

LATVENERGO CONSOLIDATED UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE 9-MONTH PERIOD ENDING 30 September 2018

30.11.2018, Riga

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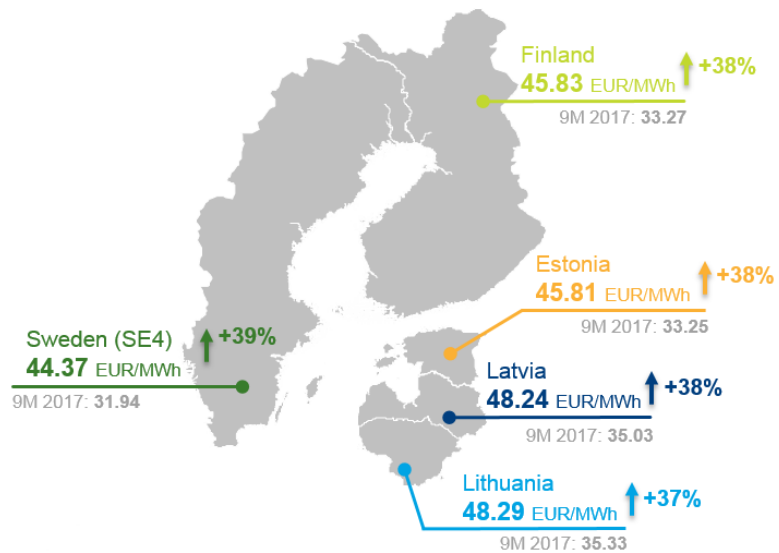
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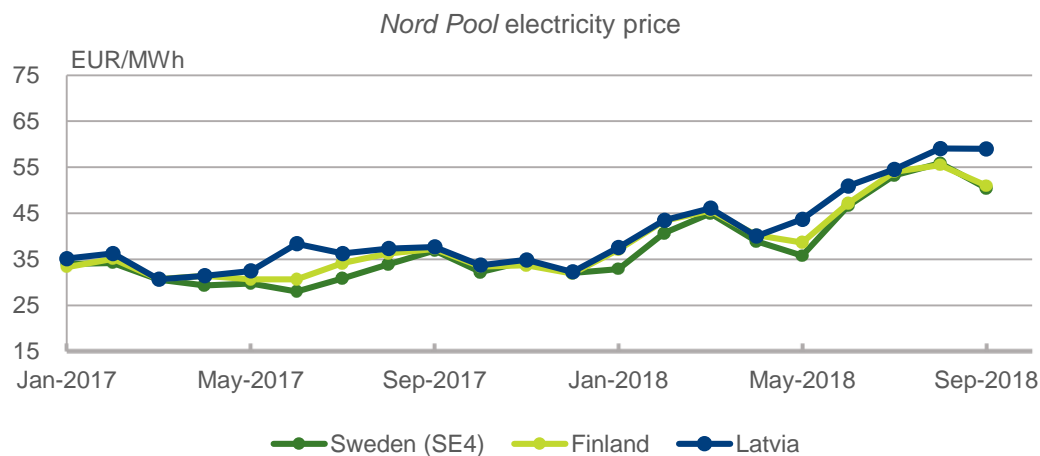
Electricity prices increased by almost 40% in the Baltics



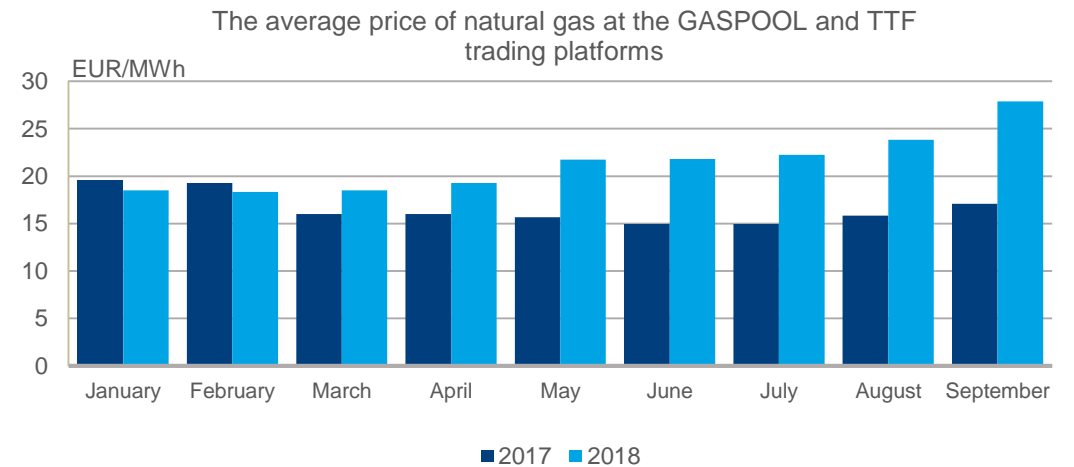
Main facts – 9M 2018

- Electricity prices increased due to:
 - warm and dry weather
 - lower water levels at the Scandinavian hydropower reservoirs
 - lower electricity output at HPPs and WPPs
 - higher raw material and CO₂ emission prices
- Price convergence between the bidding areas was limited by some transmission interconnection outages
- Natural gas price was 29% higher than a year ago

Electricity prices increase

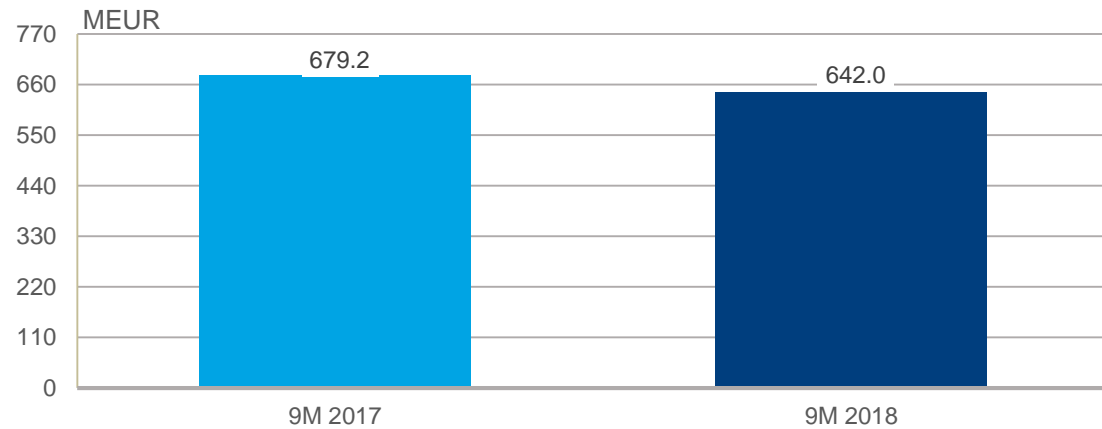


Natural gas prices increase

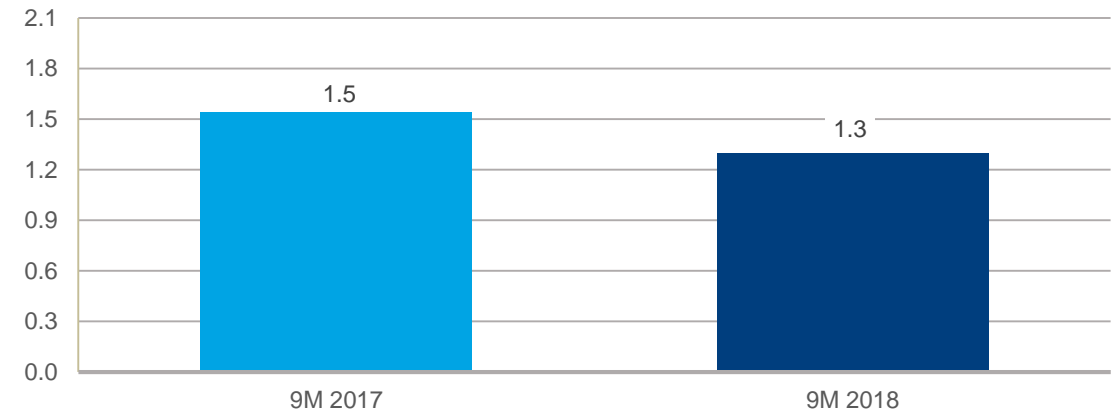


Key financial figures

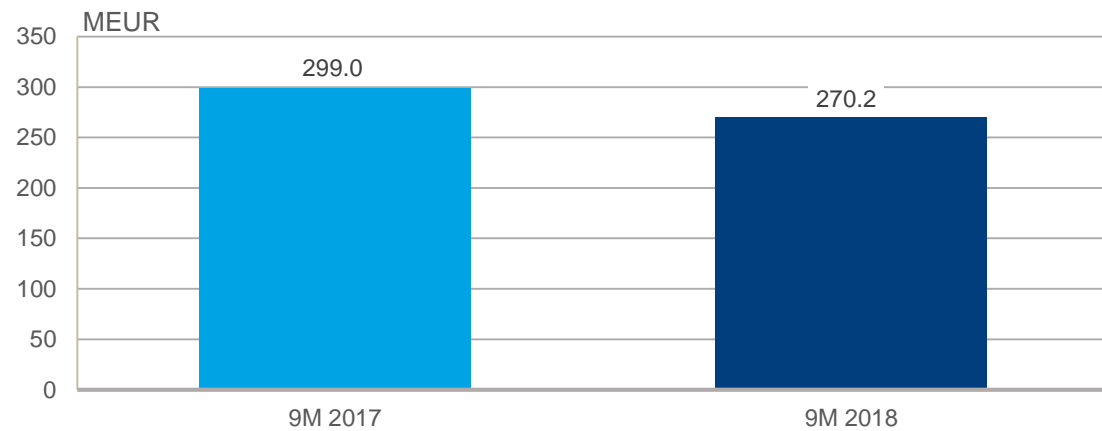
Revenue



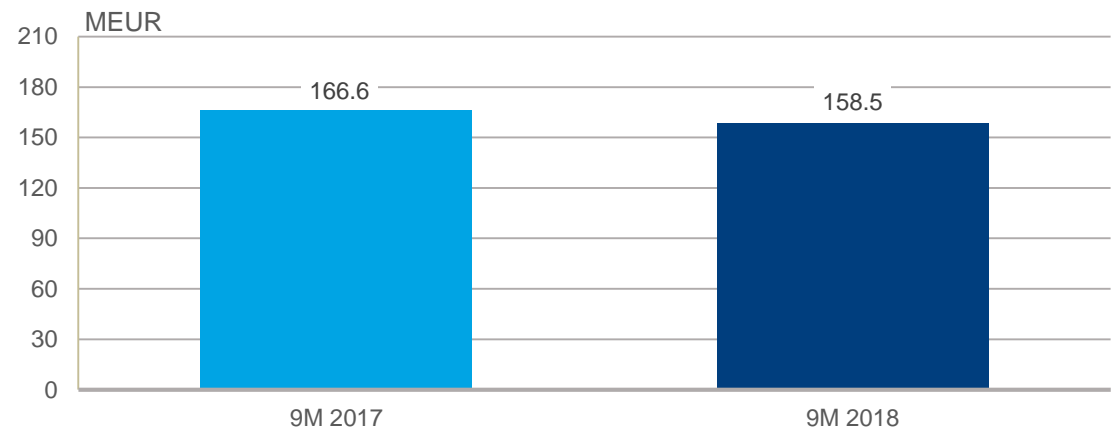
Net debt/EBITDA



EBITDA

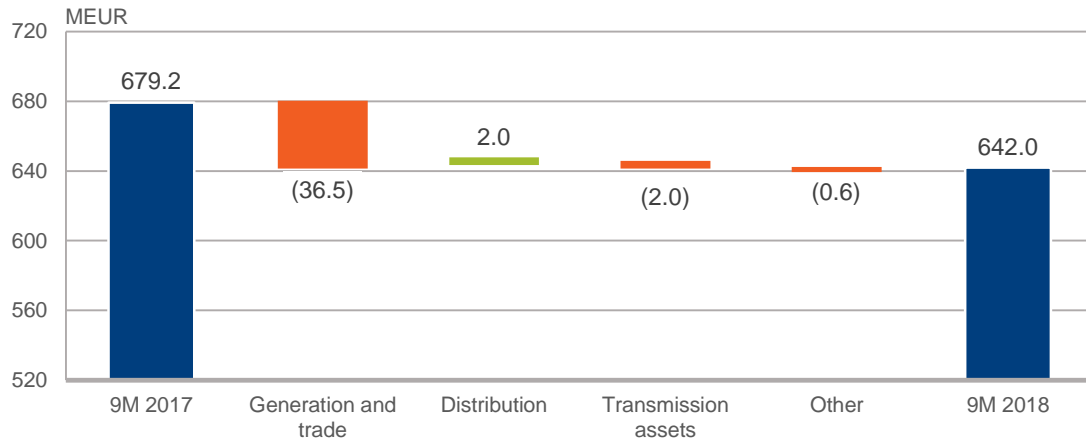


Investments



The results were impacted by lower electricity output at the Riga CHPPs and an unfavourable market situation

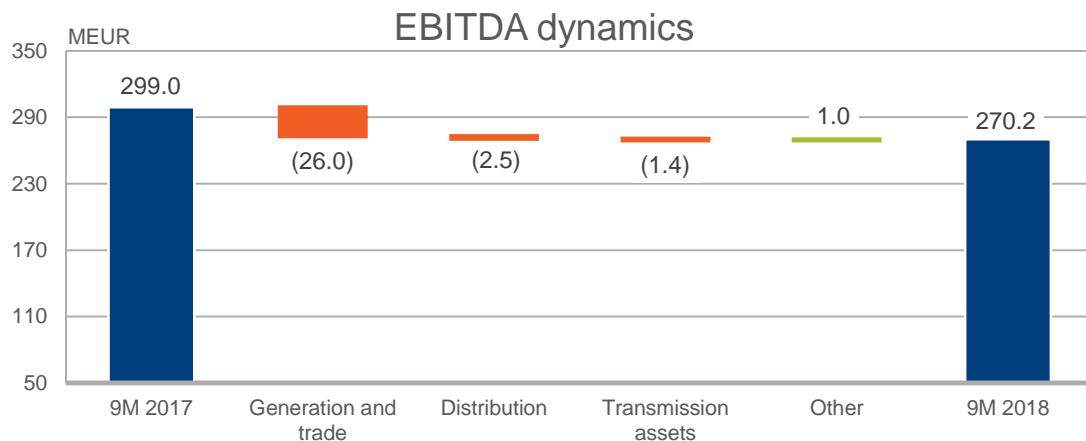
Revenue dynamics by segments



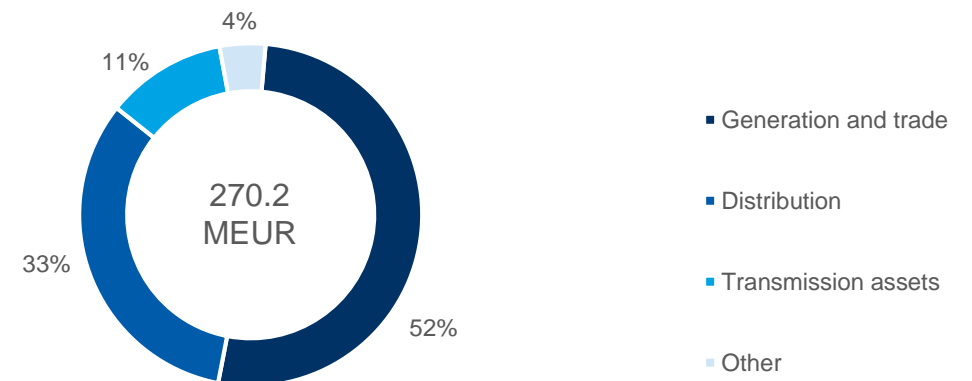
Main facts – 9M 2018

- The results were negatively impacted by:
 - 27% lower electricity output at the Daugava HPPs
 - higher electricity prices (spot price in Latvia +38%)
 - higher CO₂ emission allowances prices (+171%)
- EBITDA margin was 58% (9M 2017: 43%)
- Net profit: 83.1 MEUR (9M 2017: 125.0 MEUR)

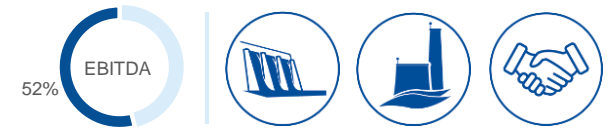
EBITDA dynamics by segments



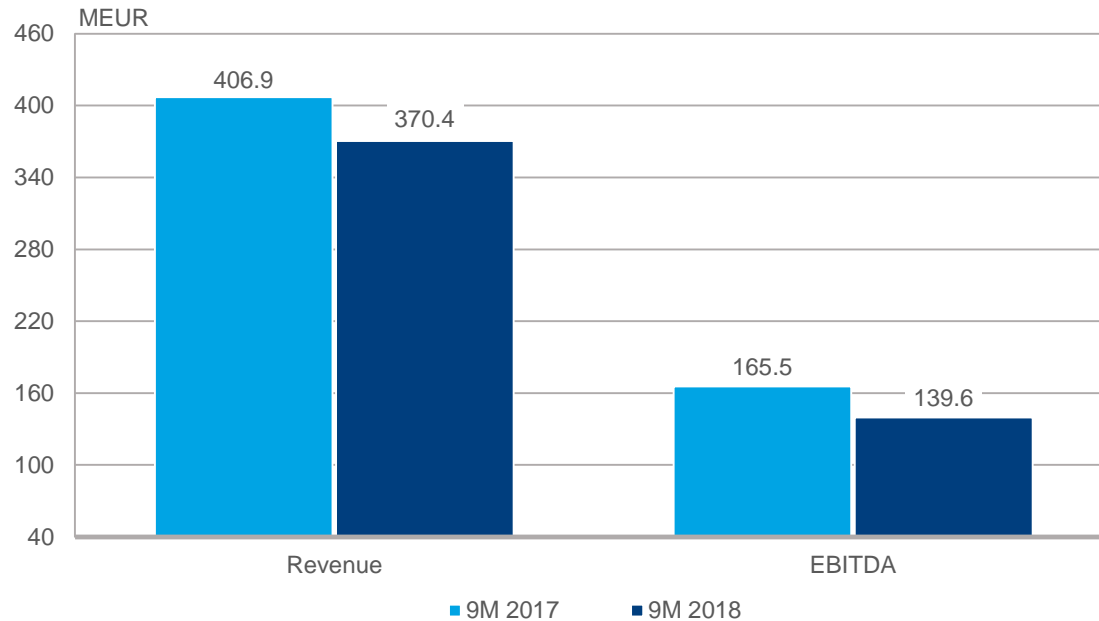
EBITDA weight by segments



Generation and trade



Segment revenue and EBITDA



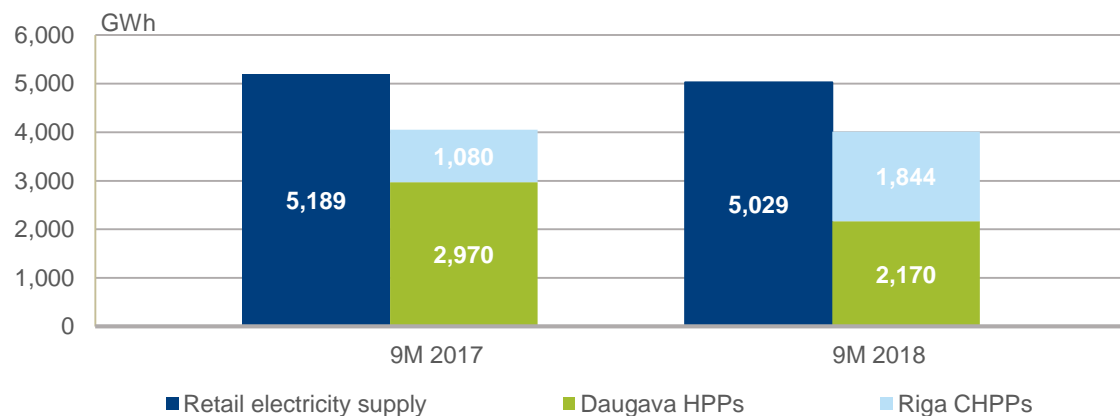
Main facts – 9M 2018

- 71% higher electricity output at the Riga CHPPs
- Results of the segment were negatively impacted by lower electricity output at the Daugava HPPs and higher electricity and CO₂ emission allowances prices
- 75% lower revenue from the installed electrical capacity at the Riga CHPPs, which was offset by the compensation for the Riga CHPPs' capacity payments (received compensation in 9M 2018: 73.7 MEUR)
- Latvenergo Group – energy company that operates in all segments of the market in Latvia, Lithuania and Estonia.
- The average mandatory procurement PSO fee decreased by 3.11 EUR/MWh starting from 1 July 2018

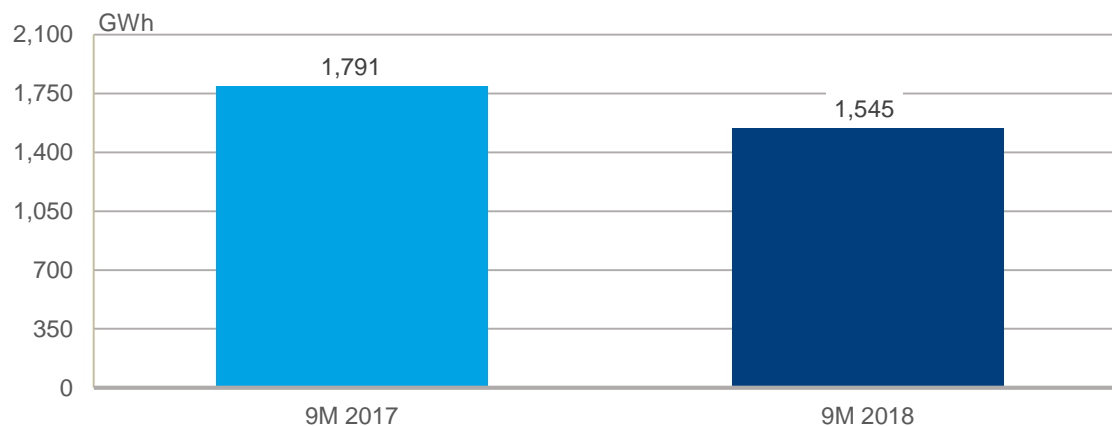


Energy generation

4,052 GWh of electricity generated



1,545 GWh of thermal energy generated



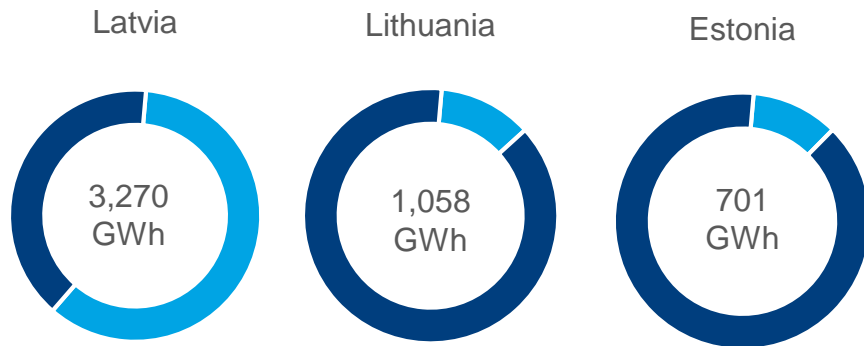
Main facts – 9M 2018

- Power generated at the Riga CHPPs increased by 71%
- Riga CHPPs operated in market conjuncture efficiently planning operating modes and fuel consumption
- Power generated at the Daugavas HPPs decreased by 27% due to lower water inflow, which was affected by dry and warm weather
- Total amount of electricity generated at Latvenergo power plants corresponds to 81% of the amount of electricity sold to retail customers
- Increasing competition in the thermal energy market determined lower generation of thermal energy – decrease by 14%

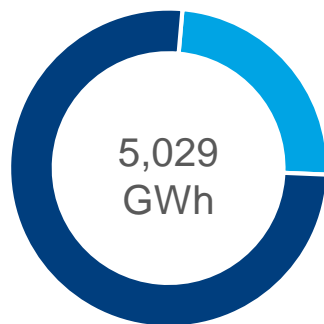


Trade of electricity and natural gas

Retail electricity supply*



The Baltics



■ Latvenergo Group ■ other suppliers

* including operational consumption

Main facts – 9M 2018



5.0 TWh of electricity sold to Baltic retail customers



In October 2018, the Group commenced natural gas trade to business customers in Lithuania. The amount of natural gas used for both operating consumption and trade reached 4.8 TWh.



Solar panels installed for about 50 customers in the Baltics with a total capacity of 206 kW



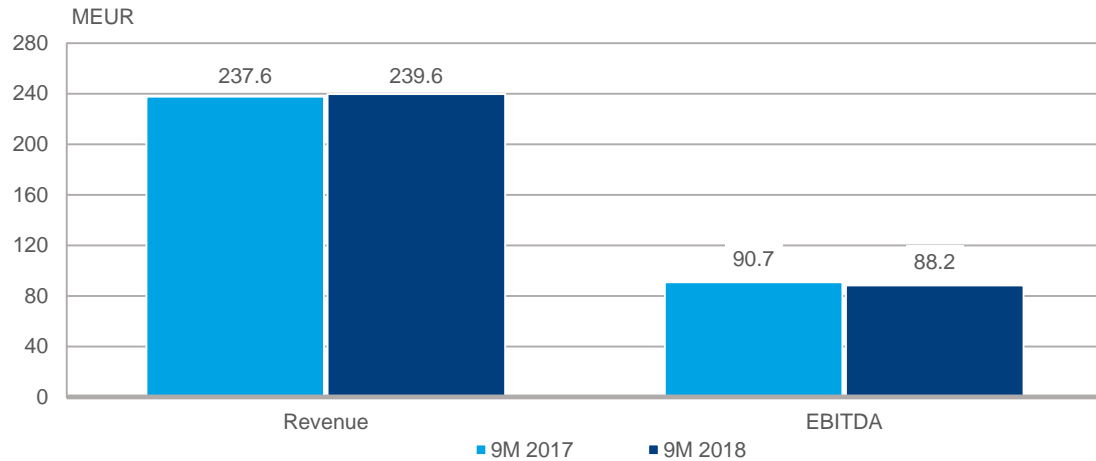
At the end of the reporting period, the total number of *Elektrum apdrošināts* customers exceeded 36,000



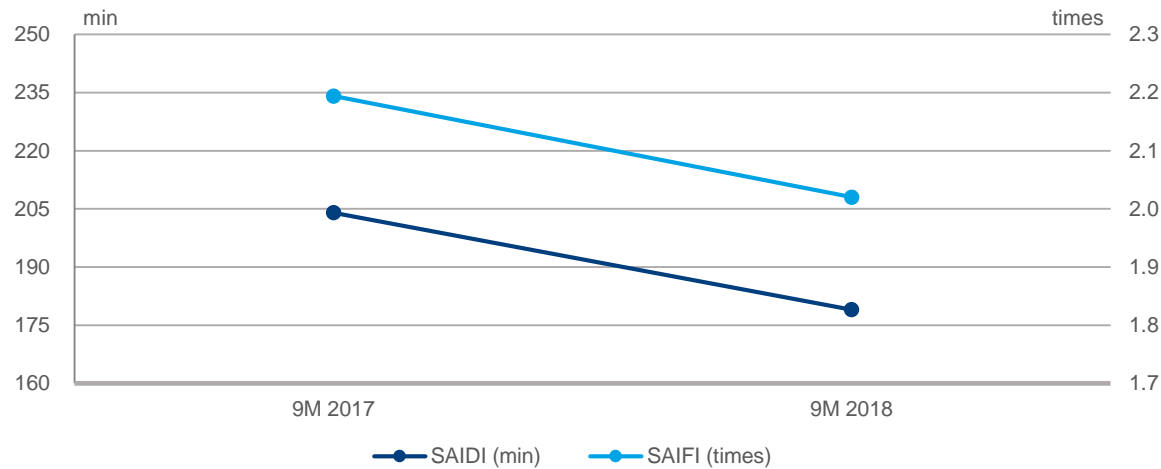
228 *Smart House devices* installed in the Baltics

Distribution

Segment revenue and EBITDA



Improved SAIDI and SAIFI ratios

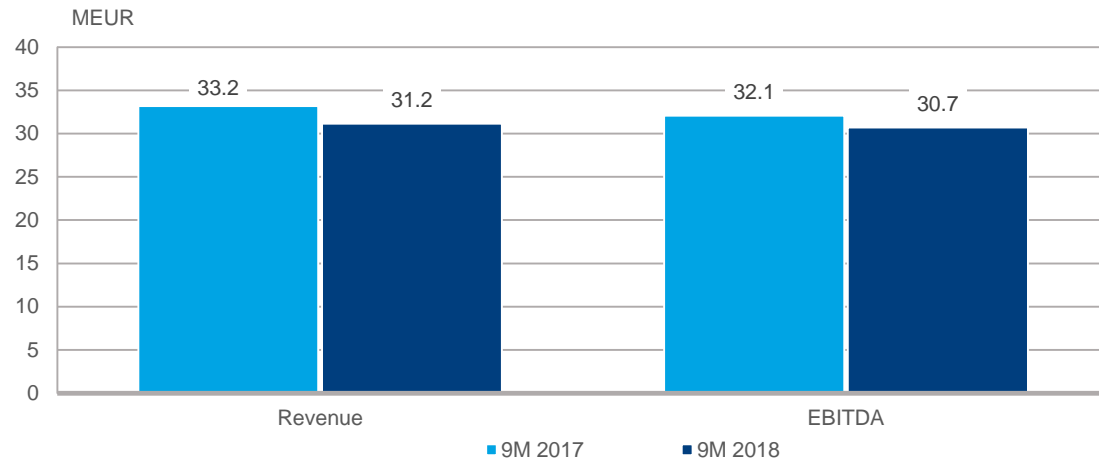


Main facts – 9M 2018

- Electricity distributed – 4,873 GWh (9M 2017: 4,769 GWh)
- Results positively impacted by:
 - 2% larger volume of distributed electricity
- Results negatively impacted by:
 - higher electricity prices → higher cost of distribution losses
 - increase in personnel termination costs
- Within the framework of the efficiency programme, the number of employees at Sadales tīkls AS has been reduced by 20%
- Investments in distribution assets reached 65.1 MEUR (9M 2017: 76.9 MEUR)
- The value of distribution assets increased to 1,656.6 MEUR

Transmission system asset leasing

Segment revenue and EBITDA

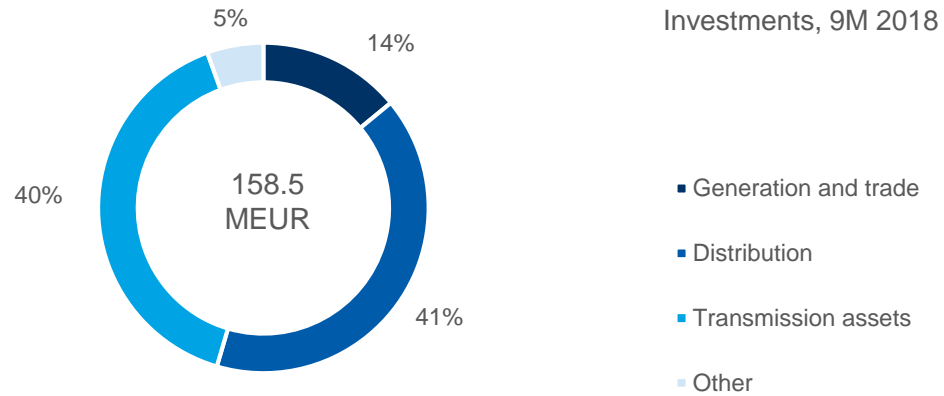


Main facts – 9M 2018

- Segment's revenue is calculated in accordance with the methodology approved by the Public Utilities Commission
- Investments in transmission system assets – 64.2 MEUR (9M 2017: 38.2 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 555.7 MEUR

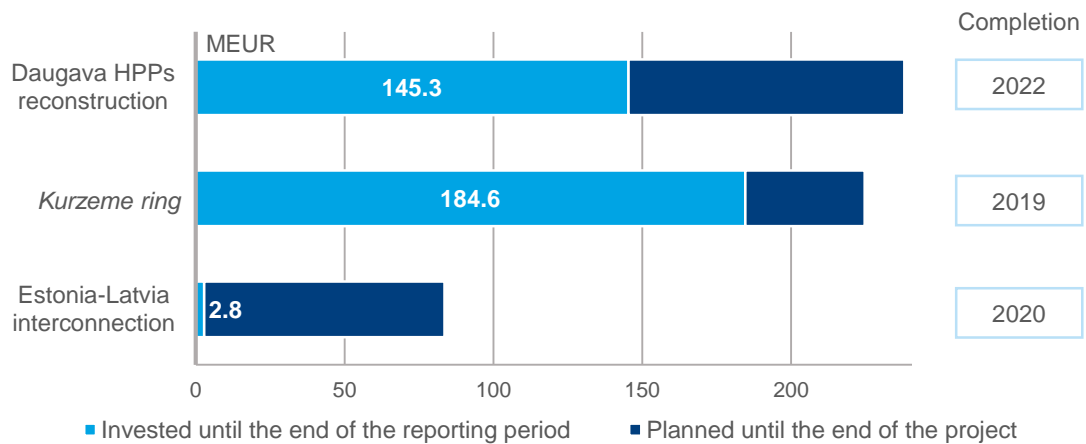
Investments

Investment in network assets – 80% of the total



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

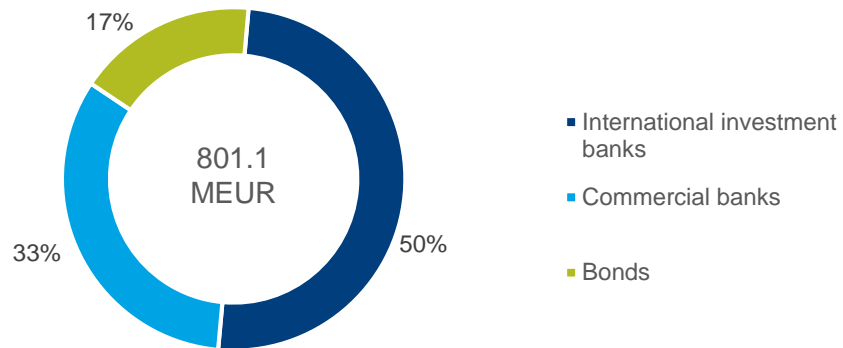
Major investment projects



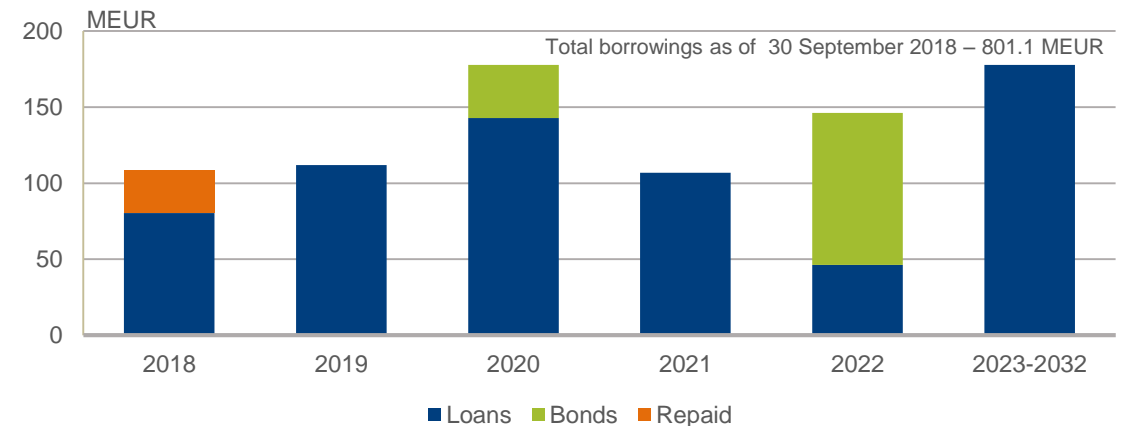
- The reconstruction will provide for further 40-year operation of hydropower units
- 45% EU co-funding for the final stage of the project
- EU co-funding – 65%

Funding and Liquidity

Diversified sources of funding



Debt repayment schedule



Main facts – 9M 2018

- Total borrowings – 801.1 MEUR (30 September 2017: 743.3 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

	30.09.2018
Share of fixed interest rate*	59%
Duration	2.1 years
Effective weighted average interest rate*	1.3%

* 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	
	01/01- 30/09/2018	01/01- 30/09/2017
Revenue	642,007	679,183
Other income	84,603	4,998
Raw materials and consumables used	(336,580)	(256,629)
Personnel expenses	(81,047)	(75,993)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(181,406)	(143,676)
Other operating expenses	(38,823)	(52,568)
Operating profit	88,754	155,315
Finance income	884	941
Finance costs	(6,393)	(8,646)
Profit before tax	83,245	147,610
Income tax	(134)	(22,574)
Profit for the period	83,111	125,036
Profit attributable to:		
– Equity holder of the Parent Company	81,737	124,125
– Non-controlling interests	1,374	911

* 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	
	30/09/2018	31/12/2017
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,301,170	3,322,398
Investment property	477	753
Non-current financial investments	40	40
Investments in held-to-maturity financial assets	16,947	16,984
Other non-current receivables	3,229	3,229
Total non-current assets	3,321,863	3,343,404
Current assets		
Inventories	107,733	76,328
Receivables from contracts with customers	94,429	105,369
Other current receivables	179,677	646,761
Prepayment for income tax	11,741	–
Deferred expenses	3,235	3,241
Derivative financial instruments	10,142	4,619
Cash and cash equivalents	92,287	236,003
Total current assets	499,244	1,072,321
TOTAL ASSETS	3,821,107	4,415,725
EQUITY AND LIABILITIES		
EQUITY		
Share capital	834,791	1,288,715
Reserves	1,125,294	1,126,521
Retained earnings	357,825	423,613
Equity attributable to equity holder of the Parent Company	2,317,910	2,838,849
Non-controlling interests	7,300	8,042
Total equity	2,325,210	2,846,891
LIABILITIES		
Non-current liabilities		
Borrowings	665,074	718,674
Provisions	23,437	21,910
Derivative financial instruments	3,079	4,914
Deferred income on contracts from customers	142,537	142,132
Other liabilities and deferred income	349,740	350,926
Total non-current liabilities	1,183,867	1,238,556
Current liabilities		
Borrowings	136,069	108,083
Trade and other payables	128,026	147,072
Income tax payable	–	27,725
Deferred income on contracts from customers	13,028	12,500
Other deferred income	31,724	31,728
Derivative financial instruments	3,183	3,170
Total current liabilities	312,030	330,278
Total liabilities	1,495,897	1,568,834
TOTAL EQUITY AND LIABILITIES	3,821,107	4,415,725

* 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- 30/09/2018	01/01- 30/09/2017
Cash flows from operating activities		
Profit before tax	83,245	147,610
Adjustments:		
– Amortisation, depreciation and impairment non-current assets	193,705	146,588
– Net financial adjustments	5,756	9,721
– Other adjustments	1,528	750
Operating profit before working capital adjustments	284,234	304,669
Decrease / (increase) in current assets	453,952	(21,683)
Decrease of trade and other payables	(484,777)	(7,756)
Cash generated from operating activities	253,409	275,230
Interest paid	(7,604)	(7,121)
Interest received	983	1,243
Corporate income tax and real estate tax paid	(39,294)	(32,174)
Net cash flows generated from operating activities	207,494	237,178
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(166,889)	(160,638)
Proceeds from redemption of held-to-maturity assets	37	3,557
Net cash flows used in investing activities	(166,852)	(157,081)
Cash flows from financing activities		
Proceeds on borrowings from financial institutions	2,100	349
Repayment of borrowings	(27,924)	(50,181)
Dividends paid to equity holder of the Parent Company	(156,418)	(90,142)
Dividends paid to non-controlling interests	(2,116)	(1,393)
Net cash flows used in financing activities	(184,358)	(141,367)
Net increase in cash and cash equivalents	(143,716)	(61,270)
Cash and cash equivalents at the beginning of the period	236,003	183,980
Cash and cash equivalents at the end of the period	92,287	122,710

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