

Unaudited results of the Latvenergo Group for 2019

Today, on 28 February, the unaudited consolidated condensed financial statements of the Latvenergo Group for 2019 are published.

In the times of changes in the energy sector the Group has been successfully operating in new business directions – electrical mobility, trading of natural gas, solar panels and other electricity-related products. After 2018 with dry and hot weather, in the last quarter of 2019 the hydrobalance in Nordic countries normalised and the price of electricity decreased.

In turn, the most important factor that affected operations of the Latvenergo Group in the Baltic States was reduced generation by Estonian oil shale power plants due to high prices of emission allowances, which, considering several times lower intensity of CO₂ emissions of Latvenergo AS combined heat and power plants (CHPP) contributed to record-high generation by CHPPs for the second year in a row.

On its 80th anniversary, the Latvenergo Group was the most valuable energy company in Latvia for the 12th time and repeatedly also in the Baltics with the value of assets reaching almost 3.9 billion euros. In 2019, Group revenue remained stable and constitutes 841.6 million euros. EBITDA decreased by 14% to 243.5 million euros. Meanwhile the profit of the Group increased by 24% and constitutes 94.4 million euros. In 2019, Latvenergo Group generated 4880 gigawatt-hours (GWh) of electricity, sold 6505 GWh of electricity and 303 GWh of natural gas.

The operations and results of the Latvenergo Group in 2019 were affected by global and regional factors of the operating environment. In 2019, the average regional prices of electricity were lower than a year earlier, defined by improvements in the hydrological situation in Nordic countries in the second half of the year, warmer weather and therefore lower demand for electricity in the region, lower prices on natural gas and coal markets, as well as other factors. It should be noted that in the previous year, the generation of electricity in the Baltics was by 21% lower than in 2018. The biggest reduction in generation of electricity was in Estonia, where operations of oil shale power plants were limited and therefore the role and the contribution of Latvenergo AS CHPPs to the common market has increased.

In the previous year, 4,880 GWh of electricity and 1,842 GWh of thermal energy was generated by Latvenergo Group's power plants. For the second year in a row, CHPPs of Latvenergo AS generated historically the largest amount of electricity – 2,780 GWh, which is 5% more than in 2018. The high level of generation of CHPPs was facilitated by regional electricity demand, as the electricity generation of oil shale power plants in Estonia was decreased considerably due to high prices of CO₂ emission allowances in 2019. Whereas the amount of CO₂ emissions at CHPPs of Latvenergo AS has been reduced to a minimum after the reconstruction, making the most efficient use of energy sources for energy generation. CO₂ emissions at the oil shale power plants are very high – up to 1 t/MWh, whereas they do not exceed 0.3 t/MWh at Latvenergo CHPPs. Also, during the period, when the operation of the Daugava HPPs was affected by low water inflow in the Daugava River, both CHPPs worked to meet the electricity market demand. In turn, the Daugava HPPs generated 2,047 GWh, which was 14% less than in the previous year. This was due to lower water inflow in the Daugava River.

In 2019, Latvenergo Group was one of the largest providers of power supply services in the Baltic market. At the same time, the Group is actively extending operations in new business segments:

- the year was particularly successful for trading of solar panels. Over 300 agreements on sale and installation of solar panels were concluded in the Baltic countries, with a considerable increase in the Lithuanian market. Furthermore, each third household in Latvia, which had installed solar panels, purchased them from the *Elektrum* trade brand of Latvenergo AS. In 2019, Latvenergo Group's market share in the Baltic solar panel market was approximately 8%;
- In August, Latvenergo Group started working in the electrical mobility market by launching the first fast electric vehicle charging stations. By the end of 2019, approximately 1,450 charges had been made providing assurance of further growth of the electric vehicle charging service;
- At the beginning of 2019, Latvenergo Group started operations on the natural gas market for Latvian households concluding two times more agreements than planned. Overall, the amount of natural gas sold doubled compared to 2018 and amounted to 303 GWh.

In 2019, Latvenergo Group supplied 6,505 GWh of electricity in retail, more than third of which were supplied outside Latvia.

In 2019, Latvenergo Group revenue constitutes 841.6 million euros, which is 2.8 million euros more than in 2018. Profit has increased by 18.4 million euros or 24% compared to the previous year, and reaches 94.4 million euros. In the reporting period, EBITDA of Latvenergo Group decreased by 14% compared to the previous year and constitutes 243.5 million euros. It was impacted by 57.0 million euros lower compensation for the Latvenergo AS CHPPs' capacity payments recognised in the profit and loss statement of Latvenergo AS. The financial results were also negatively impacted by lower electricity output at the Daugava HPPs.

In 2019, the total amount of investments of Latvenergo Group amounted to 229.4 million euro, which is 8.8 million euro more compared to 2018. 79% of the total investments were invested in network assets. In 2019, 16.6 million euros were invested in the reconstruction of hydropower units of the Daugava HPPs. The reconstruction programme has been scheduled until 2023, and its total reconstruction costs will exceed 200 million euro. By the end of 2019, investments amounting to 166.1 million euros had been made within the scope of the contracts. The reconstruction will ensure functionality of the hydropower units for another 40 years.

In 2019, the *Kurzeme Ring*, the most extensive electricity transmission project in the history of independent Latvia, was completed. Its total construction costs comprised almost 230 million euros, approximately one half of which were covered by the European Commission co-financing. In turn, on 16 March 2019, the first poles were raised in the Rūjiņa Municipality to start the construction of the *Third Estonia-Latvia power transmission network interconnection*.

On 8 October 2019, the Cabinet of Ministers of the Republic of Latvia decided to complete the ownership unbundling of the electricity transmission system operator by 1 July 2020, transferring all assets of the electricity transmission system on the balance sheet of Latvijas elektriskie tīkli AS, a subsidiary of Latvenergo AS, to transmission system operator Augstsprieguma tīkls AS. The change of ownership of assets is planned through the reduction of the share capital of Latvenergo AS by withdrawing from the base of assets of Latvenergo AS the capital shares of Latvijas elektriskie tīkli AS.

On 15 October, the international credit rating agency Moody's affirmed the credit rating of Latvenergo AS at investment grade Baa2 with a stable outlook, also taking into account the planned unbundling of transmission system asset ownership.

Taking into account the amendments to the methodology of calculation of tariffs of the electricity distribution system services approved by the Public Utilities Commission (PUC), on 27 November 2019, the PUC approved a project on the electricity distribution service tariff for a period of 5 years until 2024 which was submitted by Sadales tīkls AS. The project provides for a reduction of the tariff of 5.5% on average. The lowering of distribution tariffs is possible due to the ambitious operational efficiency improvement programme of Sadales tīkls AS, which includes process improvement and reduction of personnel and the number of vehicles and real estate bases. The changes in tariffs took effect on 1 January 2020.

The unaudited condensed financial statements of Latvenergo Group for 2019 are available in the section [Investors/Reports](#). The audited results of Latvenergo Group for 2019 will be published on 8 April 2020.