



2019 ANNUAL AUDITED CONSOLIDATED FINANCIAL STATEMENTS

08.04.2020, Riga

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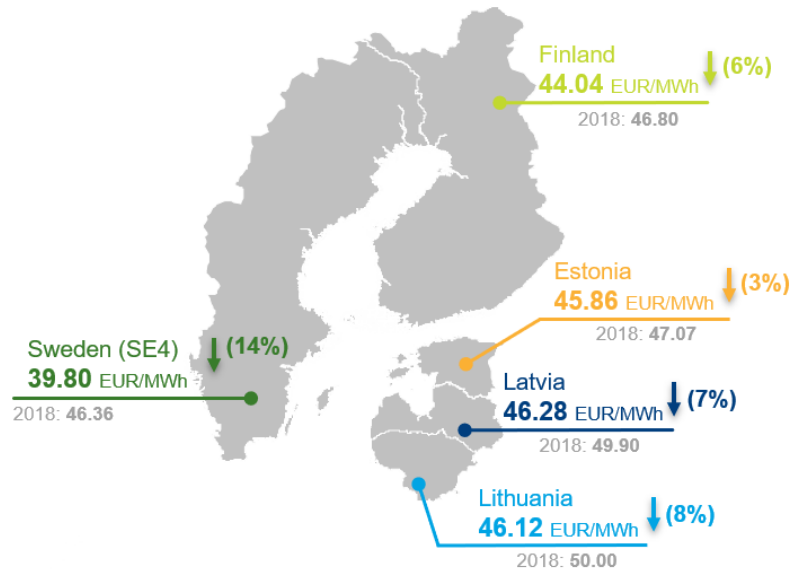
Information about the financial indicators and coefficients used by the Latvenergo Group is available in Latvenergo Group's consolidated and Latvenergo AS Annual Financial statements, see the section “Formulas”.

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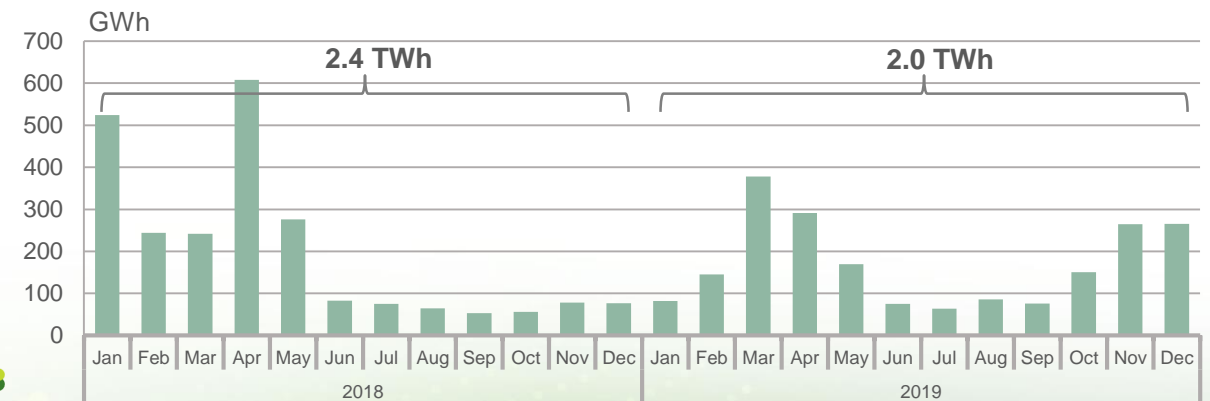
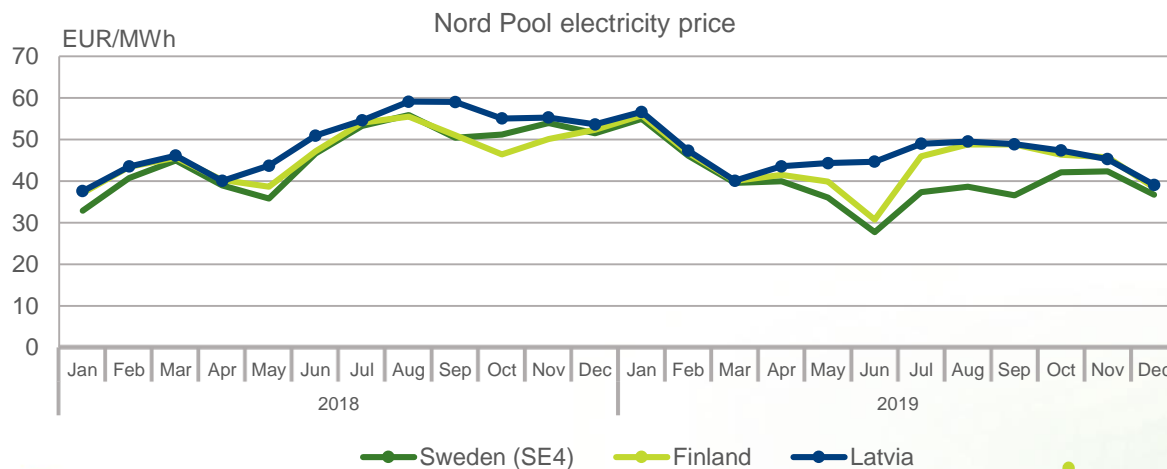
Lower electricity prices



Main facts – 2019

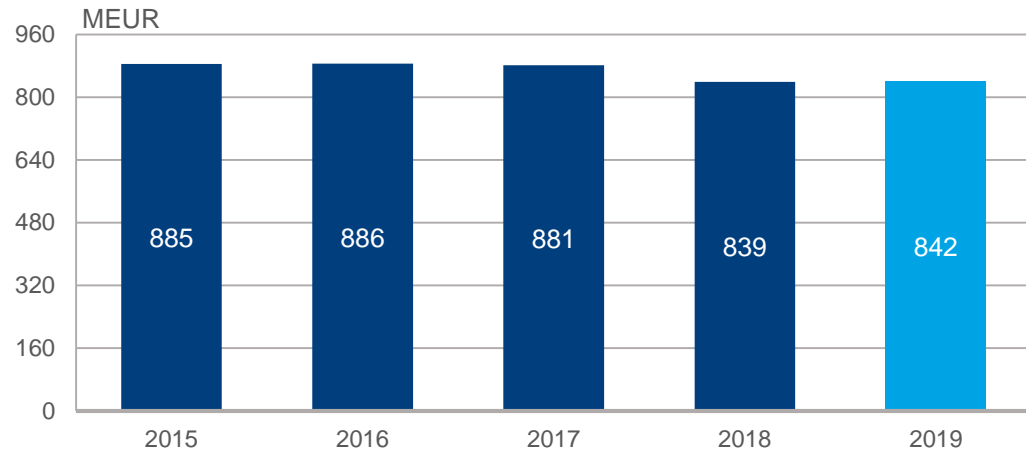
- Electricity prices were influenced by:
 - improvement of the Nordic hydrobalance
 - lower energy raw material prices
 - higher prices of CO2 emission allowance
 - lower electricity generation in the Baltics, especially in Estonia
- The average natural gas price (Front Month) decreased by 34%, reaching 14.8 EUR/MWh at GASPOOL trading zone and 14.7 EUR/MWh at TTF trading zone
- CO2 emission allowance price reached 25.2 EUR/t which is almost 2 times more than in 2018

14 % lower electricity output at Daugava HPPs

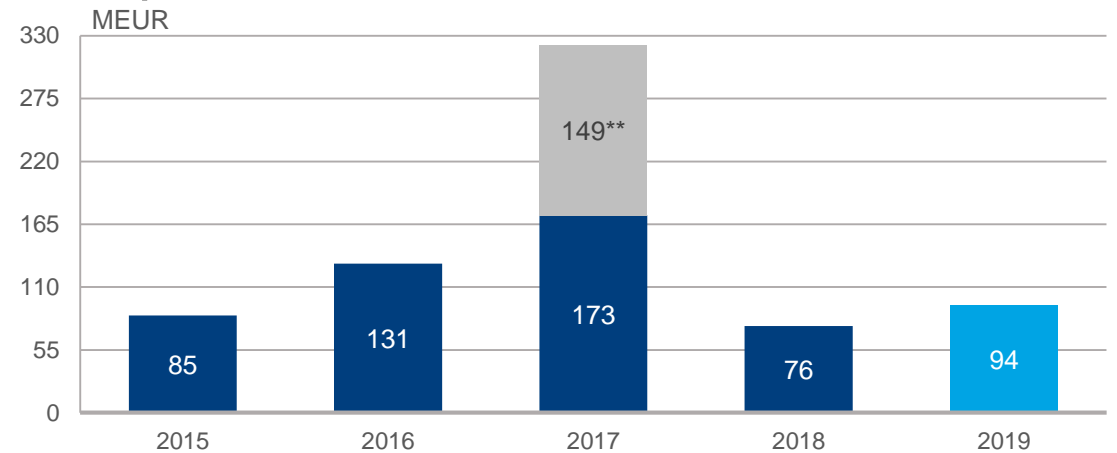


Key financial figures

Revenue*

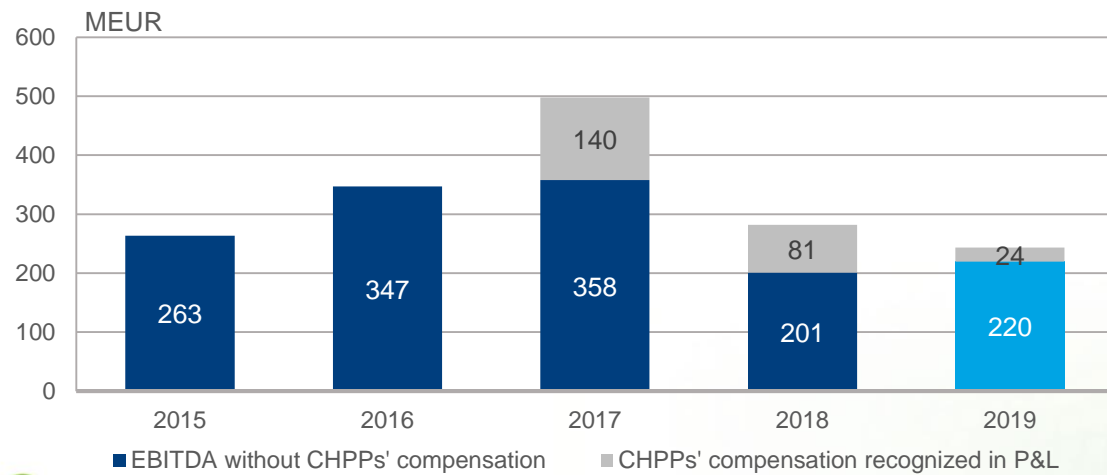


Net profit

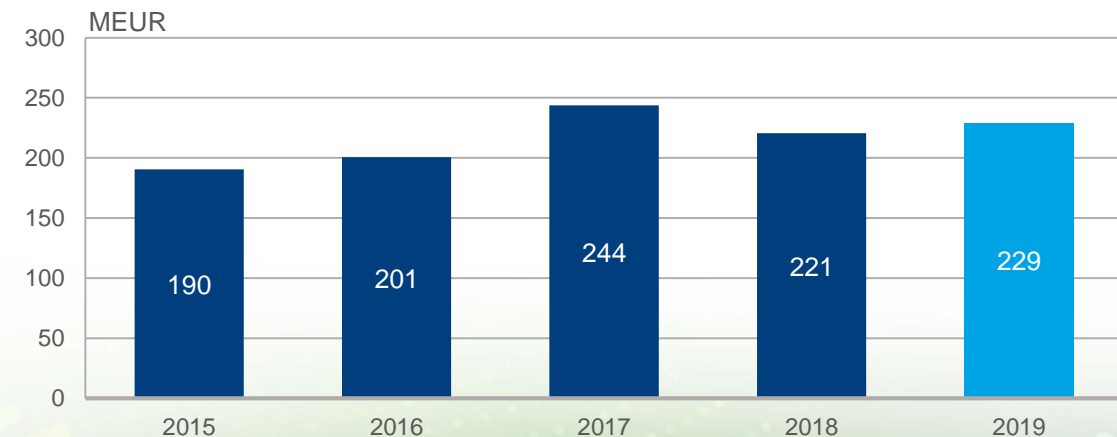


**In 2017, the net profit includes a deferred tax reversal in the amount of EUR 149.1 million as a result of the corporate income tax reform

EBITDA*

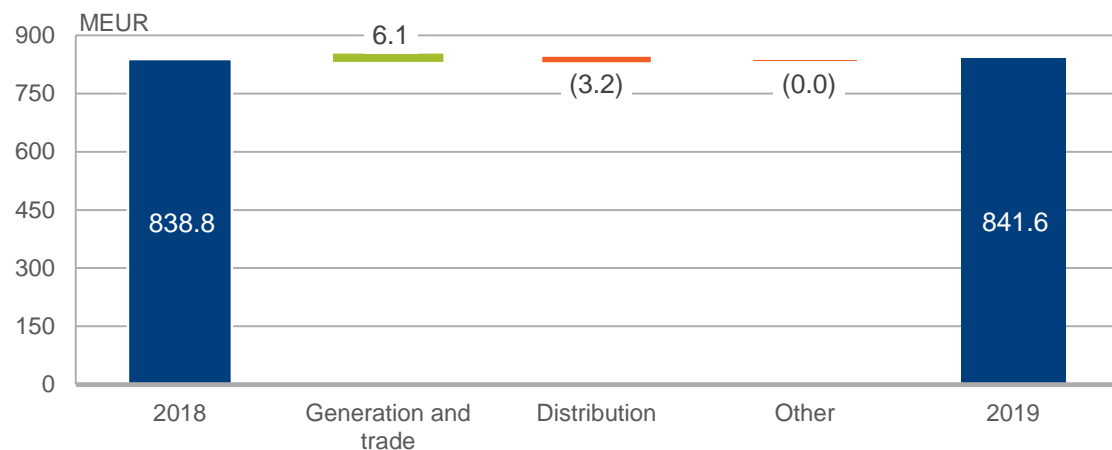


Investments

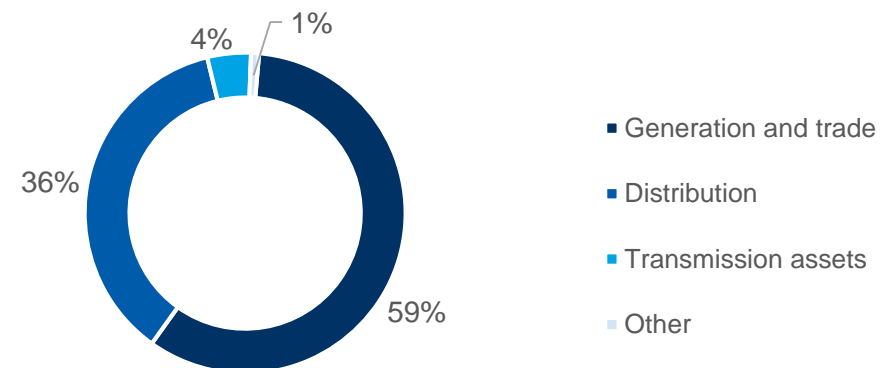


The results were impacted by lower electrical capacity payments for the Riga CHPPs

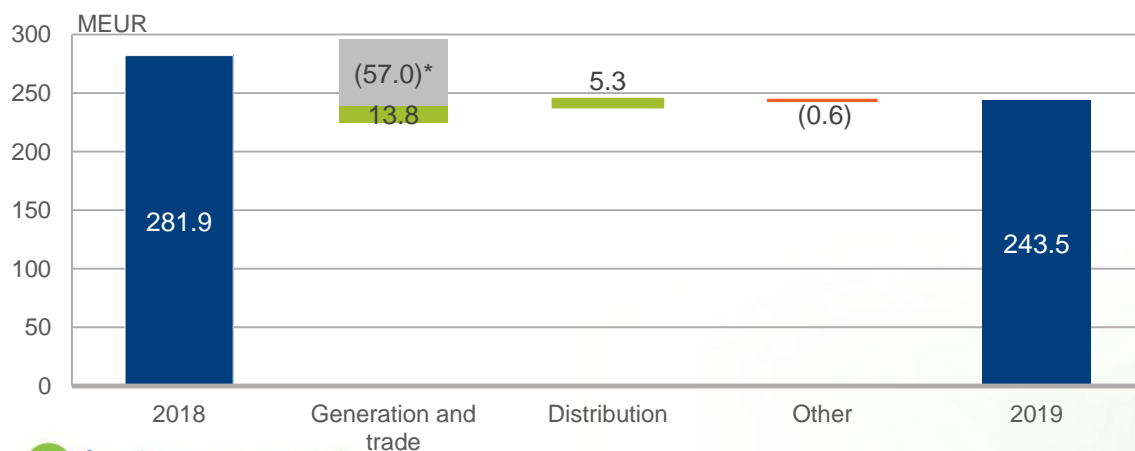
Revenue dynamics by segments



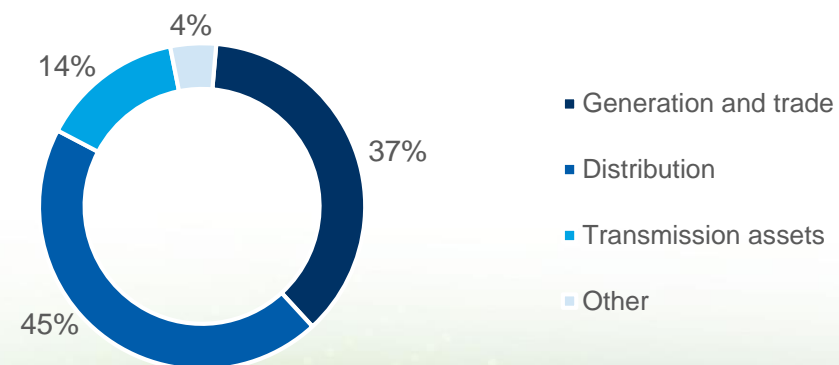
Revenue weight by segments



EBITDA dynamics by segments



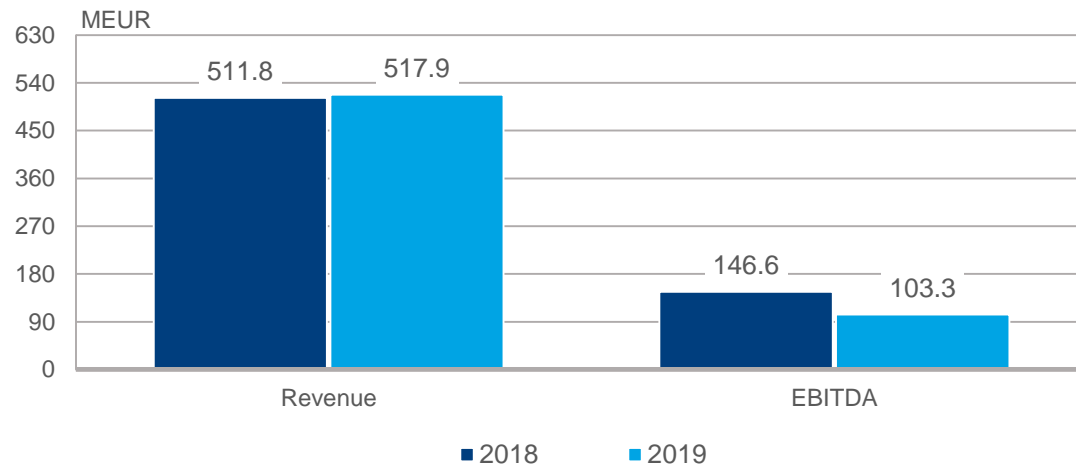
EBITDA weight by segments



Generation and trade



Segment revenue and EBITDA



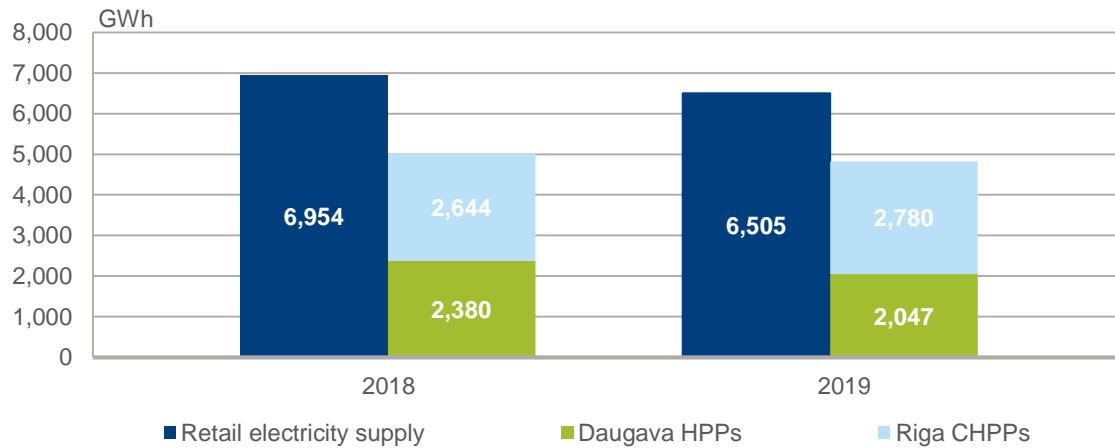
Main facts – 2019

- Results of the segment were negatively impacted by:
 - EUR 57.0 million lower compensation for the Latvenergo AS CHPPs' capacity payments recognised in the profit and loss statement
 - lower electricity output at the Daugava HPPs
- Results of the segment were positively impacted by:
 - higher sales price of electricity
- Latvenergo Group – energy company that operates in all energy trade segments in Latvia, Lithuania and Estonia.
- In the reporting year the PSO fee was 2.268 euro cents/kWh

Energy generation



4,880 GWh of electricity generated



Main facts – 2019

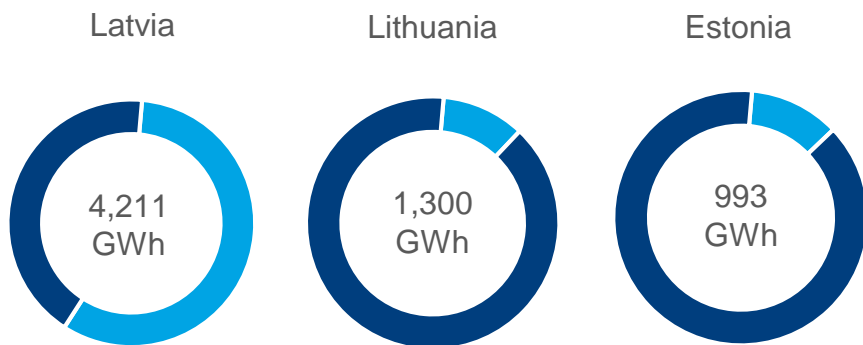
- Power generated at the Daugavas HPPs decreased by 14% due to lower water inflow in the river Daugava
- Power generated at the Latvenergo AS CHPPs increased by 5%
- Higher power generation at the Latvenergo AS CHPPs was influenced by higher electricity demand, since power output at oil shale plants in Estonia fell significantly
- Total amount of electricity generated at Latvenergo power plants corresponds to 75% of the amount of electricity sold to retail customers (2018: 73%)
- The amount of thermal energy generated decreased by 19% due to warmer weather conditions and competition, reaching 1,842 GWh



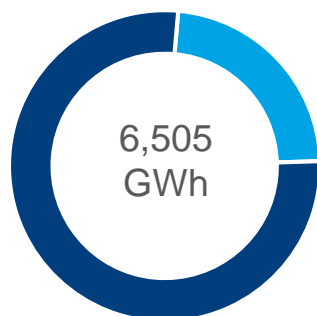


Trade of electricity and natural gas

Retail electricity supply*



The Baltics



■ Latvenergo Group ■ other suppliers

* including operational consumption

Main facts – 2019



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.



Solar panels installed for 273 customers in the Baltics with a total capacity of 2.1 MW

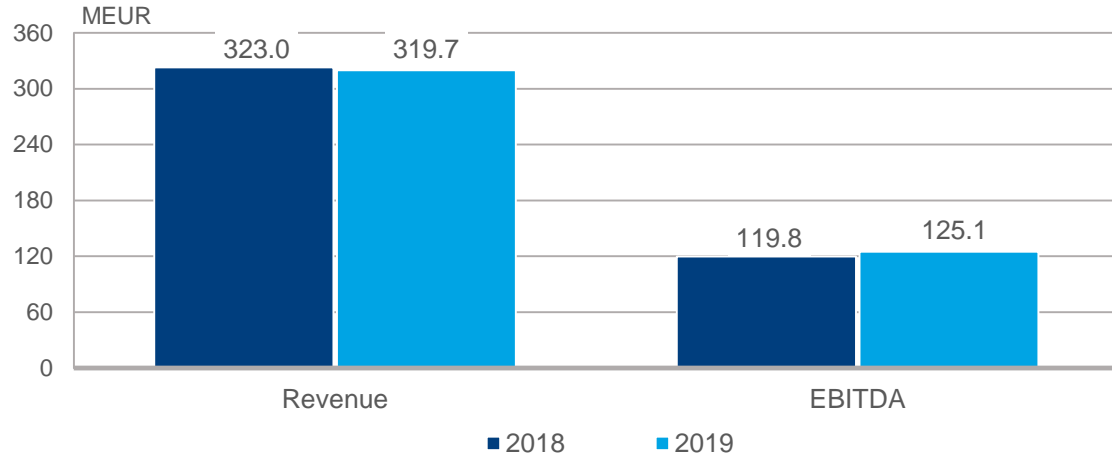


At the end of the reporting year, the total number of *Elektrum Insured* customers reached 65,900



More than 2,200 units sold in *Elektrum* e-shop

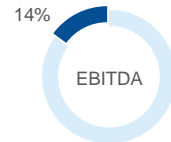
Segment revenue and EBITDA



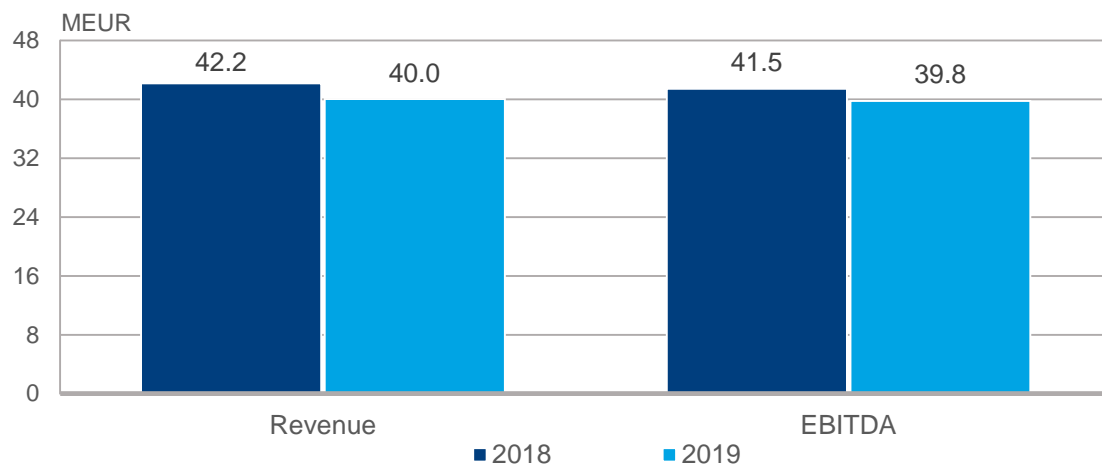
Main facts – 2019

- Electricity distributed: 6,532 GWh (2018: 6,600 GWh)
- Results of the segment were positively impacted by:
 - lower costs associated with the efficiency programme
 - 18% lower distribution losses
- Results negatively impacted by 1% decrease in distributed electricity
- Within the framework of the efficiency programme, the number of employees at Sadales tīkls AS has been reduced by 500
- Smart electricity meters installed in the company reaches 706.8 thousand, which is approximately 60% of the total electricity meters
- Investments in distribution assets: 95.1 MEUR (2018: 95.1 MEUR)
- The value of distribution assets increased to 1,681.4 MEUR
- As of January 1, 2020, the average distribution service tariff is reduced by 5.5%

Transmission system asset leasing



Segment revenue and EBITDA

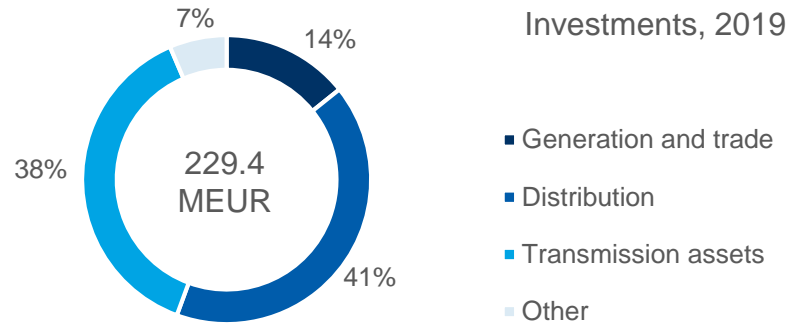


Main facts – 2019

- In accordance with the CM decision of 8 October 2019 on the unbundling of transmission assets from Latvenergo Group until 1 July 2020, the operations of the transmission segment are reported as discontinuing operations
 - Reduction of the share capital of Latvenergo AS is planned by withdrawing the capital shares of LET from the base of assets of Latvenergo AS
 - The share capital of Latvenergo AS will be increased by investing retained earnings from previous years
- Segment's revenue is calculated in accordance with the methodology approved by the Public Utilities Commission
- Investments in transmission system assets: 87.4 MEUR (2018: 87.1 MEUR)
- Major investment projects in the reporting period:
 - *Kurzeme Ring* (completed in 2019 and in the reporting year invested 26.1 MEUR)
 - The third power transmission interconnection between Estonia and Latvia (33.5 MEUR)
- The value of transmission assets reached 642.2 MEUR (31.12.2018: 579.3 MEUR)

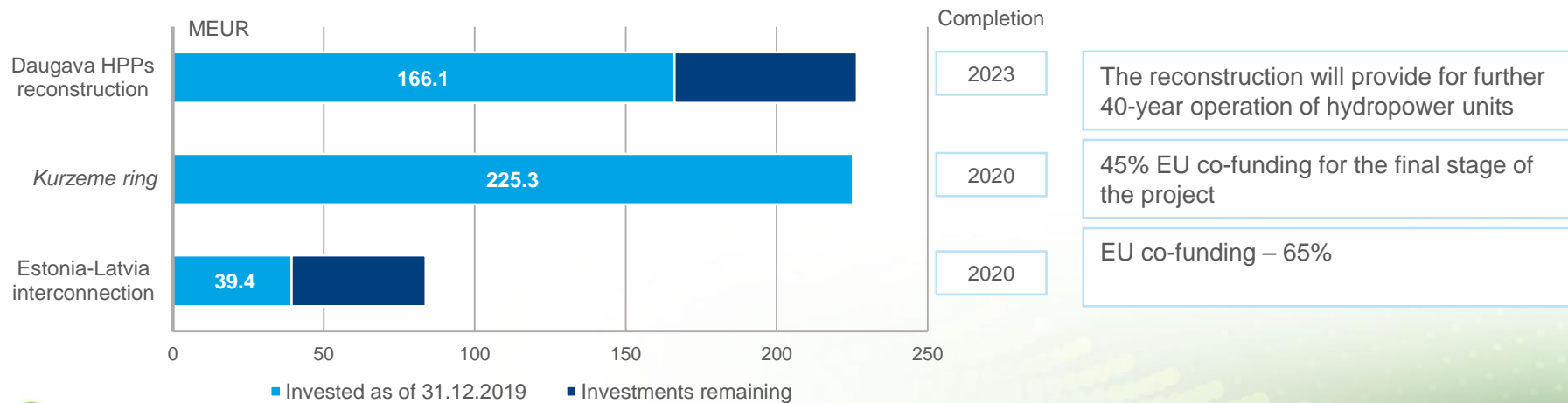
Investments

Investment in network assets – 79% of the total



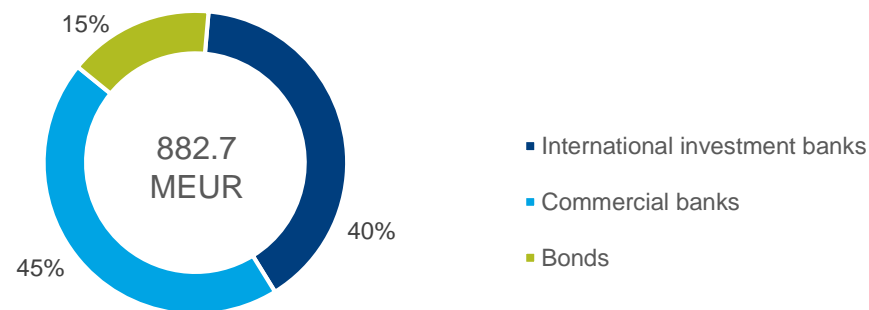
- Investments in network assets allows to improve the quality of the power network services and technical parameters

Major investment projects

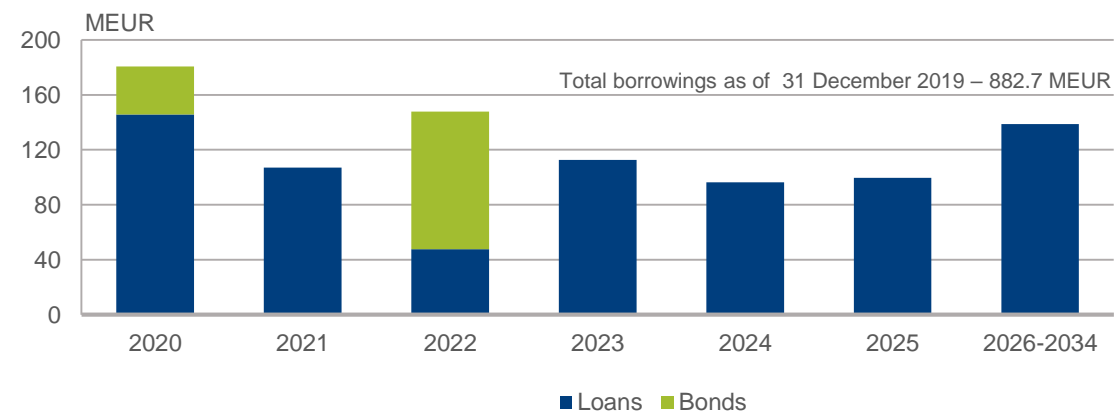


Funding and Liquidity

Diversified sources of funding



Debt repayment schedule



Main facts – 2019

- At the end of the reporting period, the outstanding amount of bonds reached 135 MEUR, incl. 100 MEUR *green* bonds
- On 15 October 2019, the international credit rating agency Moody's reconfirmed the credit rating for Latvenergo AS: Baa2 (stable)
- Capital ratio: 58% (31.12.2018: 61%)

Main figures

| | 31.12.2019 |
|---|------------|
| Share of fixed interest rate* | 45% |
| Duration | 1.8 years |
| Effective weighted average interest rate* | 1.5% |

* with interest rate swaps

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Abbreviations

Daugava HPPs – Daugava hydropower plants

EBITDA – Earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortization, and impairment of intangible and fixed assets

EU – European Union

IFRS – International Financial Reporting Standards

MEUR – Million euros

MWh – Megawatt hour (1,000,000 MWh = 1,000 GWh = 1 TWh)

PSO fee – Public service obligation fee

CHPPs – AS Latvenergo combined heat and power plants

SAIDI – System Average Interruption Duration Index

SAIFI – System Average Interruption Frequency Index

Consolidated Statement of Profit or Loss*

| | EUR'000 | |
|--|----------------|----------------|
| | 2019 | 2018 |
| Revenue | 841,636 | 838,805 |
| Other income | 25,863 | 91,098 |
| Raw materials and consumables used | (477,660) | (497,148) |
| Personnel expenses | (101,349) | (103,359) |
| Other operating expenses | (44,964) | (47,449) |
| EBITDA | 243,526 | 281,947 |
| Depreciation, amortisation and impairment of intangible assets, and property, plant and equipment and right-of-use assets | (143,161) | (199,964) |
| Operating profit | 100,365 | 81,983 |
| Finance income | 1,187 | 1,157 |
| Finance costs | (9,480) | (8,406) |
| Profit before tax | 92,072 | 74,734 |
| Current income tax | (8,565) | (261) |
| Deferred income tax | 620 | (8,948) |
| Profit for the year from continuing operations | 84,127 | 65,525 |
| Profit for the year from discontinued operation | 10,232 | 10,430 |
| Profit for the year | 94,359 | 75,955 |
| Profit attributable to: | | |
| - Equity holder of the Parent Company | 92,660 | 73,423 |
| - Non-controlling interests | 1,699 | 2,532 |

* The Latvenergo Consolidated and Latvenergo AS Financial Statements for 2019 are prepared in accordance with the IFRS as adopted by the European Union

Consolidated Statement of Financial Position*

| | EUR'000 | |
|--|------------------|------------------|
| | 31/12/2019 | 31/12/2018 |
| ASSETS | | |
| Non-current assets | | |
| Intangible assets | 22,587 | 19,079 |
| Property, plant and equipment | 2,752,945 | 3,297,093 |
| Right-of-use assets | 5,522 | - |
| Investment property | 301 | 467 |
| Non-current financial investments | 39 | 40 |
| Other non-current receivables | 433 | 30,920 |
| Other financial investments | 16,885 | 16,935 |
| Total non-current assets | 2,798,712 | 3,364,534 |
| Current assets | | |
| Inventories | 104,927 | 71,975 |
| Receivables from contracts with customers | 111,530 | 117,955 |
| Other current receivables | 77,085 | 84,830 |
| Deferred expenses | 3,015 | 2,598 |
| Prepayment for income tax | 140 | 11,619 |
| Derivative financial instruments | 6,717 | 15,853 |
| Cash and cash equivalents | 122,422 | 129,455 |
| Current assets excluding assets held for distribution | 425,836 | 434,285 |
| Assets held for distribution | 640,393 | - |
| Total current assets | 1,066,229 | 434,285 |
| TOTAL ASSETS | 3,864,941 | 3,798,819 |
| EQUITY AND LIABILITIES | | |
| EQUITY | | |
| Share capital | 834,883 | 834,791 |
| Reserves | 1,075,235 | 1,125,466 |
| Retained earnings | 318,555 | 351,350 |
| Reserves of disposal group classified as held for distribution | 28,936 | - |
| Equity attributable to equity holder of the Parent Company | 2,257,609 | 2,311,607 |
| Non-controlling interests | 7,878 | 8,458 |
| Total equity | 2,265,487 | 2,320,065 |
| LIABILITIES | | |
| Non-current liabilities | | |
| Borrowings | 702,129 | 700,028 |
| Lease liabilities | 4,349 | - |
| Deferred income tax liabilities | 8,327 | 12,297 |
| Provisions | 18,491 | 20,178 |
| Derivative financial instruments | 6,149 | 3,923 |
| Deferred income from contracts with customers | 143,330 | 143,494 |
| Other deferred income | 194,033 | 303,519 |
| Total non-current liabilities | 1,076,808 | 1,183,439 |
| Current liabilities | | |
| Borrowings | 180,542 | 114,315 |
| Lease liabilities | 1,216 | - |
| Trade and other payables | 115,708 | 135,010 |
| Deferred income from contracts with customers | 13,764 | 13,271 |
| Other deferred income | 24,857 | 26,438 |
| Derivative financial instruments | 6,983 | 6,281 |
| Current liabilities excluding liabilities held for distribution | 343,070 | 295,315 |
| Liabilities directly associated with the assets held for distribution | 179,576 | - |
| Total current liabilities | 522,646 | 295,315 |
| Total liabilities | 1,599,454 | 1,478,754 |
| TOTAL EQUITY AND LIABILITIES | 3,864,941 | 3,798,819 |

Consolidated Statement of Cash Flows*

| | EUR'000 | |
|---|------------------|------------------|
| | 2019 | 2018 |
| Cash flows from operating activities | | |
| Profit before tax | 92,072 | 74,734 |
| Profit before tax from discontinued operation | 12,667 | 13,779 |
| Profit before tax, total | 104,739 | 88,513 |
| Adjustments: | | |
| – Amortisation, depreciation and impairment of intangible assets, property, plant and equipment (PPE) and right-of-use assets | 167,918 | 225,820 |
| – Loss from disposal of non-current assets | 26,980 | 17,638 |
| – Interest costs | 9,346 | 8,267 |
| – Interest income | (1,034) | (1,114) |
| – Fair value loss on derivative financial instruments | 293 | 417 |
| – Decrease in provisions | (3,691) | (1,295) |
| – Unrealised (income) / loss on currency translation differences | (54) | 2 |
| Operating profit before working capital adjustments | 304,497 | 338,248 |
| (Increase)/ decrease in inventories | (32,990) | 4,353 |
| Decrease in receivables from contracts with customers and other receivables | 41,083 | 98,125 |
| Increase / (decrease) in trade and other liabilities | 11,757 | (90,344) |
| Cash generated from operating activities | 324,347 | 350,382 |
| Interest paid | (9,483) | (9,066) |
| Interest paid on leases | (54) | – |
| Interest received | 1,084 | 1,113 |
| Paid corporate income tax | (461) | (39,560) |
| Net cash flows from operating activities | 315,433 | 302,869 |
| Cash flows from investing activities | | |
| Purchase of intangible assets and PPE | (254,947) | (238,501) |
| Proceeds from redemption of other financial investments | 49 | 49 |
| Net cash flows used in investing activities | (254,898) | (238,452) |
| Cash flows from financing activities | | |
| Proceeds on borrowings from financial institutions | 180,291 | 93,500 |
| Repayment of borrowings | (112,102) | (105,931) |
| Received financing from European Union | 579 | – |
| Lease payments | (821) | – |
| Dividends paid to non-controlling interests | (2,279) | (2,116) |
| Dividends paid to equity holder of the Parent Company | (132,936) | (156,418) |
| Net cash flows used in financing activities | (67,268) | (170,965) |
| Net decrease in cash and cash equivalents | (6,733) | (106,548) |
| Cash and cash equivalents at the beginning of the year | 129,455 | 236,003 |
| Cash and cash equivalents at the end of the year | 122,722 | 129,455 |

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