Latvenergo

2016 Annual Audited Consolidated Financial Statements

19.04.2017 / RIGA

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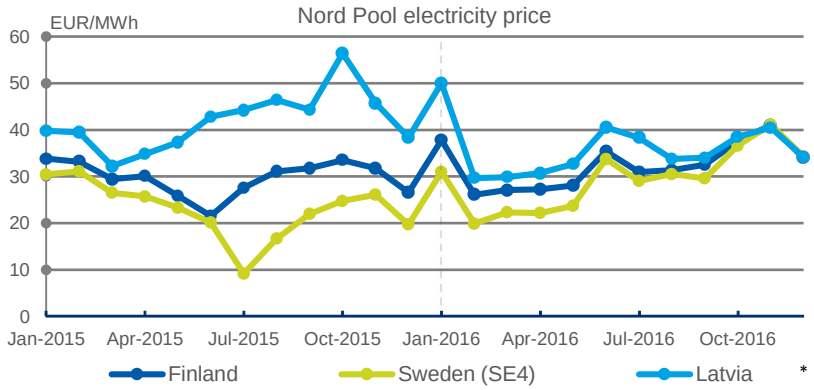
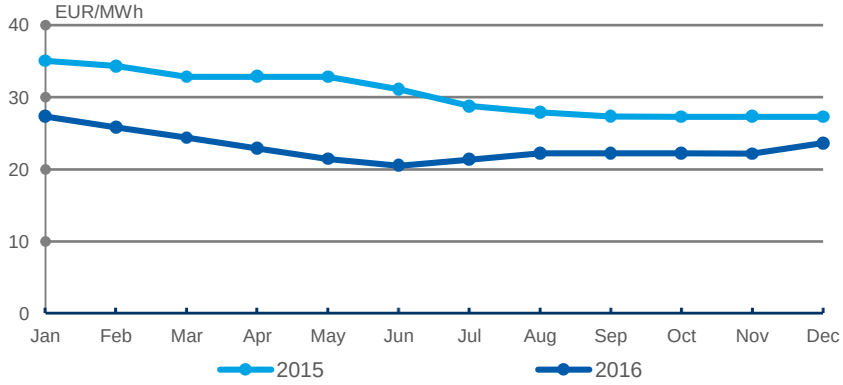
Lower electricity and gas prices in Latvia

Convergence of electricity price



Lower price of natural gas

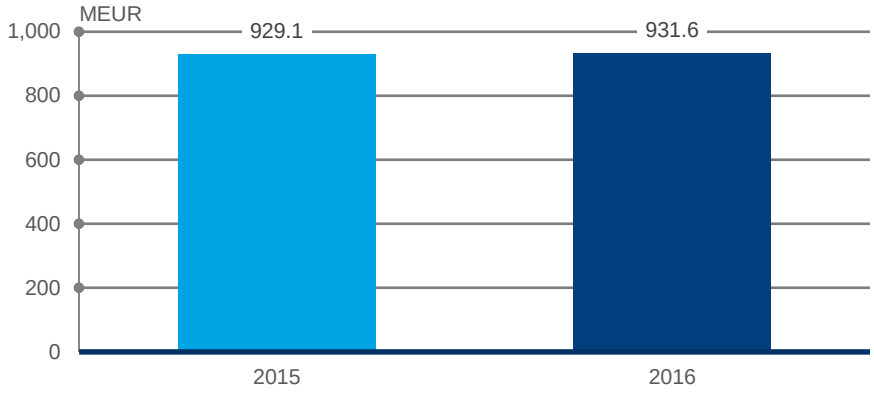


Main facts – 2016

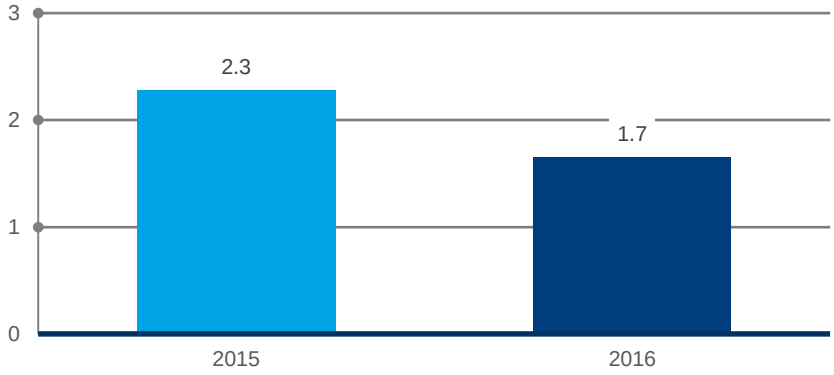
- Nord Pool price in Latvia and Lithuania decreased by 14% and 13% respectively (36.1 EUR/MWh and 36.5 EUR/MWh), while it increased in Estonia and Finland by 6% and 9% respectively (33.1 EUR/MWh and 32.4 EUR/MWh)
- Electricity price increase in the Nordic countries determined by:
  - colder weather conditions at the beginning of 2016
  - repair works of power plants and transmission infrastructure in summer months
  - lower level of hydropower reservoir fill in Scandinavia in the last quarter of 2016
- New interconnections have contributed to electricity spot price convergence between the Nordics and the Baltics
- Natural gas price in Latvia decreased by 24% reaching 23.0 EUR/MWh

Key Financial Figures

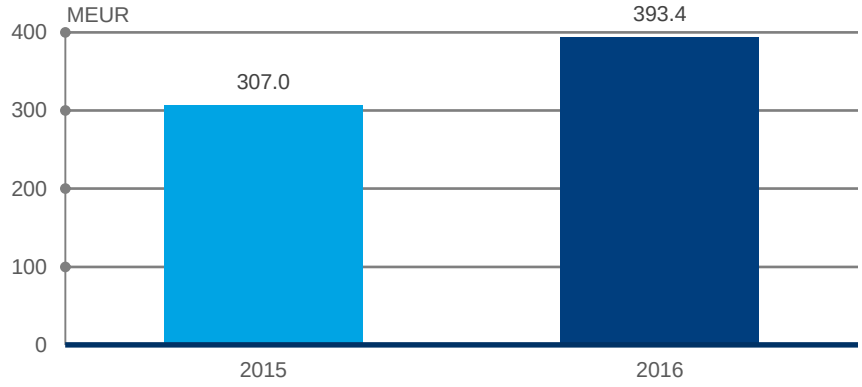
Revenue



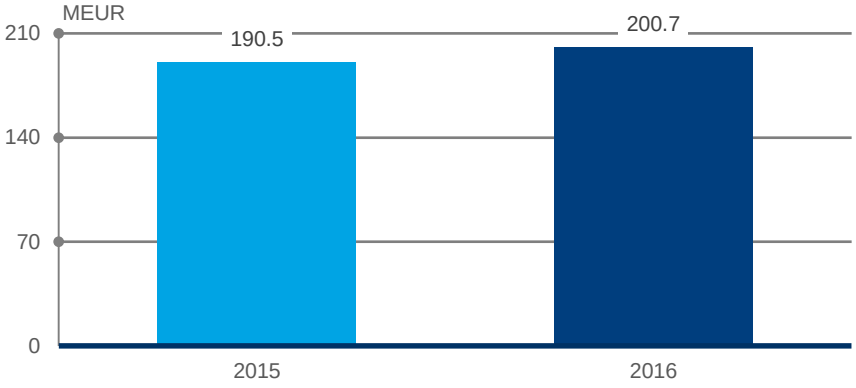
Net debt/EBITDA



EBITDA

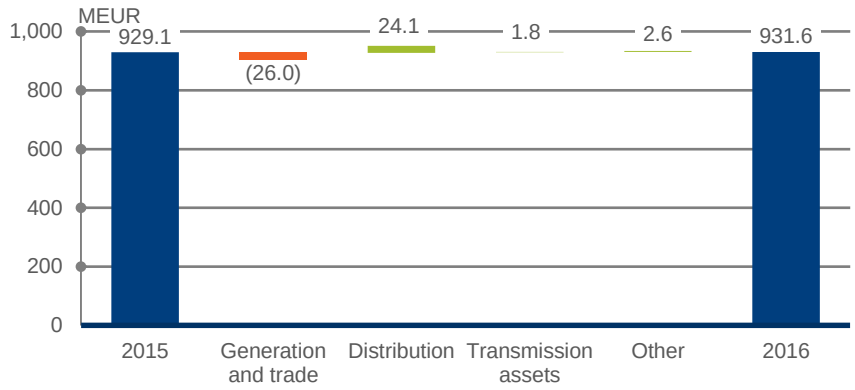


Investments



Group EBITDA increased

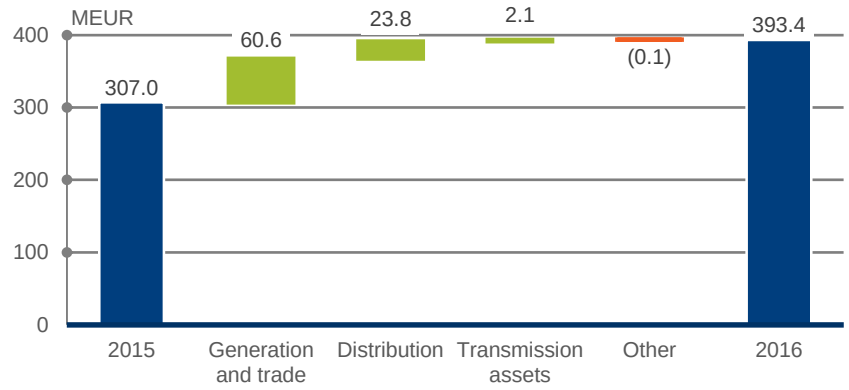
Revenue dynamics by segments



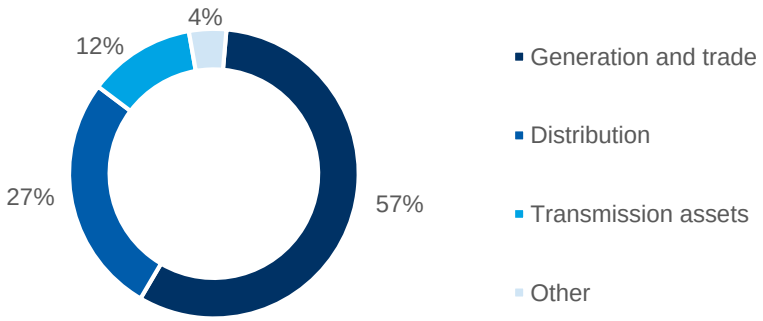
28% EBITDA growth

- The results were mainly positively impacted by:
  - 36% higher electricity output at Daugava HPPs
  - lower prices of natural gas and electricity
  - increase in distribution service revenue
- EBITDA margin – 42% (2015: 33%)
- ROE – 5.8% (2015: 4.1%)

EBITDA increased in all segments

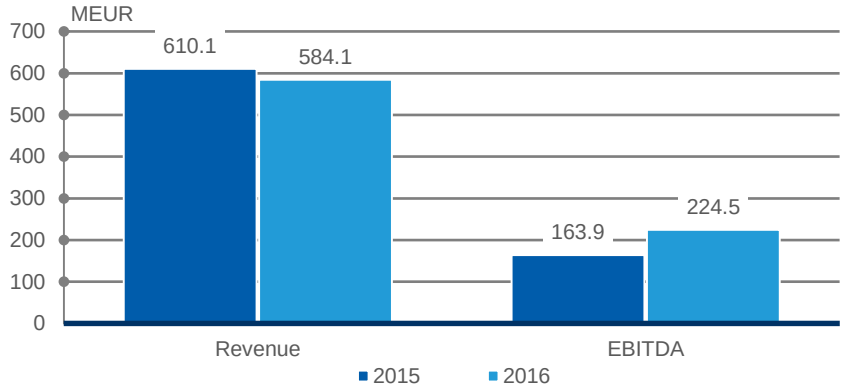


EBITDA weight by segments



Generation and trade

Segment EBITDA increased

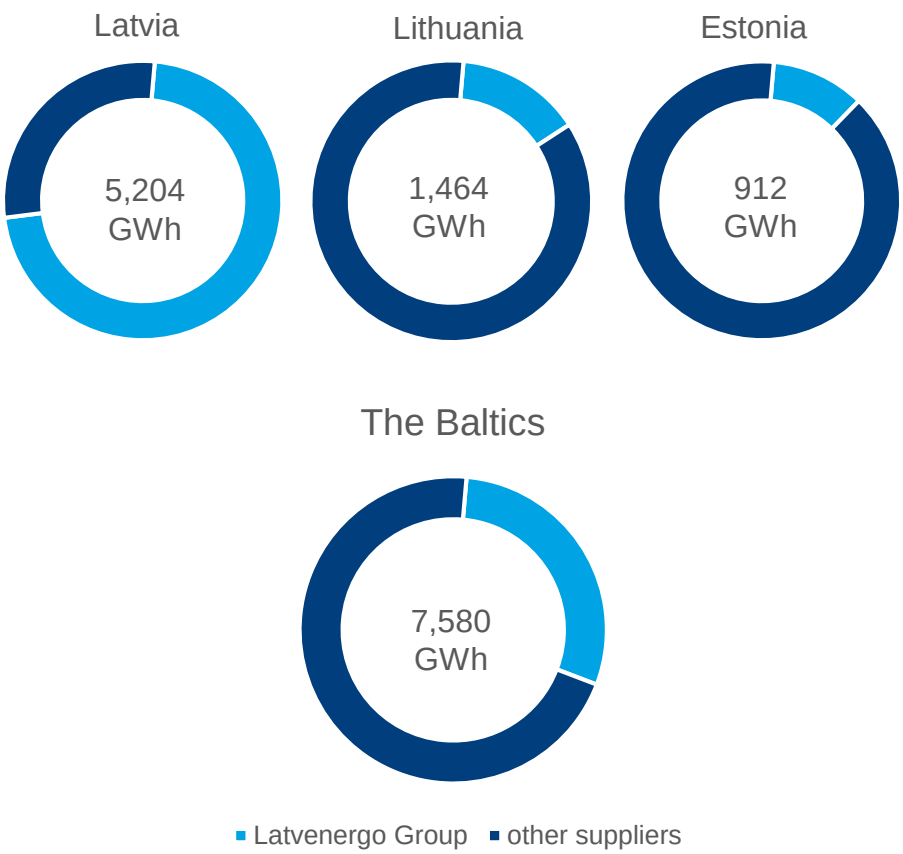


The largest segment of the Group

- EBITDA of the segment was positively impacted by higher electricity output at Daugava HPPs, as well as lower prices of natural gas and electricity
- The decrease in revenue was determined by EUR 9.8 million lower thermal energy revenue and lower electricity price
- Latvenergo Group maintains leading electricity supplier position in the Baltics
- Increased output of electricity and thermal energy
- As of 1 April 2017, PSO fee remains at the previous level (EUR 2.679 cents/kWh)
- In order to maintain the mandatory procurement PSO fee at the same level, a State grant in the amount of 62.9 MEUR has been taken into account

Elektrum electricity products – the most purchased in the Baltics

Retail electricity supply

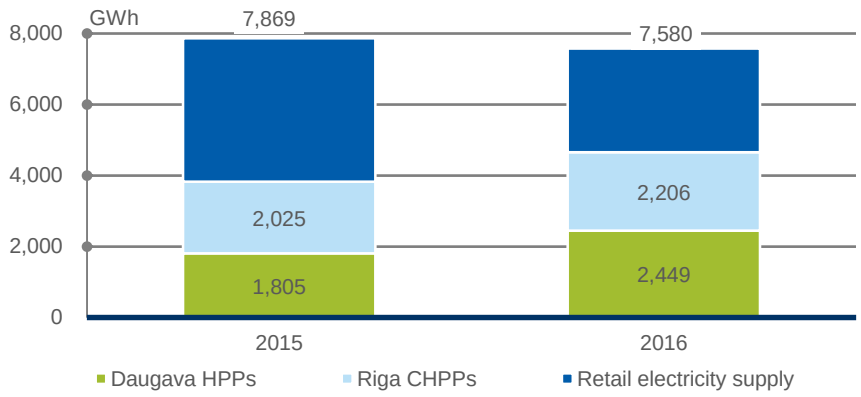


Focused and successful operations in the market

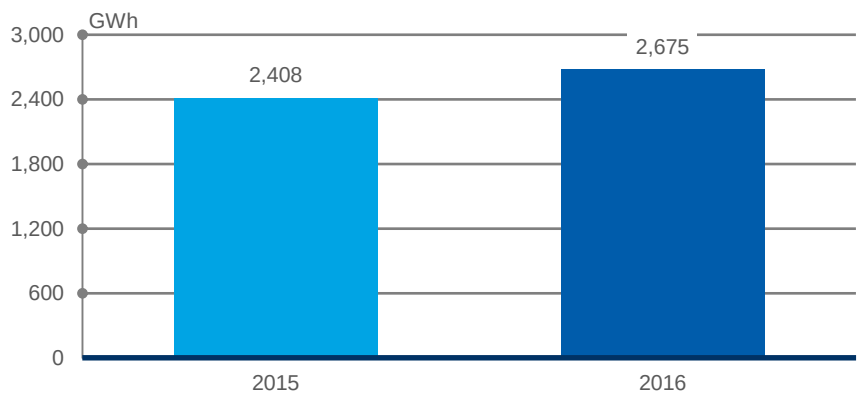
- Retail electricity supply in neighbouring countries reached 2,376 GWh, which is by 20% higher than the amount provided by competing electricity suppliers in Latvia
- Latvenergo Group's electricity trading brand's *Elektrum* products tailored to customer needs
- The total number of foreign clients exceeds 34 thousand

Effective and balanced generation sources

4,707 GWh of electricity generated



2,675 GWh of thermal energy generated

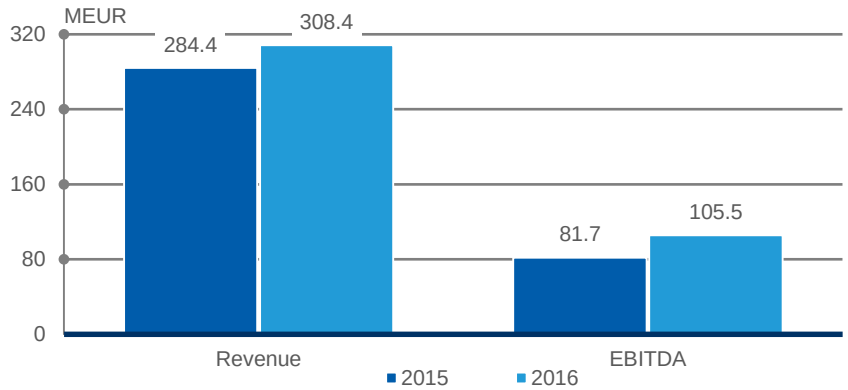


Electricity generation increased by 21%

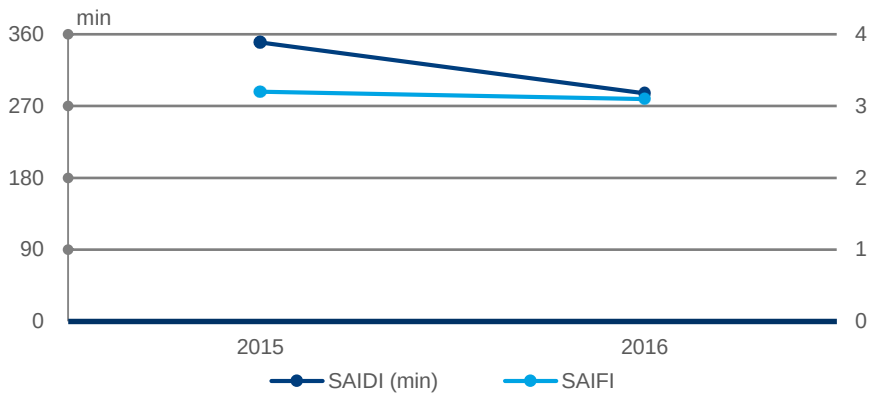
- Effective and operative operations of Riga CHPPs precluded the electricity price increase risk in the region
- Amount of electricity generated by Riga CHPPs increased by 9%
- Higher water inflow in the River Daugava – power generated by Daugava HPPs increased by 36%
- Total electricity generated represents 62% of retail electricity supply (2015: 49%)
- Lower ambient air temperature determined higher consumption of thermal energy – generation increased by 11%

Distribution asset value exceeds 1.6 billion EUR

Distribution revenue and EBITDA



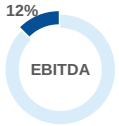
Distribution service quality ratios



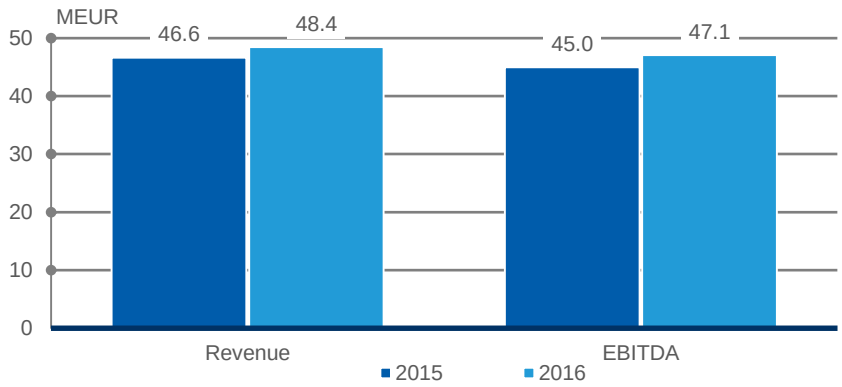
Segment revenue and EBITDA increased

- Electricity distributed reached 6,465 GWh (2015: 6,263 GWh)
- As of 1 August 2016, the new balanced electricity distribution system service tariffs came into force
- Positive impact on the results due to increased distribution services revenue (+22.9 MEUR) and by 3% higher amount of electricity distributed
- Investments in distribution assets reached 106.4 MEUR (2015: 102.0 MEUR)
- Revaluation of segment assets accomplished in 2016 (value increase by 262.5 MEUR)

Lease of transmission assets – gradually improving revenue



Segment EBITDA and revenue

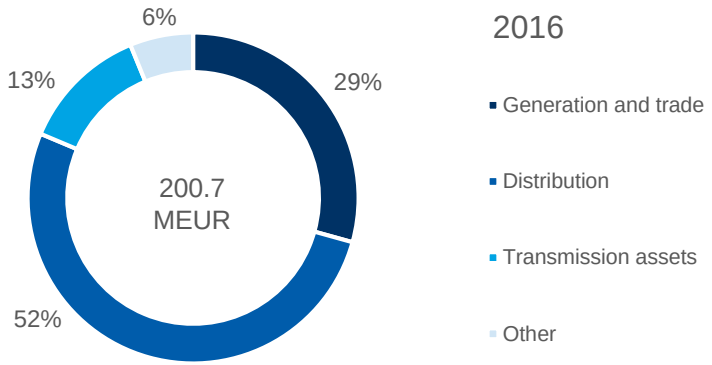


Segment revenue and EBITDA increased

- Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- Investment in transmission system assets 25.5 MEUR, which is by 46% more than last year
- Revaluation of segment assets accomplished in 2016 (value increase by 18.7 MEUR)

Investments in network assets – 2/3 of the total

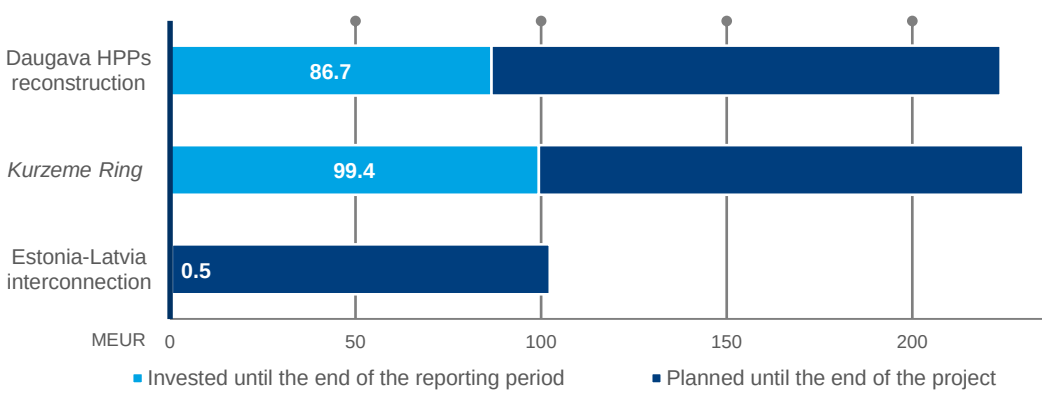
Investments increased by 5%



Investments in environmentally friendly projects

- Investments in Daugava HPPs hydropower unit reconstruction amounted to 35.2 MEUR
- Network service quality and technical parameters gradually improved by investments in networks assets
- Compared to 2012, SAIDI was reduced by 55%, SAIFI – by 35%

Major investment projects



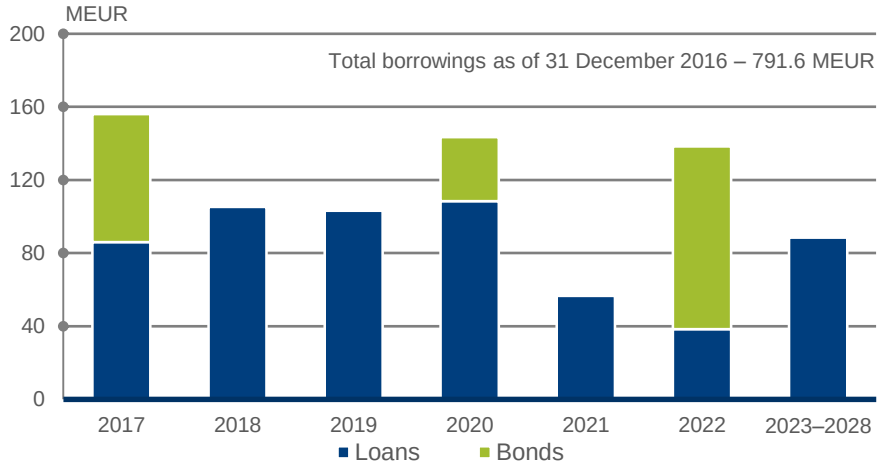
	Completion	
Daugava HPPs reconstruction	2022	The reconstruction will provide for further 40-year operation of hydropower units
Kurzeme Ring	2019	45% EU co-funding for the final stage of the project
Estonia-Latvia interconnection	2020	EU co-funding – 65%

Diversified borrowing sources

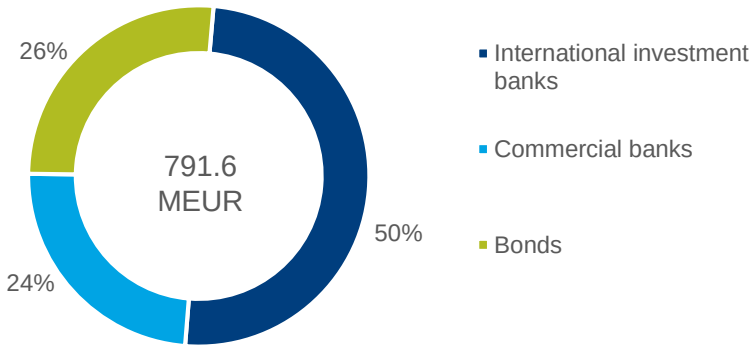
Green bond programme successfully completed

- On 14 April 2016, *green* bonds in the amount of 25 MEUR were issued, thus completing the second bond offering programme of 100 MEUR
- In October, Moody's assigned highest Green Bond Assessment grade – GB1 (excellent)
- Total amount of bonds issued reached 205 MEUR
- On 16 February 2017, Moody's credit rating reaffirmed – Baa2 (stable)
- Capital ratio – 62%

Debt repayment schedule



Bonds represent ¼ of total borrowings



Loan portfolio figures

	31.12.2016
Share of fixed interest rate*	62%
Duration	2.1 years
Effective weighted average interest rate*	1.9%

* with interest rate swaps

Contacts

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Abbreviations

Daugava HPPs – Daugava hydropower plants

EBITDA – Earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortization, and impairment of intangible and fixed assets

EU – European Union

IFRS – International Financial Reporting Standards

MEUR – Million euros

MWh – Megawatt hour (1,000,000 MWh = 1,000 GWh = 1 TWh)

PSO fee – Public service obligation fee

Riga CHPPs – Riga combined heat and power plants

SAIDI – System Average Interruption Duration Index

SAIFI – System Average Interruption Frequency Index

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**

* 2016 Annual Audited Consolidated Financial Statements. Prepared in accordance with the IFRS as adopted by the EU

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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Consolidated Statement of Cash Flows*

	2016	2015
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	148,945	92,535
Adjustments:		
– Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	232,626	198,828
– Loss from disposal of non–current assets	4,143	4,075
– Interest costs	14,156	18,693
– Interest income	(2,302)	(1,578)
– Fair value gains on derivative financial instruments	(7,275)	(902)
– Decrease in provisions	(287)	(762)
– Unrealised (income) / losses on currency translation differences	(26)	27
Operating profit before working capital adjustments	***389,980***	***310,916***
Increase in inventories	(16,667)	(2,231)
Increase in trade and other receivables	(10,170)	(27,626)
Decrease in trade and other payables	(844)	(20,825)
Cash generated from operating activities	**362,299**	**260,234**
Interest paid	(15,529)	(19,189)
Interest received	2,457	1,606
(Paid) / repaid corporate income tax and real estate tax	(8,041)	3,627
Net cash flows from operating activities	**341,186**	**246,278**
Cash flows from investing activities		
Purchase of intangible assets and PPE	(185,674)	(188,915)
Proceeds on financing from EU funds and other financing	242	17,972
Proceeds from redemption of held–to–maturity assets	7,914	70
Net cash flows used in investing activities	**(177,518)**	**(170,873)**
Cash flows from financing activities		
Proceeds from issued debt securities (bonds)	26,267	74,893
Proceeds on borrowings from financial institutions	55,744	30,000
Repayment of borrowings	(87,452)	(134,875)
Dividends paid to non–controlling interests	(1,377)	(1,148)
Dividends paid to equity holders of the Parent Company	(77,413)	(31,479)
Net cash flows used in financing activities	**(84,231)**	**(62,609)**
Net increase in cash and cash equivalents	**79,437**	**12,796**
Cash and cash equivalents at the beginning of the year	104,543	91,747
Cash and cash equivalents at the end of the year	**183,980**	**104,543**

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