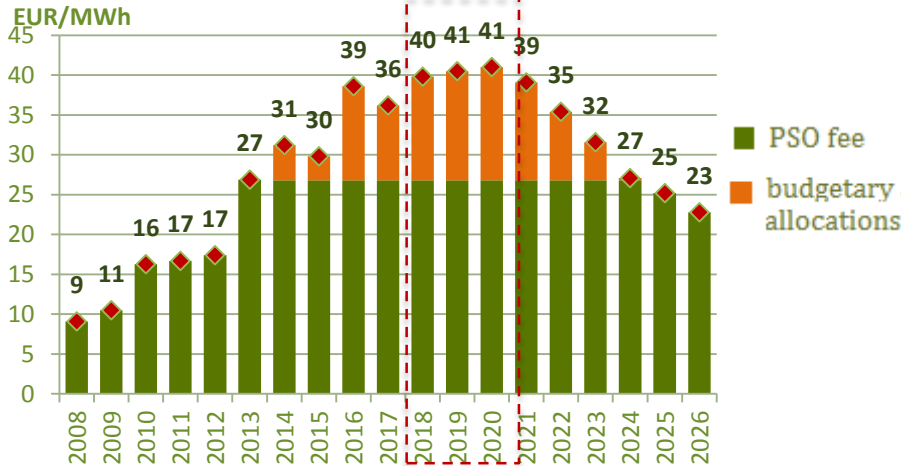


Solution developed by Ministry of Economics of the Republic of Latvia for decreasing the PSO fee in electricity payments

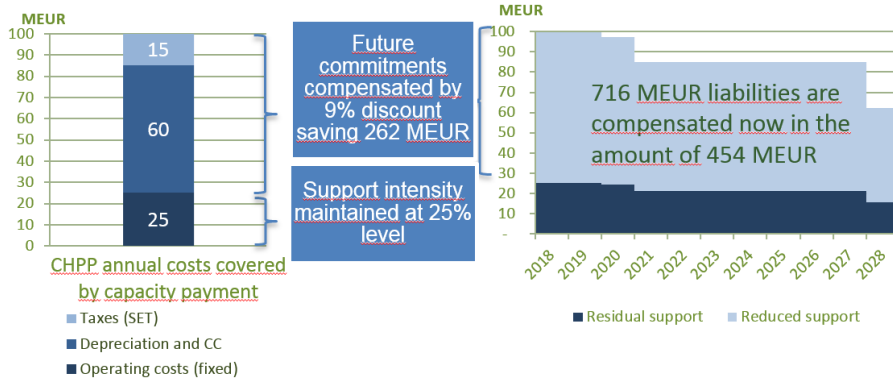
30 August 2017, Riga

PSO fee solution and its impact on Latvenergo CHPPs and electricity bills

PSO fee forecast



Decrease of support and compensation



Proposed solution

- Proposed solution – to compensate 75% of future commitments now,
- One-off compensation 454 MEUR, that corresponds the asset value of Riga CHPPs,
- 25% of current support would be received further on annually, providing a sufficient basis for continuation of power plant commercial operation
- Solution would be financed through capital release of Latvenergo AS

Main consequences

- The average Pso fee slightly reduced and substantially reduced necessity for annual budgetary allocations
- For industrial consumers with efficiently applied connections bills will decrease more significantly due to PSO fee differentiation
- The proposed solution ensures preservation of CHPPs assets and continuation of their commercial operations

Latvenergo Group financial results

Key financial figures

Profit or loss statement (mEUR)	2014	2015	2016	1H 2017
Revenue	1,011	929	932	479
EBITDA	237	307	393	213
Profit	30	85	131	98
Balance sheet (m EUR)	2014	2015	2016	1H 2017
Assets	3,487	3,517	3,901	3,842
Equity	2,021	2,097	2,419	2,426
Borrowings	827	797	792	748
Net Debt	706	693	608	567
Financial Ratios	2014	2015	2016	1H 2017
Net debt / EBITDA	2,9	2,3	1,7	1,5
Return on Equity (ROE)	1.5 %	4.1 %	5.8 %	6.8 %
Net debt / Equity	35 %	33 %	25 %	23 %
Capital Ratio	58 %	60 %	62 %	63 %
Moody's credit rating	Baa3 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

1) Net debt – borrowings at the end of the period minus cash and cash equivalents at the end of the period

2) Capital Ratio – equity / total assets * 100 %

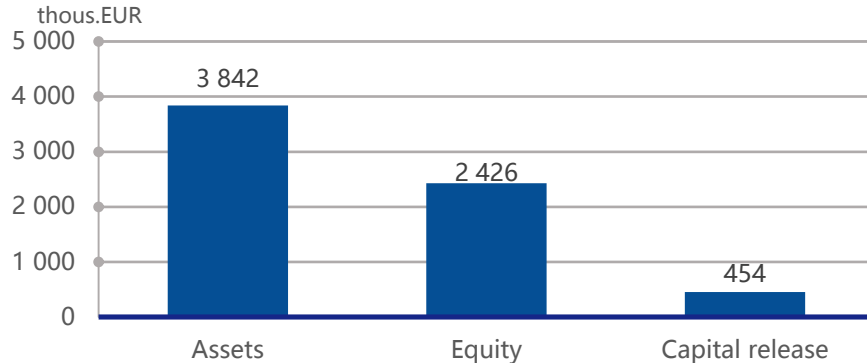
Good financial performance and strong capital structure

- In recent years, financial results have improved substantially
- Profitability ratio (ROE) correspond to industry average
- Capital structure with high equity proportion (63%)
- Creditworthiness (net debt/EBITDA – 1.5) is higher than industry average* (3.0)
- Latvenergo dividends are used as funding for maintaining PSO fee at the current level (26.79 EUR/MWh)
- Major generation asset reconstruction projects are completed

* According to the research carried out by independent international third parties

Capital release as solution for PSO fee

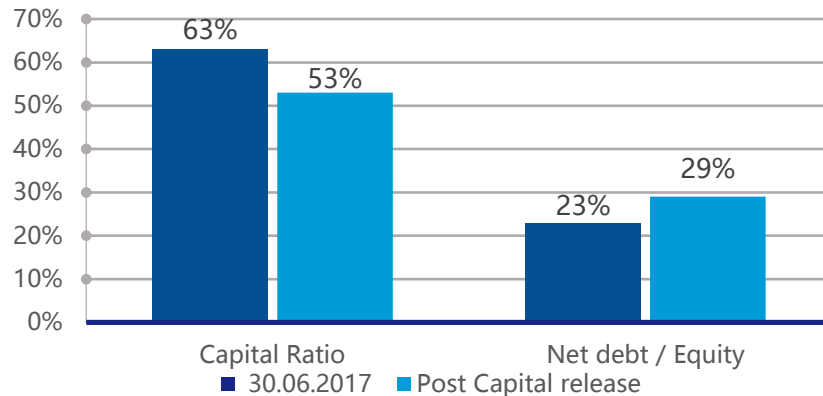
Assets and equity (30.06.2017)



Key facts

- Capital release has been identified as a solution for PSO fee funding
- Compensation (454 MEUR) corresponds to the book value of CHPPs assets, hence the solution would have a neutral effect
- No increase in borrowings is expected in case of capital release
- After the capital release the capital structure would be in line with industry average ratios and financial covenants set in loan agreements

Indicative change in capital structure ratios



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