Unaudited results of Latvenergo Group for the year 2016

In 2016, Latvenergo Group is the most valuable company in Latvia and is among the most valuable companies in the Baltics, the value of assets reaching almost 4 billion euros. In 2016, Latvenergo Group revenue has not changed significantly, compared to the previous year, and constitutes 931.6 million euros. Whereas EBITDA of the Group has increased by 28% compared to the year 2015 and constitutes 393.2 million euros. The amount of electricity and thermal energy generated at generation facilities has increased significantly - by 21% to 4,707 GWh and by 11% to 2,675 GWh respectively. Investments amount to 200.7 million euros, which is by 5% more than in the previous year.

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Description of operating environment

A significant role in maintaining the leading position of Latvenergo Group is played by skilful operation in a new electricity market situation, which was influenced by several factors in the previous year. Firstly, two new electricity transmission interconnections – *NordBalt* and *LitPol* were launched, which contributed to increase of liquidity in the market, as well as price convergence among Nordic countries and the Baltics. For the first time, there was a situation, when the electricity price in Latvia during some weeks was lower than in Estonia, which has previously offered electricity for a lower price. Secondly, the decrease of natural gas prices in Latvia increased generation of competitive electricity at Riga CHPPs. At the same time, this precluded the electricity price increase risk in the region during interruption periods in the operation of interconnections, as well as at times when there were fluctuations in generation supply and demand in the neighbouring countries.

Generation of electricity

In 2016, Latvenergo Group has generated by 21% more electricity than in the previous year or 4,707 GWh and by 11% more thermal energy or 2,675 GWh at its generation facilities.

The largest increase in the amount of generated electricity is observed at Daugava HPPs cascade. Compared to the previous year, it has increased by 36% and is 2,449 GWh. It was facilitated by higher water inflow in the Daugava River in the second part of 2016.

Whereas the electricity generation at Riga CHPPs has increased by 9%, reaching 2,206 GWh in 2016. Favourable conditions for electricity generation at Riga CHPPs were created by decrease of average price of natural gas by 24%, compared to 2015. Due to optimal mix of Latvenergo Group’s generation at Riga CHPPs and Daugava HPPs and the opportunities to import, consumers in the Baltic States benefit from both the price convergence to the Nordic price level and the price stability on the long-term.

Electricity supply

In 2016, Latvenergo Group has retained its electricity supply leading position in the Baltics with the market share of approximately 30%. The overall amount of retail electricity trade outside

Latvia accounts for almost 1/3 of the total, reaching 2,376 GWh. This is 20% more than the supply volume of competing electricity suppliers in Latvia.

We have supplied in total 7,580 GWh of electricity to retail customers in the Baltics, 5,204 GWh of which in Latvia, in Lithuania – 1,464 GWh and in Estonia – 912 GWh. The customer portfolio of Latvenergo Group in the Baltics has remained stable. The total number of customers outside Latvia is approximately 35 thousand.

Financial results

Latvenergo Group revenue did not change significantly in 2016 and constitutes 931.6 million euros. EBITDA of Latvenergo Group has increased by 28% in the reporting period and constitutes 393.2 million euros. In turn, the profit of the Group constitutes 129.8 million euros in 2016. The results were positively influenced mainly by generation increase in Daugava HPPs by 36%, as well as lower prices of natural gas and electricity in Latvia. Compared to the previous year, the price of natural gas was by 24% lower and the electricity price – by 14% lower in Latvia. The return on equity of the Group has increased to 5.8%, whereas in the previous year it was 4.1%.

Latvenergo Group is one of the largest taxpayers in Latvia. The Group has paid 209 million euros in the state budget in 2016, including more than 77 million euros paid in the budget as dividends for the use of state capital. According to the Law “On the State Budget for 2017”, the estimated amount of dividends payable by Latvenergo AS for 2016 is 90.1 million euros.

Investments

In 2016, the total amount of investments constitutes 200.7 million euros, which is by 5% more compared to the previous year. The majority or 64% were invested in network assets, thereby improving the quality of their service, technical indicators and operational safety in a targeted manner.

35.2 million euros were invested in the extensive reconstruction of Daugava HPPs in this year. Gradual replacement of 11 non-reconstructed hydropower units is planned until 2022, ensuring their operation for the next 40 years. The total costs of reconstruction will exceed 200 million euros, 86.7 million euros of which are already invested.

Also the major electricity transmission infrastructure improvement investment projects are continued: *Kurzeme Ring* and the Estonia–Latvia third power transmission network interconnection.

Financing

Latvenergo Group finances its investments from its own resources and external long-term borrowed funds, which are regularly and timely sourced in financial and capital markets. In April 2016, Latvenergo AS successfully completed the *green* bond offering programme in the amount of 100 million euros. In October 2016, Moody's assigned the highest rating to the *green* bonds. Approximately 1/4 of the Group's total borrowings is constituted by bonds. After the end of the reporting period on 16 February 2017, Moody's re-affirmed the Baa2 credit rating of Latvenergo AS with a stable outlook.

Corporate governance

The Supervisory Board of Latvenergo AS was elected at the Shareholders' Meeting of Latvenergo AS on 16 December 2016. The term of office of the Supervisory Board is five years. The Supervisory Board is composed by five independent Members – Andris Ozoliņš, Andris Liepiņš, Baiba Anda Rubesa, Mārtiņš Bičevskis and Martin Sedlacky.

A medium-term operational strategy 2017–2022 of Latvenergo Group was approved in the Shareholders' Meeting of 19 October 2016. Taking into consideration the expected challenges in the sector and business environment, three main operational goals are defined in the strategy:

· strengthening of sustainable and economically sound market position in core markets (in the Baltics), meanwhile considering a geographic and / or product / service expansion;

· development of generation portfolio that fosters synergy with trade and that promotes value increase of the Group;

· development of a customer-driven, functional, safe and efficient network.

Key Performance Indicators

Operational Figures

		2016	2015
Retail electricity supply	GWh	7,580	7,869
Electricity generation	GWh	4,707	3,882
Thermal energy generation	GWh	2,675	2,408
Number of employees		4,131	4,177
Moody's credit rating		Baa2 (stable)	Baa2 (stable)

Financial Figures

		2016	2015
Revenue	MEUR	931.6	929.1
EBITDA [1)]	MEUR	393.2	307.0
Profit	MEUR	129.8	85.0
Assets	MEUR	3,901.0	3,517.4
Equity	MEUR	2,418.2	2,096.7
Net debt [2)]	MEUR	607.6	692.9
Investments	MEUR	200.7	190.5

Financial Ratios

	2016	2015
Net debt / EBITDA [3)]	1.7	2.3
EBITDA margin [4)]	42%	33%
Return on equity [5)]	5.8%	4.1%
Return on assets [6)]	3.5%	2.4%
Return on capital employed [7)]	5.3%	3.8%
Net debt / equity [8)]	25%	33%

1) EBITDA: earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortization, and impairment of intangible and fixed assets

2) Net debt: borrowings at the end of the period minus cash and cash equivalents at the end of the period

3) Net debt/EBITDA: ((net debt at the beginning of 12 months period + net debt at the end of 12 months period) * 0.5) / EBITDA (12-months rolling)

4) EBITDA margin: EBITDA (12-months rolling) / revenue (12-months rolling) * 100%

5) Return on equity: net profit (12-months rolling) / average value of equity * 100%

6) Return on assets: net profit (12-months rolling) / average value of assets * 100%

7) Return on capital employed: operating profit of 12 months period / (average value of equity + average value of borrowings) * 100%

8) Net debt/equity: net debt at the end of the reporting period / equity at the end of the reporting period * 100%

Consolidated Statement of Profit or Loss

	2016	2015
	EUR'000	EUR'000
Revenue	931,619	929,128
Other income	7,947	4,880
Raw materials and consumables used	(385,808)	(470,444)
Personnel expenses	(96,019)	(94,609)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(232,626)	(198,827)
Other operating expenses	(64,575)	(61,940)
Operating profit	**160,538**	**108,188**
Finance income	2,328	2,926
Finance costs	(14,156)	(18,579)

Profit before tax	**148,710**	**92,535**
Income tax	(18,870)	(7,496)
Profit for the period	**129,840**	**85,039**

Consolidated Statement of Financial Position

	31/12/2016	**31/12/2015**
	EUR'000	EUR'000
ASSETS		
Non–current assets		
Intangible assets and property, plant and equipment	3,370,331	3,090,661
Investment property	327	696
Non–current financial investments	41	41
Investments in held–to–maturity financial assets	17,034	20,609
Other non–current receivables	987	1,712
Total non–current assets	**3,388,720**	**3,113,719**
Current assets		
Inventories	41,458	24,791
Trade receivables and other receivables	273,957	263,452
Deferred expenses	3,227	3,008
Investments in held-to-maturity financial assets	3,520	7,859
Derivative financial instruments	6,134	–
Cash and cash equivalents	183,980	104,543
Total current assets	**512,276**	**403,653**
TOTAL ASSETS	**3,900,996**	**3,517,372**
EQUITY		
Share capital	1,288,715	1,288,531
Reserves	937,074	669,596
Retained earnings	185,306	131,662
Equity attributable to equity holder of the Parent Company	**2,411,095**	**2,089,789**
Non–controlling interests	7,084	6,913
Total equity	**2,418,179**	**2,096,702**
LIABILITIES		
Non–current liabilities		
Borrowings	714,981	714,291

Deferred income tax liabilities	316,069	273,987
Provisions	18,643	15,984
Derivative financial instruments	7,947	8,291
Other liabilities and deferred income	195,406	196,386
Total non–current liabilities	**1,253,046**	**1,208,939**

Current liabilities		
Trade and other payables	149,547	121,256
Borrowings	76,584	83,192
Derivative financial instruments	3,640	7,283
Total current liabilities	**229,771**	**211,731**
TOTAL liabilities	**1,482,817**	**1,420,670**
TOTAL EQUITY AND LIABILITIES	**3,900,996**	**3,517,372**

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About Latvenergo

Latvenergo Group is a pan-Baltic energy company, engaging in electricity and thermal energy generation and supply, electricity distribution services and lease of transmission system assets. Latvenergo Group holds one-third of the entire Baltic electricity market, thus ensuring its leadership in the Baltic electricity supply. Latvenergo AS has been acknowledged as the most valuable company in Latvia for several years in a row. International credit rating agency Moody's has assigned Latvenergo AS an investment-grade credit rating of Baa2/stable.

Latvenergo Group includes the parent company Latvenergo AS (electricity and thermal energy generation and supply) and its subsidiaries Latvijas elektriskie tīkli AS (lease of transmission system assets), Sadales tīkls AS (electricity distribution), Elektrum Eesti OÜ (electricity supply in Estonia), Elektrum Lietuva UAB (electricity supply in Lithuania), Enerģijas publiskais tirgotājs AS (administration of electricity mandatory procurement process) and Liepājas enerģija SIA (electricity and thermal energy generation and supply).