), see Note 30 of the Financial Statements for 2021

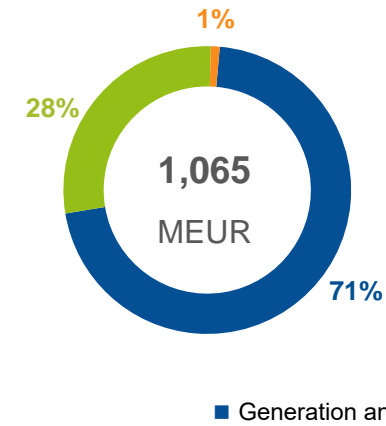


# Key financials

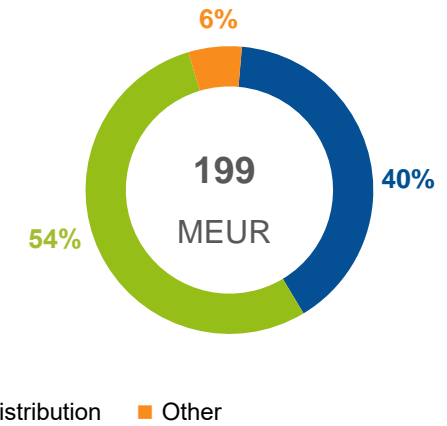
## Revenue and EBITDA



## Revenue by segment 2021



## EBITDA by segment 2021



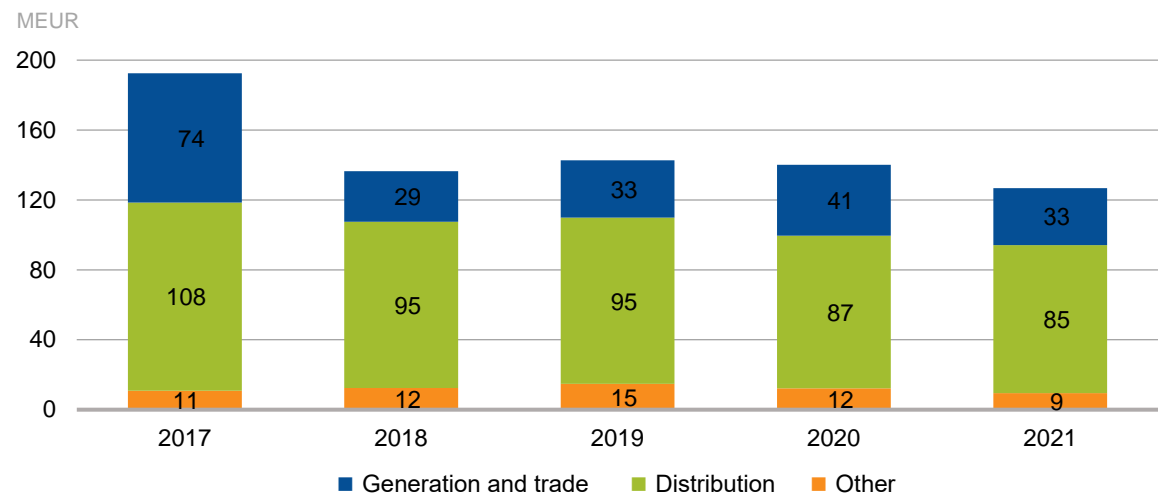
## Key highlights

- Revenue was positively impacted by:
  - higher electricity spot prices, a greater amount of electricity sold and higher revenue from heat sales
- EBITDA was negatively impacted by:
  - significantly higher electricity and natural gas purchase prices as well as the price of CO<sub>2</sub> emission
- Profit for the year: 72 MEUR (2020: 116 MEUR)



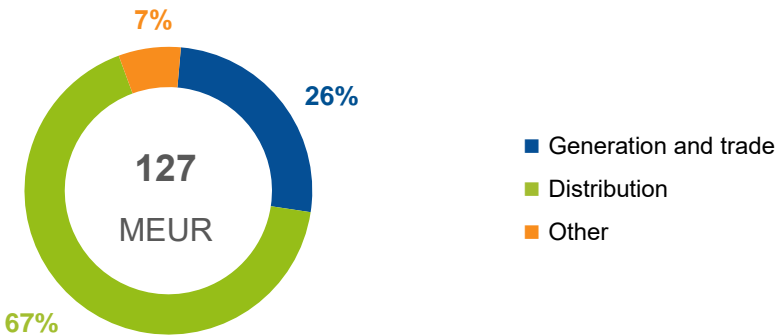
# Investments

Average annual investment ~150 MEUR\*

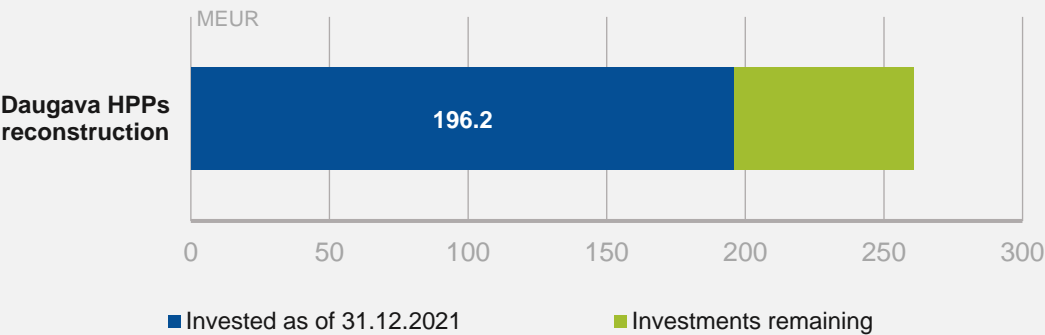


\*Excluding investments in discontinuing operations (unbundling transmission system asset ownership)

Investment in network assets – 2/3 of the total; 2021

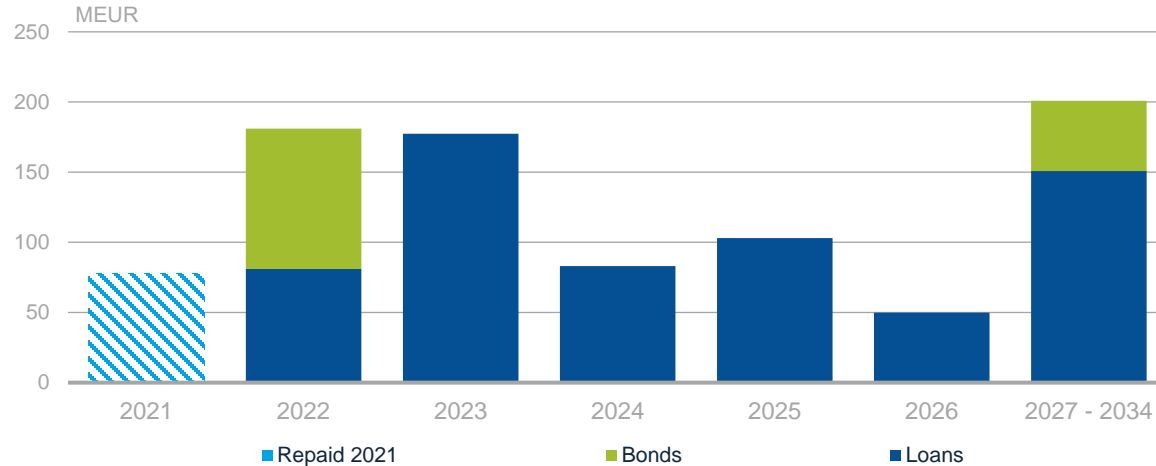


## Major investment project

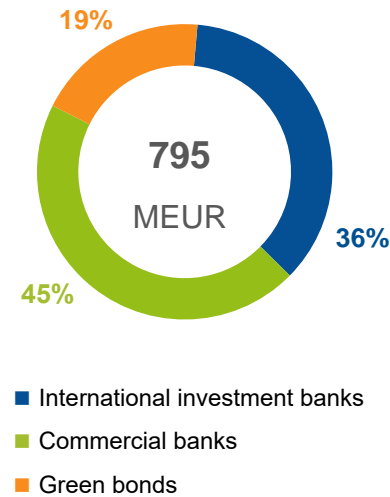


# Borrowings

## Debt repayment schedule



## Diversified sources 2021



## Liquidity position 2021

Liquid assets (cash and short-term bank deposits with maturity up to 3 months)	97 MEUR
Committed long-term loans	35 MEUR
Committed overdrafts	63 MEUR
<b>TOTAL</b>	<b>195 MEUR</b>

## 2021

- Total borrowings – 795 MEUR; including outstanding amount of green bonds – 150 MEUR
- Share of fixed interest rate (with IRS) – 37%, average fixed interest rate period (with IRS) – 1.5 years, effective weighted average interest rate (with IRS) – 1.2%
- On 24 January 2022 Moody's reconfirmed Baa2 (stable)

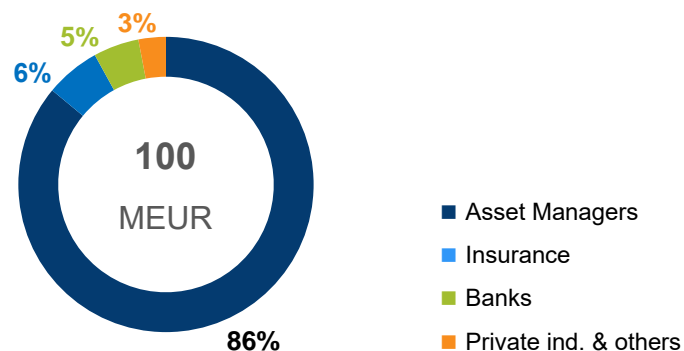
# Green bonds

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

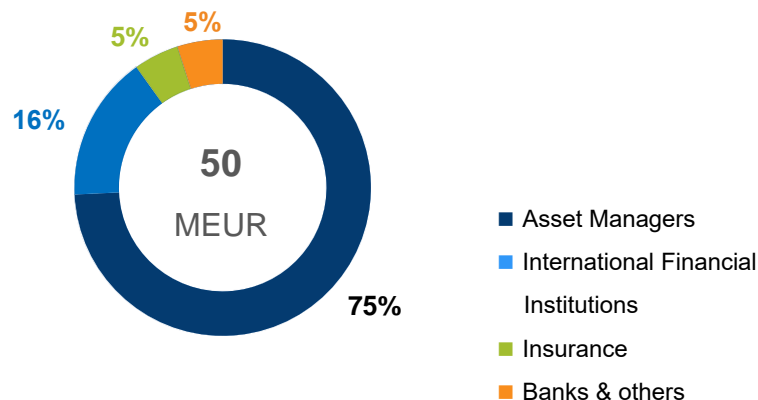


	<b>100 MEUR Green bonds</b> 1.9% annual coupon due 10 June 2022	<b>50 MEUR Green bonds</b> 0.5% annual coupon due 17 May 2028	<b>100 MEUR Green bonds</b> 2.42% annual coupon due 5 May 2027
ISIN	LV0000801777	LV0000802460	LV0000870129
Issued in	2015-2016 (2 tranches)	2021	2022
Use of proceeds	In accordance with the Green Bond Framework	In accordance with the Green Bond Framework	In accordance with the Green Bond Framework
Programme	The second Latvenergo AS 100 MEUR Programme	The third Latvenergo AS 200 MEUR Programme	The third Latvenergo AS 200 MEUR Programme

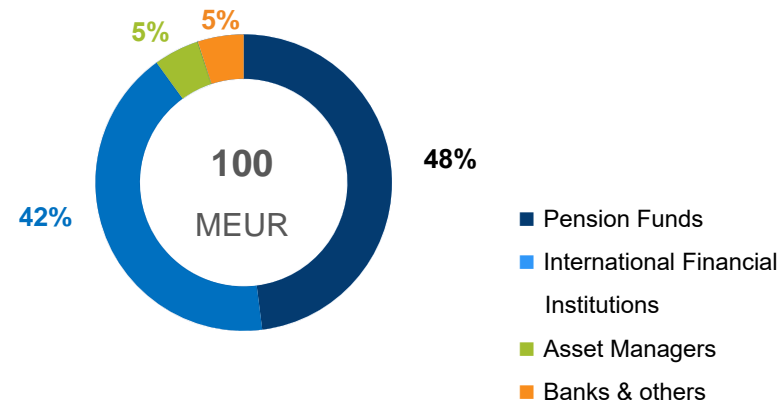
Investors by type according to the coupon payment of 2021



Investors by type according to the placement in May 2021



Investors by type according to the placement in May 2022



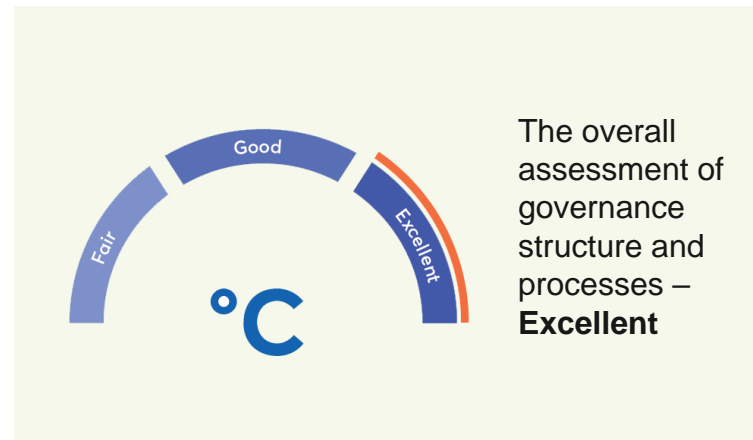
# Green bond programme 2021–2022

The Third Programme for the Issuance of Notes of Latvenergo AS provides for bond issues up to the total nominal amount of 200 MEUR

- 50 MEUR were issued on 17 May 2021
- 100 MEUR were issued on 5 May 2022

## Dark Green Shading assigned by CICERO to

### Updated Green Bond Framework



### 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**”

# Green bond programme 2021–2022

## Eligible green project categories



Renewable energy  
and related  
infrastructure

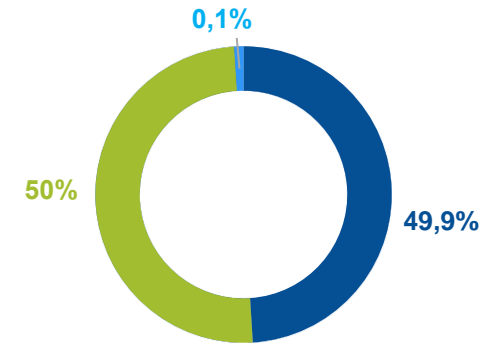


Energy  
efficiency



Environmentally  
sustainable management  
of living natural resources  
and land use

Investments by project group of  
50 MEUR bonds issued in May 2021



- Renewable energy and related infrastructure
- Energy efficiency
- Environmentally sustainable management of living natural resources and land use

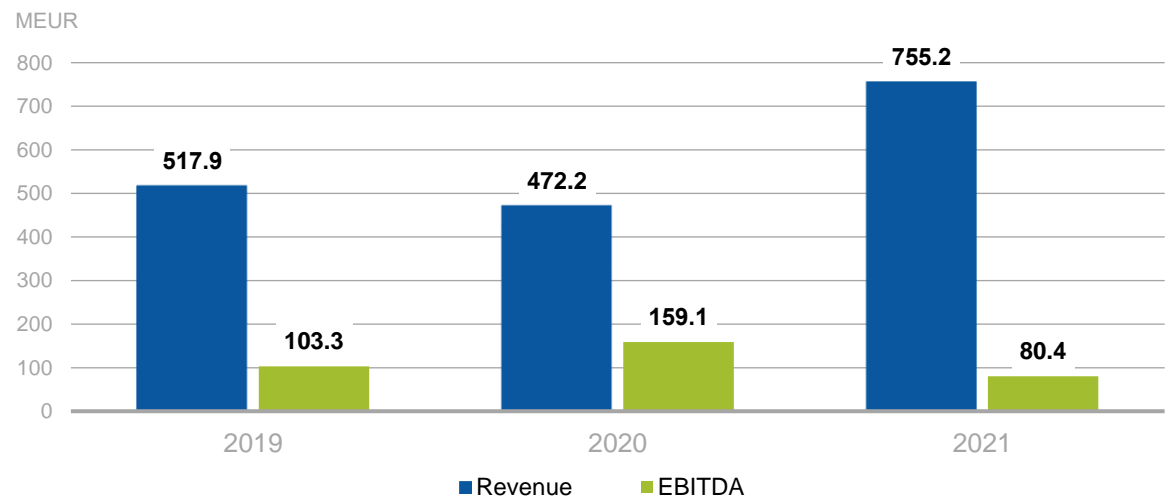
Similar allocation is planned for all  
issues under the third Latvenergo AS  
200 MEUR programme

## 3. Operating segments

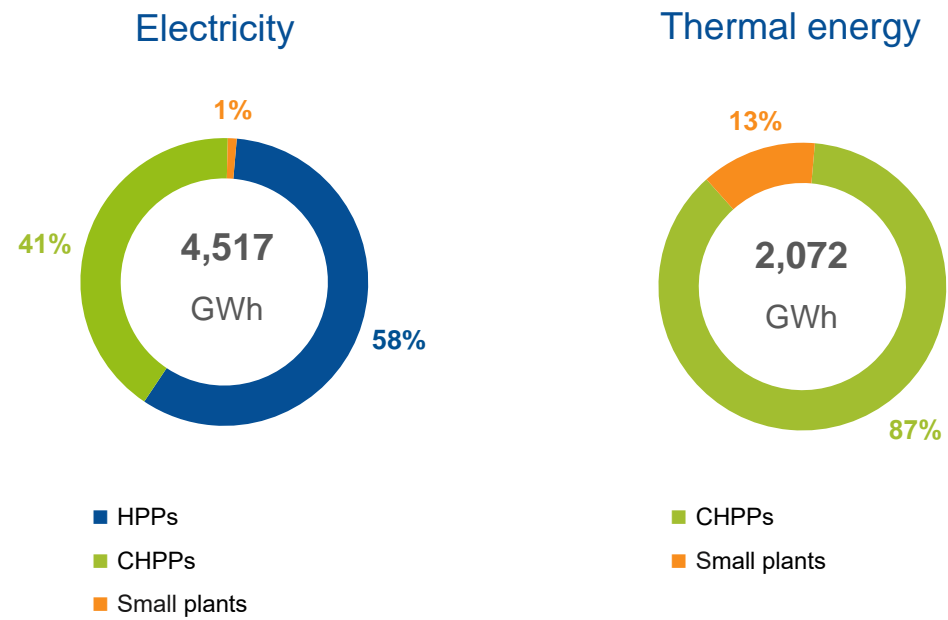
# Generation and trade



Revenue and EBITDA



Electricity and thermal energy output 2021





# Generation and trade

## Latvenergo Group electricity balance sheet\*

	Units	2017	2018	2019	2020	2021
Retail electricity supply and operating consumption	GWh	7,259	7,281	6,773	6,670	6,983
<i>incl. retail electricity supply</i>	GWh	6,923	6,954	6,505	6,394	6,706
Wholesale electricity supply	GWh	3,448	3,030	2,754	2,460	2,554
Technological electricity consumption	GWh	91	124	121	85	96
<b>TOTAL</b>	<b>GWh</b>	<b>10,798</b>	<b>10,435</b>	<b>9,648</b>	<b>9,216</b>	<b>9,632</b>
Gross electricity generation	GWh	5,734	5,076	4,880	4,249	4,517
Electricity procured within the MP scheme**	GWh	1,520	1,339	1,199	1,144	907
Purchased electricity	GWh	3,544	4,020	3,569	3,823	4,208
<b>TOTAL</b>	<b>GWh</b>	<b>10,798</b>	<b>10,435</b>	<b>9,648</b>	<b>9,216</b>	<b>9,632</b>

\* 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

## Key highlights 2021

- 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 – 2 606 MW (approx. 90 % of the total capacity in Latvia); installed thermal capacity – 1 797 MW
- Segment's EBITDA in 2021 was negatively impacted by significantly higher electricity purchase prices as well as record-high natural gas and CO<sub>2</sub> emission allowance prices

# Generation and trade

## Trade 2021

- Focus on the development of new products, the increase of revenue from one customer, increasing cost efficiency and customer satisfaction
- ~755k electricity retail customers across the Baltics
- 96% of these are households and 4% business customers
- 6.7 TWh of electricity sold to Baltic retail customers
- 40% of electricity supplied outside Latvia



## Baltic electricity market share

**~ 23%**

### Estonia

12% market share



Business customers  
~ 4.5 thousand



Households  
~ 41.7 thousand

### Latvia

54% market share



Business customers  
~ 19.6 thousand



Households  
~ 640.9 thousand

### Lithuania

13% market share



Business customers  
~ 9.7 thousand

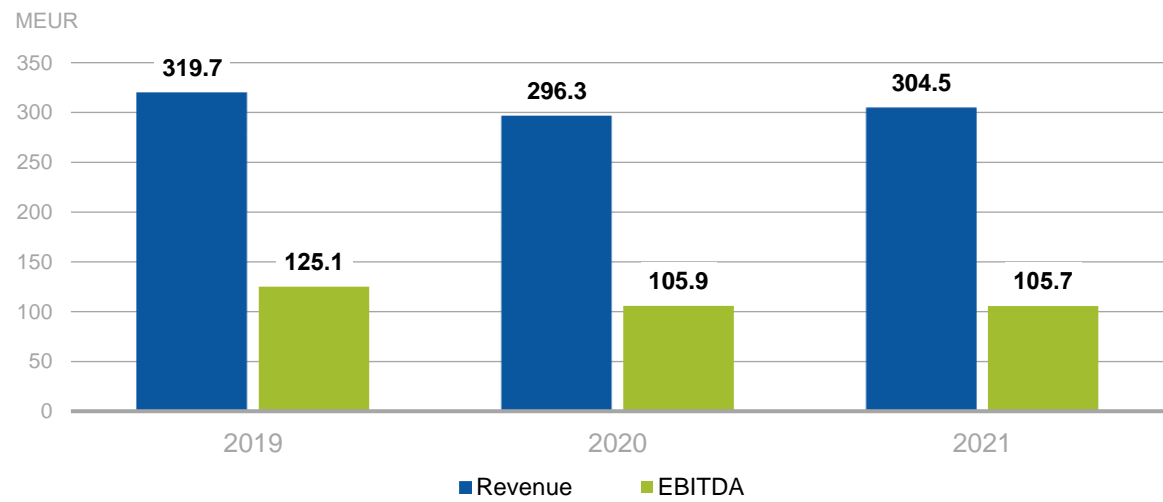


Households  
~ 38.5 thousand

# Distribution

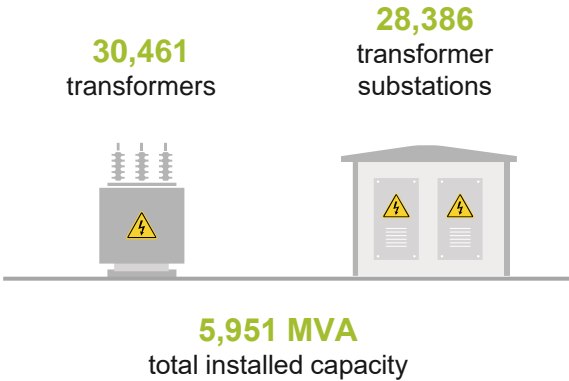
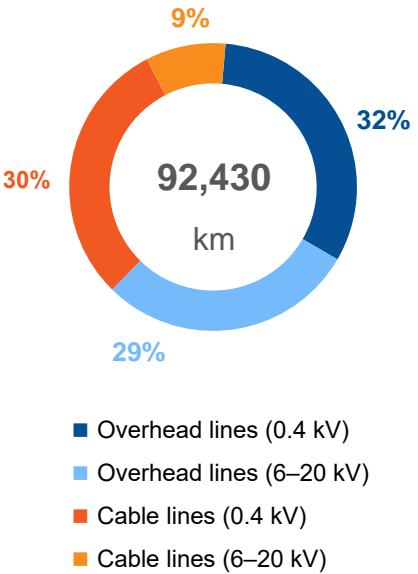


## Revenue and EBITDA



## Distribution network 2021

Length of electricity distribution lines



# Distribution

## Distributed electricity and losses

	Units	2017	2018	2019*	2020	2021
Distributed electricity	GWh	6,463	6,600	6,532	6,286	6,470
Electricity distribution losses, technological and operating consumption	GWh	337	327	293	277	271
<b>TOTAL</b>	<b>GWh</b>	<b>6,800</b>	<b>6,927</b>	<b>6,825</b>	<b>6,563</b>	<b>6,741</b>
Electricity losses	%	4.63%	4.43%	4.05%	3.99%	3.79%

\* in 2020, the transmission system operator recalculated the amount of electricity supplied in 2019; electricity losses in the distribution network were recalculated accordingly

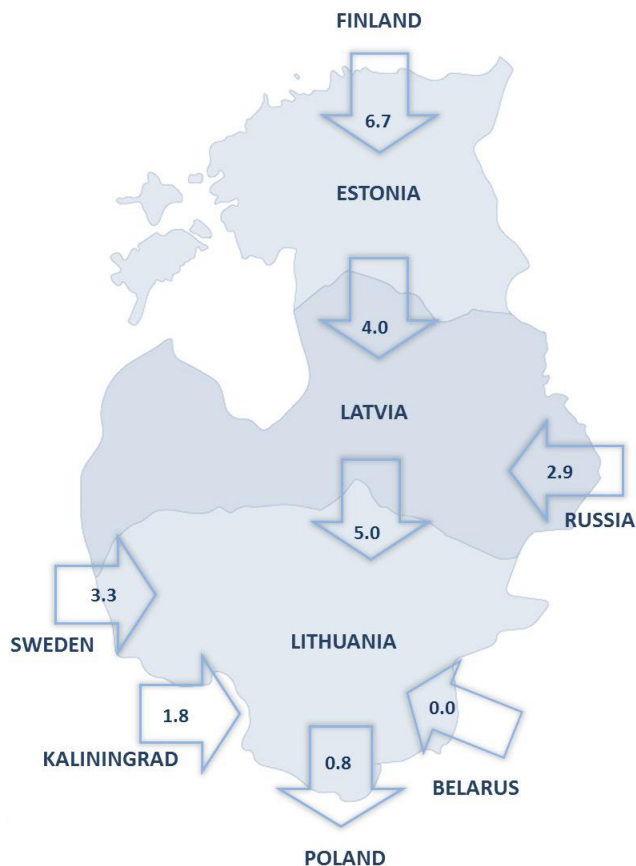
## Key highlights 2021

- Provision of distribution system services to about 800 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 almost 870
- Smart electricity meters installed for the company's customers comprised more than 970 thousand or 90% of all electricity meters
- Results were impacted by a 3% increase in the amount of distributed electricity due to colder weather at the beginning and the end of the reporting year, a hotter summer and economic recovery after COVID-19 restrictions

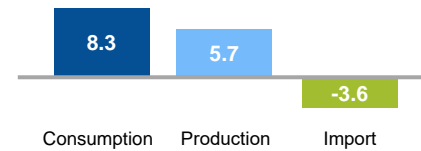
## 4. Baltic electricity market

# Baltic States in common European market

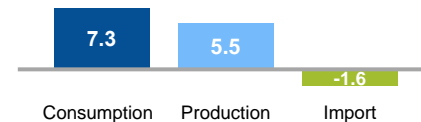
## Energy flow in the Baltics in 2021



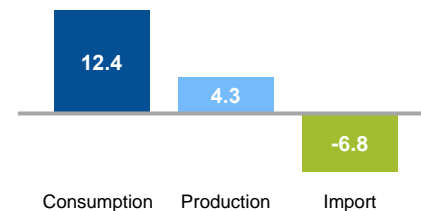
### Estonia (TWh)



### Latvia (TWh)

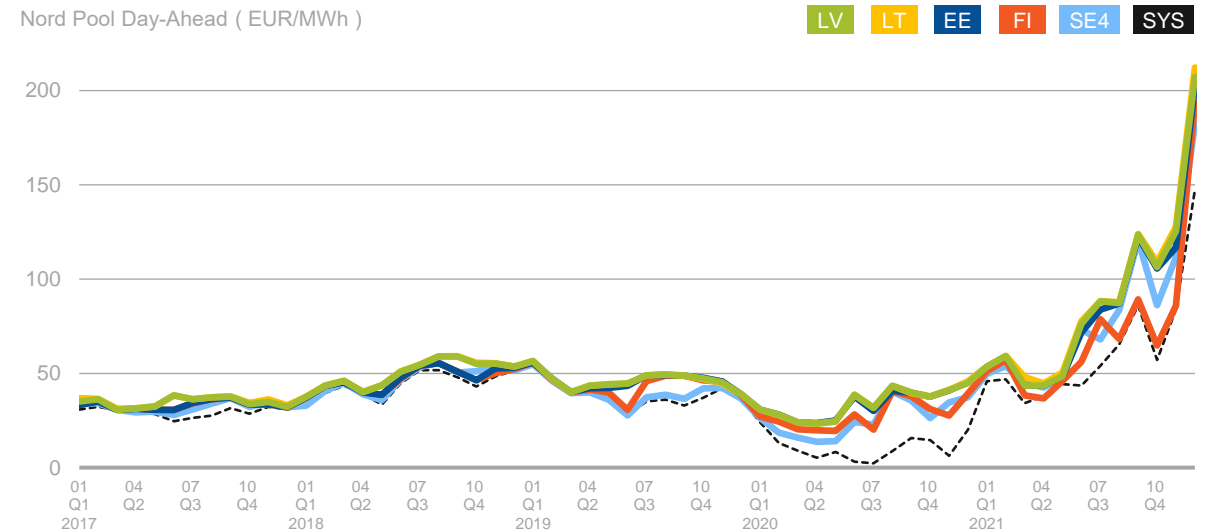


### Lithuania (TWh)



## Monthly average Nord Pool spot price

Nord Pool Day-Ahead ( EUR/MWh )



- Consumption in the Baltics 28 TWh/year; that is 7% of Nordic 399 TWh/year
- High fuel prices (natural gas, coal, oil) led to power price escalation in Europe which directly reflected price changes in the Nordic and Baltic prices areas
- Natural gas (LV and LT), oil shale (EE) and coal (PL) take an eminent position of power balance in the region (especially during periods of congestion and low RES generation)
- Significant price differences in the Baltic States may arise in the event of interconnection capacity constraints and renewable energy system fluctuations

## 5. Sustainability and awards



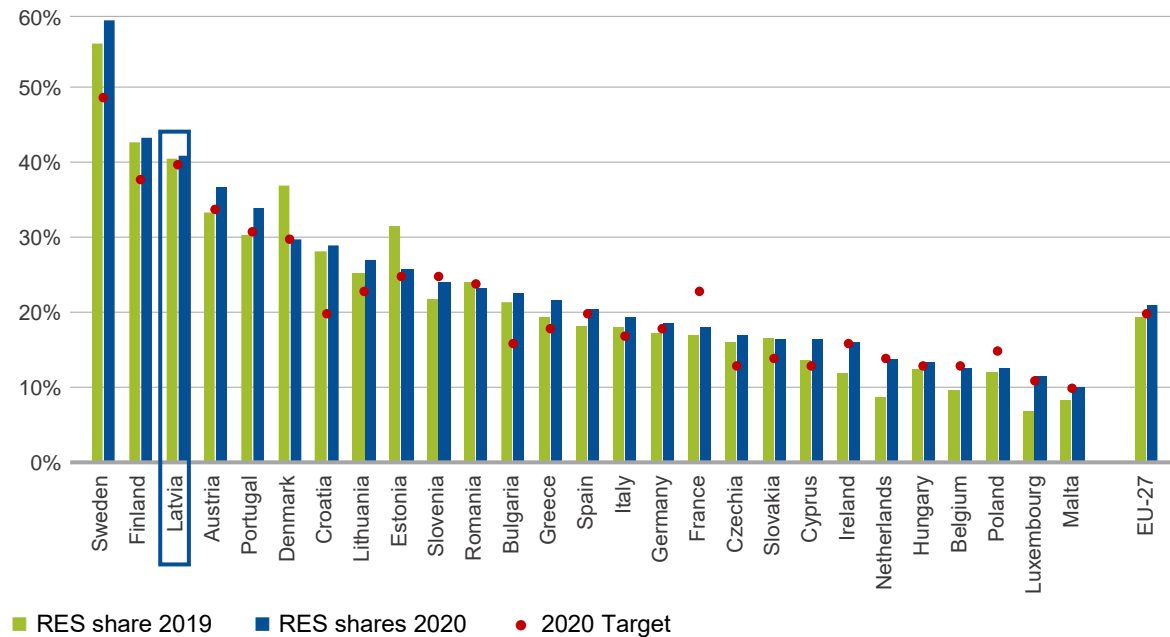
# The road to the EU climate neutrality in 2050

Policy area	EU target 2030 → Fit for 55	LV target 2030	LV progress 2020
GHG emission reduction	-40% → -55%	-65%	-60%
RES share	32% → 40%	50%	42%

## Progress towards renewable energy source targets, by country

Share of energy from renewable sources

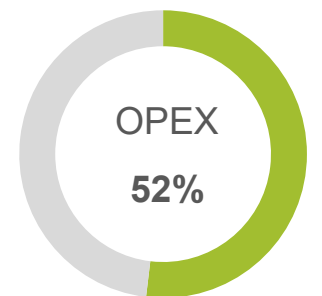
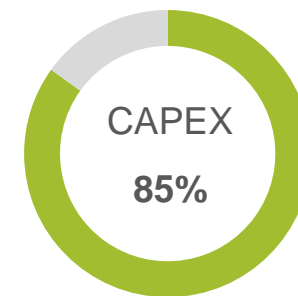
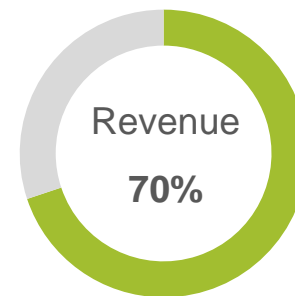
Source: European Environment Agency



## Latvenergo Group contribution

- Maintaining and improving efficiency of hydropower units
- Developing new capacities (wind, solar)
- Improving efficiency and reducing CO<sub>2</sub> emissions of natural gas cogeneration plants
- Increasing distribution network efficiency
- Developing the charging network for electric vehicles in Latvia
- Electrification solutions (heat pumps, efficient lighting, e-scooters, etc)

## Taxonomy 2021



- Taxonomy-eligible activities
- Taxonomy-non-eligible activities

# Group's strategy and sustainability

Group's business and activities contribute to the UN's Sustainable Development Goals

## Primary focus



## Direct contribution



Indirect contribution to other SDG's

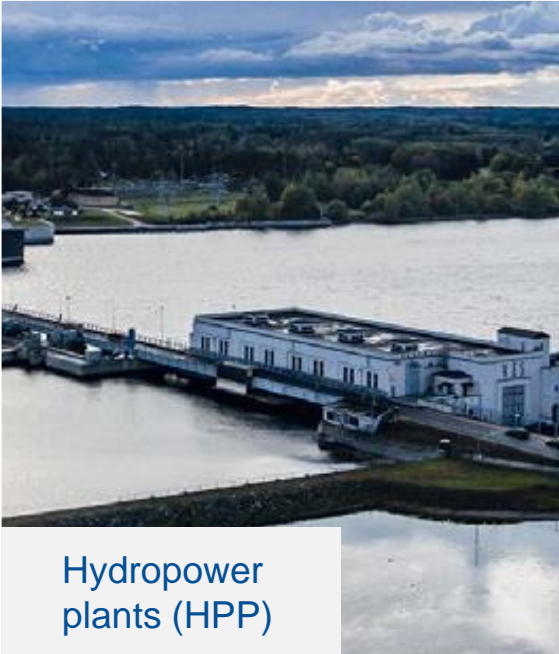
**New renewable generation capacities 600 MW by 2026**

**Renewable energy share in the generation portfolio 80% in 2030**

**Climate target to achieve climate neutrality by 2050**



# Efficient generation capacities in 2021



Hydropower plants (HPP)

- 100% green energy
- 1,558 MW<sub>el</sub>
- 3 HPPs
- Generation ability depends on water inflow in the Daugava River
- Possibility to accumulate water and adapt generation



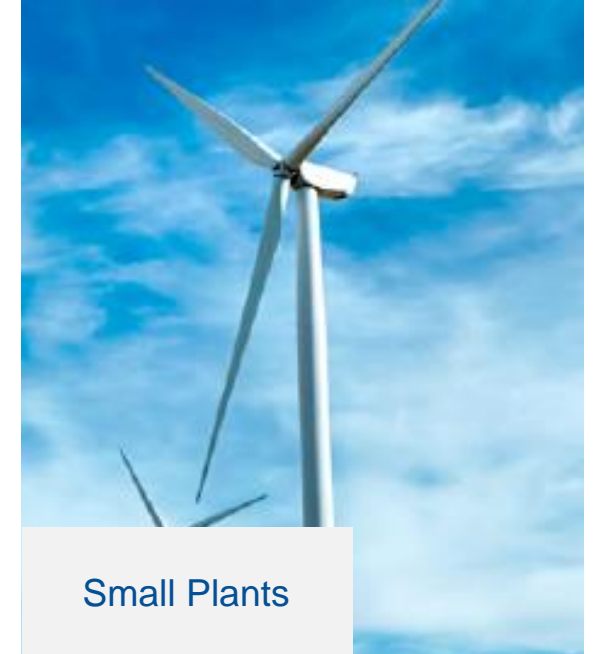
Combined heat and power plants (CHPP)

- Electricity and thermal energy
- 1,039 MW<sub>el</sub>; 1,617 MW<sub>th</sub>
- 2 CHPPs
- Upgraded and highly efficient
- Uses natural gas – the most environmentally friendly type of fossil fuel



Liepaja plants

- Electricity and thermal energy
- 6 MW<sub>el</sub>; 180 MW<sub>th</sub>
- Mainly uses a renewable energy source – woodchips



Small Plants

- 100% green energy
- Aiviekste HPP (1.5 MW<sub>el</sub>)
- Ainazi WPP (1 MW<sub>el</sub>)
- Solar energy park

# Examples of impact investment projects



## Daugava HPPs

### About:

Reconstruction of hydropower units and technological equipment at Daugava HPPs

### Objectives:

Extending service life, increasing capacity and efficiency ratios, increasing the safety, reducing the oil leakage risk

### Environmental benefits:

High share of renewables in energy generation, reduction of CO<sub>2</sub> emissions of up to 16,300 tons per year



## Distribution network

### About:

Building and reconstruction of distribution network

### Objectives:

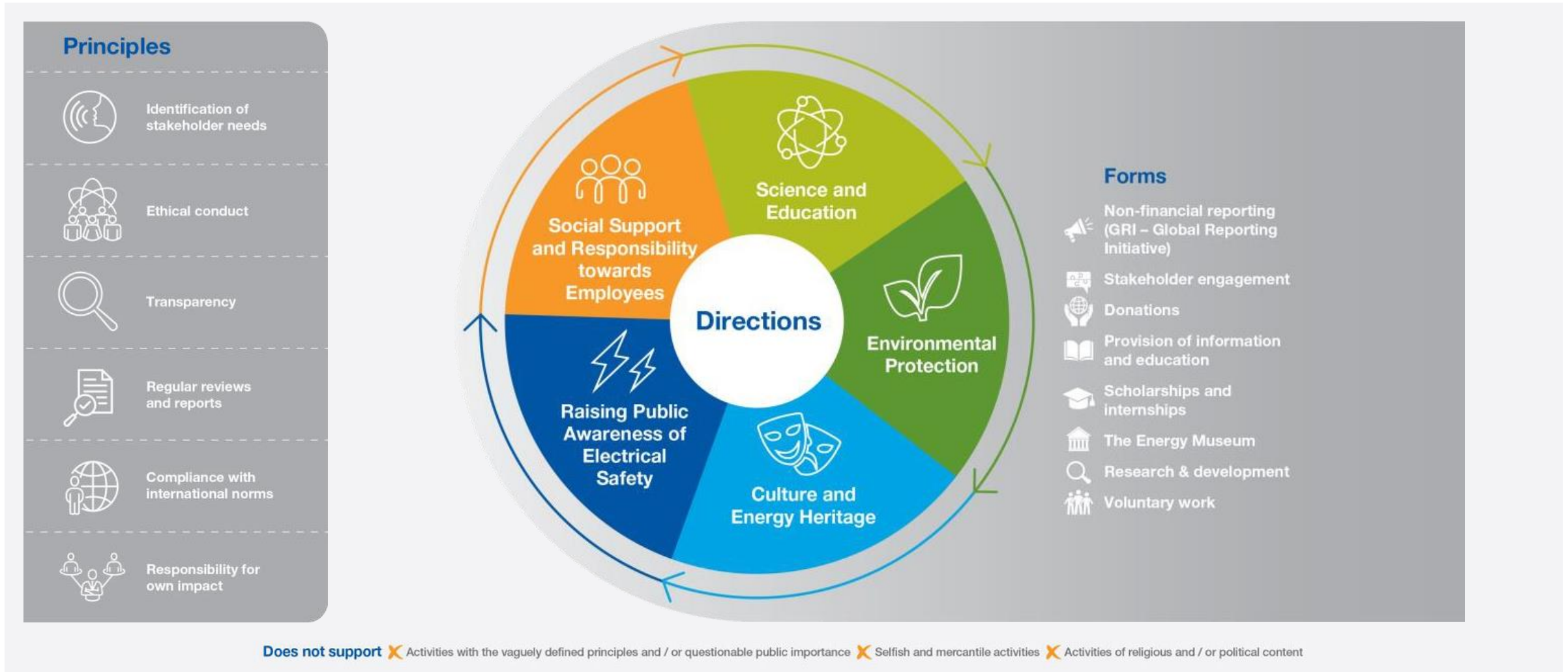
Reducing the duration of power interruptions and electricity losses, extending the service life of the distribution grid

### Environmental benefits:

Reduction of CO<sub>2</sub> emissions resulting from the decrease in distribution losses (26,000 tonnes compared to 2014)



# Corporate social responsibility



# Awards 2021

## Latvenergo Group – a leader in sustainability

- In the Sustainability Index, Latvenergo AS was recognised as the most sustainable company in Latvia. Both Latvenergo AS and Sadales tīkls AS received the Platinum category
- Latvenergo AS was recognised as one of the most attractive employers in Latvia in the Baltic Employer
- In the European Sustainable Brands Index, the brand Elektrums of Latvenergo AS was recognised as the second most sustainable brand in Latvia
- Latvenergo AS was granted the status of a Family-Friendly Workplace by the Society Integration Fund
- The electrical safety campaign of Sadales tīkls AS Electricity received prizes in the largest Baltic competition in the communications industry Mi:t&Links. Baltic Communication Awards 2021: 2nd place in the category Corporate Sustainability and Responsibility and 3rd place in the category Public Sector Campaigns
- For the third year in a row, both the fleet of Latvenergo Group and the fleet of specialized equipment of Sadales tīkls AS received the Gold Award in the competition for the Safest Company Fleet of 2021

## Latvenergo Group companies – at the top of the largest and most valuable companies

- The most valuable company in the TOP 101 Most Valuable Companies of Latvia. Latvenergo AS is the only Latvian company in the TOP 10 most valuable companies in the Baltics
- In the Latvian Business Annual Report 2021, Latvenergo AS was rated as the largest company in the energy sector. Sadales tīkls AS ranked 2nd among Latvian electricity and gas companies
- Latvenergo AS was recognized as the most profitable company, the largest EBITDA maker, the largest state-owned company, and the largest company in the energy sector in the TOP 500 of Latvian Companies. Sadales tīkls AS was recognised as the second largest company in the energy sector and the third largest state capital company



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