

# LATVENERGO CONSOLIDATED UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE 6-MONTH PERIOD ENDING 30 June 2018

31.08.2018, Riga

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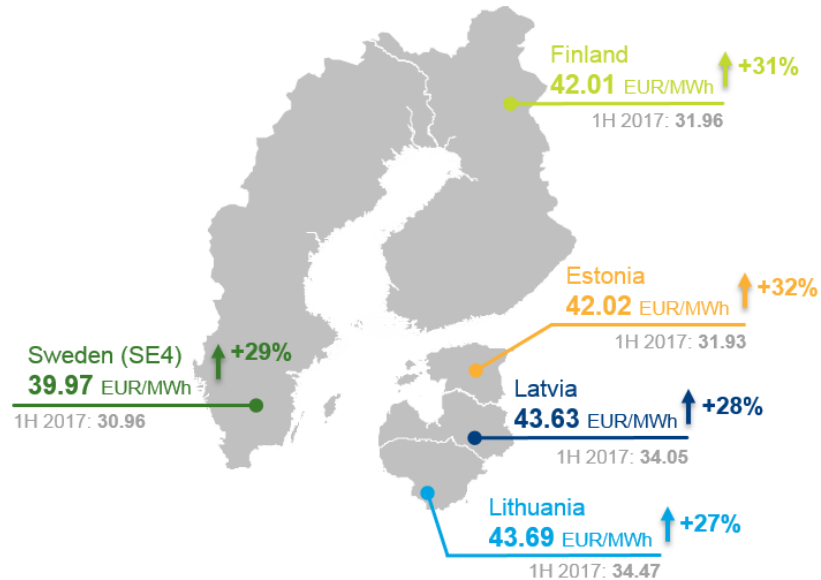
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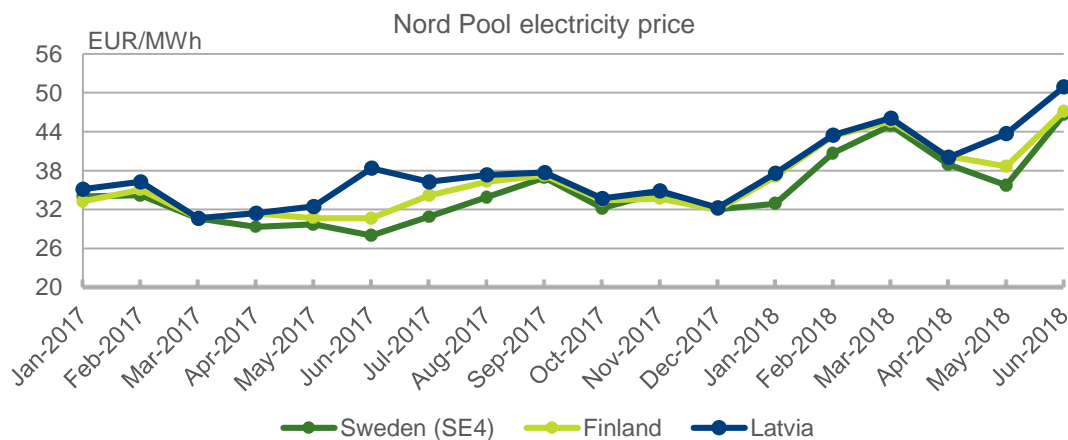
# Electricity prices increase in the Nordics and the Baltics



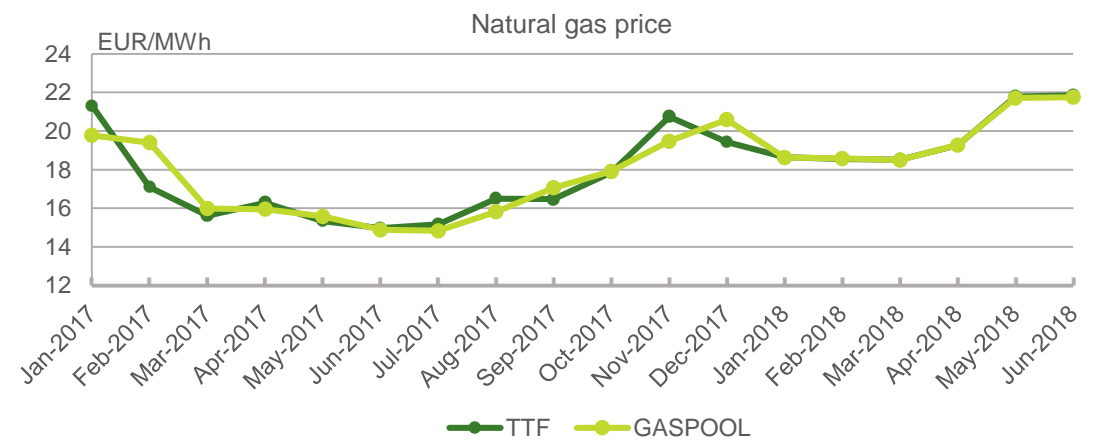
## Main facts – 1H 2018

- Electricity prices increased due to:
  - warm and dry weather
  - lower water levels at the Scandinavian hydropower reservoirs
  - lower electricity output at WPPs
- Price convergence between the bidding areas was limited by some transmission interconnection outages
- Natural gas price is 17% higher than a year ago

## Electricity prices increase

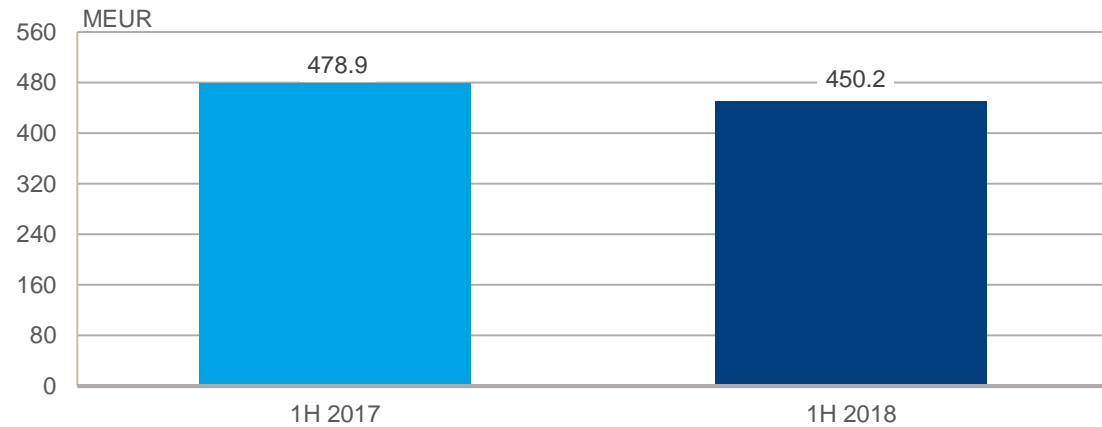


## Natural gas prices increase

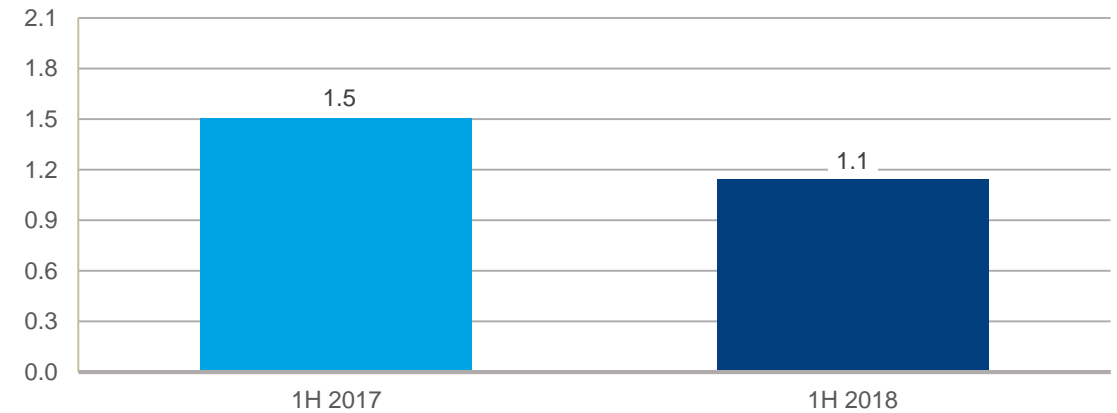


# Key financial figures

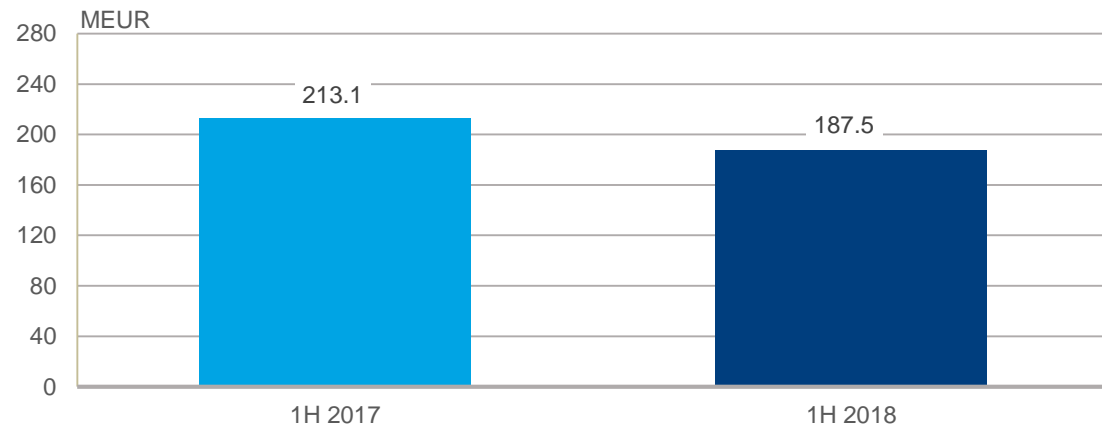
## Revenue



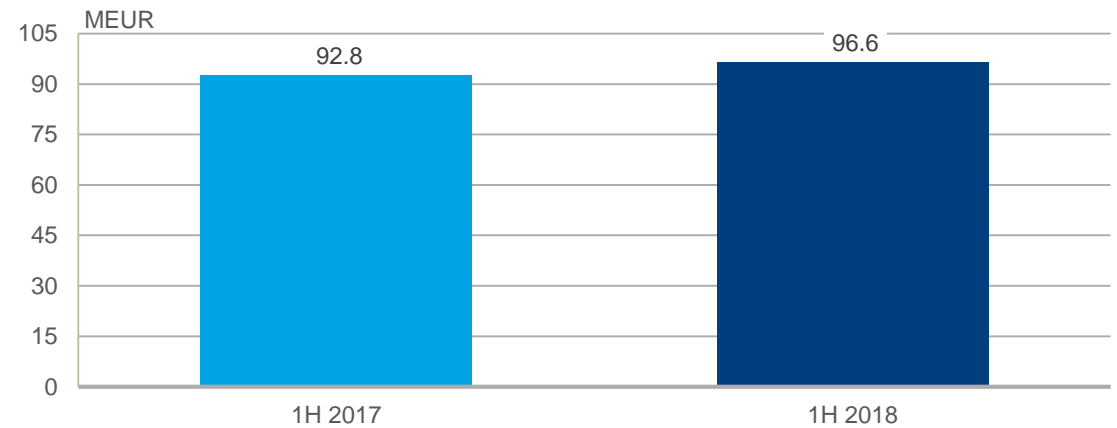
## Net debt/EBITDA



## EBITDA

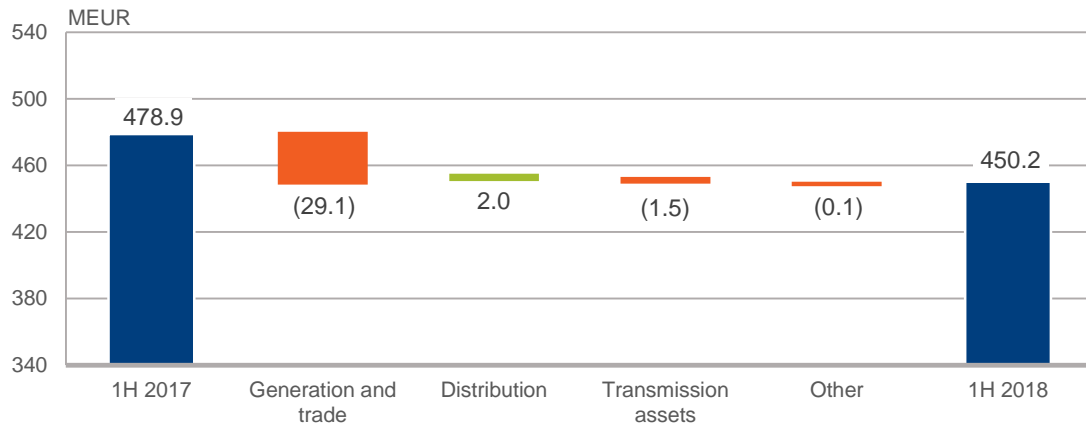


## Investments



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

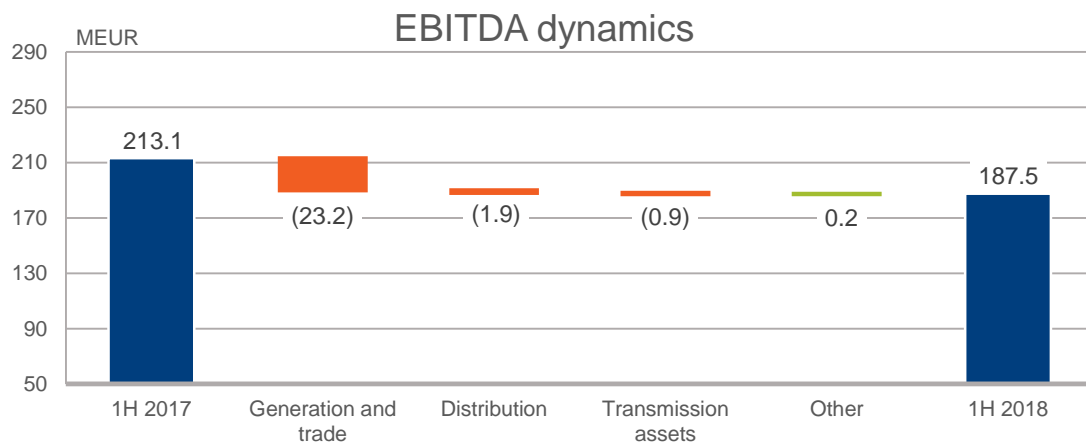
## Revenue dynamics by segments



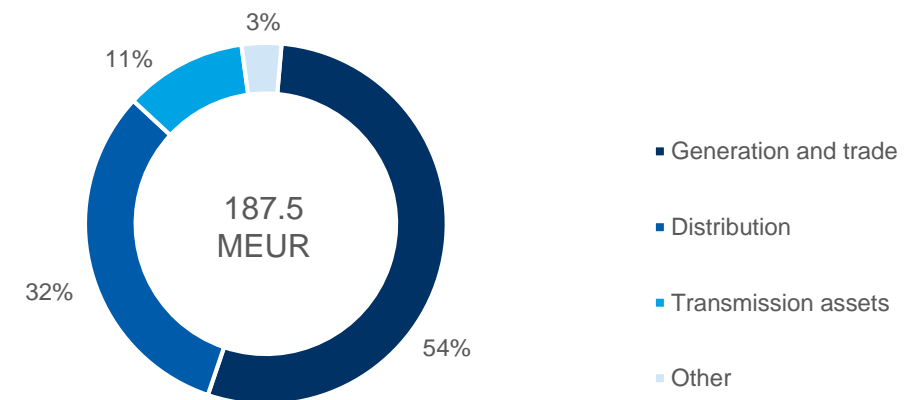
## Main facts – 1H 2018

- The results were impacted by:
  - 75% lower revenue from the installed electrical capacity at the Riga CHPPs, which was partially offset by the compensation for the Riga CHPPs' capacity payments (1H 2018: 14.7 MEUR)
  - 12% lower electricity output at the Daugava HPPs
- EBITDA margin was 58% (1H 2017: 43%)
- Net profit: 97.4 MEUR (1H 2017: 97.9 MEUR)

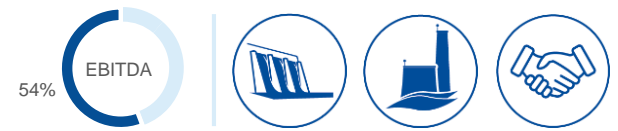
## EBITDA dynamics by segments



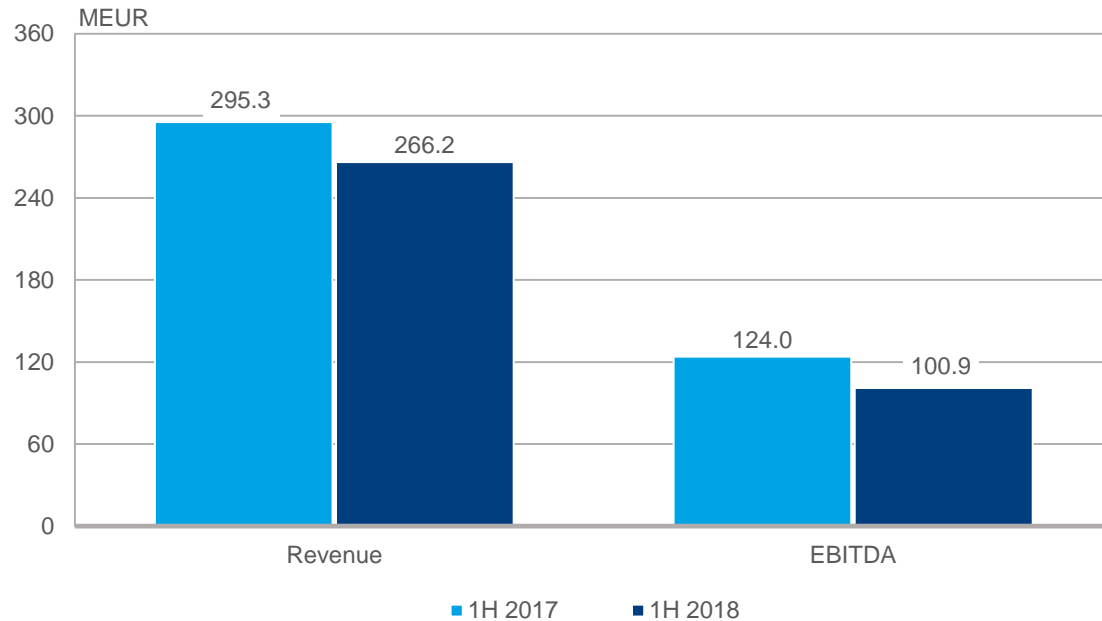
## EBITDA weight by segments



# Generation and trade



## Segment revenue and EBITDA



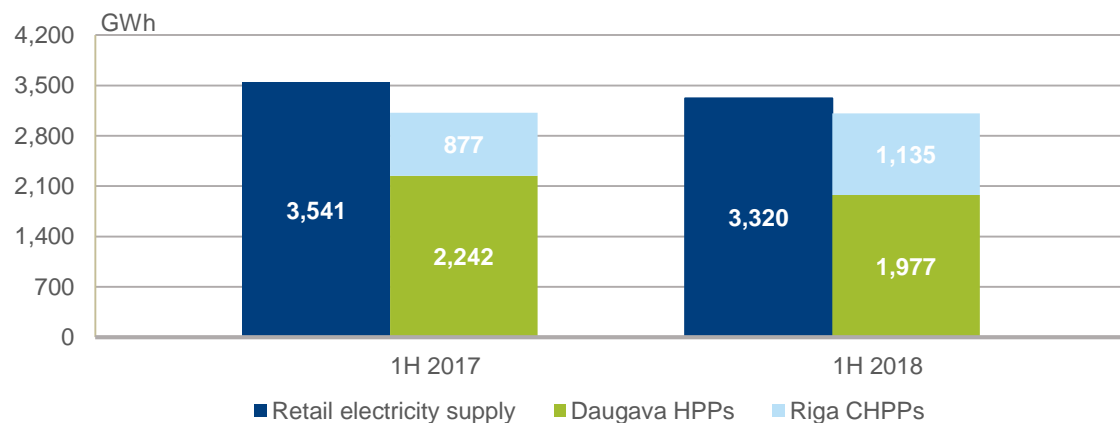
## Main facts – 1H 2018

- 29% higher electricity output at the Riga CHPPs
- Results of the segment were impacted by lower revenue from the electrical capacity payments at the Riga CHPPs and lower electricity output at the Daugava HPPs
- Latvenergo Group – one of the leading energy trading companies in the Baltics
- The average mandatory procurement PSO fee decreased by 3.11 EUR/MWh starting from 1 July 2018

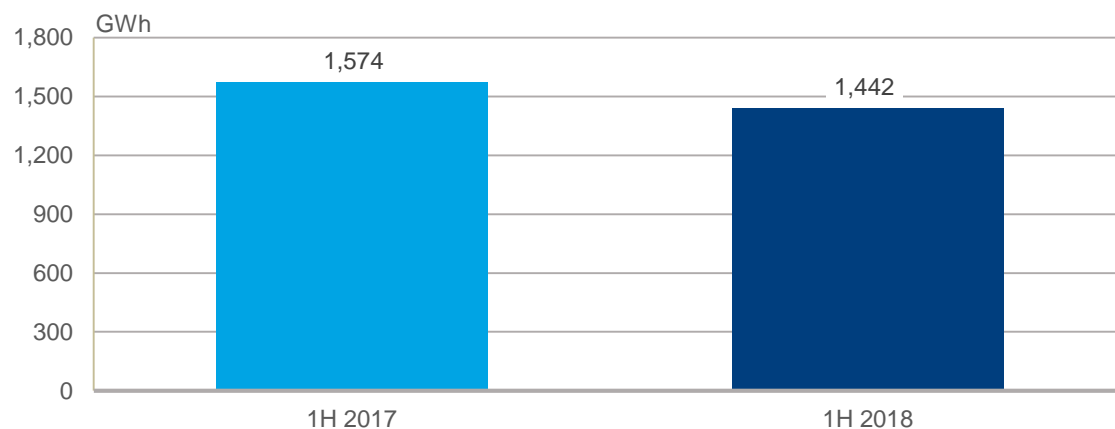


# Energy generation

## 3,139 GWh of electricity generated



## 1,442 GWh of thermal energy generated



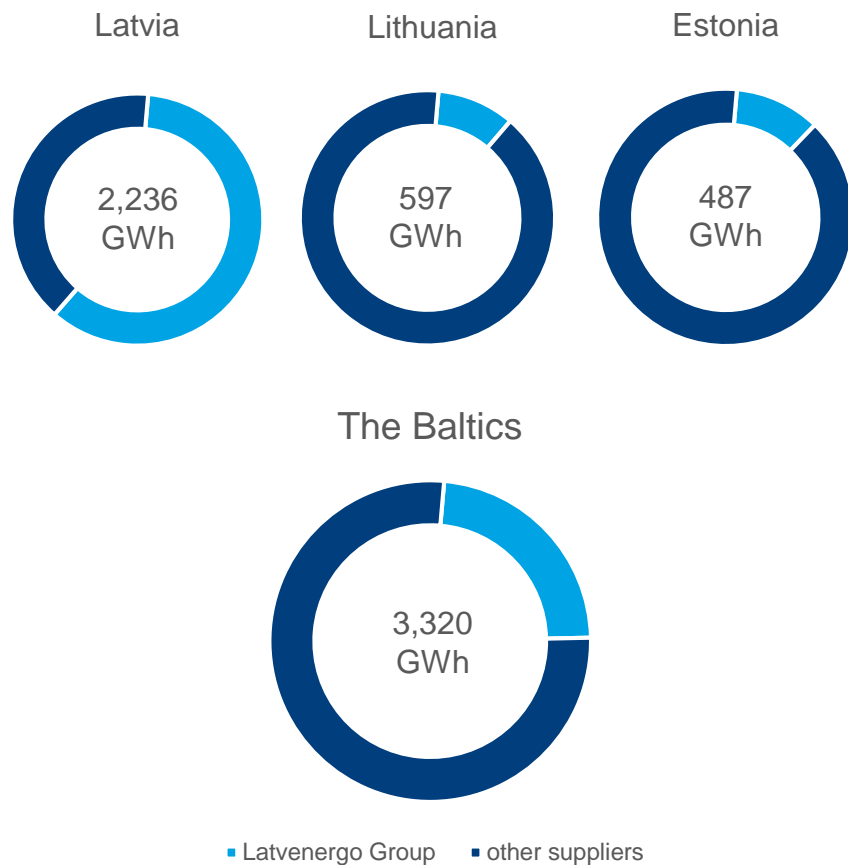
## Main facts – 1H 2018

- Power generated at the Riga CHPPs increased by 29%
- Riga CHPPs operated in market conjuncture efficiently planning operating modes and fuel consumption
- Power generated at the Daugavas HPPs decreased by 12% due to lower water inflow, which was affected by dry and warm weather
- Total amount of electricity generated at Latvenergo power plants corresponds to 95% of the amount of electricity sold to retail customers
- Increasing competition in the thermal energy market determined lower generation of thermal energy – decrease by 8%



# Trade of electricity and natural gas

## Retail electricity supply\*



\* including operational consumption

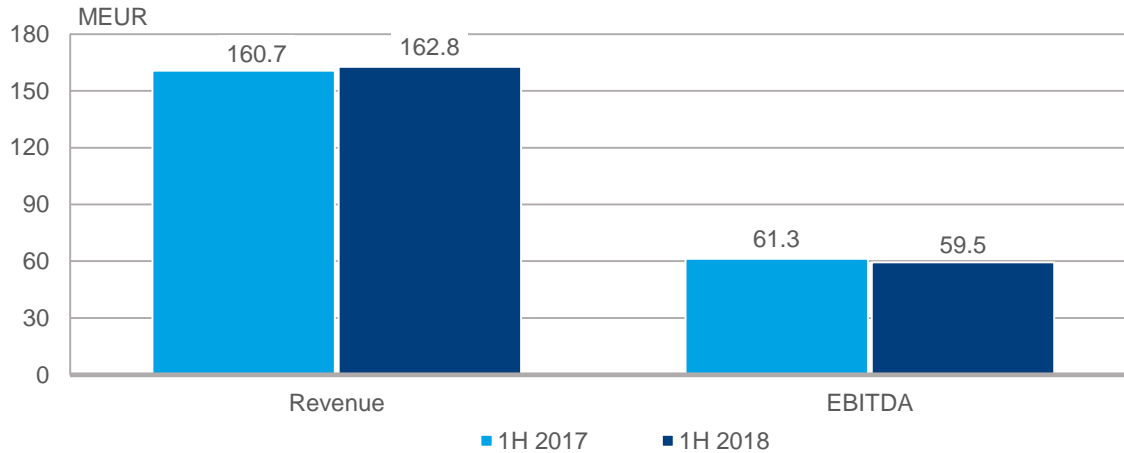
## Main facts – 1H 2018

- Retail electricity supply\* in the Baltics reached 3,320 GWh, 1/3 of it supplied outside Latvia
- The total number of electricity customers outside Latvia reaches almost 35 thousand
- The amount of natural gas supplied by Latvenergo and the number of customers continued to increase
- The amount of natural gas used for both operating consumption and trade reached 3.2 TWh



# Distribution

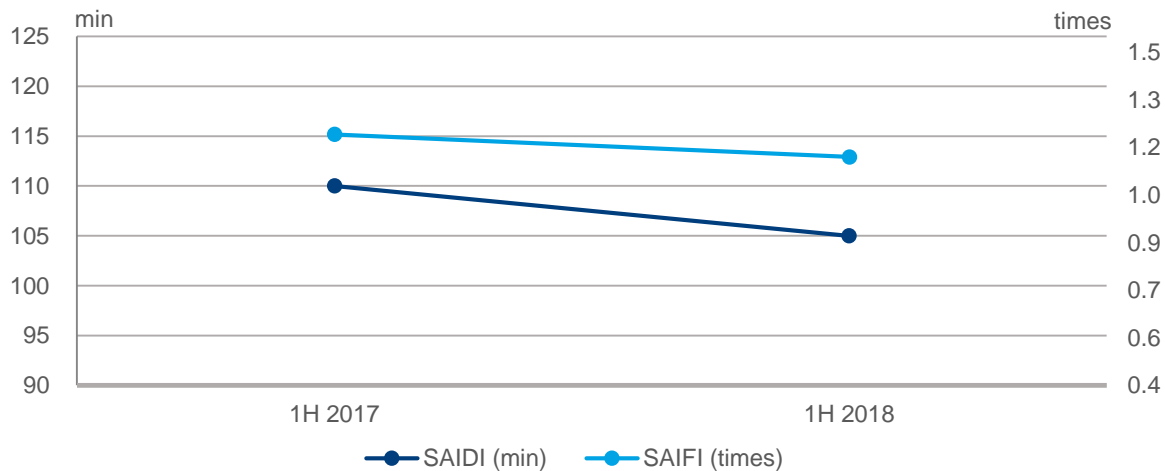
## Segment revenue and EBITDA



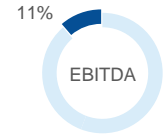
## Main facts – 1H 2018

- Electricity distributed – 3,321 GWh (1H 2017: 3,250 GWh)
- Results positively impacted by 2% larger volume of distributed electricity, while negatively – by increase in personnel termination costs of 4.0 MEUR
- Investments in distribution assets reached 40.7 MEUR (1H 2017: 50.6 MEUR)
- Due to the investments, the value of distribution assets increased to 1,655.2 MEUR

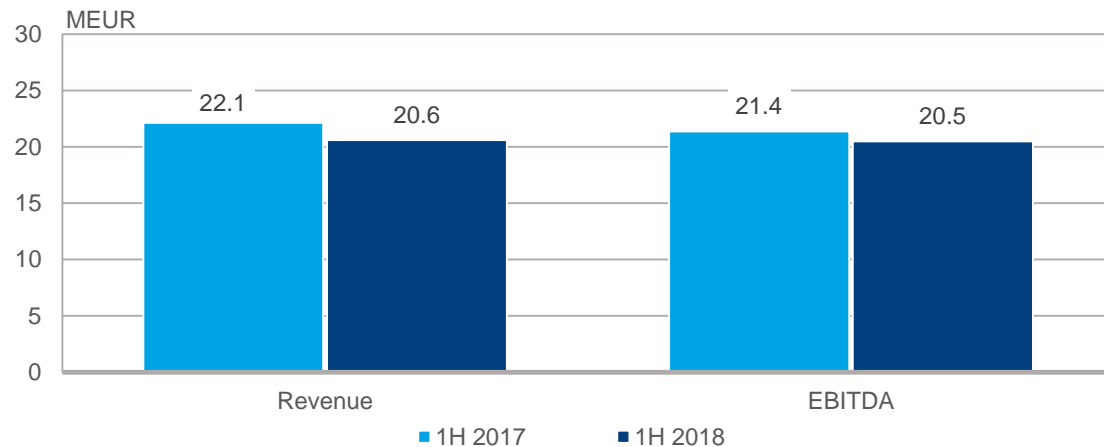
## Improved SAIDI and SAIFI ratios



# Transmission system asset leasing



## Segment revenue and EBITDA

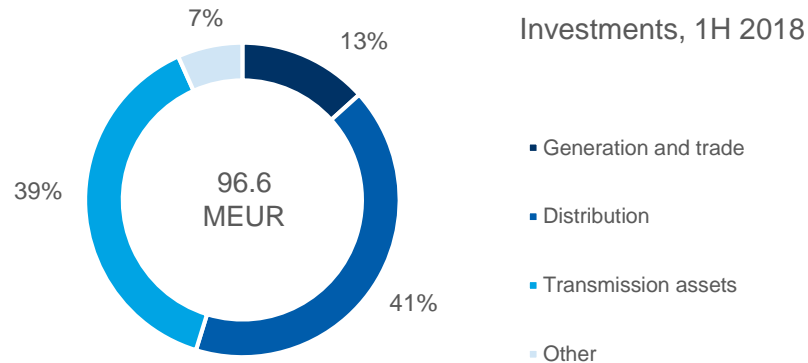


## Main facts – 1H 2018

- Investments in transmission system assets – 37.9 MEUR (1H 2017: 13.1 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 538.0 MEUR

# Investments

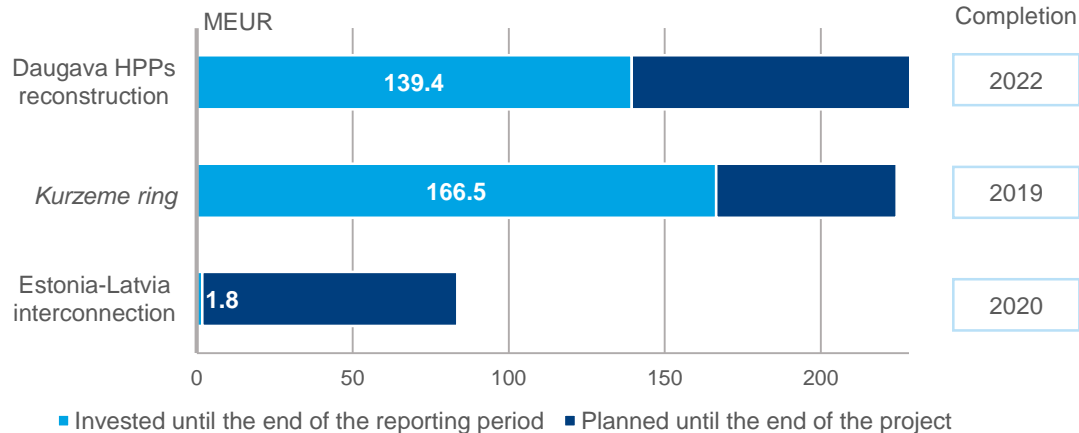
## Investment in network assets – 80% of the total



## Main facts – 1H 2018

- Total investments – 96.6 MEUR ( 1H 2017: 92.8 MEUR)
- Investments in power network assets provides for improved distribution service quality and technical parameters

## Major investment projects



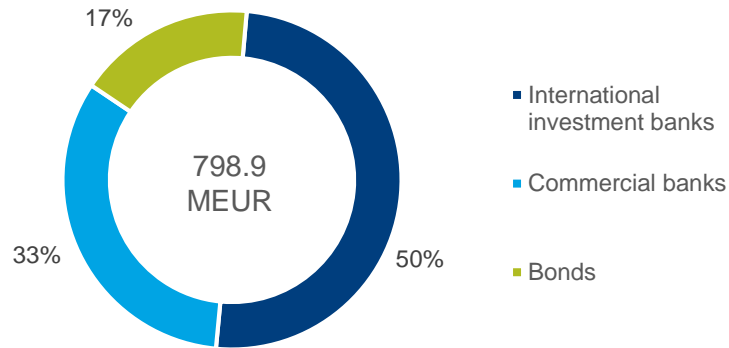
The reconstruction will provide for further 40-year operation of hydropower units

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

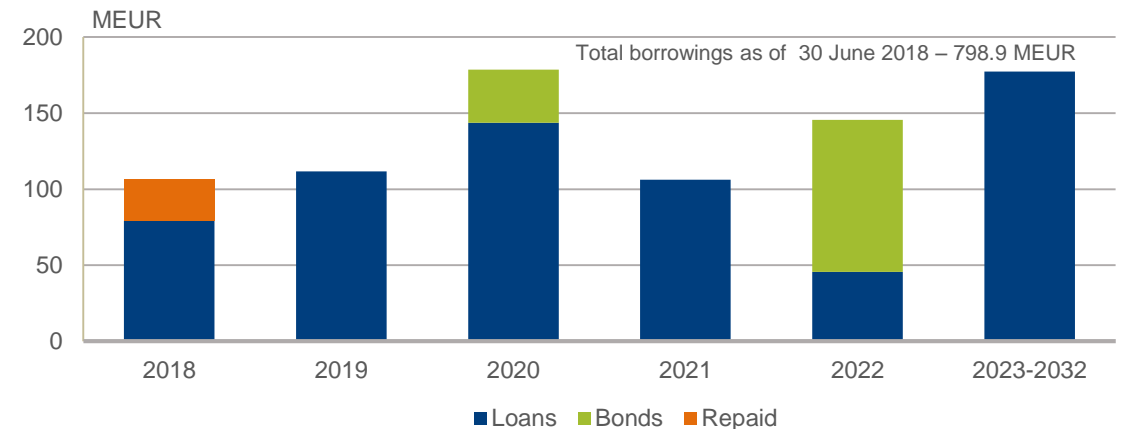
EU co-funding – 65%

# Funding and Liquidity

## Diversified sources of funding



## Debt repayment schedule



## Main facts – 1H 2018

- Total borrowings – 798.9 MEUR (30 June 2017: 747.4 MEUR)
- At the end of the reporting period, the outstanding amount of bonds reached 135 MEUR, incl. 100 MEUR *green* bonds
- On 15 June 2018, International credit rating agency Moody’s Investors Service has affirmed the assessment of Latvenergo AS *green* bonds – GB1 (excellent)
- Moody’s credit rating – Baa2 (stable)
- Capital ratio: 61%

## Main figures

	30.06.2018
Share of fixed interest rate*	59%
Duration	2.2 years
Effective weighted average interest rate*	1.4%

\* with interest rate swaps

# Contacts

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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	
	01/01- 30/06/2018	01/01- 30/06/2017
Revenue	450,235	478,902
Other income	22,911	3,535
Raw materials and consumables used	(201,991)	(182,185)
Personnel expenses	(56,579)	(51,363)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(86,139)	(94,122)
Other operating expenses	(27,109)	(35,739)
<b>Operating profit</b>	<b>101,328</b>	<b>119,028</b>
Finance income	577	627
Finance costs	(4,401)	(5,930)
<b>Profit before tax</b>	<b>97,504</b>	<b>113,725</b>
Current income tax	(101)	(15,854)
<b>Profit for the reporting period</b>	<b>97,403</b>	<b>97,871</b>
<b>Profit attributable to:</b>		
– Equity holder of the Parent Company	95,723	96,628
– Non-controlling interests	1,680	1,243

\* Unaudited Condensed Consolidated Interim Financial Statements prepared in accordance with the IFRS as adopted by the European Union.

# Consolidated Statement of Financial Position\*

	EUR'000	
	30/06/2018	31/12/2017
<b>ASSETS</b>		
<i>Non-current assets</i>		
Intangible assets and property, plant and equipment	3,330,222	3,322,398
Investment property	464	753
Non-current financial investments	40	40
Investments in held-to-maturity financial assets	16,960	16,984
Other non-current receivables	3,227	3,229
<b>Total non-current assets</b>	<b>3,350,913</b>	<b>3,343,404</b>
<i>Current assets</i>		
Inventories	37,709	76,328
Receivables from contracts with customers	87,900	105,369
Other current receivables	119,663	646,761
Prepayment for income tax	11,770	-
Deferred expenses	4,519	3,241
Derivative financial instruments	14,438	4,619
Current financial investments	20,000	-
Cash and cash equivalents	187,294	236,003
<b>Total current assets</b>	<b>483,293</b>	<b>1,072,321</b>
<b>TOTAL ASSETS</b>	<b>3,834,206</b>	<b>4,415,725</b>
<b>EQUITY AND LIABILITIES</b>		
<i>EQUITY</i>		
Share capital	834,791	1,288,715
Reserves	1,134,300	1,126,521
Retained earnings	365,722	423,613
<b>Equity attributable to equity holder of the Parent Company</b>	<b>2,334,813</b>	<b>2,838,849</b>
Non-controlling interests	7,606	8,042
<b>Total equity</b>	<b>2,342,419</b>	<b>2,846,891</b>
<i>LIABILITIES</i>		
<i>Non-current liabilities</i>		
Borrowings	664,462	718,674
Provisions	22,676	21,910
Derivative financial instruments	4,018	4,914
Deferred income on contracts from customers	142,306	142,132
Other liabilities and deferred income	349,318	350,926
<b>Total non-current liabilities</b>	<b>1,182,780</b>	<b>1,238,556</b>
<i>Current liabilities</i>		
Borrowings	134,391	108,083
Trade and other payables	126,566	147,072
Income tax payable	-	27,725
Deferred income on contracts from customers	12,874	12,500
Other deferred income	31,723	31,728
Derivative financial instruments	3,453	3,170
<b>Total current liabilities</b>	<b>309,007</b>	<b>330,278</b>
<b>Total liabilities</b>	<b>1,491,787</b>	<b>1,568,834</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,834,206</b>	<b>4,415,725</b>

\* Unaudited Condensed Consolidated Interim Financial Statements prepared in accordance with the IFRS as adopted by the European Union.



# Consolidated Statement of Cash Flows\*

	EUR'000	
	01/01- 30/06/2018	01/01- 30/06/2017
<b>Cash flows from operating activities</b>		
Profit before tax	97,504	113,725
<b>Adjustments:</b>		
– Amortisation, depreciation and impairment non-current assets	88,587	95,402
– Net financial adjustments	3,920	7,715
– Other adjustments	766	498
<b>Operating profit before working capital adjustments</b>	<b>190,777</b>	<b>217,340</b>
Decrease in current assets	561,606	48,164
Decrease in trade and other payables	(466,603)	(9,865)
<b>Cash generated from operating activities</b>	<b>285,780</b>	<b>255,639</b>
Interest paid	(6,274)	(7,022)
Interest received	554	1,177
Corporate income tax and real estate tax paid	(39,294)	(23,219)
<b>Net cash flows generated from operating activities</b>	<b>240,766</b>	<b>226,575</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible assets and property, plant and equipment	(104,553)	(98,293)
Proceeds from redemption of held-to-maturity assets	25	3,544
<b>Net cash flows (used in) / generated from investing activities</b>	<b>(104,528)</b>	<b>(94,749)</b>
<b>Cash flows from financing activities</b>		
Proceeds on borrowings from financial institutions	1,000	–
Repayment of borrowings	(27,413)	(43,671)
Dividends paid to equity holder of the Parent Company	(156,418)	(90,142)
Dividends paid to non-controlling interests	(2,116)	(1,393)
<b>Net cash flows used in financing activities</b>	<b>(184,947)</b>	<b>(135,206)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(48,709)</b>	<b>(3,380)</b>
Cash and cash equivalents at the beginning of the period	236,003	183,980
<b>Cash and cash equivalents at the end of the period</b>	<b>187,294</b>	<b>180,600</b>

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