



Investor Conference Webinar Presentation

Latvenergo Group Unaudited Results – Q1 2016

14 June 2016

Guntars Baļčūns, CFO



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Agenda

Group Profile

Financials Q1 2016

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

Current Issues

- ▶ Sustainability and Annual Report 2015
- ▶ Distribution: Balanced Tariff
- ▶ Green Bonds

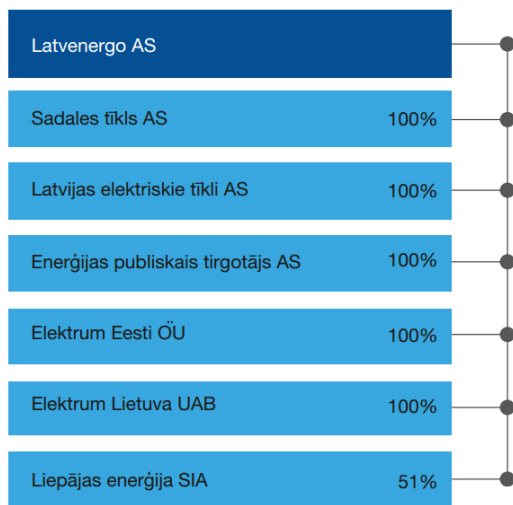
Q&A

Group Profile

General

- Vertically integrated utility
- Wholly-owned by the Republic of Latvia
- 4,181 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 – 859 thousands
- Market share in the Baltics ~ 1/3

Operating segments

- Generation and supply (62% of revenues; 58% of EBITDA)
 - Latvenergo AS (LV)
 - Elektrum Eesti OU (EE)
 - Elektrum Lietuva UAB (LT)
 - Liepājas enerģija SIA (LV)
 - Enerģijas publiskais tirgotājs AS (LV)
- Distribution (28% of revenues; 27% of EBITDA)
 - Sadales tīkls AS (LV)
- Transmission assets (4% of revenues; 12% of EBITDA)
 - Latvijas elektriskie tīkli AS (LV)

Agenda

Group Profile

Financials Q1 2016

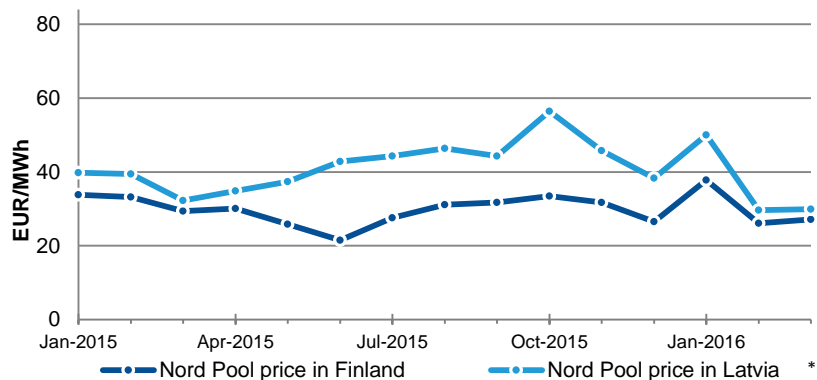
- ▶ Market Overview
- ▶ Revenue and Profitability
- ▶ Segment Results
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- ▶ Debt and Liquidity

Current Issues

Q&A

Market Overview

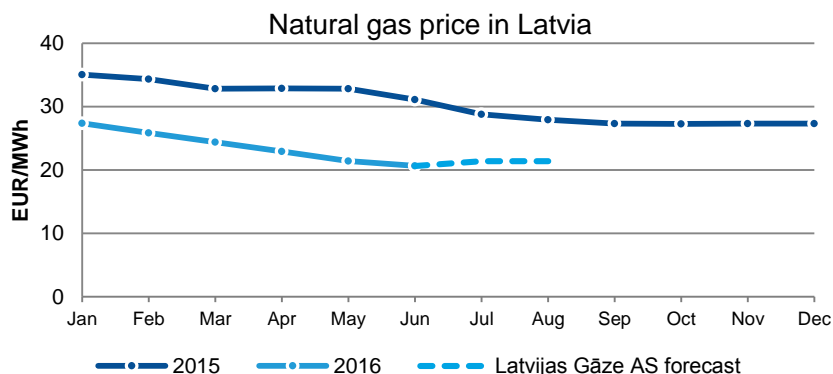
Low electricity price



Main facts – Q1 2016

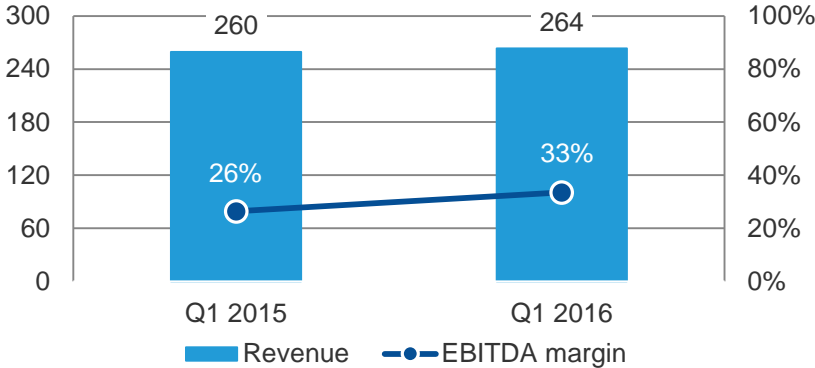
- Nord Pool price decreased by 2% in Latvia and Estonia (36.5 EUR/MWh and 31.8 EUR/MWh respectively), by 1% in Lithuania (36.9 EUR/MWh) and by 6% in Finland (30.3 EUR/MWh)
- Electricity price decrease was determined by increased generation of hydropower in the Nordics and lower coal and natural gas prices
- New interconnections have contributed to electricity spot price convergence between Finland and the Baltics
- In June Natural gas tariff in Latvia for industrial consumers reached the lowest level in 9 years

Natural gas price continues to decrease



Latvenergo Group

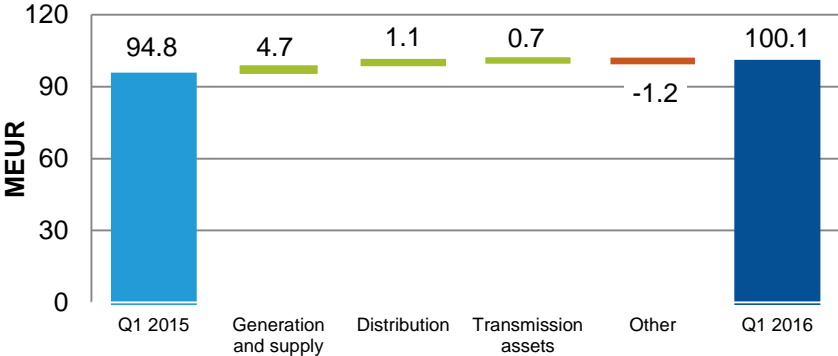
Revenue and EBITDA Margin



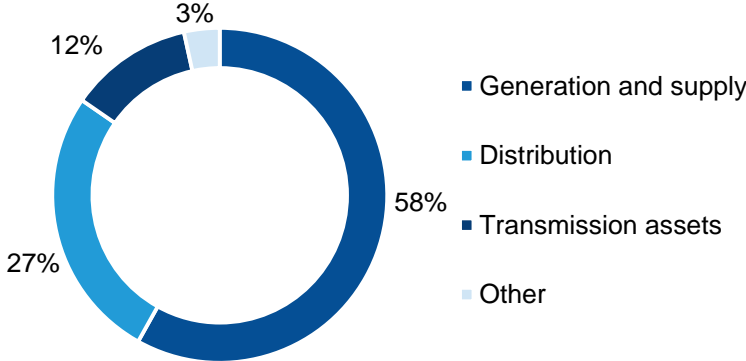
Key highlights

- The results were mainly positively impacted by lower natural gas price; negatively – by 19% lower generation output at Daugava HPPs
- EBITDA margin – 33% (Q1 2015: 26%)

EBITDA dynamics

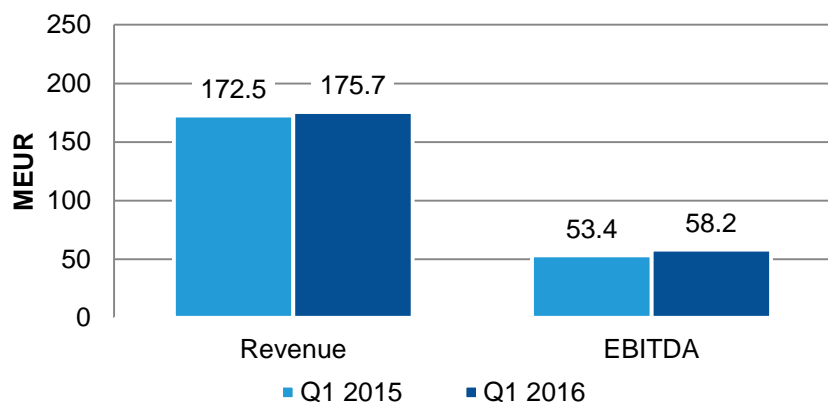


EBITDA weight by segment

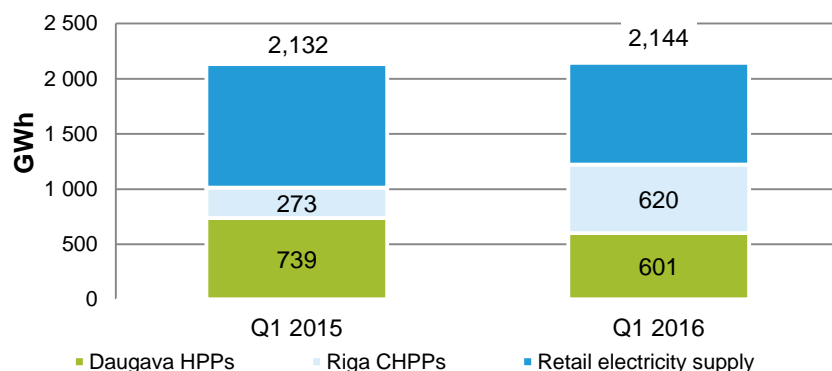


Generation and Supply

Segment revenue and EBITDA



Retail electricity supply – 1,173 GWh

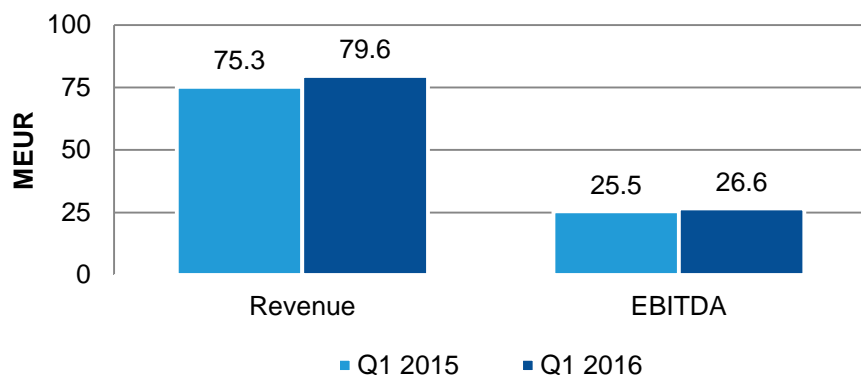


Key highlights

- The results of the segment were positively impacted by 24% lower natural gas price
- The results of the segment were negatively impacted by 19% lower generation output at Daugava HPPs
- Effective and operative operations of Riga CHPPs precluded the electricity price increase risk
- Total electricity generated represents 58% of retail electricity supply (Q1 2015: 48%)
- Lower ambient air temperature determined higher consumption of thermal energy – thermal energy generation increased by 15%

Distribution

Segment revenue and EBITDA

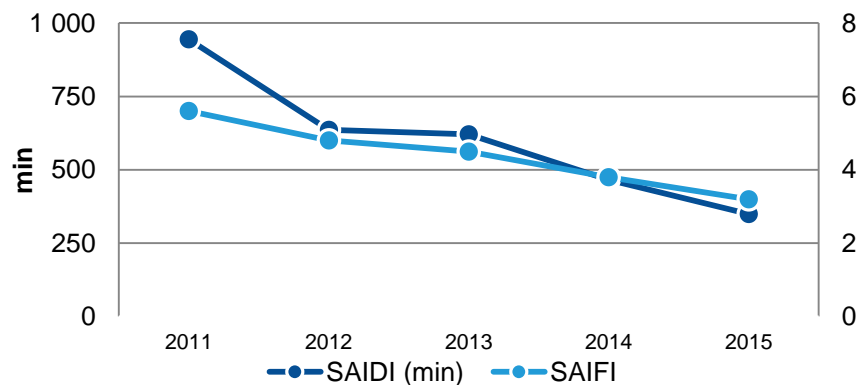


		Q1 2015	Q1 2016
Assets	MEUR	1,276	1,307
Investments	MEUR	18.3	20.1
Distributed electricity	GWh	1,672	1,761

Key highlights

- Positive impact on the results was due to increased distribution services revenue
- Investments in distribution assets reached 20.1 MEUR (Q1 2015: 18.3 MEUR)
- On 5 May 2016, PUC approved electricity distribution system service tariff, which is expected to come into force as of 1 August 2016

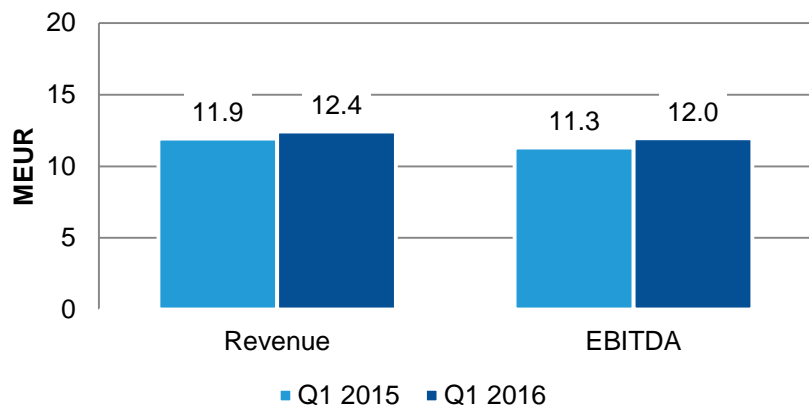
SAIDI (min) and SAIFI (number)*



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

Transmission Assets

Segment revenue and EBITDA



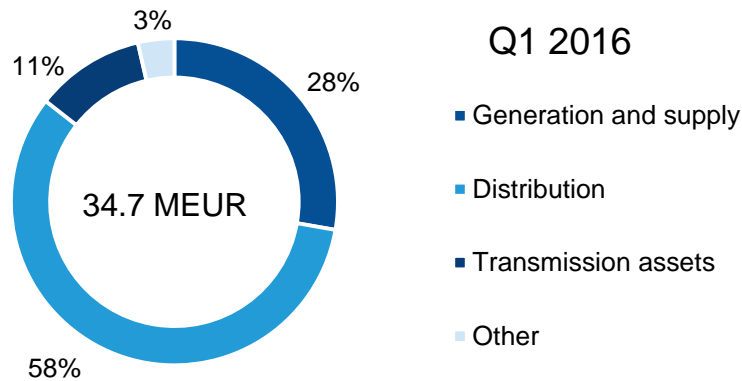
Key highlights

- Positive impact on profitability due to gradual inclusion of regulatory asset revaluation reserve into the lease
- Investment in transmission system assets was 3.8 MEUR, which is by 2.3 MEUR more than in the Q1 last year
- Major ongoing investment projects:
 - *Kurzeme Ring*
 - Estonia-Latvia third interconnection

		Q1 2015	Q1 2016
Assets	MEUR	456	435
Investments	MEUR	1.5	3.8

Investments

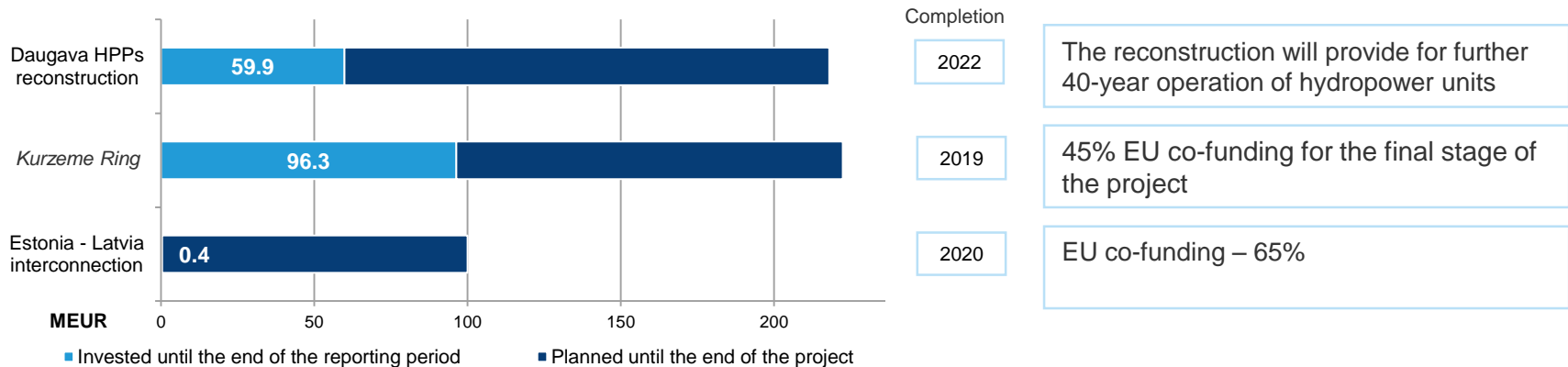
Investments in network assets reached 70%



Total amount of investment – 34.7 MEUR

- Increase in investments was determined by implementation of Daugava HPPs hydropower unit reconstruction programme, in which 8.4 MEUR were invested in Q1 2016
- Network service quality and technical parameters are improved by investments in networks assets

Investment projects

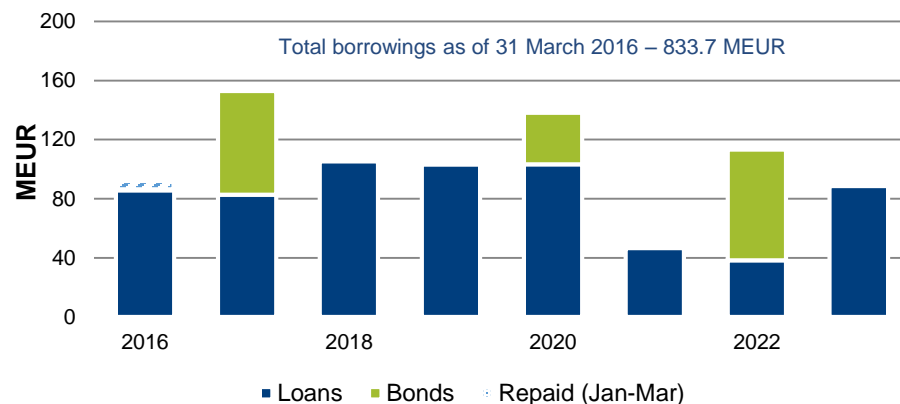


Debt and Liquidity

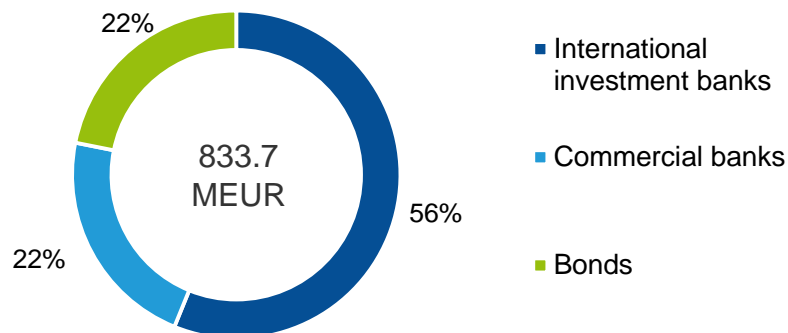
Bonds exceed 1/5 of total borrowings

- Financial needs for coming investment projects and refinancing of loans are attracted in a timely manner
- Bonds issued as of 31 March 2016: 180 MEUR
- At the beginning of 2016 *Moody's* reconfirmed credit rating – Baa2 (stable)
- Capital ratio – 59%

Debt repayment schedule



Lenders by category



Liquidity

Liquid assets (cash and short term bank deposits with maturity up to 3 months)	176.0 MEUR
Committed long-term loans	250.0 MEUR
Investment in liquid financial assets	28.5 MEUR
Additional liquidity reserves	278.5 MEUR

Agenda

Group Profile

Financials Q1 2016

Current Issues

- ▶ Sustainability and Annual Report 2015
- ▶ Distribution: Balanced Tariff
- ▶ Green Bonds

Q&A

Sustainability and Annual Report

- Sustainability reports in accordance with Global Reporting Initiative (GRI) guidelines since 2009
- Sustainability report 2015: GRI G4 (published on 20 April 2016)
- Focus on what matters and where it matters
- Stakeholder engagement
- Report available on [Latvenergo website/Investors/Reports](http://Latvenergo.com/Investors/Reports)



Distribution System Service: Balanced Tariff

- On 5 May 2016 PUC approved electricity distribution system service tariff, which is expected to come into force as of 1 August 2016
- Previous tariff changes were approved by PUC in April 2011
- Changes compared to existing tariff
 - Households – introduction of fixed fee in the bill
 - Business customers – increase of fixed fee portion in the bill

Reasons for tariff changes

- Need to address «0 consumption» connection issue
- Promotion of efficient use of connection capacity
- Balancing of distribution fixed costs with fixed income
- Need for investments to improve network quality and reliability



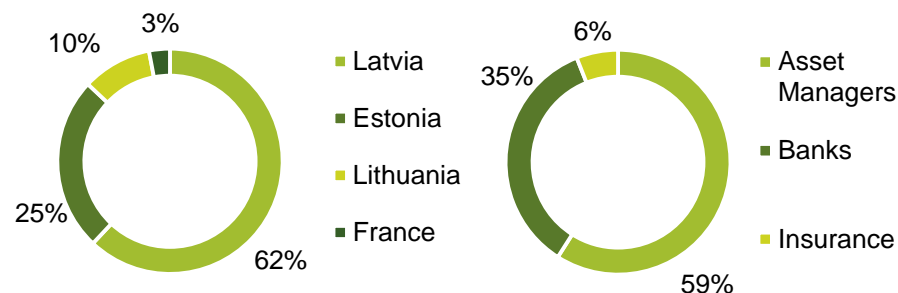
Green bonds

Completed *green* bond programme

- On 14 April *green* bonds in the amount of 25 MEUR were issued, thus completing the second bond offering programme of 100 MEUR
- Demand 5.8 times exceeds the offered amount
- Spread MS+120bps, Yield 1.3107%
- First state-owned and investment grade green bond issuer in Eastern Europe
- First Green bond in CEE rated by international credit rating agency (Moody's – Baa2/stable)
- Second opinion on Green Bond Framework provided by *CICERO**; strongest rating assigned – dark green shading

* CICERO - Center for International Climate and Environmental Research

Investor allocation by country and type (25 MEUR)



Bond overview

	Amount (MEUR)	Due date
2.8% bonds, 5Y	70	15.12.2017
2.8% bonds, 7Y	35	22.05.2020
1.9% <i>Green</i> bonds, 7Y	100	10.06.2022
TOTAL:	205	

Q&A

or send to:

E-mail: investor.relations@latvenergo.lv

Website: www.latvenergo.lv

AS Latvenergo

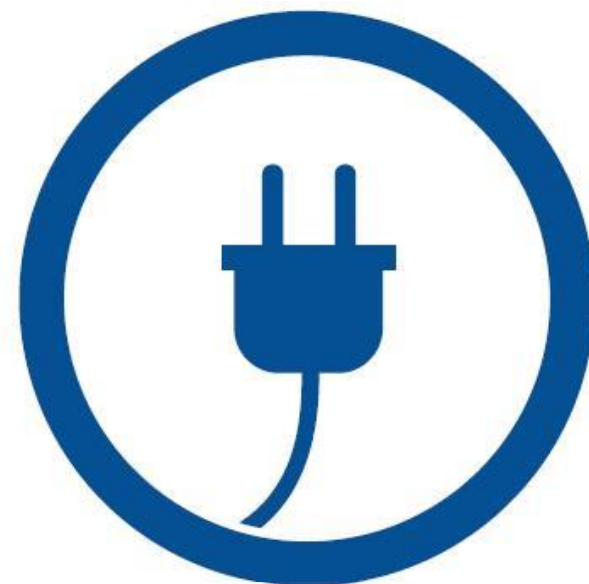
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Consolidated Statement of Profit or Loss*

	01/01–31/03/2016	01/01–31/03/2015
	EUR'000	EUR'000
Revenue	263,533	259,506
Other income	1,566	1,199
Raw materials and consumables used	(125,182)	(127,615)
Personnel expenses	(24,456)	(22,578)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(52,459)	(43,702)
Other operating expenses	(15,315)	(15,698)
Operating profit	47,687	51,112
Finance income	654	694
Finance costs	(3,756)	(4,959)
Profit before tax	44,585	46,847
Income tax	(6,023)	(7,591)
Profit for the year	38,562	39,256

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

Consolidated Statement of Financial Position*

	31/03/2016	31/12/2015
	EUR'000	EUR'000
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,072,843	3,090,661
Investment property	739	696
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	17,071	20,609
Other non-current receivables	1,711	1,712
Total non-current assets	3,092,405	3,113,719
Current assets		
Inventories	23,409	24,791
Trade receivables and other receivables	304,358	266,460
Investments in held-to-maturity financial assets	11,382	7,859
Cash and cash equivalents	175,979	104,543
Total current assets	515,128	403,653
TOTAL ASSETS	3,607,533	3,517,372
EQUITY		
Share capital	1,288,531	1,288,531
Reserves	667,504	669,596
Retained earnings	169,345	131,662
Equity attributable to equity holders of the Parent Company	2,125,380	2,089,789
Non-controlling interests	7,970	6,913
Total equity	2,133,350	2,096,702
LIABILITIES		
Non-current liabilities		
Borrowings	749,416	714,291
Deferred income tax liabilities	272,576	273,987
Provisions	16,197	15,984
Derivative financial instruments	10,539	8,291
Other liabilities and deferred income	198,647	196,386
Total non-current liabilities	1,247,375	1,208,939
Current liabilities		
Trade and other payables	132,243	121,256
Borrowings	84,235	83,192
Derivative financial instruments	10,330	7,283
Total current liabilities	226,808	211,731
Total liabilities	1,474,183	1,420,670
TOTAL EQUITY AND LIABILITIES	3,607,533	3,517,372

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

Consolidated Statement of Cash Flows*

	01/01–31/03/2016	01/01–31/03/2015
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	44,585	46,847
Adjustments:		
- Amortisation, depreciation and impairment of non-current assets	52,993	43,702
- Net financial adjustments	6,809	5,679
- Other adjustments	150	(983)
Operating profit before working capital adjustments	104,537	95,245
Increase in current assets	(37,353)	(31,267)
Increase / (decrease) in trade and other payables	4,157	(12,529)
Cash generated from operating activities	71,341	51,449
Interest paid	(850)	(606)
Interest received	1,171	415
Corporate income tax and real estate tax paid	(686)	(1,104)
Net cash flows from operating activities	70,976	50,154
Cash flows from investing activities		
Purchase of intangible assets and PPE	(33,148)	(29,651)
Proceeds on financing from EU funds and other financing	–	149
Proceeds from redemption of held-to-maturity assets	19	15
Net cash flows used in investing activities	(33,129)	(29,487)
Cash flows from financing activities		
Proceeds on borrowings from financial institutions	40,000	30,862
Repayment of borrowings	(6,411)	(21,884)
Net cash flows used in financing activities	33,589	8,978
Net increase in cash and cash equivalents	71,436	29,645
Cash and cash equivalents at the beginning of the period	104,543	91,747
Cash and cash equivalents at the end of the period ¹⁾	175,979	121,392

¹⁾ Received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 thousand has not been included in cash and cash equivalents as of 31st of March 2015 because it was defined as restricted cash and cash equivalents