Latvenergo Group publishes audited results and the Sustainability Report for the year 2016

The audited financial statements of Latvenergo Group for 2016 were approved by the Management Board of Latvenergo AS on 18 April 2017. In 2016, Latvenergo Group revenue constitutes 931.6 million euros. Whereas EBITDA of the Group has increased by 28% and constitutes 393.4 million euros. 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. Along with the consolidated annual report of Latvenergo for 2016 also the Sustainability Report disclosing and describing material aspects of the Group's operations and Corporate Governance Report of Latvenergo AS for 2016 are published.

Riga, 2017-04-19 15:00 CEST (GLOBE NEWSWIRE) -- Āris Žīgurs, Chairman of the Management Board of Latvenergo AS, emphasises that 2016 was an important year for the Group's operations and for the energy sector: "First, the anticipated NordBalt electricity interconnection was launched, furthering an even deeper integration of the Baltic states into the Nordic electricity market. Second, active preparatory work was carried out for the liberalisation of the natural gas market in spring 2017. Third, a step was made towards the development of an economically justified distribution network, promoted by the introduction of a principally new tariff structure of Sadales tīkls AS in the household segment.

Important decisions were taken, thinking also about the future of the Group – late in the year, the new Group strategy for the 2017–2022 period was approved, taking into account significant changes in the energy sector that can be wisely used for further growth of the Group."

Overall, 2016 is characterised by skilful operations of Latvenergo Group in new market conditions. The decrease of the natural gas price in Latvia should be emphasised, it increased generation of competitive electricity at Riga CHPPs. At the same time, it 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 energy

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.

Daugava HPPs cascade generated by 36% more compared to the previous year and reached 2,449 GWh, which was facilitated by higher water inflow in the Daugava River in the second half of the year.

There was also an increase in the electricity generation at Riga CHPPs – it increased by 9%, reaching 2,206 GWh in 2016. By optimally combining generation at Riga CHPPs and Daugava HPPs of Latvenergo Group with import possibilities in the region, users in the Baltics benefited from both price approximation to the level of Nordic countries and its stability.

Electricity trade

The market share of Latvenergo Group in the Baltics is about 30%. The market share in Latvia is 73%, in Lithuania – 14%, in Estonia – 11%. Considering that with the opening of the electricity market the share of the historical monopoly will shrink, it is recovered in a targeted way by trading electricity in our neighbouring countries Lithuania and Estonia. In 2016, the amount of electricity supplied outside Latvia by Latvenergo Group by 20% exceeded the volumes sold in Latvia by the competing suppliers.

Financial results

With an amount of income equivalent to 2015 – 931.6 million euros – profit indicators are significantly increased. EBITDA of the Group has increased by 28% constituting 393.4 million euros. Whereas profit of the Group in 2016 is 130.6 million euros, of which the amount of dividends to be paid to the state budget according to the Law "On the State Budget for 2017" constitutes 90.1 million euros. 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.

Latvenergo Group is one of the largest taxpayers in Latvia – in 2016 the Group paid 209 million euros in the state budget, including more than 77 million euros paid in the budget as dividends for the use of state capital.

The audited consolidated financial statements of Latvenergo for 2016 do not significantly differ from the unaudited condensed financial statements of Latvenergo Group for 2016, published on 28 February 2017.

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. Efficiency improvement of the generation facilities is continued by the Daugava hydropower plants reconstruction project implementation, into which 35.2 million euros were invested during 2016. By investing over 200 million euros the completion of the Daugava HPPs cascade reconstruction is expected by 2022, after which the total capacity and output volume of the Daugava HPPs will increase, ensuring operation of its hydropower units for the next 40 years. 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 issued *green* bonds in the amount of 25 million euros with a record-high total demand. It completed the second bond offer programme of Latvenergo AS - the issue of *green* bonds in the amount of EUR 100 million, which the international credit rating agency Moody's Investors Service assigned the highest assessment GB1 (excellent). In February 2017, Moody's reconfirmed Latvenergo AS credit rating of Baa2 with 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 of five independent Members – Andris Ozoliņš (Chairman of the Supervisory Board), Andris Liepiņš (Deputy Chairman of the Supervisory Board), Baiba Anda Rubesa, Mārtiņš Bičevskis and Martin Sedlacky.

Along with the financial results of Latvenergo Group, also the Corporate Governance Report of Latvenergo AS for 2016 is published. The Corporate Governance Report certifies that good corporate governance principles are introduced and ensured in Latvenergo Group. The preparation of the Corporate Governance Report started in 2012 along with the bond issuance programme and listing of issued bonds on Nasdaq Riga exchange.

Sustainability report

The Sustainability Report of Latvenergo Group is prepared in accordance with the requirements of GRI G4 guidelines. The report provides detailed information on the strategy, governance, management and operating segments of Latvenergo Group. It also discloses information about sustainability aspects such as economic performance, society, product responsibility, environmental protection and employees and work environment. This is so far the only audited Sustainability Report in Latvia. In 2016, the Sustainability Report was audited by Ernst & Young Baltic SIA.

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	393.4	307.0
Profit	MEUR	130.6	85.0
Assets	MEUR	3,901.2	3,517.4
Equity	MEUR	2,418.7	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	6,656	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	(63,049)	(61,940)
Operating profit	**160,773**	**108,188**
Finance income	2,328	2,926
Finance costs	(14,156)	(18,579)
Profit before tax	**148,945**	**92,535**
Income tax	(18,352)	(7,496)
Profit for the year	**130,593**	**85,039**

Consolidated Statement of Financial Position

	31/12/2016	31/12/2015
	EUR'000	EUR'000
ASSETS		
Non–current assets		
Intangible assets	14,534	14,405
Property, plant and equipment	3,355,797	3,076,256
Investment property	563	696
Non–current financial investments	41	41
Other non–current receivables	986	1,712
Investments in held–to–maturity financial assets	17,034	20,609
Total non–current assets	**3,388,955**	**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
Derivative financial instruments	6,134	–
Investments in held–to–maturity financial assets	3,520	7,859
Cash and cash equivalents	183,980	104,543
Total current assets	**512,276**	**403,653**
TOTAL ASSETS	**3,901,231**	**3,517,372**
EQUITY		
Share capital	1,288,715	1,288,531
Reserves	937,074	669,596
Retained earnings	185,840	131,662
Equity attributable to equity holders of the Parent Company	**2,411,629**	**2,089,789**
Non–controlling interests	7,084	6,913
Total equity	**2,418,713**	**2,096,702**
LIABILITIES		
Non–current liabilities		
Borrowings	635,620	714,291
Deferred income tax liabilities	315,759	273,987
Provisions	18,643	15,984
Derivative financial instruments	7,946	8,291
Other liabilities and deferred income	195,407	196,386
Total non–current liabilities	**1,173,375**	**1,208,939**
Current liabilities		
Trade and other payables	131,839	117,249
Income tax payable	17,718	4,007
Borrowings	155,946	83,192
Derivative financial instruments	3,640	7,283
Total current liabilities	**309,143**	**211,731**
TOTAL EQUITY AND LIABILITIES	**3,901,231**	**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).