

2017 ANNUAL AUDITED CONSOLIDATED FINANCIAL STATEMENTS

18.04.2018, Riga

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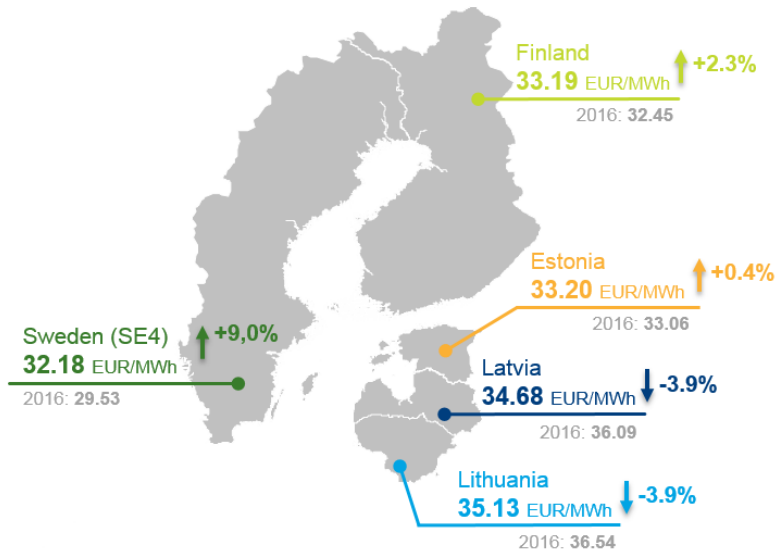
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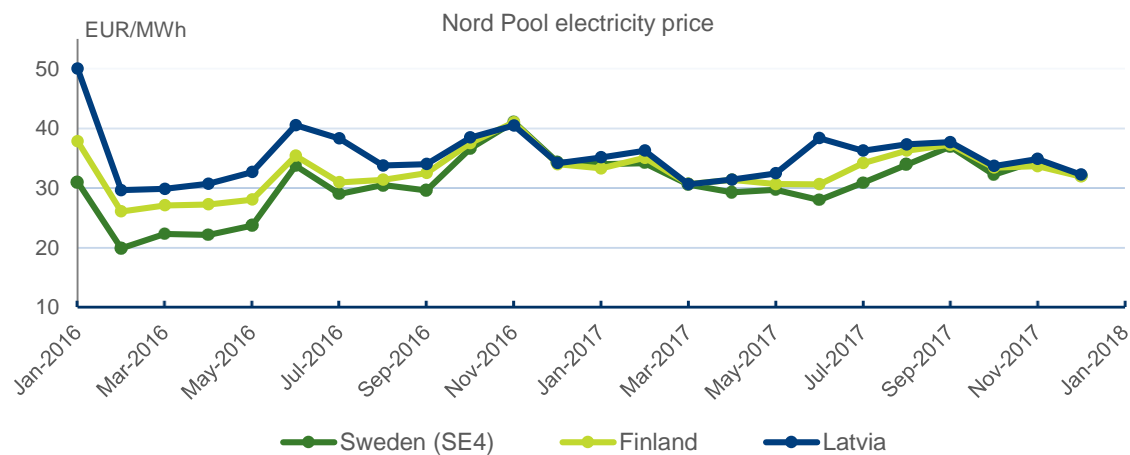
Electricity price convergence in the Baltics continues



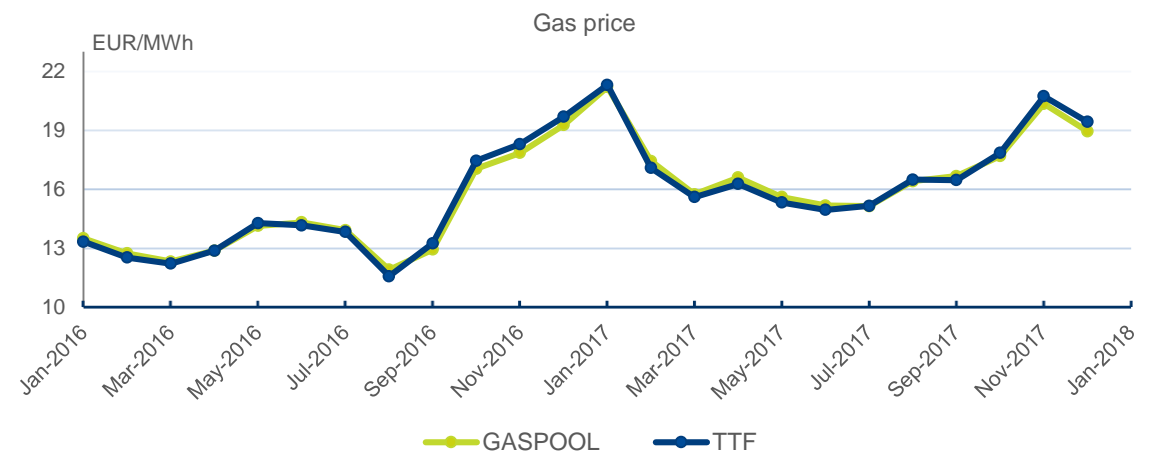
Main facts – 2017

- *NordBalt* interconnection contributed to convergence of electricity spot prices between the Nordic countries and the Baltics
- The price dynamics in the Baltics was also influenced by higher level of electricity generation in the Daugava HPPs
- The natural gas market is open in Latvia
- Natural gas price was 19% higher than in 2016

Electricity price convergence

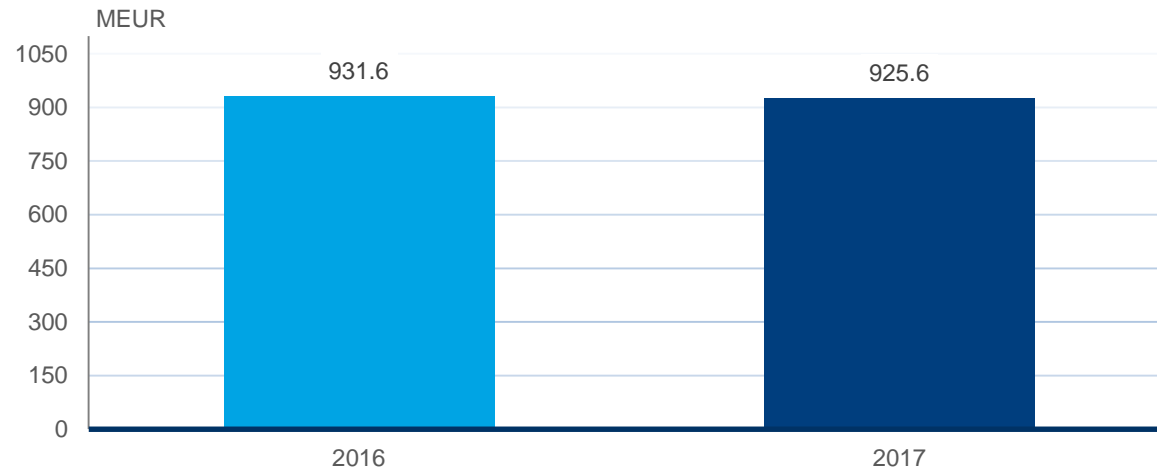


Natural gas price increases

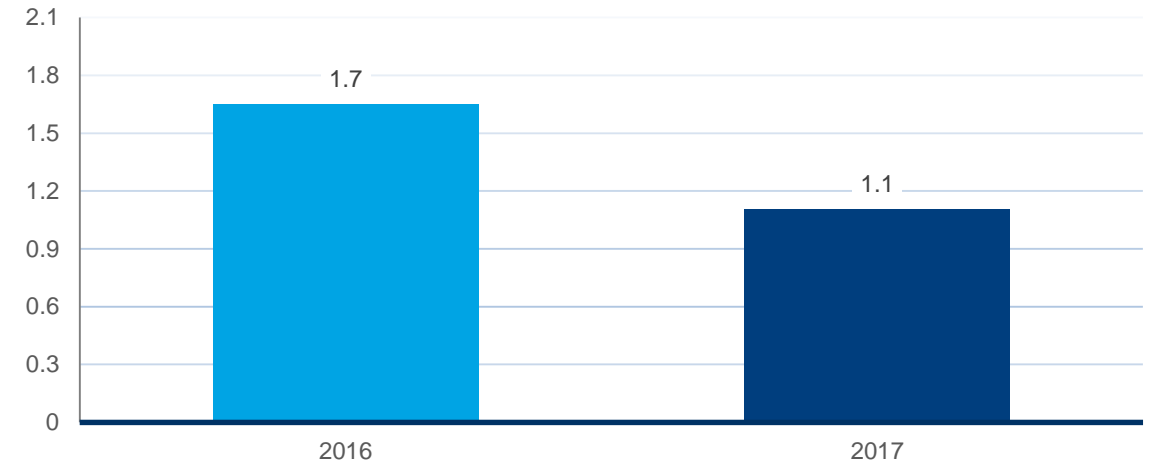


Key financial figures

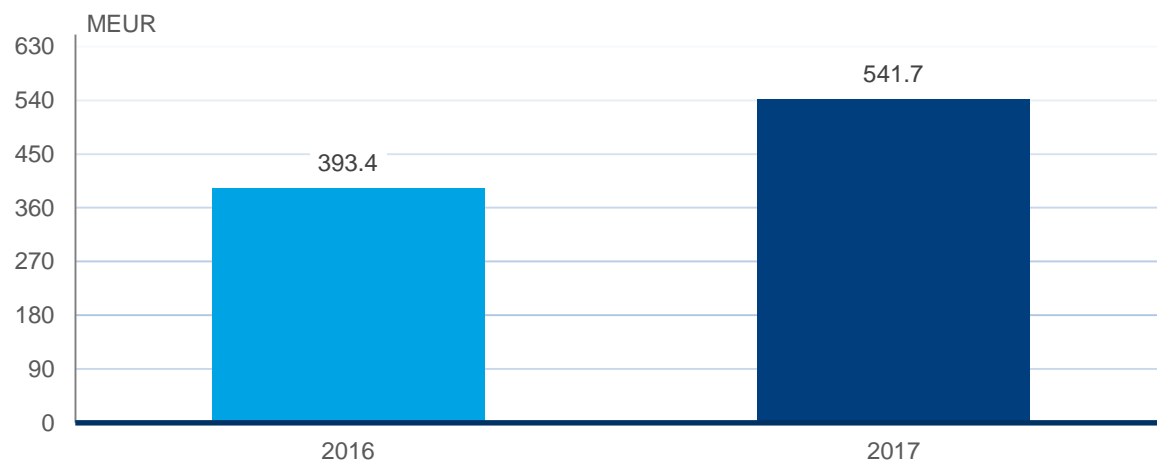
Revenue



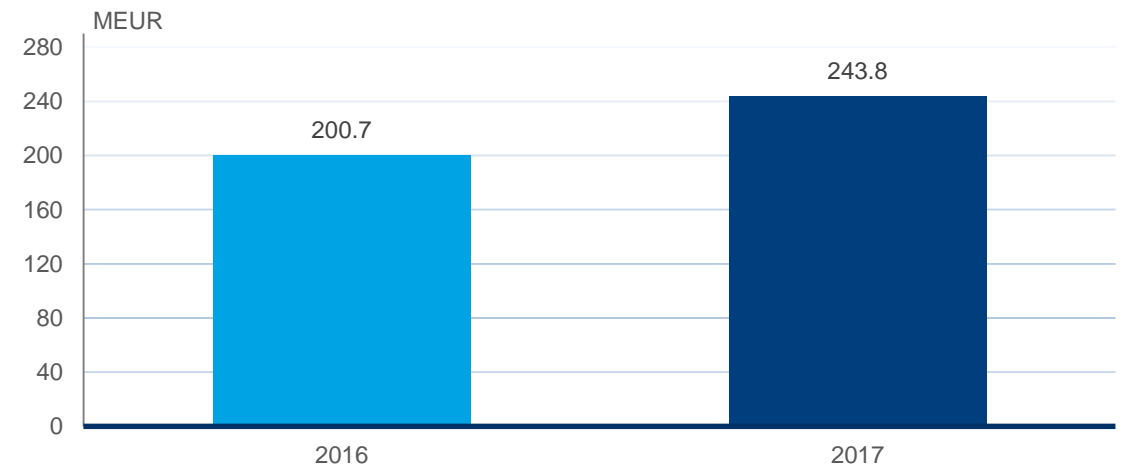
Net debt/EBITDA



EBITDA*



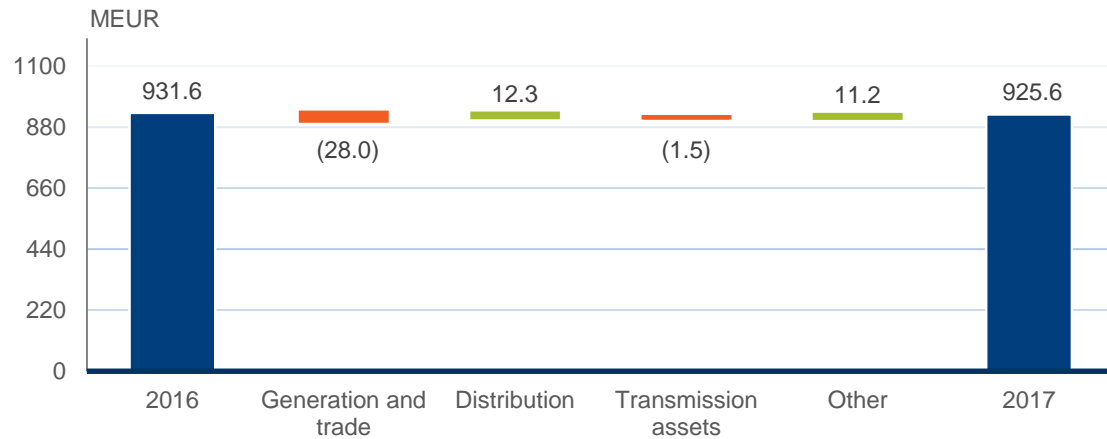
Investments



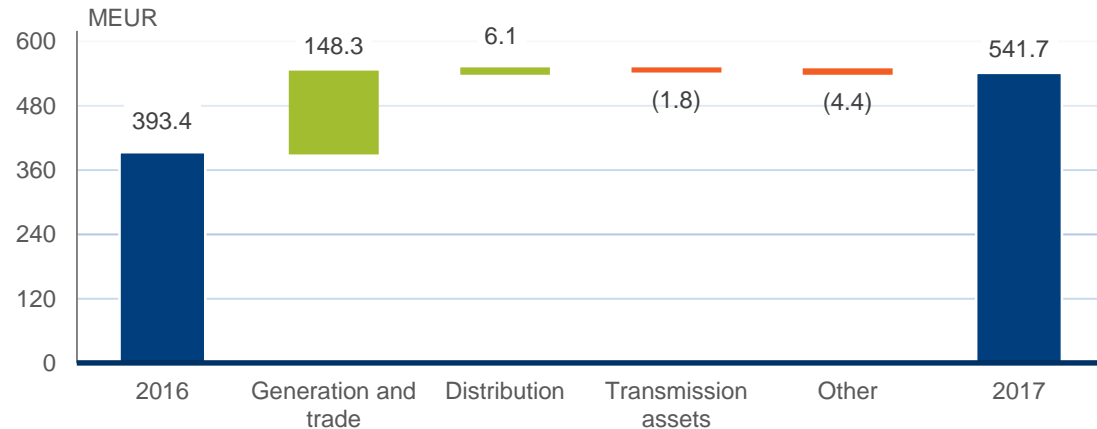
*In 2017, EBITDA includes a one-off compensation for the Riga CHPPs' capacity payments – EUR 140 million is recognized as *Other revenue*

The Group's EBITDA increased

Revenue dynamics by segments



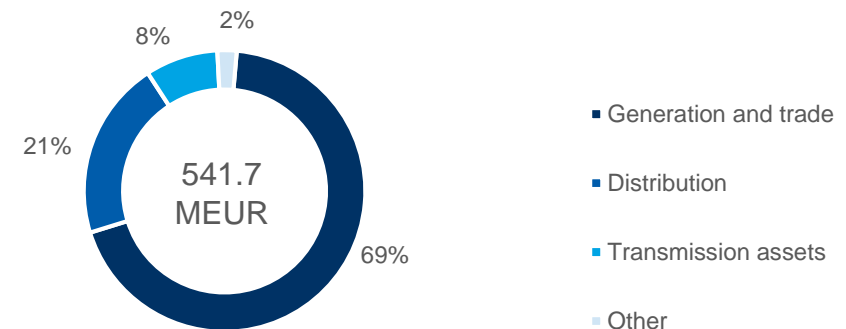
EBITDA dynamics by segments



38% EBITDA growth

- The results were positively impacted mainly by:
 - 74% greater electricity output at the Daugava HPPs
 - increase in distribution service revenue by 11.8 MEUR
 - one-off compensation for the Riga CHPPs' capacity payments (2017 – 140 MEUR)
- The results were negatively impacted mainly by lower electricity sales price in the Baltics
- Net profit: 322.0 MEUR
 - annual operating result 172.9 MEUR
 - deferred tax reversal in the amount of 149.1 MEUR as a result of the corporate income tax reform

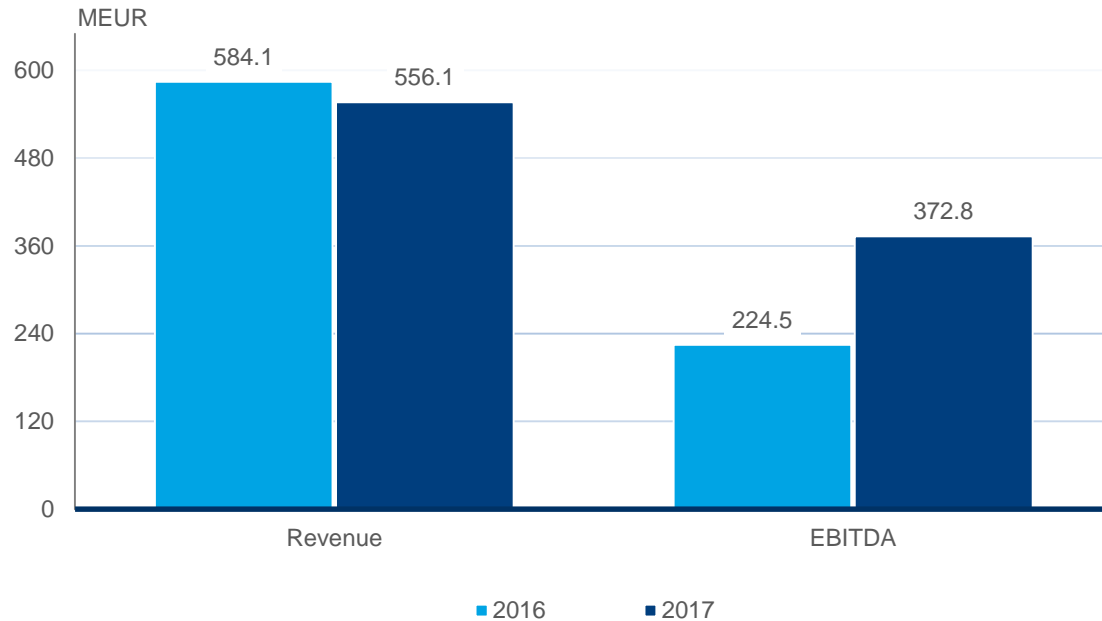
EBITDA weight by segments



Generation and trade



Segment revenue and EBITDA



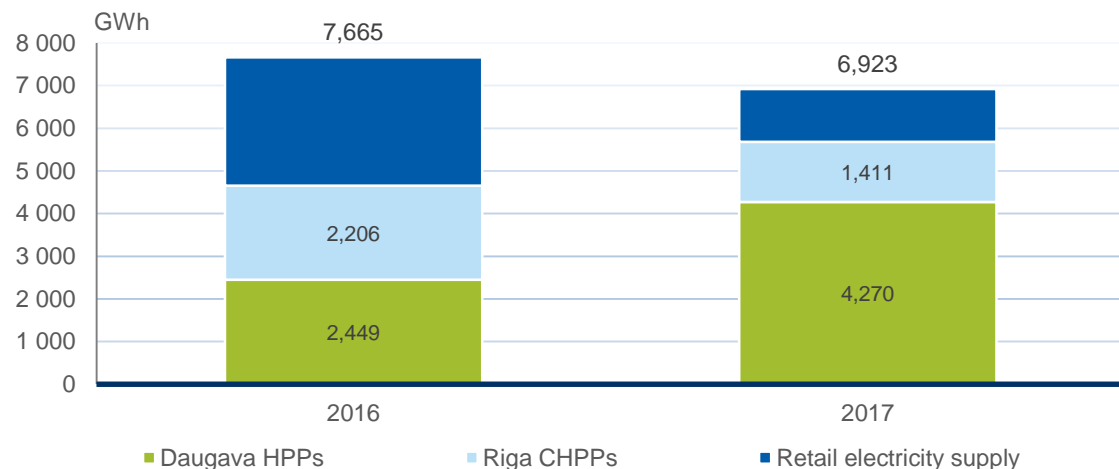
The largest segment of the Group

- Generation of electricity increased by 22%
- Latvenergo AS receives a one-off compensation in the amount of 454.4 MEUR for the reduction of Riga CHPPs' capacity payments (140 MEUR is recognized as *Other revenue* in the year 2017)
- Results of the segment were positively impacted by higher electricity output at the Daugava HPPs and the one-off compensation for the Riga CHPPs' capacity payments, while negatively – by lower electricity sales prices in the Baltics
- Latvenergo Group – one of the leading electricity suppliers in the Baltics
- The average mandatory procurement PSO fee decreased by 1 EUR/MWh from 1 January 2018

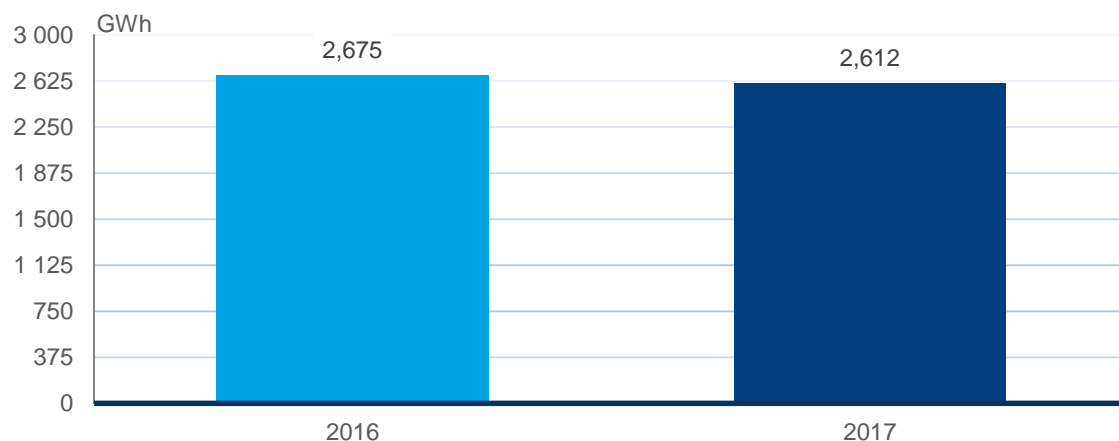


Effective and balanced generation sources

5,734 GWh of electricity generated



2,612 GWh of thermal energy generated



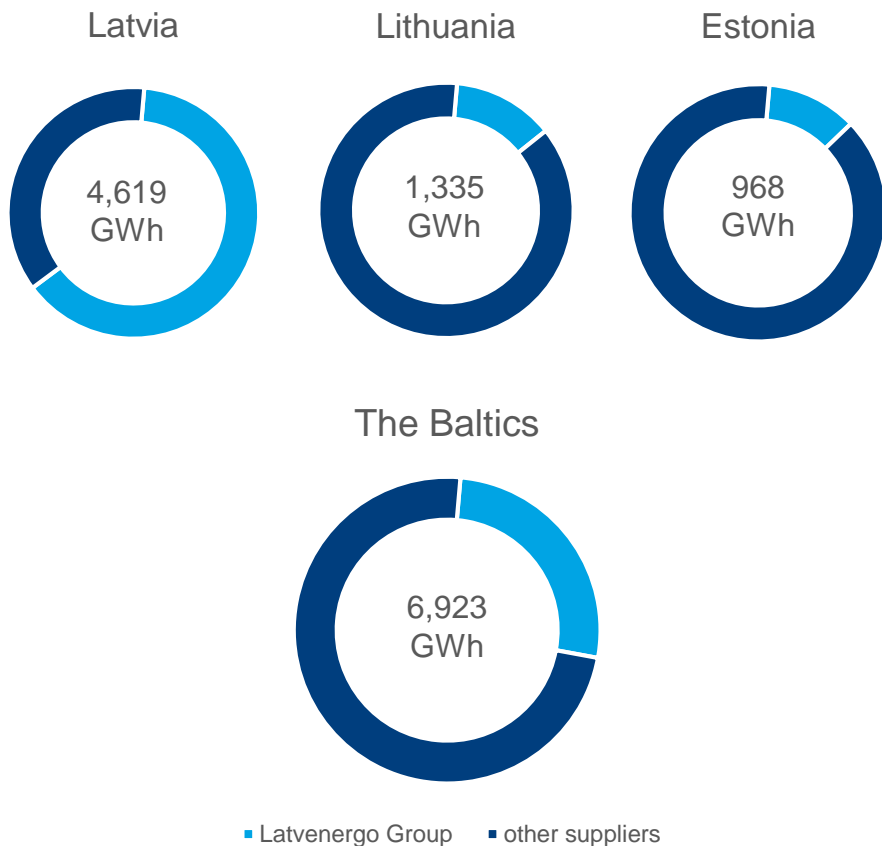
Significantly higher electricity output at the Daugava HPPs

- Generation of total electricity increased by 22%
- Electricity output generated at the Daugava HPPs in 2017 is the largest since 1998 and the third largest in observation history since the year 1966
- Riga CHPPs operated in market conjuncture efficiently planning operating modes and fuel consumption
- The share of electricity generated from renewable energy sources in the Latvenergo Group is 75% (2016: 52%)
- Total electricity generated corresponds to 83% of retail electricity supply (2016: 61%)
- Relatively warmer weather in heating season and increasing competition in the thermal energy market determined lower generation of thermal energy – decrease by 2%



Trade of electricity and natural gas

Retail electricity supply*



* including operational consumption

Main facts – year 2017

- Retail electricity supply* reached 6,923 GWh, 1/3 of it supplied outside Latvia
- The total number of customers outside Latvia exceeds 35 thousand
- Latvenergo launches natural gas trade to customers in Latvia and Estonia
- 2 new products for the household segment:



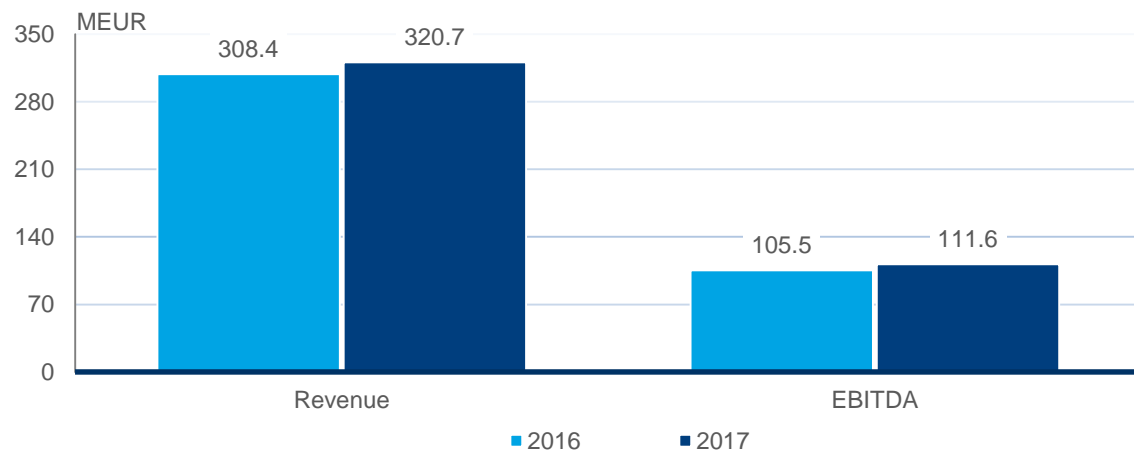
Elektrum Smart house



Elektrum Solar

We are improving the quality of distribution services

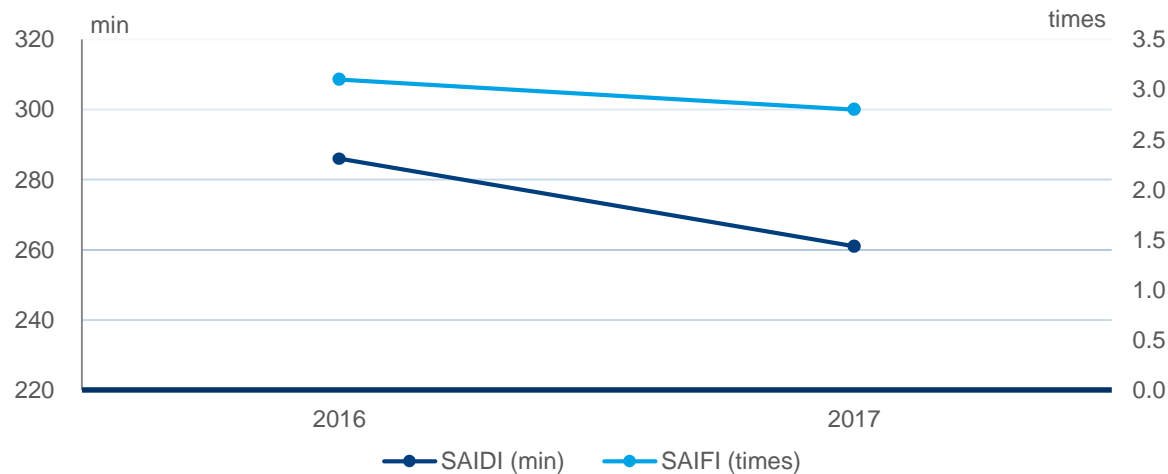
Segment revenue and EBITDA



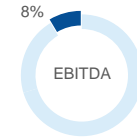
Segment revenue and EBITDA has increased

- Results positively impacted by increase in distribution services revenue (11.8 MEUR) resulting from the rebalanced distribution system services tariff that came into force on 1 August 2016
- Results were negatively impacted by the increase in personnel termination costs of 8.4 MEUR
- Electricity distributed – 6,463 GWh (2016: 6,465 GWh)
- Investments in distribution assets – 107.7 MEUR (2016: 106.4 MEUR)
- Due to the investments, the value of distribution assets increased to 1,641.3 MEUR
- Since 2013, SAIDI decreased by 58% and SAIFI – by 38%

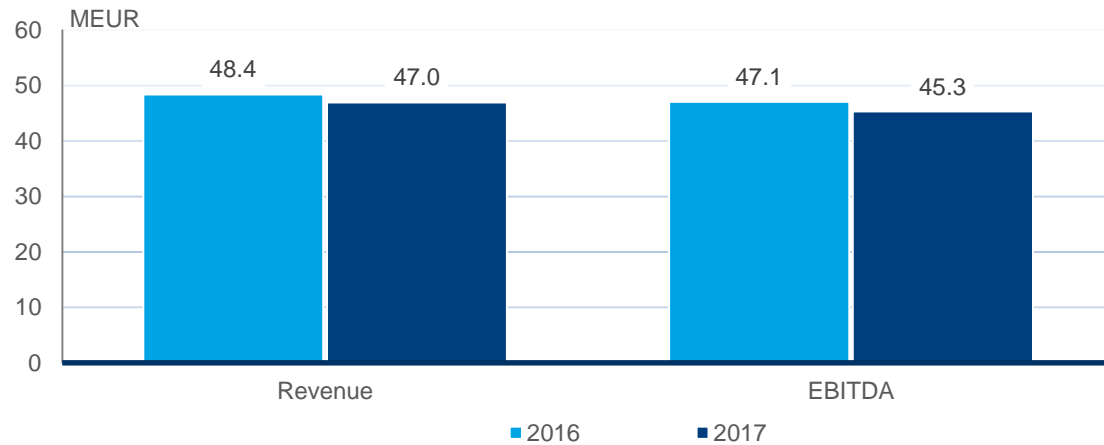
Improved SAIDI and SAIFI ratios



Transmission asset value exceeds 500 MEUR



Segment revenue and EBITDA

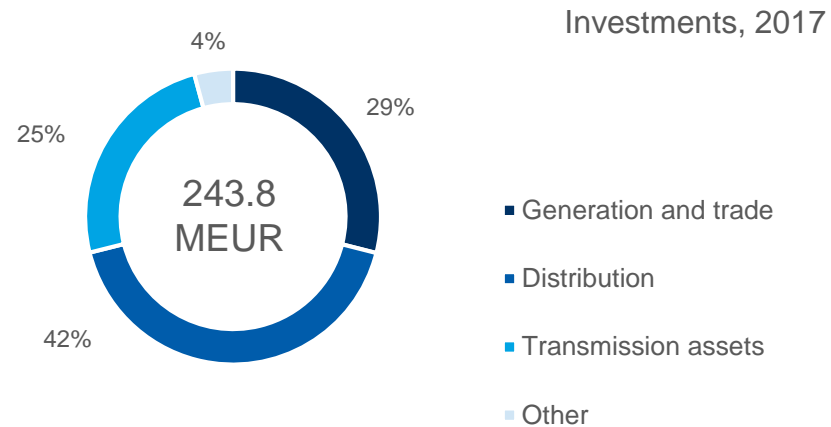


Main facts – year 2017

- Investments in transmission system assets – 63.1 MEUR (2016: 25.5 MEUR)
- Major investment projects: *Kurzeme Ring* and the third power transmission interconnection between Estonia and Latvia
- Due to the investments, the value of transmission assets increased to 500.9 MEUR

Investment in power network assets – 2/3 of the total

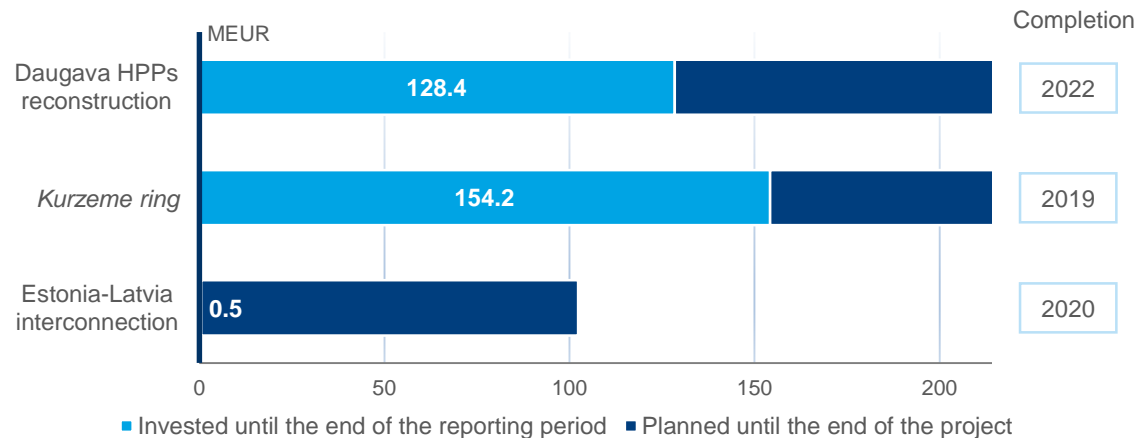
Investments increased by 21%



Investments in environmentally friendly projects

- Investments in the Daugava HPPs hydropower unit reconstruction amounted to 41.8 MEUR
- At the end of 2017, one reconstructed hydropower unit of the Plavinas HPP was put into operation
- Distribution service quality and technical parameters gradually improved by investments in power network assets

Major investment projects



The reconstruction will provide for further 40-year operation of hydropower units

45% EU co-funding for the final stage of the project

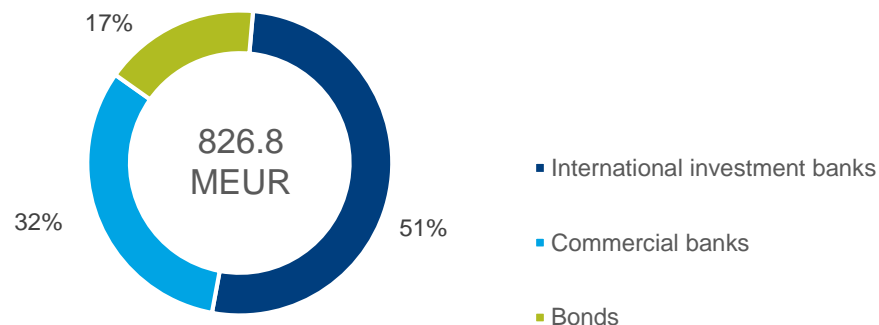
EU co-funding – 65%

Best investor relations among bond issuers in the Baltics

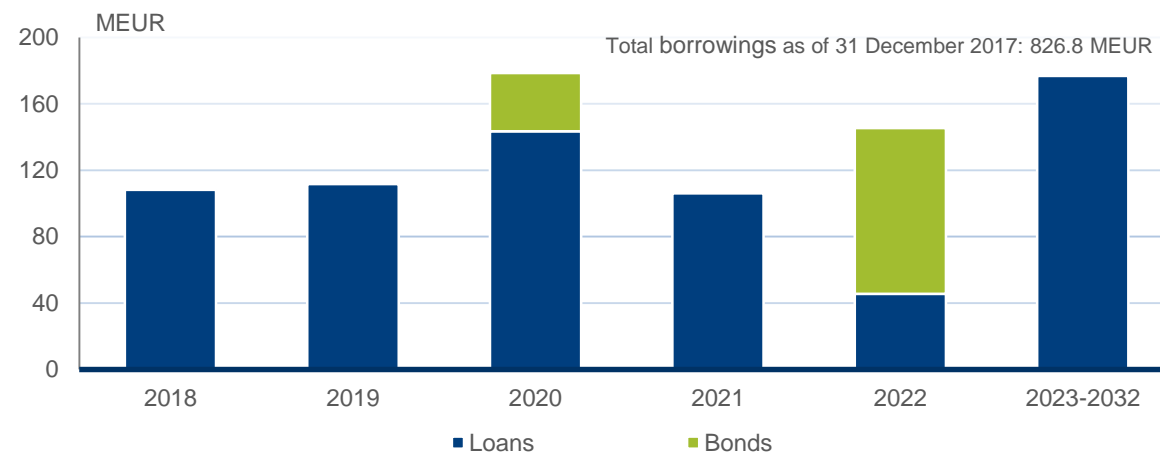
The first bonds that have reached their maturity was repayed

- On December 15, the first repayment of the principal amount of maturing bonds amounting to EUR 70 million was executed
- At the end of the year, the outstanding amount of bonds reached 135 MEUR, incl. 100 MEUR *green* bonds
- Latvenergo AS is the first company in the Baltics to receive the Nasdaq exchange award “Best Investor Relations in the Baltics among Bond Issuers”
- On 14 August, Latvenergo rang the trading session opening bell at the Nasdaq MarketSite in New York
- Moody’s credit rating – Baa2 (stable)
- Capital ratio: 65%

Diversified sources of funding



Debt repayment schedule



Main figures

31.12.2017

Share of fixed interest rate* 54%

Duration 2.0 years

Effective weighted average interest rate* 1.7%

* 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

Riga CHPPs – Riga 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	
	2017	2016
Revenue	925,627	931,619
Other income	149,950**	6,656
Raw materials and consumables used	(346,911)	(385,814)
Personnel expenses	(113,289)	(96,019)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(307,614)	(232,626)
Other operating expenses	(73,681)	(63,043)
Operating profit	234,082	160,773
Finance income	1,243	2,328
Finance costs	(11,211)	(14,156)
Profit before tax	224,114	148,945
Current income tax	(51,199)	(23,498)
Deferred tax changes	149,106***	5,146
Profit for the year	322,021	130,593
Profit attributable to:		
– Equity holder of the Parent Company	319,670	129,045
– Non–controlling interests	2,351	1,548
Basic earnings per share (in euros)	0.250	0.100
Diluted earnings per share (in euros)	0.250	0.100

* Audited Consolidated Financial Statements prepared in accordance with the IFRS as adopted by the European Union.

** Other income in 2017 includes one-off compensation payment for the electric power capacity installed at Latvenergo AS Riga TEC–1 and Riga TEC–2 CHPPs in the amount of EUR 140,000 thousand

*** In 2017 deferred tax liabilities reversed in the Statement of Profit or Loss in accordance with the changes of tax regulations and laws of the Republic of Latvia starting from 1 January 2018

Consolidated Statement of Financial Position*

	EUR'000	
	31/12/2017	31/12/2016
ASSETS		
Non-current assets		
Intangible assets	13,413	14,534
Property, plant and equipment	3,308,985	3,355,797
Investment property	753	563
Non-current financial investments	40	40
Other non-current receivables	3,229	986
Investments in held-to-maturity financial assets	16,984	17,034
Total non-current assets	3,343,404	3,388,954
Current assets		
Inventories	76,247	41,458
Prepayment for inventories	81	–
Receivables from contracts with customers	105,369	118,925
Other current receivables	646,761	155,033
Deferred expenses	3,241	3,227
Derivative financial instruments	4,619	6,134
Investments in held-to-maturity financial assets	–	3,520
Cash and cash equivalents	236,003	183,980
Total current assets	1,072,321	512,277
TOTAL ASSETS	4,415,725	3,901,231
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1,288,715	1,288,715
Reserves	1,126,521	937,074
Retained earnings	423,613	185,840
Equity attributable to equity holder of the Parent Company	2,838,849	2,411,629
Non-controlling interests	8,042	7,084
Total equity	2,846,891	2,418,713
LIABILITIES		
Non-current liabilities		
Borrowings	718,674	635,620
Deferred income tax liabilities**	–	315,759
Provisions	21,910	18,643
Derivative financial instruments	4,914	7,946
Deferred income on contracts from customers	142,132	141,817
Other liabilities and deferred income	350,926***	53,590
Total non-current liabilities	1,238,556	1,173,375
Current liabilities		
Trade and other payables	147,072	117,817
Deferred income on contracts from customers	12,500	11,605
Other deferred income	31,728	2,417
Income tax payable	27,725	17,718
Borrowings	108,083	155,946
Derivative financial instruments	3,170	3,640
Total current liabilities	330,278	309,143
TOTAL EQUITY AND LIABILITIES	4,415,725	3,901,231

* Audited Consolidated Financial Statements prepared in accordance with the IFRS as adopted by the European Union.

** Deferred tax liabilities in the amount of 149,106 thousand EUR (the Company: 10,082 thousand EUR) are reversed in the Statement of Profit or Loss for 2017 and 166,653 thousand EUR – in the equity on 31 December 2017 (the Company: 116,178 thousand EUR), as initially they were accounted for within the equity, in accordance with the amendments to the laws and regulations of the Republic of Latvia that entered into force from 1 January 2018

*** Recognised compensation in the amount of EUR 314,413 thousand for abandonment from State-guaranteed fee for the electric power capacity installed at Latvenergo AS Riga TEC-1 and Riga TEC-2 CHPPs in the support period, to be recognised as revenue in the next periods by fulfilling the commitments stated in the Regulations No. 221 of the Cabinet of Ministers of the Republic of Latvia till the end of State support - 23 September 2028

Consolidated Statement of Cash Flows*

	EUR'000	
	2017	2016
Cash flows from operating activities		
Profit before tax	224,114	148,945
Adjustments:		
– Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	307,614	232,626
– Loss from disposal of non-current assets	5,476	4,143
– Interest costs	9,825	14,156
– Interest income	(1,221)	(2,302)
– Fair value loss / (gains) on derivative financial instruments	3,435	(7,275)
– Increase / (decrease) in provisions	6,726	(287)
– Unrealised income on currency translation differences	(22)	(26)
Operating profit before working capital adjustments	555,947	389,980
Increase in inventories	(34,870)	(16,667)
Increase in receivables from contracts with customers and other receivables	(7,770)	(10,170)
Increase / (decrease) in trade and other liabilities	(123,783)	(844)
Cash generated from operating activities	389,524	362,299
Interest paid	(11,484)	(15,529)
Interest received	1,390	2,457
Paid corporate income tax	(41,221)	(8,041)
Net cash flows from operating activities	338,209	341,186
Cash flows from investing activities		
Purchase of intangible assets and PPE	(233,744)	(185,674)
Proceeds on financing from EU funds and other financing	–	242
Proceeds from redemption of held-to-maturity assets	3,569	7,914
Net cash flows used in investing activities	(230,175)	(177,518)
Cash flows from financing activities		
Proceeds from issued debt securities (bonds)	–	26,267
Repayment of issued debt securities (bonds)	(70,000)	–
Proceeds on borrowings from financial institutions	186,500	55,744
Repayment of borrowings	(80,976)	(87,452)
Dividends paid to non-controlling interests	(1,393)	(1,377)
Dividends paid to equity holder of the Parent Company	(90,142)	(77,413)
Net cash flows used in financing activities	(56,011)	(84,231)
Net increase in cash and cash equivalents	52,023	79,437
Cash and cash equivalents at the beginning of the year	183,980	104,543
Cash and cash equivalents at the end of the year	236,003	183,980

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