



Investor Conference Webinar Presentation

Latvenergo Group Unaudited Results – 9M 2016

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Guntars Baļčūns, CFO



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Agenda

Group Profile

Financials 9M 2016

- ▶ Market Overview
- ▶ Revenue and Profitability
- ▶ Segment Results
- ▶ Investments
- ▶ Funding

Current Issues

- ▶ Latvenergo Group Strategy

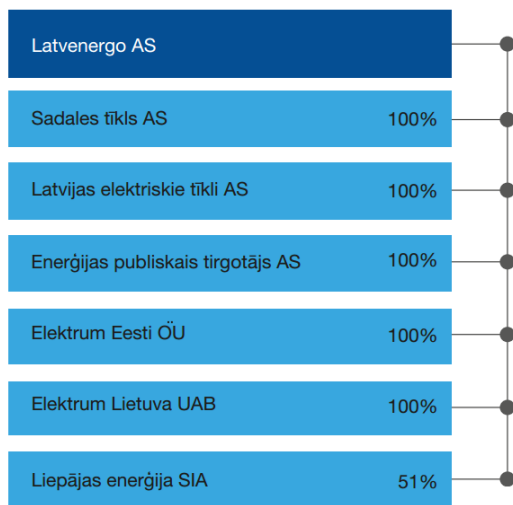
Q&A

Group Profile

General

- Vertically integrated utility
- Wholly-owned by the Republic of Latvia
- 4,184 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 – 855 thsd.
- Market share in the Baltics ~ 1/3

Operating segments

- Generation and supply (58% of revenues; 57% of EBITDA)
 - Latvenergo AS (LV)
 - Elektrum Eesti OU (EE)
 - Elektrum Lietuva UAB (LT)
 - Liepājas enerģija SIA (LV)
 - Enerģijas publiskais tirgotājs AS (LV)
- Distribution (31% of revenues; 26% of EBITDA)
 - Sadales tīkls AS (LV)
- Transmission assets (5% of revenues; 13% of EBITDA)
 - Latvijas elektriskie tīkli AS (LV)

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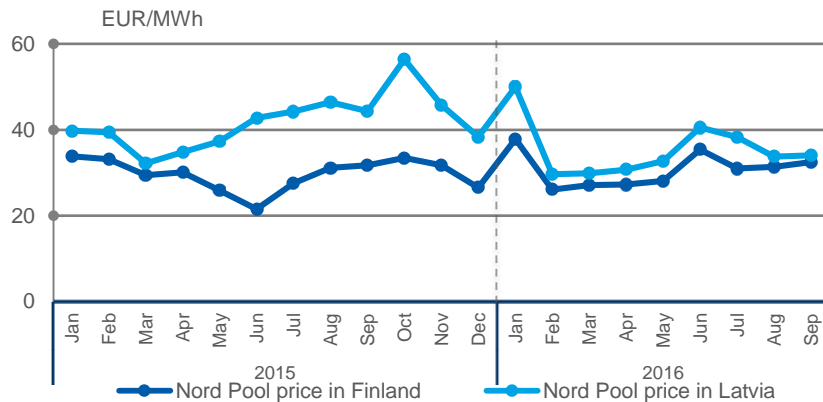
Current Issues

Q&A

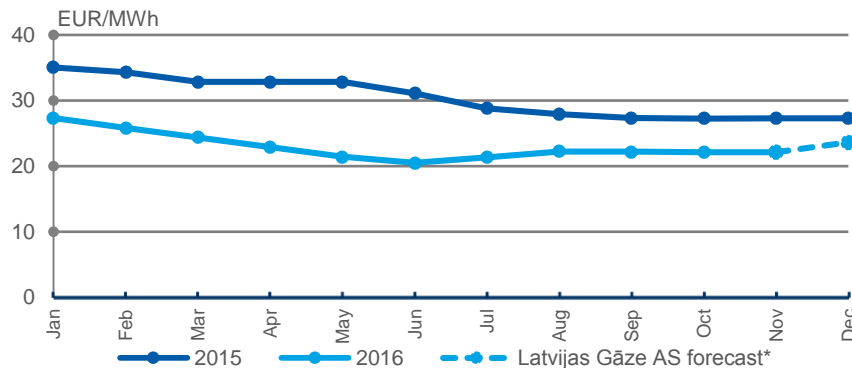
Market Overview

Lower electricity and gas prices in Latvia

Convergence of electricity price



Lower price of natural gas



* Tariff forecast of Latvijas Gāze AS in November 2016

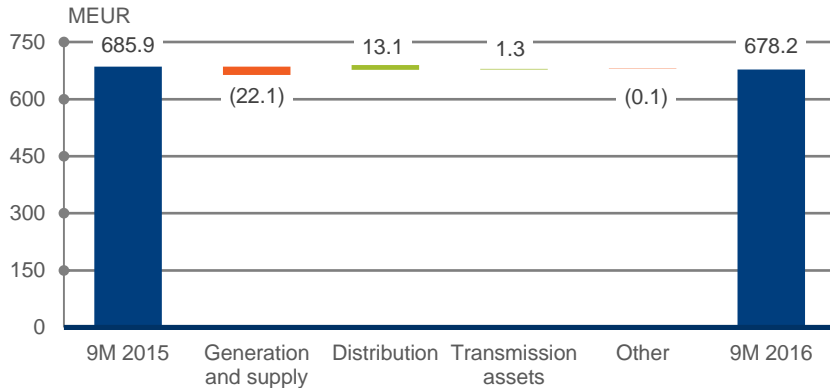
http://www.lg.lv/uploads/filedir/File/Vestnesis/2016/2016.11._Tarifi.pdf

Key highlights

- Nord Pool price in Latvia and Lithuania decreased by 12% and 10% respectively (35.5 EUR/MWh and 36.0 EUR/MWh), while it increased in Estonia and Finland by 2% and 5% respectively (31.6 EUR/MWh and 30.7 EUR/MWh)
- Electricity price increase in the Nordic countries determined by colder weather conditions at the beginning of 2016 and repair works of power plants and transmission infrastructure in summer months
- New interconnections have contributed to electricity spot price convergence between Finland and the Baltics
- Natural gas price in Latvia decreased by 26% reaching 23.1 EUR/MWh

Revenue and Profitability

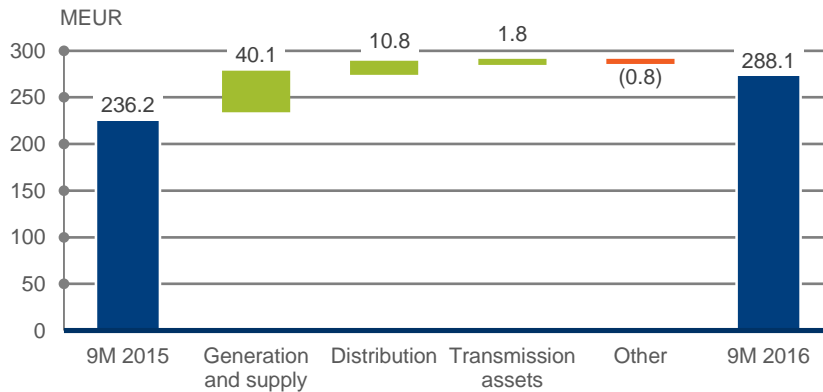
Revenue dynamics by segments



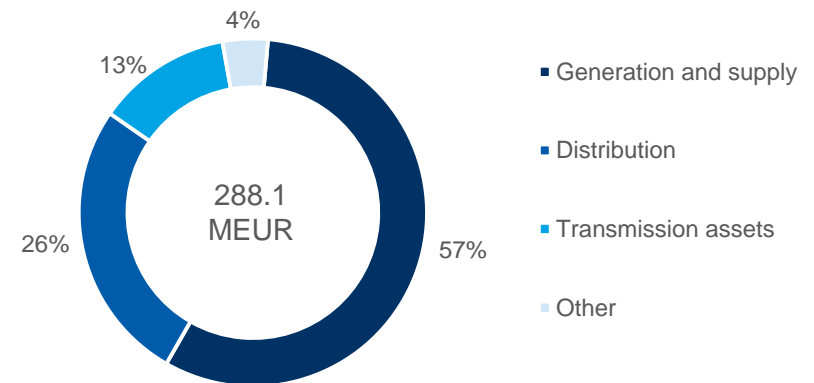
Key highlights

- The results were mainly positively impacted by lower prices of natural gas and electricity, and by 13% higher electricity output at Daugava HPPs
- EBITDA margin – 39% (9M 2015: 31%)
- ROE – 5.3% (9M 2015: 3.4%)

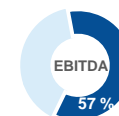
EBITDA increased in all segments



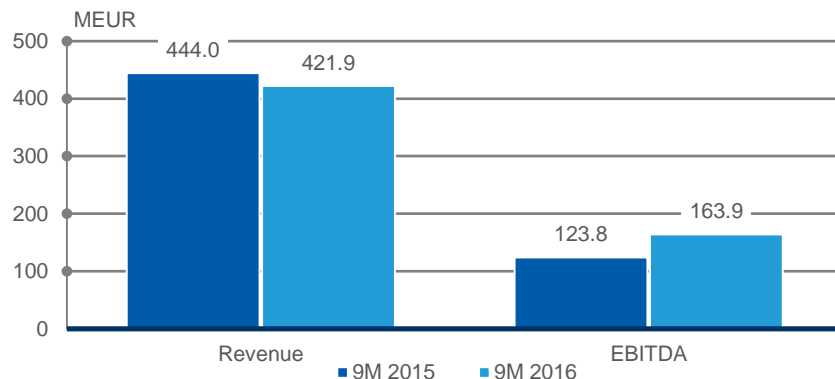
EBITDA weight by segments



Generation and Supply



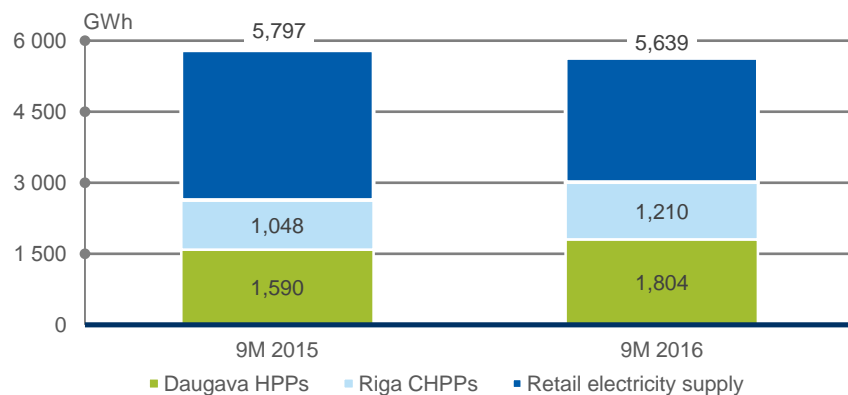
Segment EBITDA increased



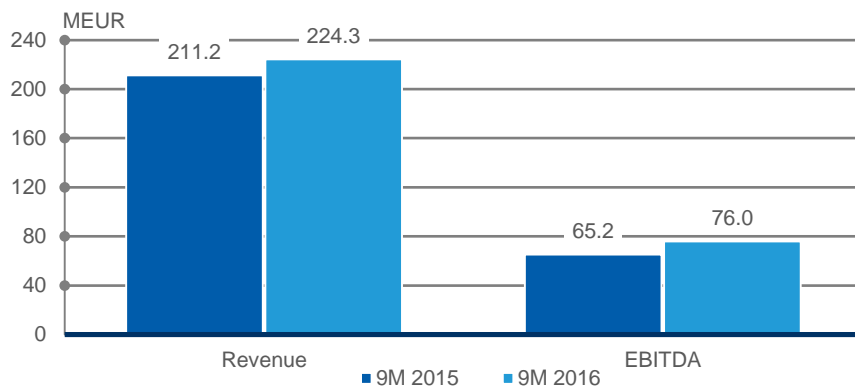
Key highlights

- The results of the segment were positively impacted by lower prices of natural gas and electricity, and higher electricity output at Daugava HPPs
- Electricity generation increased by 14% and total electricity generated represents 54% of retail electricity supply (9M 2015: 46%)
- Effective and operative operations of Riga CHPPs precluded the electricity price increase risk
- Latvenergo Group maintains leading electricity supplier position in the Baltics

3,052 GWh of electricity generated



Revenue and EBITDA



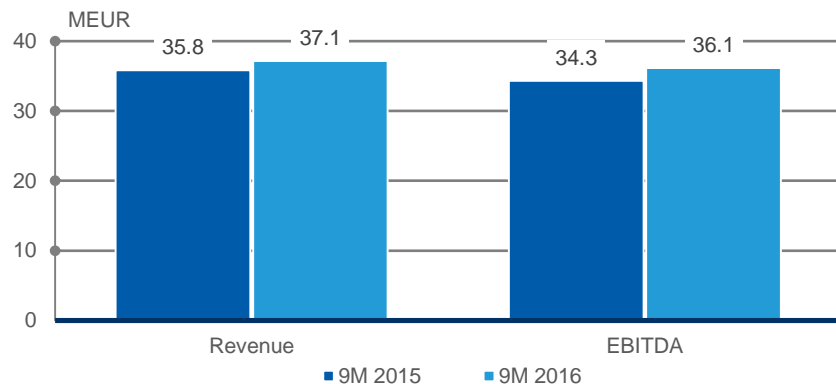
Key highlights

- Positive impact on the results due to increased distribution services revenue (+12.5 MEUR), while negative impact – higher purchasing cost of distribution losses (–2.3 MEUR)
- Electricity distributed reached 4,770 GWh (9M 2015: 4,646 GWh)
- As of 1 August 2016, the new balanced electricity distribution system service tariffs come into force

Assets, investments and distributed electricity

		9M 2015	9M 2016
Assets	MEUR	1,281	1,315
Investments	MEUR	71	74
Distributed electricity	GWh	4,646	4,770

Segment EBITDA and revenue



Key highlights

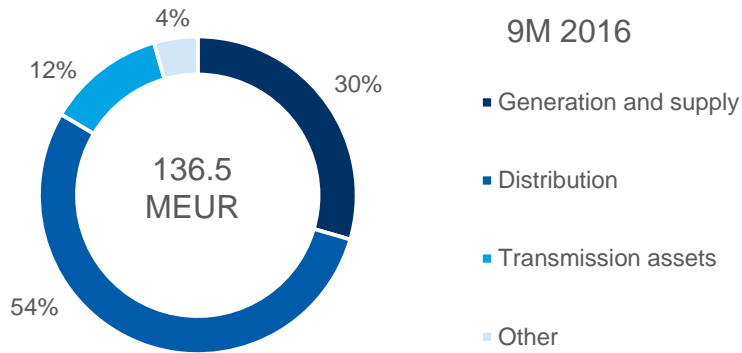
- Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- Investment in transmission system assets 16.4 MEUR, which is by 11% more than in 9M last year

Assets and investments

		9M 2015	9M 2016
Assets	MEUR	435	415
Investments	MEUR	15	16

Investments

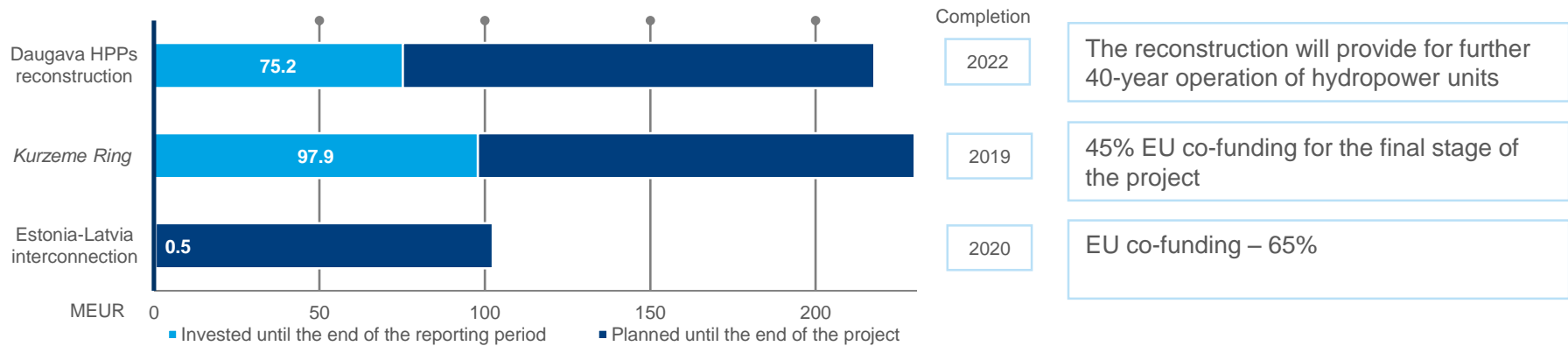
Investment division by segments



Key highlights

- Investments in Daugava HPPs hydropower unit reconstruction amounted to 23.7 MEUR
- Network service quality and technical parameters gradually improved by investments in networks assets

Major investment projects

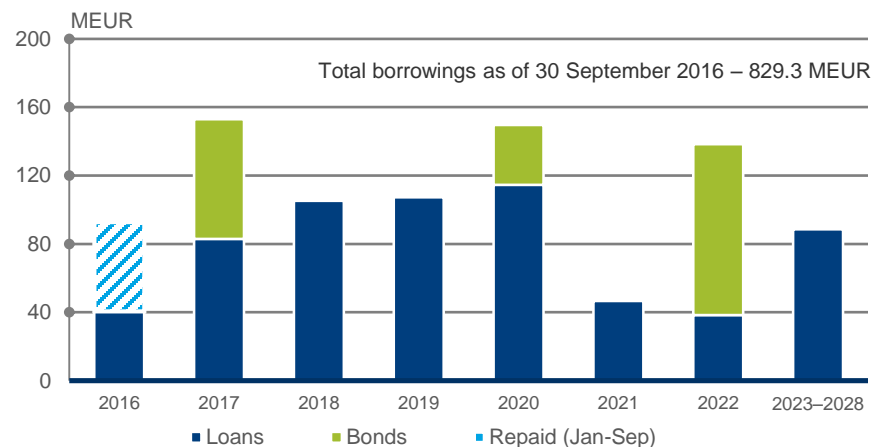


Funding

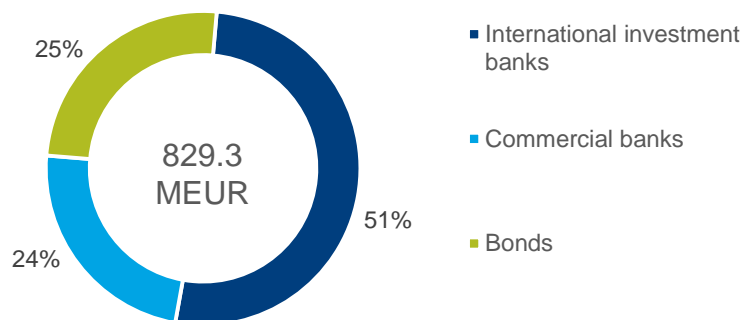
Green bond issue programme successfully completed

- On 14 April 2016, green bonds in the amount of 25 MEUR were issued, thus completing the second bond offering programme of 100 MEUR
- Total amount of bonds issued reached 205 MEUR
- In October, *Moody's* assigned highest Green Bond Assessment grade – GB1 (excellent)
- *Moody's* credit rating – Baa2 (stable)
- Capital ratio – 59%

Debt repayment schedule



Bonds represent ¼ of total borrowings



Loan portfolio figures

30.09.2016

Share of fixed interest rate* 60%

Duration 2.4 years

Effective weighted average interest rate* 1.7%

* with interest rate swaps

Agenda

Group Profile

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Current Issues

- ▶ Latvenergo Group Strategy

Q&A

Latvenergo Group Strategy

Strategy 2017–2022

- Designed in response to major challenges in domestic Baltic energy market
- Development process involved industry and operating environment analysis, evaluation of business opportunities, engagement of experts and stakeholders

Strategic objectives

- Strengthening of market position in local markets, meanwhile considering a geographic and/or product/service expansion
- Development of generation portfolio that fosters synergy with trade and promotes value increase of the Group
- Development of a customer-driven, functional, safe and efficient power network

Financial targets

Target group	Ratio	Year 2022
Profitability	Return on equity	> 6%
Capital structure	Net debt to equity	< 50%
	Net debt to EBITDA	< 3x
Dividend policy	Dividend payout ratio	> 80%

Q&A

or send to:

E-mail: investor.relations@latvenergo.lv

Website: www.latvenergo.lv


Latvenergo AS

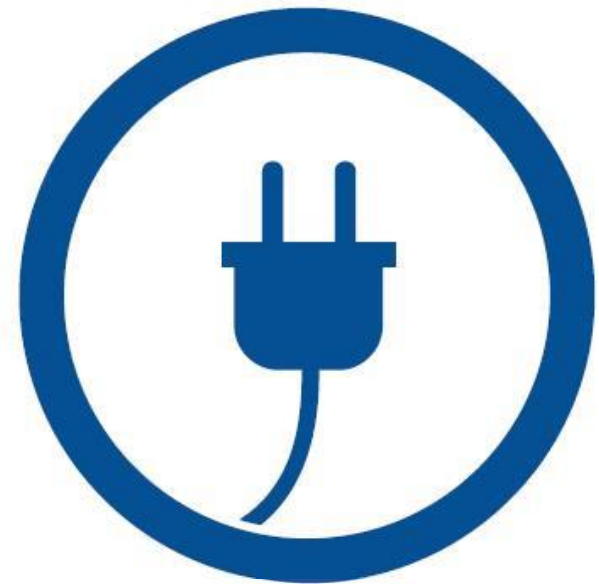
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Consolidated Statement of Profit or Loss*

	01/01–30/09/2016	01/01–30/09/2015
	EUR'000	EUR'000
Revenue	678,203	685,945
Other income	4,904	3,630
Raw materials and consumables used	(274,874)	(336,343)
Personnel expenses	(72,754)	(71,151)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(171,370)	(149,040)
Other operating expenses	(47,338)	(45,873)
Operating profit	116,771	87,168
Finance income	1,788	2,192
Finance costs	(10,935)	(14,557)
Profit before tax	107,624	74,803
Income tax	(13,308)	(6,208)
Profit for the period	94,316	68,595

Consolidated Statement of Financial Position*

	30/09/2016	31/12/2015
	EUR'000	EUR'000
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,052,743	3,090,661
Investment property	731	696
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	17,046	20,609
Other non-current receivables	1,281	1,712
Total non-current assets	3,071,842	3,113,719
Current assets		
Inventories	32,264	24,791
Trade receivables and other receivables	245,550	266,460
Investments in held-to-maturity financial assets	3,521	7,859
Derivative financial instruments	5,123	–
Cash and cash equivalents	206,291	104,543
Total current assets	492,749	403,653
TOTAL ASSETS	3,564,591	3,517,372
EQUITY		
Share capital	1,288,531	1,288,531
Reserves	667,340	669,596
Retained earnings	148,393	131,662
Equity attributable to equity holders of the Parent Company	2,104,264	2,089,789
Non-controlling interests	6,248	6,913
Total equity	2,110,512	2,096,702
LIABILITIES		
Non-current liabilities		
Borrowings	752,549	714,291
Deferred income tax liabilities	268,937	273,987
Provisions	16,541	15,984
Derivative financial instruments	10,224	8,291
Other liabilities and deferred income	194,475	196,386
Total non-current liabilities	1,242,726	1,208,939
Current liabilities		
Trade and other payables	130,464	121,256
Borrowings	76,739	83,192
Derivative financial instruments	4,150	7,283
Total current liabilities	211,353	211,731
Total liabilities	1,454,079	1,420,670
TOTAL EQUITY AND LIABILITIES	3,564,591	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*

	01/01–30/09/2016	01/01–30/09/2015
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	107,624	74,803
Adjustments :		
– Amortisation, depreciation and impairment of non-current assets	173,782	152,263
– Net financial adjustments	984	14,893
– Other adjustments	601	(579)
Operating profit before working capital adjustments	282,991	241,380
Decrease / (increase) in current assets	11,300	(35,677)
Decrease in trade and other payables	(12,317)	(26,748)
Cash generated from operating activities	281,974	178,955
Interest paid	(8,609)	(10,364)
Interest received	2,088	1,454
Corporate income tax and real estate tax (paid) / repaid	(4,459)	4,094
Net cash flows generated from operating activities	270,994	174,139
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(128,340)	(132,790)
Proceeds on financing from European Union funds and other financing	–	17,971
Proceeds from redemption of held-to-maturity assets	7,900	45
Net cash flows used in investing activities	(120,440)	(114,774)
Cash flows from financing activities		
Proceeds from issued debt securities (bonds)	26,266	74,898
Proceeds on borrowings from financial institutions	56,055	30,000
Repayment of borrowings	(52,337)	(83,240)
Dividends paid to equity holder of the Parent Company	(77,413)	(31,479)
Dividends paid to non-controlling interests	(1,377)	(1,148)
Net cash flows used in financing activities	(48,806)	(10,969)
Net increase in cash and cash equivalents	101,748	48,396
Cash and cash equivalents at the beginning of the period	104,543	91,747
Cash and cash equivalents at the end of the period	206,291	140,143 **

** Received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 thousand has not be included in cash and cash equivalents as of 30 September 2015 because it was defined as restricted cash and cash equivalents