



Investor Conference Webinar Presentation

# Latvenergo Group Unaudited Results 2016

9 March 2017

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# Agenda

## Group Profile

## Financials 2016

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

## Current Issues

- ▶ Supervisory Board of Latvenergo AS

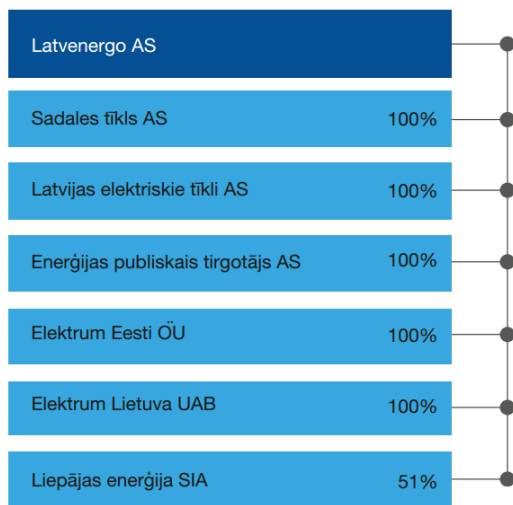
## Q&A

# Group Profile

## General

- Vertically integrated utility
- Wholly-owned by the Republic of Latvia
- 4,131 employees
- Latvenergo Credit rating: Moody`s – Baa2/stable

## Latvenergo Group structure



## Main facts

- Installed generation capacities:
  - Riga CHPPs – 1,025 MW<sub>el</sub>; 1,617 MW<sub>th</sub>
  - Daugava HPPs – 1,536 MW<sub>el</sub>
  - Liepāja and small plants – 8 MW<sub>el</sub>; 225 MW<sub>th</sub>
- Length of power lines:
  - Distribution 93.8 thsd. km
  - Transmission 5.2 thsd. km
- Retail customers – 855 thsd.
- Market share in the Baltics – 30%

## Operating segments

- Generation and supply (59% 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; 27% of EBITDA)
  - Sadales tīkls AS (LV)
- Transmission assets (5% of revenues; 12% of EBITDA)
  - Latvijas elektriskie tīkli AS (LV)

# Agenda

## Group Profile

### Financials 2016

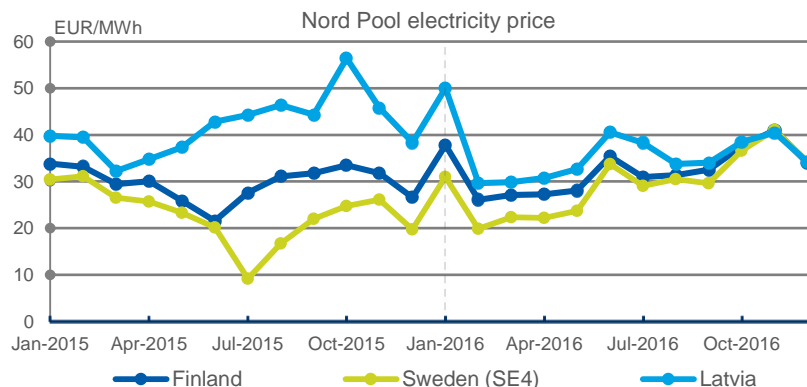
- ▶ Market Overview
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## Current Issues

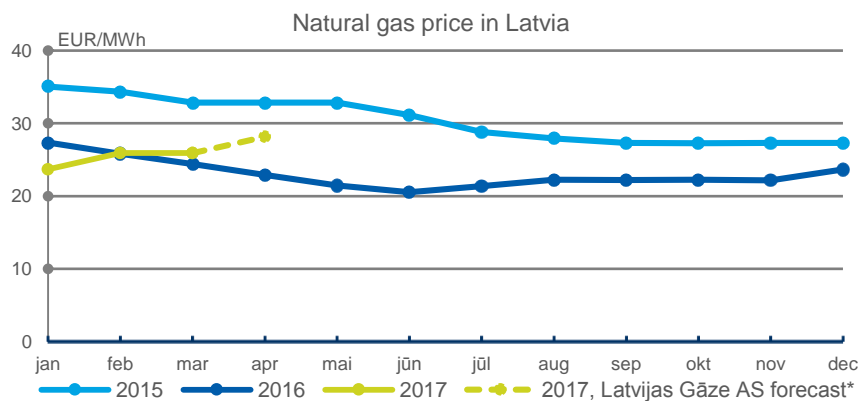
## Q&A

# Market Overview

## Convergence of electricity price



## Lower price of natural gas



\* Tariff forecast of Latvian Gas AS in February 2017

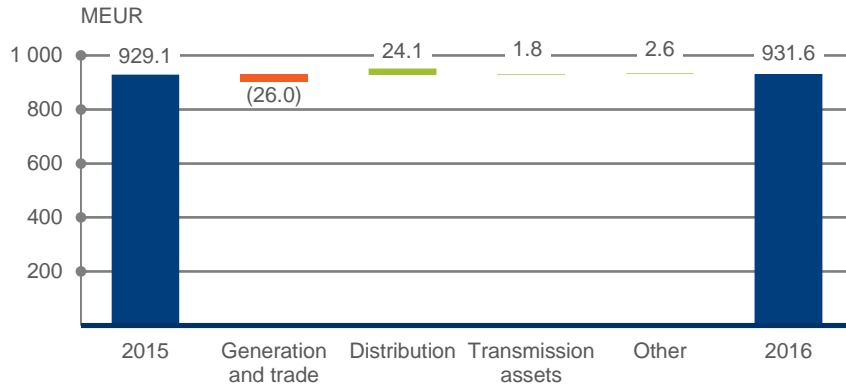
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## Key highlights

- 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

# Revenue and Profitability

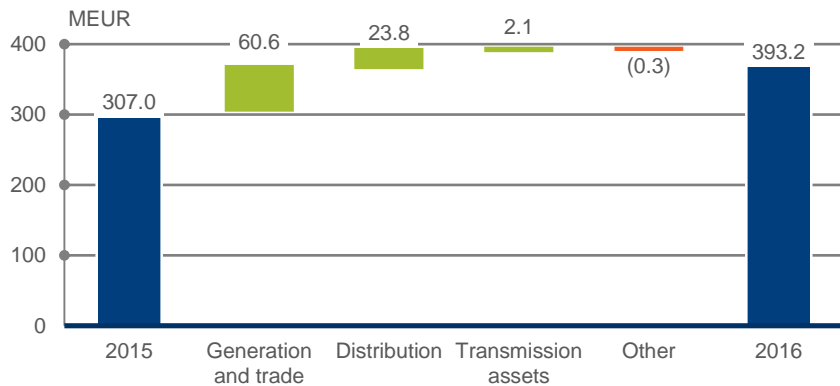
## Revenue dynamics by segments



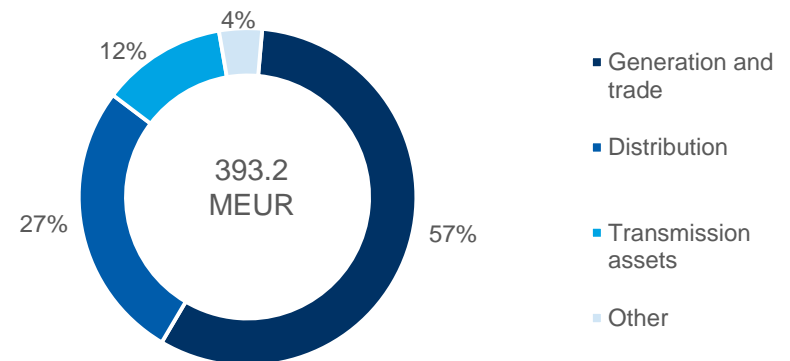
## Key highlights

- EBITDA increased by 28%
- 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



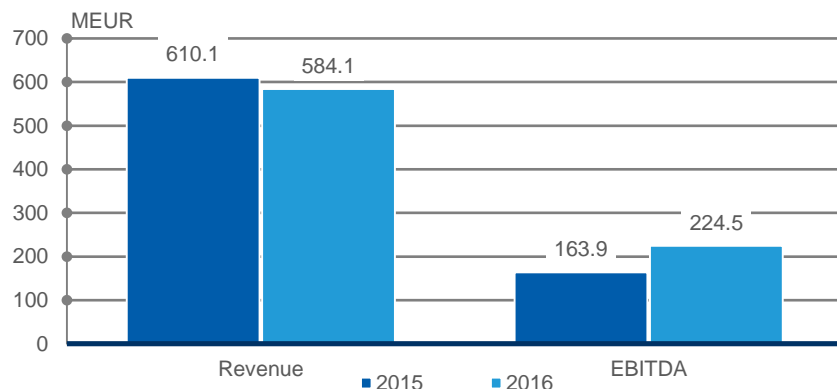
## EBITDA weight by segments



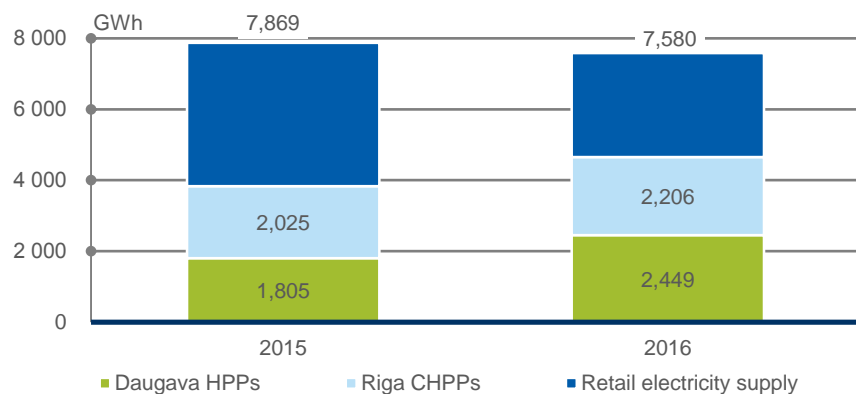
# Generation and Trade



## Segment EBITDA increased



## Generation covers 62% of retail supply



## Key highlights

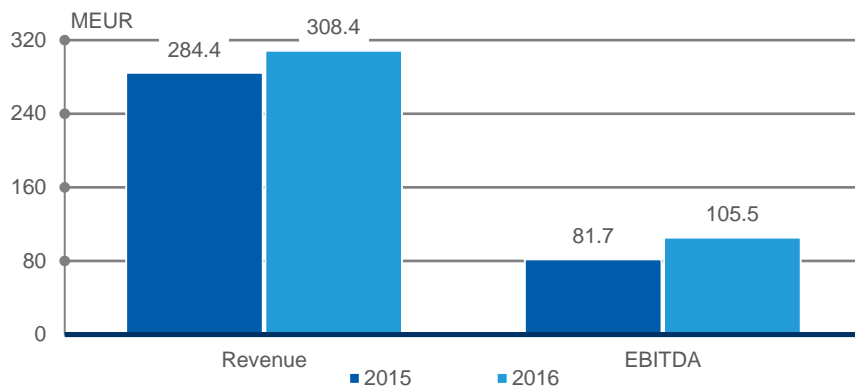
- EBITDA of the segment was positively impacted by higher electricity output at Daugava HPPs, as well as lower prices of natural gas and electricity
- The decrease in revenue was determined by EUR 9.8 million lower thermal energy revenue and lower electricity price
- Retail electricity supply in neighbouring countries reached 2,376 GWh, which is by 20% higher than the amount provided by competing electricity suppliers in Latvia
- Latvenergo Group maintains leading electricity supplier position in the Baltics
- By 21% increased output of electricity and by 11% - thermal energy
- As of 1 April 2017, PSO fee remains at the previous level (EUR 2.679 cents/kWh)



# Distribution



## Distribution revenue and EBITDA

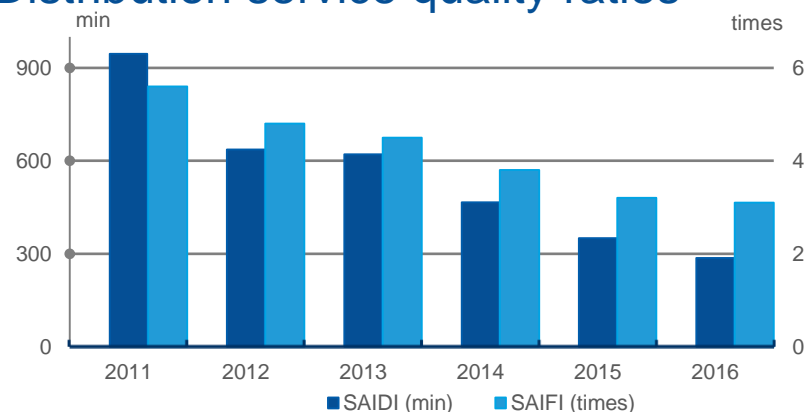


## Key highlights

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

		2015	2016
Assets	MEUR	1,313	1,629
Investments	MEUR	102	106
Electricity distributed	GWh	6,263	6,465
Distribution losses		4.6%	4.6%

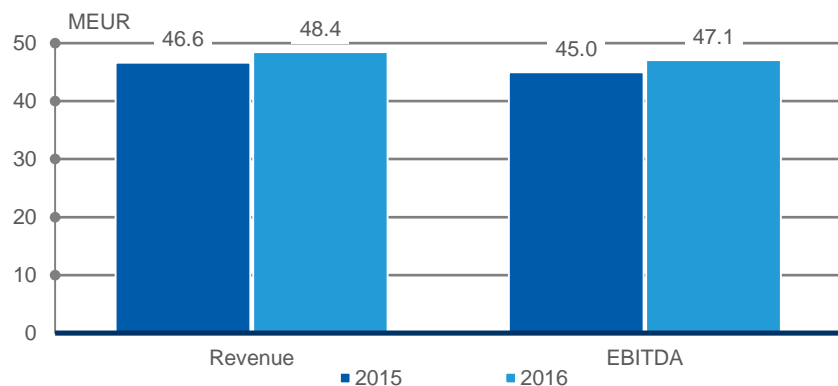
## Distribution service quality ratios



# Transmission Assets



## Segment EBITDA and revenue



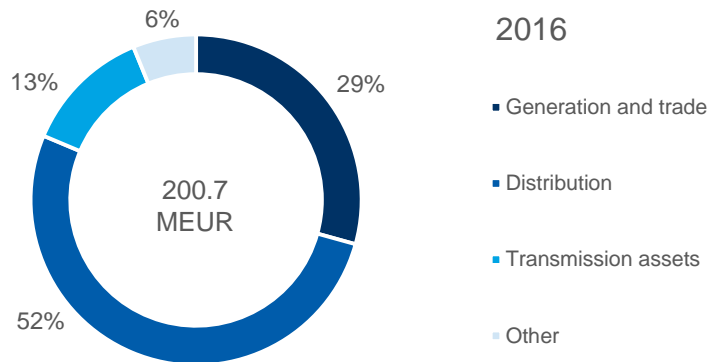
## Key highlights

- 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 25.5 MEUR, which is by 46% more than last year
- Revaluation of segment assets accomplished in 2016 (value increase by 18.7 MEUR)

		2015	2016
Assets	MEUR	432	449
Investments	MEUR	18	26

# Investments

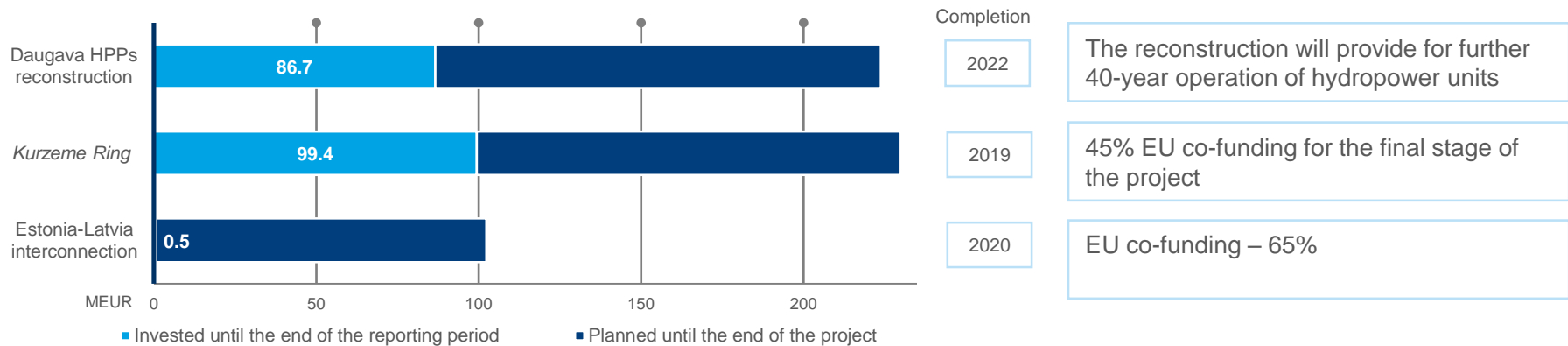
## Investments increased by 5%



## Key highlights

- 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
- Investments in networks comprise 2/3 of total
- Smart meters installed in 26% sites accounting for 76% of consumption

## Major investment projects

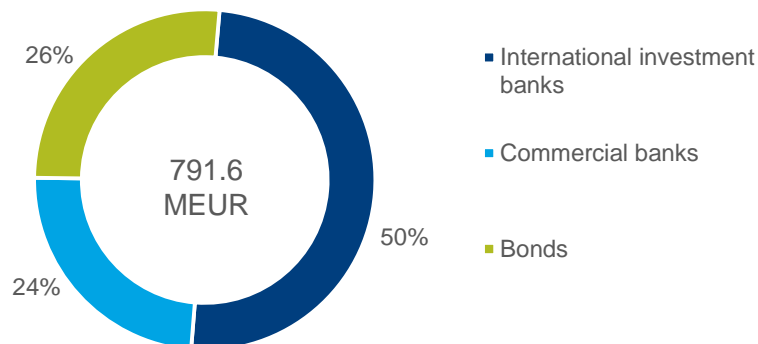


# Funding

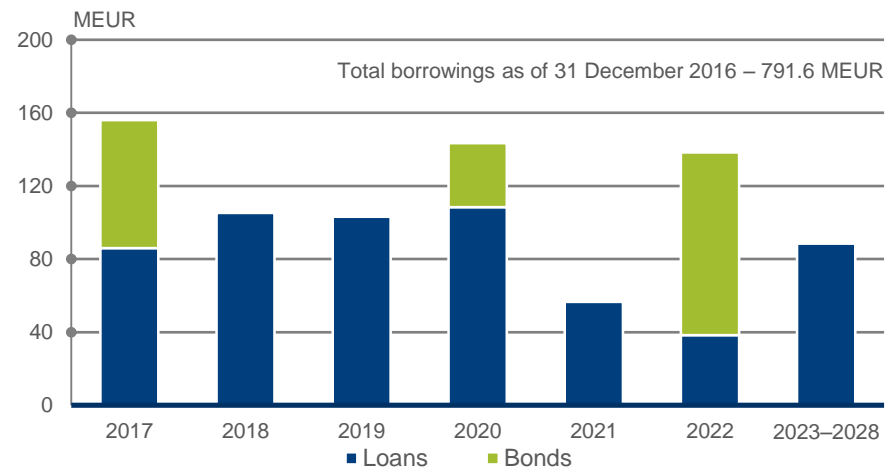
## Green bond programme successfully completed

- On 14 April 2016, *green* bonds in the amount of 25 MEUR were issued, thus completing the second bond offering programme of 100 MEUR
- Total amount of bonds issued reached 205 MEUR
- Best Investor Relations in Baltics among Bond issuers awarded by Nasdaq Baltic
- Moody's credit rating – Baa2 (stable), reaffirmed on 16 February 2017
- Capital ratio – 62%

## Bonds represent ¼ of total borrowings



## Debt repayment schedule



## 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

# Key Financials 2012 – 2016

Increased profitability

Income Statement (MEUR)	2012	2013	2014	2015	2016
Revenue	1,064	1,100	1,011	929	932
EBITDA	244	249	237	307	393
Profit	51	46	30	85	130

Strong capital structure

Balance Sheet (MEUR)	2012	2013	2014	2015	2016
Assets	3,518	3,575	3,487	3,517	3,901
Equity	2,007	2,022	2,021	2,097	2,418
Borrowings	847	945	827	797	792
Net Debt	604	689	706	693	608
Investments	264	225	178	190	201

Good financial performance

Key Financial Ratios	2012	2013	2014	2015	2016
EBITDA Margin	23%	23%	23%	33%	42%
Return on Equity (ROE)	2.6%	2.3%	1.5%	4.1%	5.8%
Net Debt / Equity	30%	34%	35%	33%	25%
Capital Ratio	57%	57%	58%	60%	62%
Net Debt to EBITDA	2.4	2.6	2.9	2.3	1.7

Moody's Credit Rating	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)	Baa2 (stable)	Baa2 (stable)
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Financials 2016

Current Issues

- ▶ Supervisory Board of Latvenergo AS

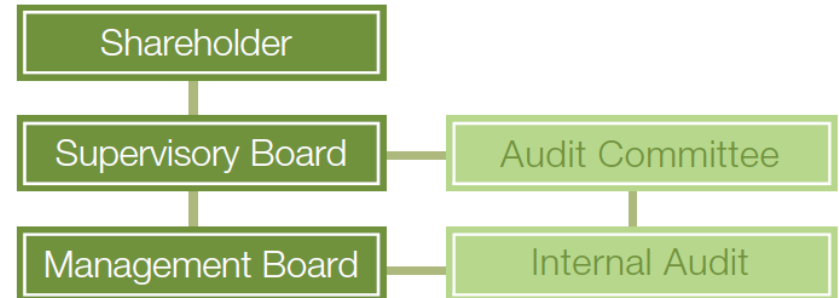
Q&A

# Supervisory Board of Latvenergo AS

## Established Supervisory Board

- As of 16 December 2016, the Supervisory Board of Latvenergo AS has been approved:
  - Andris Ozoliņš (Chairman of the Board)
  - Andris Liepiņš (Deputy Chairman)
  - Baiba Anda Rubesa
  - Mārtiņš Bičevskis
  - Martin Sedlacky
- Members of the Supervisory Board were elected considering their professionalism, experience and competence
- All members of the Supervisory Board are independent in their activities
- Supervisory Board is appointed for a 5-year term
- Two of the Supervisory Board Members, Andris Ozoliņš and Andris Liepiņš, have been elected in the Audit Committee

## Governance structure of Latvenergo AS



## Main duties of the Supervisory Board

- represent Shareholder's interests between Shareholder's Meetings
- supervise the work of the Management Board

# Contacts

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[Investor.relations@latvenergo.lv](mailto:Investor.relations@latvenergo.lv)

Latvenergo AS

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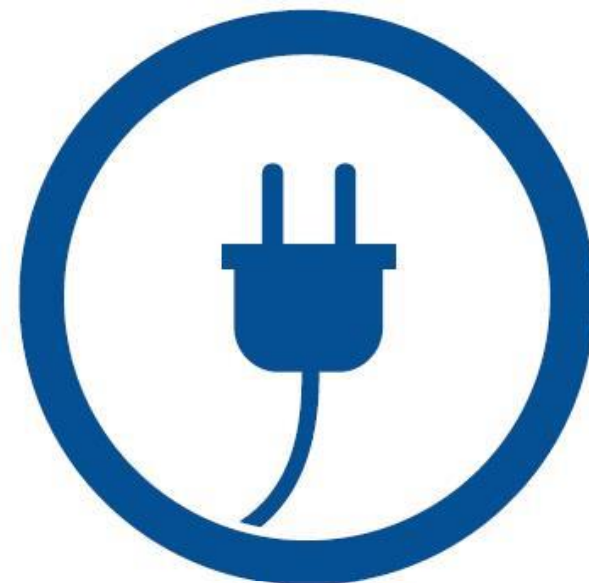
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# Consolidated Statement of Profit or Loss\*

	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)
<b>Operating profit</b>	<b>160,538</b>	<b>108,188</b>
Finance income	2,328	2,926
Finance costs	(14,156)	(18,579)
<b>Profit before tax</b>	<b>148,710</b>	<b>92,535</b>
Income tax	(18,870)	(7,496)
<b>Profit for the period</b>	<b>129,840</b>	<b>85,039</b>

\* Unaudited Condensed 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
<b>ASSETS</b>		
<b>Non-current assets</b>		
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
<b>Total non-current assets</b>	<b>3,388,720</b>	<b>3,113,719</b>
<b>Current assets</b>		
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
<b>Total current assets</b>	<b>512,276</b>	<b>403,653</b>
<b>TOTAL ASSETS</b>	<b>3,900,996</b>	<b>3,517,372</b>
<b>EQUITY</b>		
Share capital	1,288,715	1,288,531
Reserves	937,074	669,596
Retained earnings	185,306	131,662
<b>Equity attributable to equity holder of the Parent Company</b>	<b>2,411,095</b>	<b>2,089,789</b>
Non-controlling interests	7,084	6,913
<b>Total equity</b>	<b>2,418,179</b>	<b>2,096,702</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
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
<b>Total non-current liabilities</b>	<b>1,253,046</b>	<b>1,208,939</b>
<b>Current liabilities</b>		
Trade and other payables	149,547	121,256
Borrowings	76,584	83,192
Derivative financial instruments	3,640	7,283
<b>Total current liabilities</b>	<b>229,771</b>	<b>211,731</b>
<b>TOTAL liabilities</b>	<b>1,482,817</b>	<b>1,420,670</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,900,996</b>	<b>3,517,372</b>

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# Consolidated Statement of Cash Flows\*

	2016	2015
	EUR'000	EUR'000
<b>Cash flows from operating activities</b>		
Profit before tax	148,710	92,535
<b>Adjustments:</b>		
- Amortisation, depreciation and impairment of non-current assets	237,003	202,903
- Net financial adjustments	4,580	16,213
- Other adjustments	(313)	(735)
<b>Operating profit before working capital adjustments</b>	<b>389,980</b>	<b>310,916</b>
Increase in current assets	(26,837)	(29,857)
Decrease in trade and other payables	(844)	(20,825)
<b>Cash generated from operating activities</b>	<b>362,299</b>	<b>260,234</b>
Interest paid	(15,529)	(19,189)
Interest received	2,457	1,606
Repaid / (paid) corporate income tax and real estate tax	(8,041)	3,627
<b>Net cash flows from operating activities</b>	<b>341,186</b>	<b>246,278</b>
<b>Cash flows from investing activities</b>		
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 financial assets	7,914	70
<b>Net cash flows used in investing activities</b>	<b>(177,518)</b>	<b>(170,873)</b>
<b>Cash flows from financing activities</b>		
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 equity holder of the Parent Company	(77,413)	(31,479)
Dividends paid to non-controlling interests	(1,377)	(1,148)
<b>Net cash flows used in financing activities</b>	<b>(84,231)</b>	<b>(62,609)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>79,437</b>	<b>12,796</b>
Cash and cash equivalents at the beginning of the year	104,543	91,747
<b>Cash and cash equivalents at the end of the year</b>	<b>183,980</b>	<b>104,543</b>

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