

Latvenergo Group Unaudited Results – 2015

9 March 2016
Guntars Baļčūns, CFO



Disclaimer

This presentation and any materials distributed or made available in connection herewith (collectively, the “presentation”) have been prepared by Latvenergo AS (the “Company”) solely for your use and benefit for information purposes only. By accessing, downloading, reading or otherwise making available to yourself any content of the presentation, in whole or in part, you hereby agree to be bound by the following limitations and accept the terms and conditions as set out below.

You are only authorized to view, print and retain a copy of the presentation solely for your own use. No information contained in the presentation may be copied, photocopied, duplicated, reproduced, passed on, redistributed, published, exhibited or the contents otherwise divulged, released or disseminated, directly or indirectly, in whole or in part, in any form by any means and for any purpose to any other person than your directors, officers, employees or those persons retained to advise you, who agree to be bound by the limitations set out herein.

The presentation does not constitute or form part of, and should not be construed as, an offer, solicitation or invitation to subscribe for, underwrite or otherwise acquire, any securities of the Company or any member of its group nor should it or any part of it form the basis of, or be relied on in connection with, any contract to purchase or subscribe for any securities of the Company or any member of its group, nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Any person considering the purchase of any securities of the Company must inform himself or herself independently before taking any investment decision. The presentation has been provided to you solely for your information and background and is subject to amendment. Further, the information in this presentation has been compiled based on information from a number of sources and reflects prevailing conditions as of its date, which are subject to change.

The information contained in this presentation has not been independently verified. The following consolidated financial statements are unaudited and no auditor has opined that these unaudited financial statements present fairly, in all material respects, the financial position and the results of operations of the Company for the period reported in accordance with generally accepted accounting principles. Therefore, once audited by an independent auditor, the audited financial statements of the Company may differ from the unaudited financial statements presented. However, the Company has prepared the unaudited financial statements on the same basis as its audited financial statements, and in the opinion of the Company’s management, the unaudited financial statements include all adjustments that the Company considers necessary for a fair presentation of its financial position and results of operations for the period presented.

The information in this presentation is subject to verification, completion and change without notice and the Company is not under any obligation to update or keep current the information contained herein. Accordingly, no representation or warranty, express or implied, is made or given by or on behalf of the Company or any of its respective members, directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this presentation, and any reliance you place on such information or opinions will be at your sole risk. Neither the Company nor any of its respective members, directors, officers or employees nor any other person accepts any liability whatsoever for any loss howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith.

This presentation includes “forward-looking statements,” which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words “targets,” “believes,” “expects,” “aims,” “intends,” “will,” “may,” “anticipates,” “would,” “plans,” “could” or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company’s control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Accordingly, any reliance you place on such forward-looking statements will be at your sole risk. These forward-looking statements speak only as at the date as of which they are made. Past performance of the Company cannot be relied on as a guide to future performance. No statement in this presentation is intended to be a profit forecast.

This presentation is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Agenda

Group Profile

Financials 2015

- ▶ Market Overview
- ▶ Revenue and Profitability
- ▶ Segment Results
- ▶ Investments
- ▶ Debt and Liquidity
- ▶ Key Financials 2011-2015

Current Issues

- ▶ Baltic Electricity Market: Interconnections

Q&A

Group Profile

General

- ▶ Vertically integrated utility
- ▶ Wholly-owned by the Republic of Latvia
- ▶ 4,177 employees
- ▶ Latvenergo Credit rating: Moody`s – Baa2/stable

Latvenergo Group Structure



Main Facts

- ▶ Installed generation capacities:
 - ▶ Riga CHPPs – 1,025 MW_{el}; 1,617 MW_{th}
 - ▶ Daugava HPPs – 1,536 MW_{el}
 - ▶ Liepāja and small plants – 8 MW_{el}; 227 MW_{th}
- ▶ Length of power lines:
 - ▶ Distribution 94.1 thsd. km
 - ▶ Transmission 5.3 thsd. km
- ▶ Retail customers – 865 thousands
- ▶ Market share in the Baltics ~ 1/3

Operating Segments

- ▶ Generation and supply (61% of revenues; 53% of EBITDA)
 - ▶ Latvenergo AS (LV)
 - ▶ Elektrum Eesti OU (EE)
 - ▶ Elektrum Lietuva UAB (LT)
 - ▶ Liepājas enerģija SIA (LV)
 - ▶ Enerģijas publiskais tirgotājs AS (LV)
- ▶ Distribution (29% of revenues; 27% of EBITDA)
 - ▶ Sadales tīkls AS (LV)
- ▶ Transmission assets (5% of revenues; 15% of EBITDA)
 - ▶ Latvijas elektriskie tīkli AS (LV)

Agenda

Group Profile

Financials 2015

- ▶ Market Overview
- ▶ Revenue and Profitability
- ▶ Segment Results
- ▶ Investments
- ▶ Debt and Liquidity
- ▶ Key Financials 2011-2015

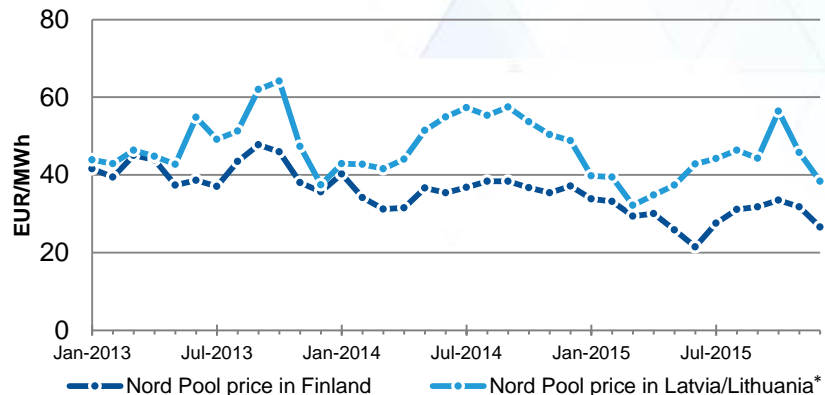
Current Issues

- ▶ Baltic Electricity Market: Interconnections

Q&A

Market Overview

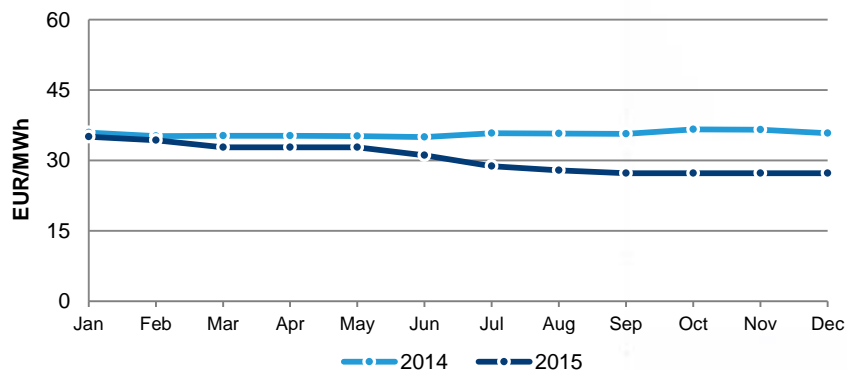
Low electricity price



Main facts – 2015

- ▶ Nord Pool price decreased by 16% in Latvia/Lithuania* (41.8 EUR/MWh) and by 17% in Estonia and by 18% in Finland (31.1 EUR/MWh and 29.7 EUR/MWh respectively)
- ▶ Electricity price decrease was determined by increased generation of hydropower in the Nordics and lower coal prices
- ▶ Transmission system capacity shortage determines price differences between the Latvia/Lithuania and Estonia bidding areas

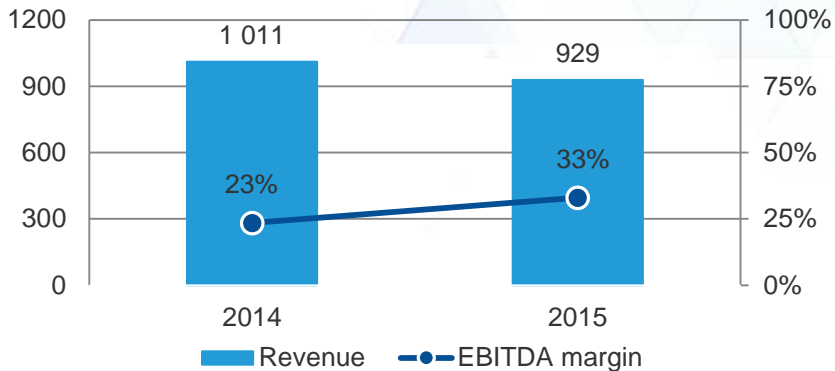
Natural gas price down by 15%



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

Latvenergo Group

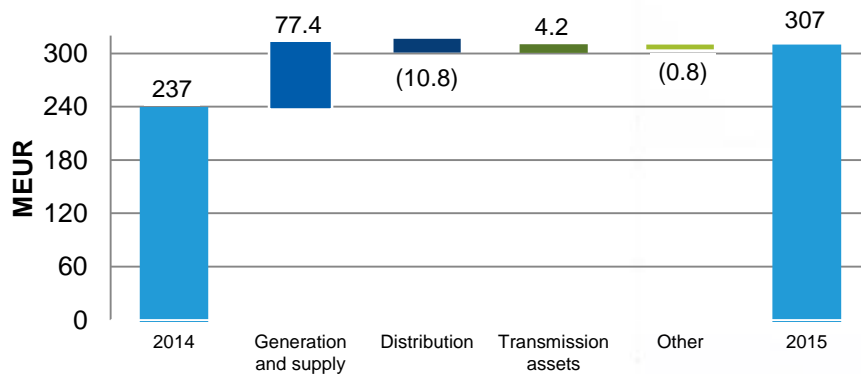
Revenue and EBITDA Margin



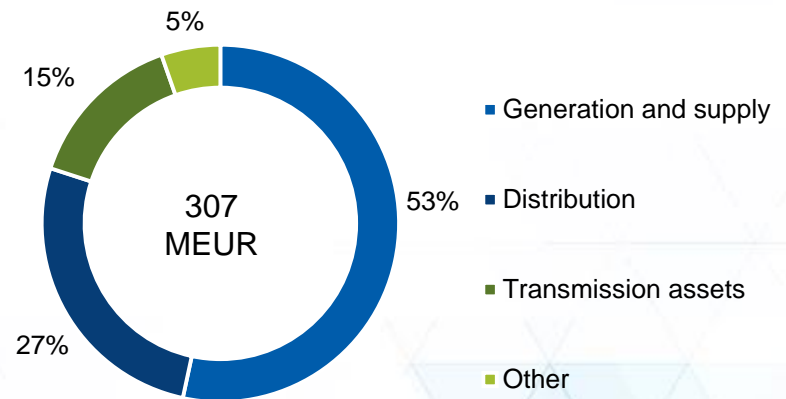
Key highlights

- ▶ Decrease in revenues due to change in accounting principles along with establishment of Enerģijas publiskais tirgotājs AS from 1 April 2014
- ▶ Increase in EBITDA due to:
 - ▶ Market opening for households in Latvia on 1 January 2015
 - ▶ Lower electricity and natural gas market prices
- ▶ In 2014, lost revenues due to electricity supply at the regulated tariff were 48.2 MEUR

EBITDA dynamics

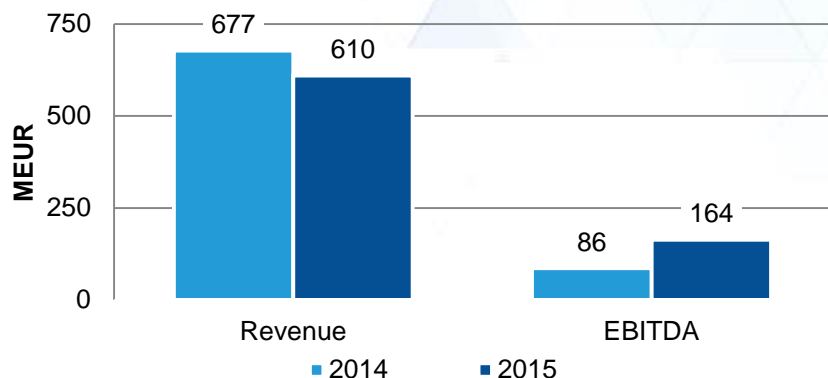


EBITDA weight by segment

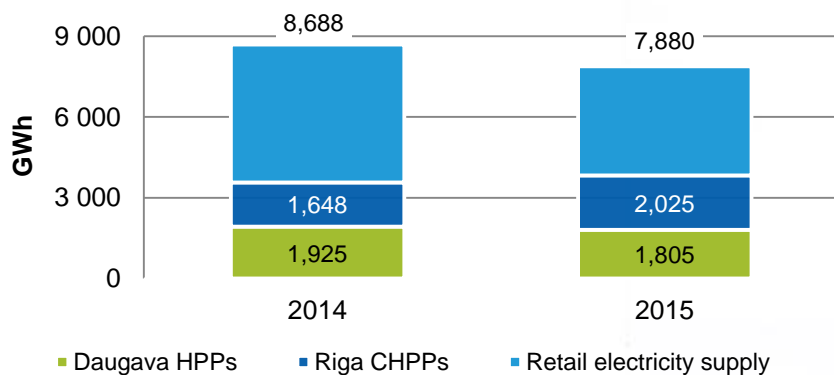


Generation and Supply

Segment revenue and EBITDA



Retail electricity supply – 7,880 GWh

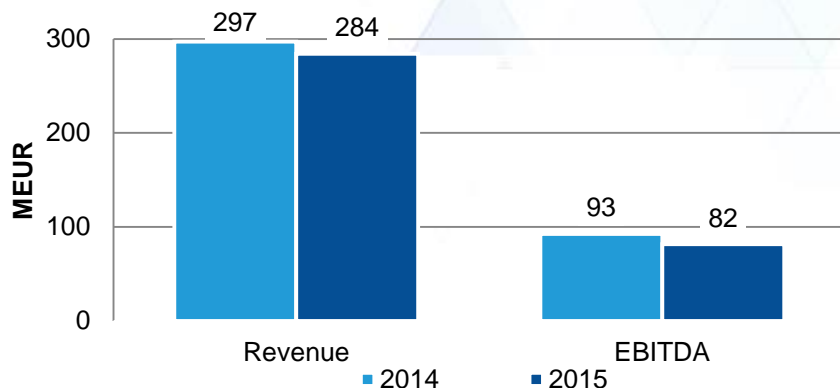


Key highlights

- ▶ Increase in EBITDA due to:
 - ▶ Market opening for households in Latvia on 1 January 2015
 - ▶ Lower electricity and natural gas market prices
- ▶ EBITDA negatively affected by 6% lower power generation of Daugava HPPs
- ▶ Market share ~ 1/3 of the Baltic electricity retail market
- ▶ Lower retail electricity supply due to:
 - ▶ increased competition in neighbouring countries
 - ▶ in 2015, the transmission system operator switched to electricity procurement directly from Nord Pool
- ▶ The number of business clients in Estonia and Lithuania was increased by about 33%
- ▶ Thermal energy generation – 2,408 GWh (2014: 2,560 GWh)

Distribution

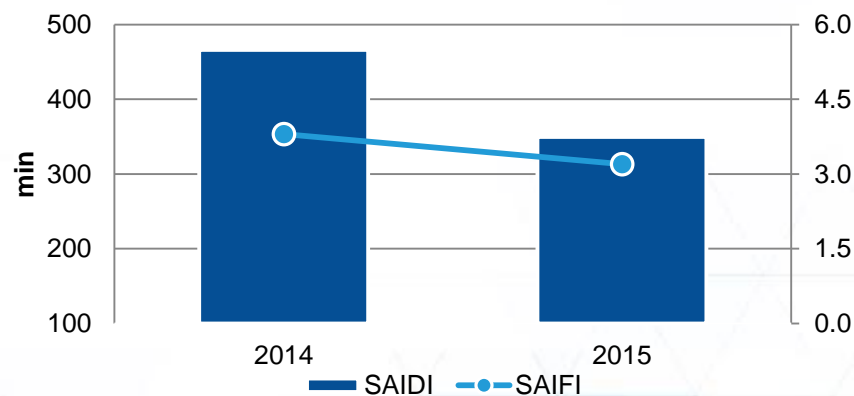
Segment revenue and EBITDA



Key highlights

- ▶ Decrease of revenues and EBITDA is mainly due to lower level of distributed electricity by 2%*
- ▶ Investments in distribution assets reached 101.3 MEUR (2014: 99.8 MEUR)
- ▶ On 20 January 2016 Sadales tīkls AS submitted PUC electricity distribution system services tariff rebalancing project

SAIDI (min) and SAIFI (number)**



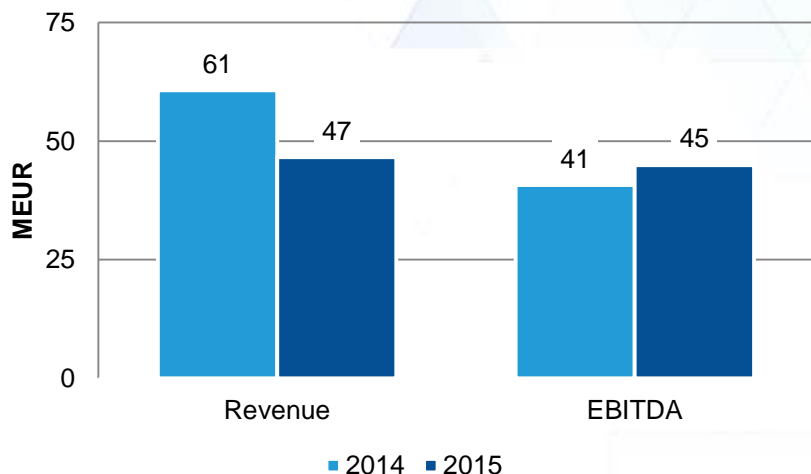
** SAIDI: System Average Interruption Duration Index
SAIFI: System Average Interruption Frequency Index

		2014	2015
Assets	MEUR	1,272	1,313
Investments	MEUR	100	101
Distributed electricity	GWh	6,421	6,263*

* The volume of electricity distributed excludes 123 GWh; that amount corresponds to the regulated electricity tariff revenues received at the beginning of 2015 that were recognized in 2014

Transmission Assets

Segment revenue and EBITDA



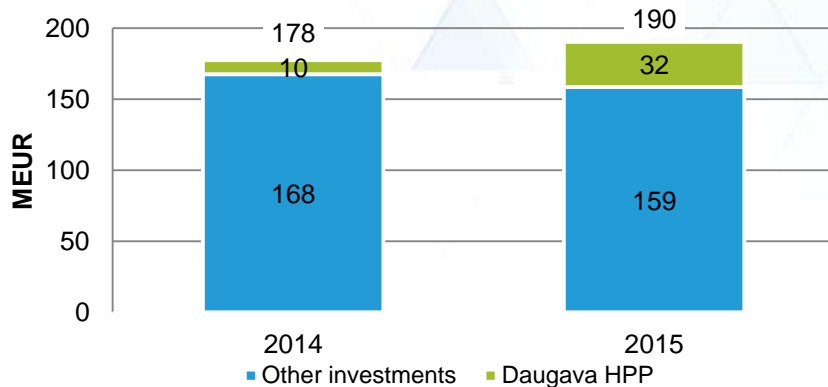
Key highlights

- ▶ Revenue decrease was influenced by asset construction and maintenance function transfer to TSO as of 1 January 2015
- ▶ Positive impact on profitability due to a gradual increase of regulatory asset base into the lease for Augstsprieguma tīkls
- ▶ Return on transmission assets* – 4.7%

		2014	2015
Assets	MEUR	457	432
Investments	MEUR	32	17
incl. Kurzeme Ring		11	0

* Return on segment assets – operating profit of the segment / average segment assets ((assets at the beginning of the year + assets at the end of the year)/2)

Investments

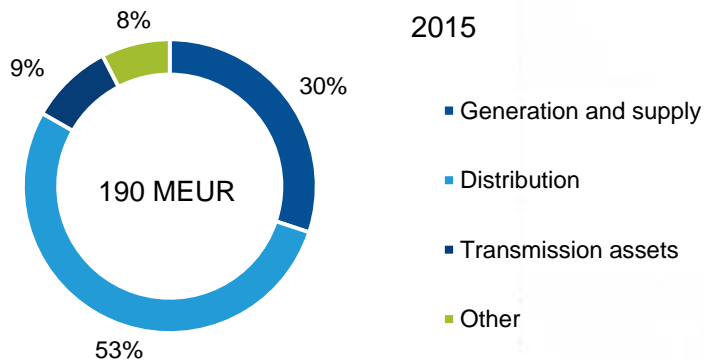


Largest investment projects

- ▶ Daugava HPPs hydropower unit reconstruction:
 - ▶ > 200 MEUR, completion till 2022
 - ▶ Reconstruction will provide for further 40-year operation of hydropower units

- ▶ NordBalt 02 -330kV, *Kurzeme Ring*:
 - ▶ ~220 MEUR, completion till 2019
 - ▶ EU co-funding for the final stage – 45%

Investments by segment



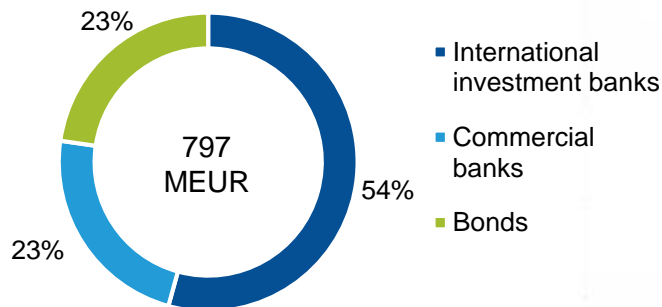
- ▶ Estonia – Latvia third power transmission network interconnection:
 - ▶ ~ 100 MEUR, completion till 2020
 - ▶ EU co-funding – 65%
 - ▶ Ongoing environmental impact assessment of the project

Debt and Liquidity

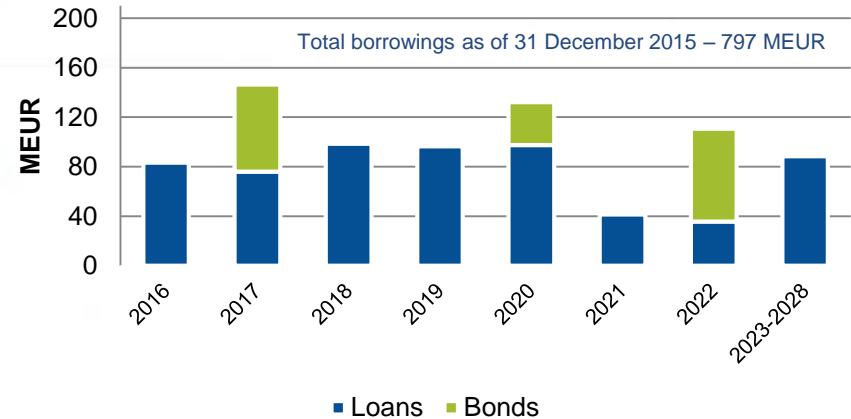
Key highlights

- ▶ Green bonds in the amount of EUR 75 million were issued, Moody's assigned Baa2 (stable) to the bonds
- ▶ At the beginning of 2015 Moody's upgraded Latvenergo AS credit rating to Baa2 with a stable outlook and on 12 February 2016 reconfirmed the rating
- ▶ Weighted average interest rate (with interest rate swaps): 2.4%
- ▶ Financial needs for coming investment projects and refinancing of loans are attracted in a timely manner

Lenders by category



Debt repayment schedule



Liquidity

Liquid assets (cash and short term bank deposits with maturity up to 3 months)	105 MEUR
Committed long-term loans	290 MEUR*
Investment in liquid financial assets	29 MEUR
Additional liquidity reserves	319 MEUR

* As of 31.12.2015. After the reporting end of the reporting period a long-term loan in the amount of 40.0 MEUR was withdrawn

Key Financials 2011 - 2015

Increased profitability

Income statement (MEUR)	2011	2012	2013	2014	2015
Revenue	962	1,064	1,100	1,011	929
EBITDA	255	244	249	237	307
Profit	62	51	46	30	85

Strong capital structure

Balance Sheet (MEUR)	2011	2012	2013	2014	2015
Total Assets	3,256	3,518	3,575	3,487	3,517
Total Equity	1,923	2,007	2,022	2,021	2,097
Borrowings	730	847	945	827	797
Net Debt ¹⁾	575	604	689	706	693
Investments	283	264	225	178	190

Solid financial performance

Key Financial Ratios	2011	2012	2013	2014	2015
EBITDA Margin ²⁾	26%	23%	23%	23%	33%
Return on equity (ROE) ³⁾	3.2%	2.6%	2.3%	1.5%	4.1%
Capital Ratio ⁴⁾	59%	57%	57%	58%	60%
Net Debt to EBITDA	2.3	2.5	2.8	3.0	2.3

Moody's credit rating Baa3 (stable) Baa3 (stable) Baa3 (stable) Baa3 (stable) Baa2 (stable)

- 1) Net debt: borrowings at the end of the year minus cash and cash equivalents at the end of the year
- 2) EBITDA margin: EBITDA / revenue
- 3) Return on equity (ROE): net profit / average value of equity (equity at the beginning of the year + equity at the end of the year/2)
- 4) Capital ratio: total equity / total assets

Agenda

Group Profile

Financials 2015

- ▶ Market Overview
- ▶ Revenue and Profitability
- ▶ Segment Results
- ▶ Investments
- ▶ Debt and Liquidity
- ▶ Key Financials 2011-2015

Current Issues

- ▶ Baltic Electricity Market: Interconnections

Q&A

Baltic Electricity Market: Interconnections

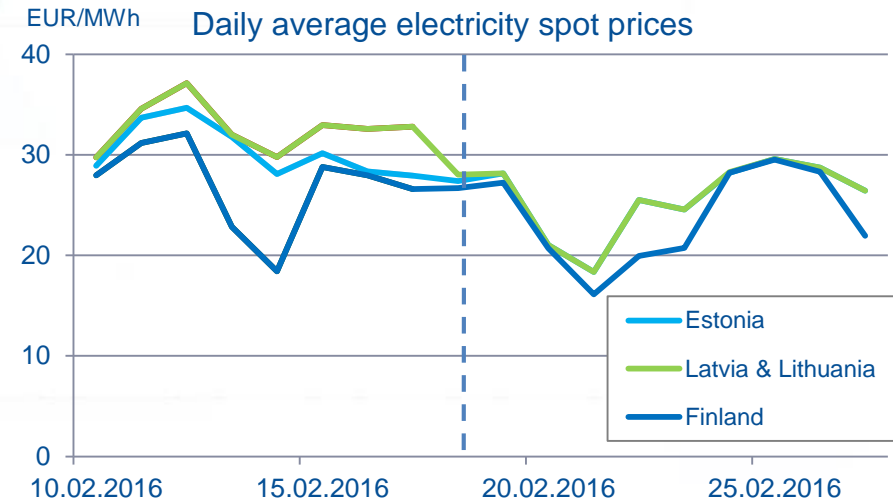


Average daily prices as of 22.02.2016

----- LitPol

----- NordBalt

Baltic electricity prices converge after NordBalt start-up



----- NordBalt in operation

- ▶ Interconnection capacity with western markets - 2200 MW
 - ▶ LitPol in full operation since 09.12.2015
 - ▶ NordBalt in full operation since 18.02.2016
- ▶ Baltic states form single price area during most of the time; converging closer with the price level in Finland and Sweden
- ▶ Spot market liquidity in the Baltics has substantially increased, meanwhile the Baltic market price has adopted the volatile character of the Nordic price

Q&A

or send to:

E-mail : investor.relations@latvenergo.lv

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

Latvenergo AS

Pulkveža Brieža iela 12

Rīga, LV-1230

Latvija

Appendices

Consolidated Statement of Profit or Loss*

	2015	2014
	EUR'000	EUR'000
Revenue	929,128	1,010,757
Other income	4,880	5,273
Raw materials and consumables used	(470,532)	(621,285)
Personnel expenses	(94,609)	(97,954)
Depreciation, amortisation and impairment of property, plant and equipment	(198,828)	(187,595)
Other operating expenses	(61,978)	(59,953)
Operating profit	108,061	49,243
Finance income	2,925	3,004
Finance costs	(18,579)	(20,380)
Share of profit / (loss) of associates	1	(357)
Profit before tax	92,408	31,510
Income tax	(7,443)	(1,720)
Profit for the year	84,965	29,790

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

Consolidated Statement of Financial Position*

	31/12/2015	31/12/2014
	EUR'000	EUR'000
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,090,660	3,079,327
Investment property	696	1,343
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	20,609	28,528
Other non-current receivables	6	14
Total non-current assets	3,112,012	3,109,253
Current assets		
Inventories	24,791	22,560
Trade receivables and other receivables	268,128	233,752
Investments in held-to-maturity financial assets	7,859	-
Cash and cash equivalents	104,543	121,011
Total current assets	405,321	377,323
TOTAL ASSETS	3,517,333	3,486,576
EQUITY		
Share capital	1,288,531	1,288,446
Reserves	669,596	645,829
Retained earnings	131,588	79,995
Equity attributable to equity holders of the Parent Company	2,089,715	2,014,270
Non-controlling interests	6,913	6,531
Total equity	2,096,628	2,020,801
LIABILITIES		
Non-current liabilities		
Borrowings	714,291	688,297
Deferred income tax liabilities	273,980	268,026
Provisions	15,984	15,588
Derivative financial instruments	8,291	11,698
Other liabilities and deferred income	196,386	194,474
Total non-current liabilities	1,208,932	1,178,083
Current liabilities		
Trade and other payables	121,211	139,912
Borrowings	83,192	138,925
Derivative financial instruments	7,370	8,855
Total current liabilities	211,773	287,692
TOTAL EQUITY AND LIABILITIES	3,517,333	3,486,576

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

Consolidated Statement of Cash Flows*

	2015	2014
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	92,408	31,510
Adjustments:		
- Amortisation, depreciation and impairment of non-current assets	202,906	190,065
- Net financial adjustments	16,300	9,904
- Other adjustments	(735)	215
Operating profit before working capital adjustments	310,879	231,694
Increase in current assets	(79,421)	(90,817)
(Decrease) / increase in trade and other payables	(19,318)	19,062
Cash generated from operating activities	212,140	159,939
Interest paid	(19,189)	(20,915)
Interest received	1,606	2,082
Repaid / (paid) corporate income tax and real estate tax	3,631	(5,777)
Net cash flows from operating activities	198,188	135,329
Cash flows from investing activities		
Purchase of intangible assets and PPE	(190,423)	(177,988)
Proceeds from sales of investments	-	5,779
Proceeds on financing from EU funds and other financing	17,972	2,161
Proceeds from redemption of held-to-maturity financial assets	60	60
Net cash flows used in investing activities	(172,391)	(169,988)
Cash flows from financing activities		
Proceeds from issued debt securities (bonds)	74,902	-
Proceeds on borrowings from financial institutions	30,000	22,600
Repayment of borrowings	(134,875)	(139,695)
Dividends paid to non-controlling interests	(1,148)	(1,197)
Dividends paid to equity holders of the Parent Company**	(31,479)	(12,649)
Cancelled restriction on government grant for mandatory procurement public service obligation costs compensation	29,264	-
Received government grant for mandatory procurement public service obligation costs compensation	20,335	-
Dividends received from associates	-	1,924
Net cash flows used in financing activities	(13,001)	(129,017)
Net increase / (decrease) in cash and cash equivalents	12,796	(163,676)
Cash and cash equivalents at the beginning of the year	91,747	255,423
Cash and cash equivalents at the end of the year***	104,543	91,747

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

** 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

*** At the end of 2014 received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 was not included in cash and cash equivalents because it was defined as restricted cash and cash equivalents