

# Latvenergo Group Unaudited Interim Results – 1H 2015



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# Agenda

## Group Profile

## Financials 1 H 2015

- ▶ Market Overview
- ▶ Revenue and Profitability
- ▶ Segment Results
- ▶ Investments
- ▶ Debt and Liquidity

## Current Issues

- ▶ Green Bonds
- ▶ Mandatory Procurement
- ▶ Baltic Electricity Market

## Q&A

# Group Profile

## General

- ▶ Vertically integrated utility
- ▶ Wholly-owned by the Republic of Latvia
- ▶ 4,163 employees
- ▶ Latvenergo Credit rating: Moody`s – Baa2/stable

## Financial Figures

		2012	2013	2014	1H 2015
Revenue	MEUR	1,064	1,100	1,011	474
EBITDA Margin <sup>1)</sup>	%	23%	23%	23%	29%
Profit	MEUR	51	46	30	62
Net Debt to EBITDA <sup>2)</sup>	times	2.5	2.8	3.0	2.6
Capital Ratio <sup>3)</sup>	%	57%	57%	58%	58%
Assets	MEUR	3,518	3,575	3,487	3,528
Investments	MEUR	264	225	178	79

## Main Facts (1H 2015)

- ▶ Installed generation capacities:
  - ▶ Riga CHPPs – 1,025 MW<sub>el</sub>; 1,617 MW<sub>th</sub>
  - ▶ Daugava HPPs – 1,536 MW<sub>el</sub>
  - ▶ Liepaja and small plants – 8 MW<sub>el</sub>; 227 MW<sub>th</sub>
- ▶ Length of power lines:
  - ▶ Distribution ~ 95 th. km
  - ▶ Transmission ~ 5 th. km
- ▶ Retail customers – 857 thousands
- ▶ Market share in the Baltics ~1/3

## Operational Figures

		2012	2013	2014	1H 2015
Retail electricity supply	GWh	8,287	7,954	8,688	3,934
Electricity generation	GWh	5,077	4,854	3,625	1,931
Thermal energy supply	GWh	2,669	2,517	2,442	1,348

1) EBITDA margin: EBITDA / revenue (12-month rolling)

2) Net Debt to EBITDA: net debt to EBITDA ratio (12-month rolling)

3) Capital ratio: total equity / total assets

# Latvenergo Group Structure



## Operating Segments

Generation and supply (61% of revenues; 58% of EBITDA)

- ▶ Latvenergo (LV)
- ▶ Elektrum Eesti (EE)
- ▶ Elektrum Lietuva (LT)
- ▶ Liepājas enerģija (LV)
- ▶ Enerģijas publiskais tirgotājs (LV)

Distribution (28% of revenues; 25% of EBITDA)

- ▶ Sadales tīkls (LV)

Transmission assets (5% of revenues; 13% of EBITDA)

- ▶ Latvijas elektriskie tīkli (LV)

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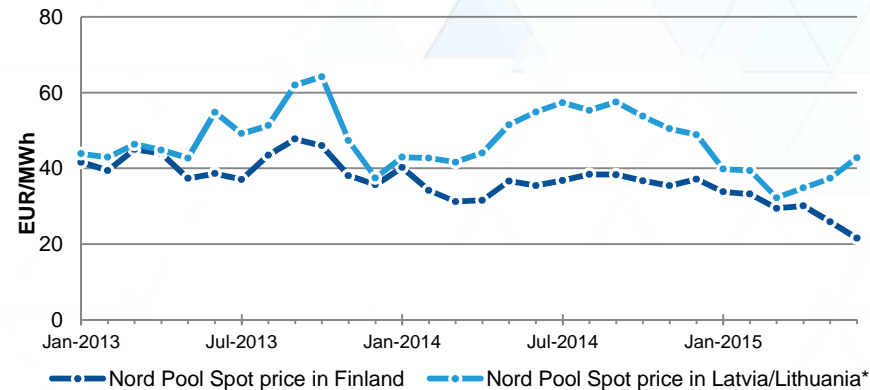
### Current Issues

- ▶ Green Bonds
- ▶ Mandatory Procurement
- ▶ Baltic Electricity Market

### Q&A

# Due to warmer weather conditions the electricity price decrease in the Nordics and the Baltics

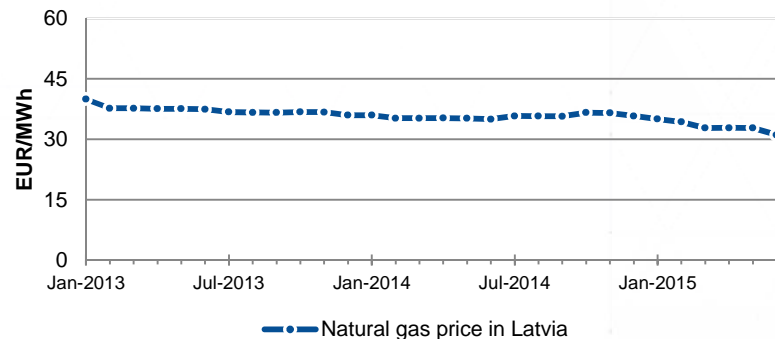
## Low electricity price



## Main facts – 1H 2015

- ▶ Nord Pool Spot price decreased by 17% in Finland and 11% in Estonia (30.0 EUR/MWh and 31.3 EUR/MWh respectively) and by 18 % in Latvia/Lithuania\* (37.7 EUR/MWh)
- ▶ Electricity price decrease was determined by lower electricity consumption due to warmer weather conditions and increased production of hydropower in Norway and Sweden
- ▶ Transmission system capacity shortage determines price differences between the Latvia/Lithuania and Estonia bidding areas
- ▶ In 1H 2015, natural gas price in Latvia remains high (33.2 EUR/MWh) – it gradually starts to decline (-6%)

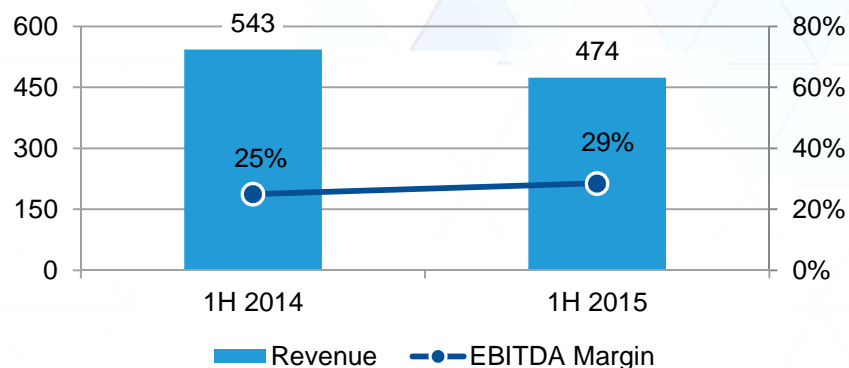
## Natural gas price in Latvia is gradually decreasing



\* In 1H 2015, electricity prices in the Latvia and Lithuania bidding areas were equal 99% hours.

# Revenue and Profitability

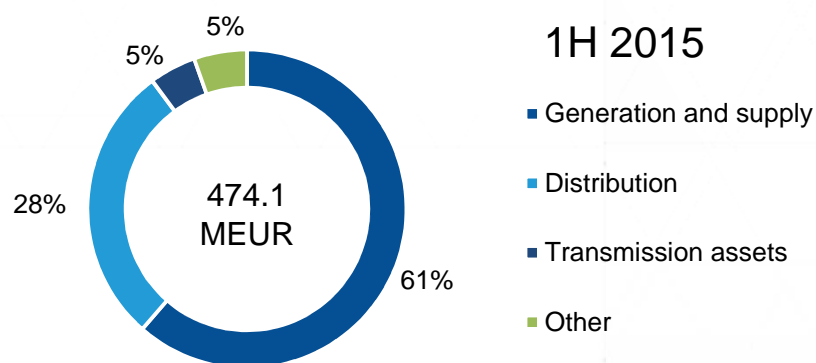
## Revenue and EBITDA Margin



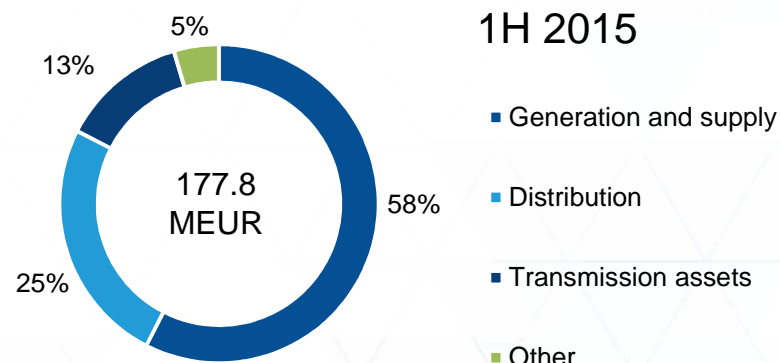
## Key Highlights

- ▶ Positive impact due to full market opening in Latvia as of 1 January 2015
- ▶ Change of mandatory procurement accounting principles as of 2014
- ▶ EBITDA margin – 29%

## Revenue by segment



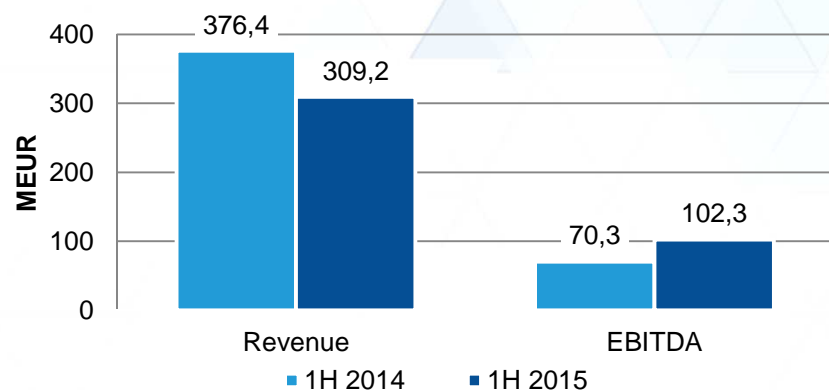
## EBITDA by segment



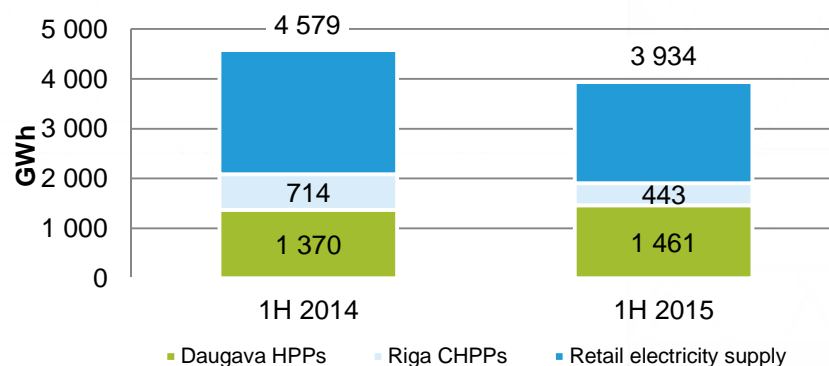


# Generation and Supply

## Segment revenue and EBITDA



## Retail electricity supply – 3,934 GWh



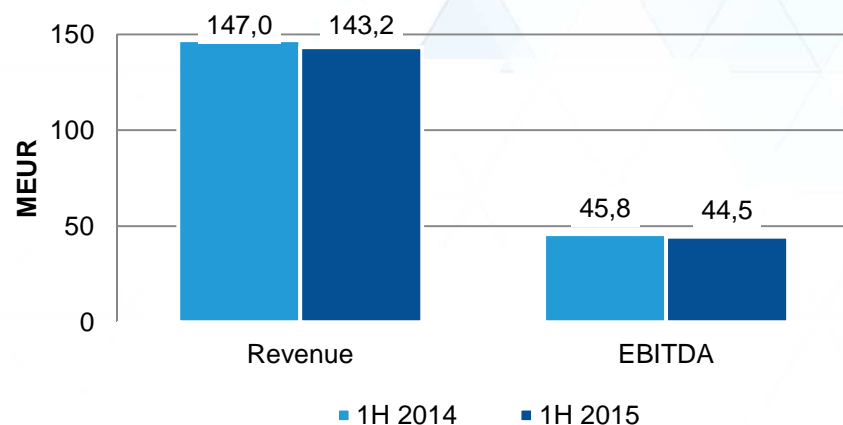
## Largest segment of the Group

- ▶ In 1H 2014, lost revenues due to electricity supply at the regulated tariff were EUR 21.1 million
- ▶ Mandatory procurement PSO fee revenues are no longer recognised in the revenue of the Group\*
- ▶ Market share ~ 1/3 of the Baltic electricity retail market
- ▶ Electricity generation – 1,931 GWh (1H 2014: 2,111 GWh):
  - ▶ Electricity generation at Daugava HPPs increased by 7%
  - ▶ Riga CHPPs operated in market conjuncture effectively planning operating modes and fuel consumption
- ▶ Thermal energy generation – 1,395 GWh (1H 2014: 1,465 GWh)

\* Along with Energijas publiskais tirgotājs AS entrance into operation as of 1 April 2014, mandatory procurement Public service obligation fee (PSO fee) revenues are not recognised in the revenue

# Increased investments in distribution assets

## Segment revenue and EBITDA



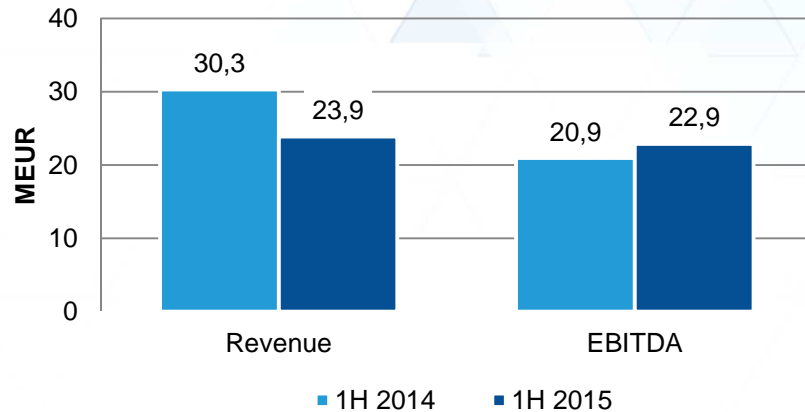
## Increased investments by 1/3

- ▶ Positive impact on the results was due to lower distribution losses and lower electricity price
- ▶ Negative impact on the results due to lower revenue of distribution services
- ▶ The distribution asset value increased by 2% due to investments

		1H 2014	1H 2015
Assets	MEUR	1,257	1,279
Investments	MEUR	32	43

# Transmission assets – gradually improving returns

## Increase in EBITDA by 9%



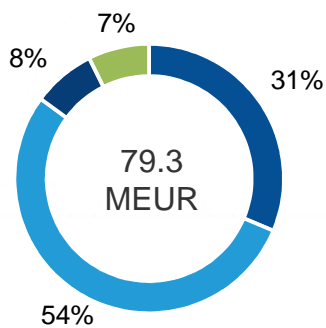
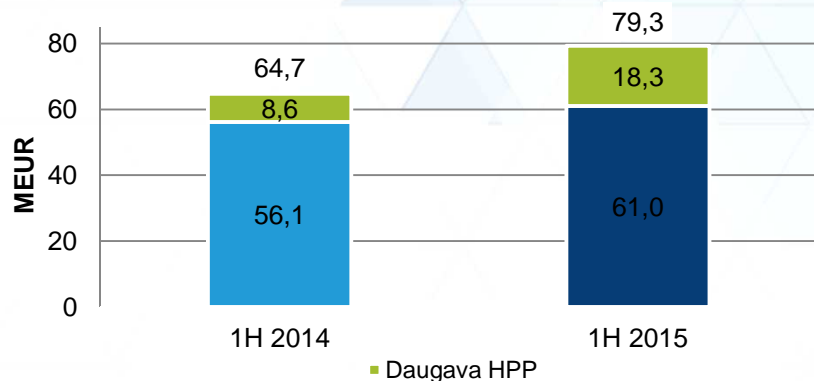
## Return on transmission assets\* – 4.1%

- ▶ Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- ▶ Revenue decrease was influenced by structural change as of 1 January 2015
- ▶ The value of transmission assets has increased by 4% to 450 MEUR due to investments in *Kurzeme Ring* project

		1H 2014	1H 2015
Assets	MEUR	435	451
Investments	MEUR	15	6
incl. <i>Kurzeme Ring</i>		11	0.1

\* Return on segment assets – operating profit of the segment (12-month rolling) / average segment assets ((assets at the beginning of the period + assets at the end of the period) / 2)

# Investments



## 1H 2015

- Generation and supply
- Distribution
- Transmission assets
- Other

## Investment Projects

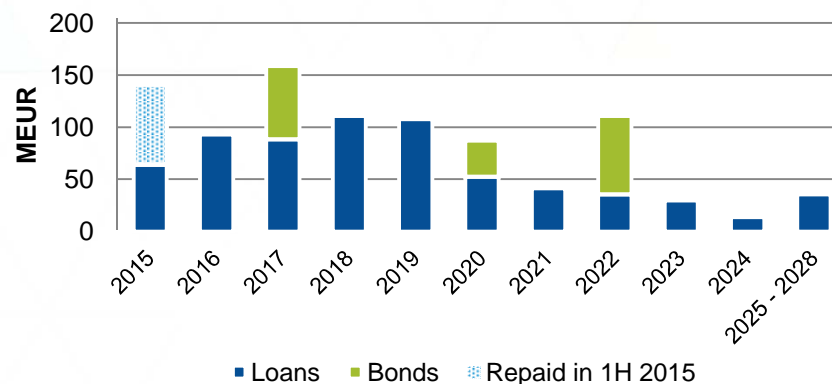
- ▶ **Daugava HPPs hydropower unit reconstruction:**
  - ▶ Estimated costs > 200 MEUR
  - ▶ Completion in 2022
  - ▶ Reconstruction will provide for further 40-year operation of hydropower units
  
- ▶ **NordBalt 02 -330kV, Kurzeme Ring:**
  - ▶ Total costs ~220 MEUR
    - ▶ incl. 95 MEUR in the 1st and 2nd stage of the project
  - ▶ Completion in 2019
  - ▶ EU co-funding for the final stage – 45%
  
- ▶ **Third electricity transmission interconnection between Estonia and Latvia**
  - ▶ Estimated costs ~ 100 MEUR
  - ▶ Completion till 2020
  - ▶ EU co-funding – 65%
  - ▶ Environmental impact assessment of the interconnection project is being carried out

# Debt and Liquidity

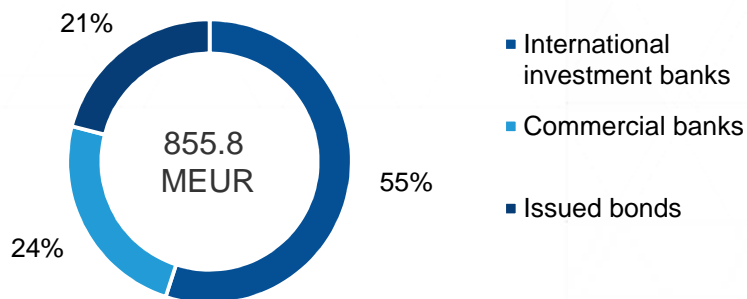
## Key Facts

- ▶ Total borrowings - 855.8 MEUR
- ▶ Share of fixed interest rate (with IRS) – 48%
- ▶ Weighted average time to maturity – 4.5 years
- ▶ Compliance with all covenants
- ▶ In June *green* bonds in the amount of 75 MEUR were issued
- ▶ Capital ratio – 58%

## Debt Repayment Schedule



## Lenders by Category



## Liquidity Position

Liquid assets (cash and short term bank deposits with maturity up to 3 months)	152.1 MEUR
Committed long-term loans	290.0 MEUR
Investment in liquid financial assets	28.5 MEUR
Additional liquidity reserves	318.5 MEUR

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## Q&A

# Green Bonds: Main Facts

## Bond Programme

- ▶ Total amount up to 100 MEUR
- ▶ Second opinion on *Green Bond Framework* provided by *CICERO*\*
- ▶ Strongest rating assigned by *CICERO* – dark green shading



## Green Bonds Issued: 75 MEUR

- ▶ Date of issue: 10 June 2015
- ▶ Maturity date: 10 June 2022
- ▶ Nominal value: 1,000 EUR
- ▶ Coupon, fixed, annual: 1.9%
- ▶ First state-owned *green bond* issuer in Eastern Europe

## Bonds Listed on Nasdaq Riga

- ▶ Bonds listed on Nasdaq Baltic Bond List by Nasdaq Riga as of 1 July 2015



## Rating Assigned by Moody's: Baa2 (stable)

- ▶ On 3 August 2015 Moody's Investors Service assigned a Baa2 (stable) rating to Latvenergo *green bonds*
- ▶ The first *green bonds* in Central and Eastern Europe rated by international credit rating agency

\* Center for International Climate and Environmental Research - Oslo

# Mandatory procurement PSO fee remains at the previous level

## Recognised accrued PSO fee revenues

		1H 2015	1H 2014	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	87.3	89.6	(2.4)	(3%)
Mandatory procurement expenditures <sup>2</sup>	MEUR	(140.6)	(127.1)	(13.4)	11%
<i>Incl. Cogeneration</i>	MEUR	(83.6)	(80.8)	(2.8)	3%
<i>Incl. Renewable energy resources</i>	MEUR	(56.5)	(46.4)	(10.2)	22%
<b>Difference</b>	MEUR	<b>(53.3)</b>	<b>(37.5)</b>	<b>(15.8)</b>	<b>42%</b>

## Balanced mandatory procurement PSO fee revenues and costs

- ▶ As of 1 April 2014 the public trader functions are performed by Enerģijas publiskais tirgotājs AS
- ▶ Starting from 1 April 2015 PSO fee remains at the previous level (EUR 2.679 cents/kWh)
- ▶ The difference between PSO fee income and expenditures was EUR 53.3 million

## Future events

- ▶ According to decision passed by the Cabinet of Ministers of the Republic of Latvia on 31 August 2015, state support will be provided to maintain mandatory procurement PSO fee at the same level for 3 years
- ▶ The decision also provides to keep Latvenergo AS dividend payout ratio close to 100%

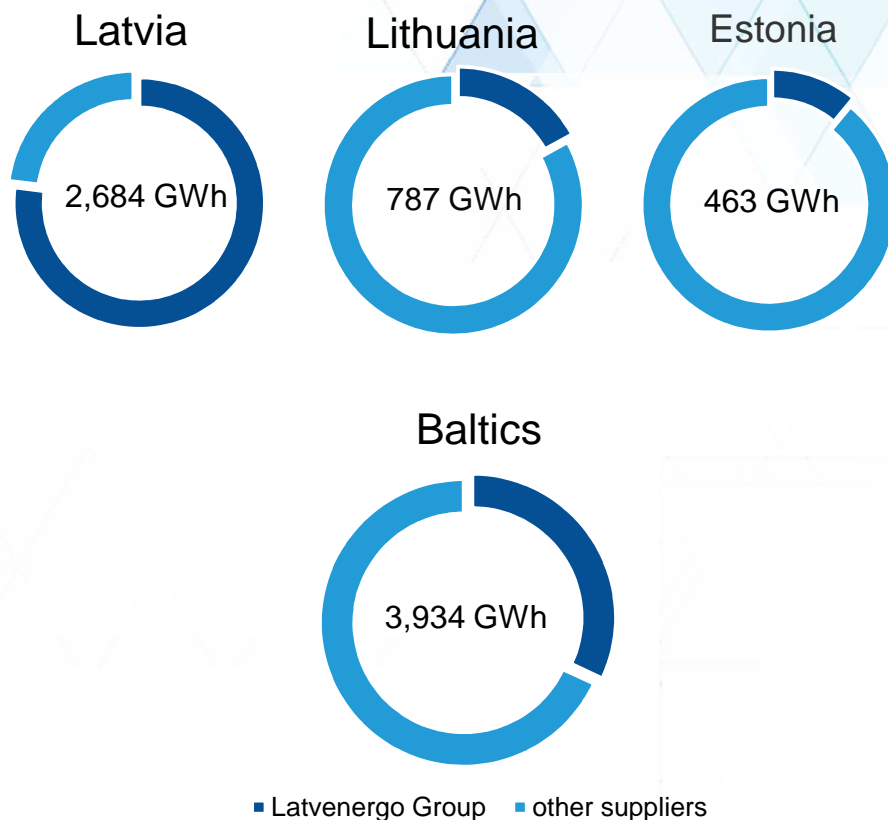
\* Mandatory procurement expenditures – costs of electricity purchased within the mandatory procurement and guaranteed fee for electrical capacity installed at power plants minus revenues from sale of purchased electricity on the Nord Pool Spot exchange



# Baltic Electricity Market



## Retail Electricity Supply in 1H 2015



## Key Highlights

- ▶ Market for households in Latvia open since 1 January 2015
  - ▶ Estonia: 100% open and deregulated
  - ▶ Lithuania: 100% open, 75% deregulated
- ▶ Latvenergo competitive advantage:
  - ▶ Low CO<sub>2</sub> exposure
  - ▶ ELEKTRUM – new brand name introduced
  - ▶ Balanced retail and generation portfolio
- ▶ Largest retailer in the Baltics ~ 1/3 market share
- ▶ Number of customers in Estonia and Lithuania has increased by ~ 9% exceeding 35 thousand
- ▶ Retail electricity supply in Lithuania and Estonia reached 1,250 GWh: ~50% more than supply of competitors in Latvia

## Q&A

or send to:

E-mail : [investor.relations@latvenergo.lv](mailto:investor.relations@latvenergo.lv)

Website : <http://www.latvenergo.lv>

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# Appendices

# Consolidated Statement of Profit or Loss\*

	01/01-30/06/2015	01/01-30/06/2014
	EUR'000	EUR'000
Revenue	474 136	543 082
Other income	2 230	1 842
Raw materials and consumables used	(219 037)	(320 295)
Personnel expenses	(47 917)	(48 814)
Depreciation, amortisation and impairment of property, plant and equipment	(98 782)	(87 917)
Other operating expenses	(31 575)	(29 635)
<b>Operating profit</b>	<b>79 055</b>	<b>58 263</b>
Finance income	1 443	1 391
Finance costs	(9 853)	(10 159)
Share of profit / (loss) of associates	-	(395)
<b>Profit before tax</b>	<b>70 645</b>	<b>49 100</b>
Income tax	(8 947)	(6 751)
<b>Profit for the period</b>	<b>61 698</b>	<b>42 349</b>

# Consolidated Statement of Financial Position\*

	30.06.2015	31.12.2014
	EUR'000	EUR'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets and property, plant and equipment	3 057 895	3 079 327
Investment property	716	1 343
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	28 498	28 528
Other non-current receivables	9	14
<b>TOTAL non-current assets</b>	<b>3 087 159</b>	<b>3 109 253</b>
<b>Current assets</b>		
Inventories	29 160	22 560
Trade receivables and other current receivables	259 076	233 752
Current financial investments	-	-
Derivative financial instruments	-	-
Cash and cash equivalents	152 116	121 011
<b>TOTAL current assets</b>	<b>440 352</b>	<b>377 323</b>
<b>TOTAL ASSETS</b>	<b>3 527 511</b>	<b>3 486 576</b>
<b>EQUITY</b>		
Share capital	1 288 446	1 288 446
Reserves	649 919	645 829
Retained earnings	109 128	79 995
<b>Equity attributable to equity holders of the Parent Company</b>	<b>2 047 493</b>	<b>2 014 270</b>
Non-controlling interests	6 482	6 531
<b>TOTAL equity</b>	<b>2 053 975</b>	<b>2 020 801</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	754 493	688 297
Deferred income tax liabilities	272 268	268 026
Provisions	14 758	15 588
Derivative financial instruments	8 616	11 698
Other liabilities and deferred income	194 922	194 474
<b>Total non-current liabilities</b>	<b>1 245 057</b>	<b>1 178 083</b>
<b>Current liabilities</b>		
Trade and other payables	117 952	139 912
Borrowings	101 268	138 925
Derivative financial instruments	9 259	8 855
<b>TOTAL current liabilities</b>	<b>228 479</b>	<b>287 692</b>
<b>TOTAL liabilities</b>	<b>1 473 536</b>	<b>1 465 775</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3 527 511</b>	<b>3 486 576</b>

\* Unaudited Interim Condensed Consolidated Financial Statements. Prepared in accordance with the IFRS as adopted by the EU

# Consolidated Statement of Cash Flows\*

	01/01-30/06/2015	01/01-30/06/2014
	EUR'000	EUR'000
<b>Cash flows from operating activities</b>		
Profit before tax	70 645	49 100
<b>Adjustments:</b>		
- Amortisation, depreciation and impairment of non-current assets	100 904	88 976
- Net financial adjustments	10 455	4 073
- Other adjustments	(791)	582
<b>Operating profit before working capital adjustments</b>	<b>181 213</b>	<b>142 731</b>
Increase in current assets	(38 295)	(55 553)
(Decrease) / increase in trade and other payables	(20 070)	9 386
<b>Cash generated from operating activities</b>	<b>122 848</b>	<b>96 564</b>
Interest paid	(9 688)	(9 808)
Interest received	808	1 376
Income tax paid	4 490	(3 427)
<b>Net cash flows from operating activities</b>	<b>118 458</b>	<b>84 705</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible assets and property, plant and equipment	(83 070)	(67 026)
Proceeds from sales of investments	-	-
Proceeds on financing from European Union funds and other financing	149	2 073
Proceeds from redemption of held-to-maturity assets	30	30
<b>Net cash flows used in investing activities</b>	<b>(82 891)</b>	<b>(64 923)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issued debt securities (bonds)	74 894	-
Proceeds on borrowings from financial institutions	30 862	2 600
Repayment of borrowings	(77 591)	(72 627)
Dividends paid to non-controlling interests	(1 148)	(1 197)
Dividends paid to equity holders of the Parent Company***	(31 479)	(12 649)
Dividends received from associates	-	2 473
<b>Net cash flows from / (used in) financing activities</b>	<b>(4 462)</b>	<b>(81 400)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>31 105</b>	<b>(61 618)</b>
Cash and cash equivalents at the beginning of the period	91 747	255 423
<b>Cash and cash equivalents at the end of the period**</b>	<b>122 852</b>	<b>193 805</b>

\*Unaudited Interim Condensed Consolidated Financial Statements. Prepared in accordance with the IFRS as adopted by the EU

\*\*Received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 (30/06/2014 - nil) has not been included in cash and cash equivalents as at 30th of June 2015 because it is defined as restricted cash and cash equivalents

\*\*\* Dividends declared for 2013 in the amount of EUR 23,605 thousand are settled partly by corporate income tax overpayment in the amount of EUR 10,956 thousand