

# Latvenergo Group Unaudited Results 6 months of 2017

Investor Conference Webinar Presentation

7 September 2017  
Guntars Baļčūns, CFO



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# Agenda

## Group Profile

## Financials 1H 2017

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

## Current Issues

- ▶ Ministry of Economics Conceptual Report
- ▶ Opening Bell at Nasdaq MarketSite, NY

## Q&A

# Group Profile

## General

Vertically integrated utility

Wholly-owned by the Republic of Latvia

4,112 employees

Latvenergo Credit rating: Moody`s – Baa2/stable

## Operating segments

Generation and supply (58% of revenues; 58% of EBITDA)

- Latvenergo AS (LV)
- Elektrum Eesti OU (EE)
- Elektrum Lietuva UAB (LT)
- Liepājas enerģija SIA (LV)
- Enerģijas publiskais tirgotājs AS (LV)

Distribution (32% of revenues; 29% of EBITDA)

- Sadales tīkls AS (LV)

Transmission assets (4% of revenues; 10% of EBITDA)

- Latvijas elektriskie tīkli AS (LV)

## Main facts

Installed generation capacities:

- Riga CHPPs – 1,025 MWeI; 1,617 MWth
- Daugava HPPs – 1,536 MWeI
- Liepaja and small plants – 8 MWeI; 225 MWth

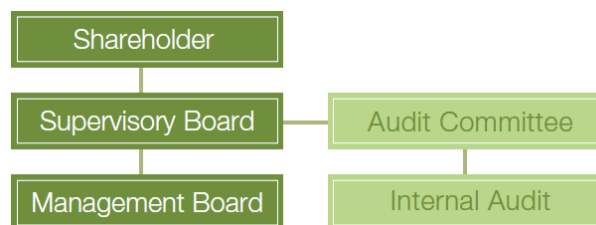
Retail customers – 847 thsd.

Market share in the Baltics – 27%

Length of power lines:

- Distribution 93.8 thsd. km
- Transmission 5.2 thsd. km

## Governance structure of Latvenergo AS



- The Supervisory Board comprises of 5 independent members
- Two members of the Supervisory Board have been elected in the Audit Committee

# Agenda

## Group Profile

### Financials 1H 2017

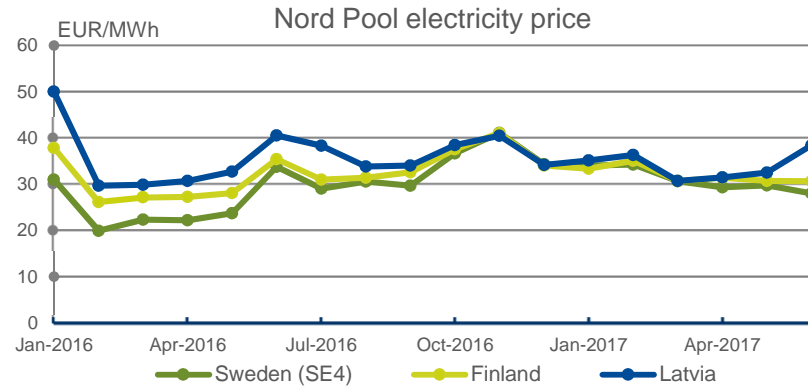
- ▶ Market Overview
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## Current Issues

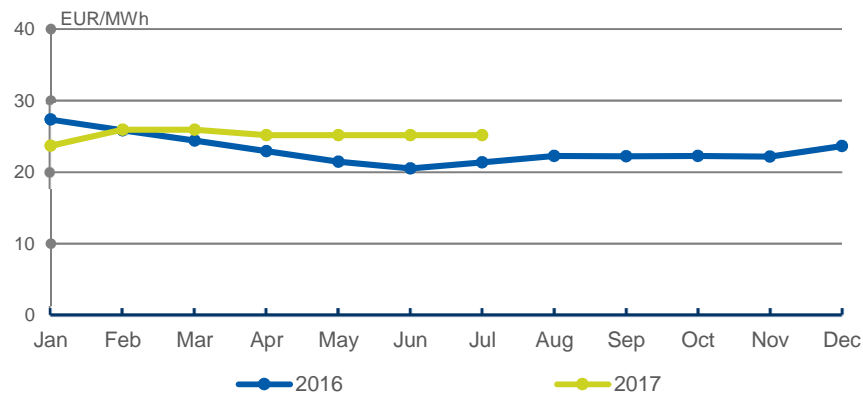
## Q&A

# Market Overview

## Convergence of electricity price



## Natural gas price in Latvia

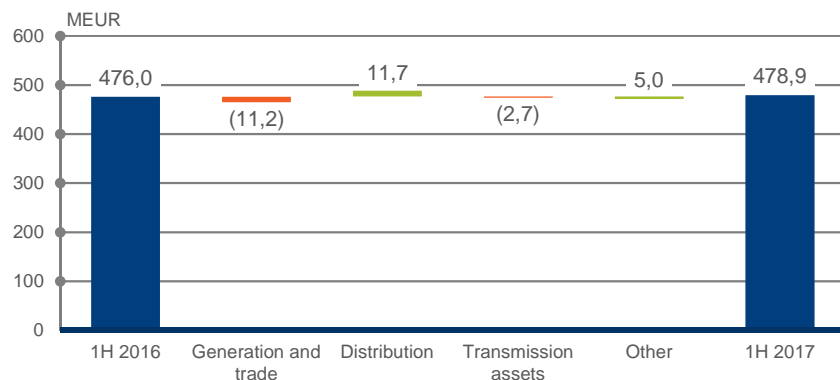


## Key highlights

- Nord Pool price in Latvia and Lithuania decreased by 4% and 5% respectively (34.0 EUR/MWh and 34.5 EUR/MWh), while it increased in Estonia and Finland by 1% and 6% respectively (31.9 EUR/MWh and 32.0 EUR/MWh)
- Electricity price increase in the Nordic countries was determined by lower water levels in Scandinavian hydropower reservoirs
- New interconnections have contributed to convergence of electricity spot prices between the Nordic countries and the Baltics
- Latvia's natural gas market is open and Latvenergo has started gas trading activities
- Slightly higher gas price due to increase in Brent crude oil price

# Revenue and Profitability

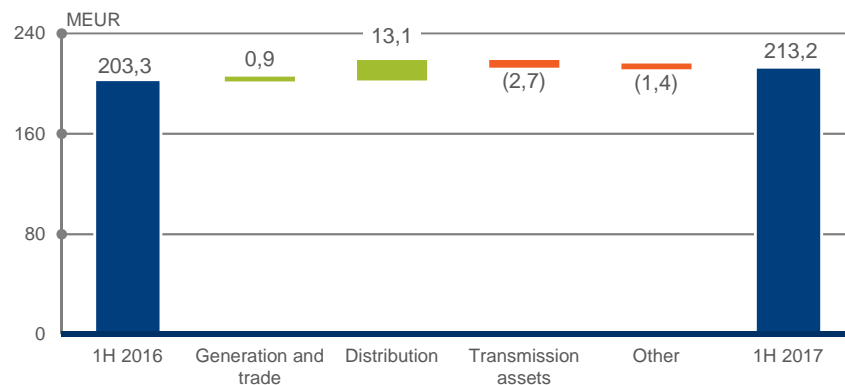
## Revenue dynamics by segments



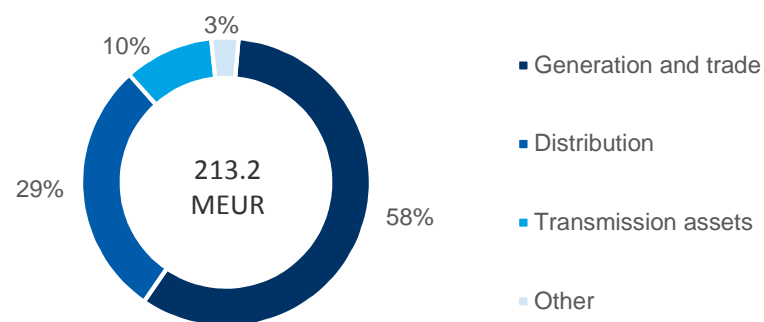
## Key highlights

- The results were mainly positively impacted by:
  - 55% greater electricity output at the Daugava HPPs
  - increase in distribution service revenue
- The results were mainly negatively impacted by lower electricity sales price in the Baltics
- EBITDA margin – 43% (1H 2016: 36%)
- ROE – 6.8% (1H 2016: 4.7%)

## EBITDA dynamics by segments



## EBITDA weight by segments

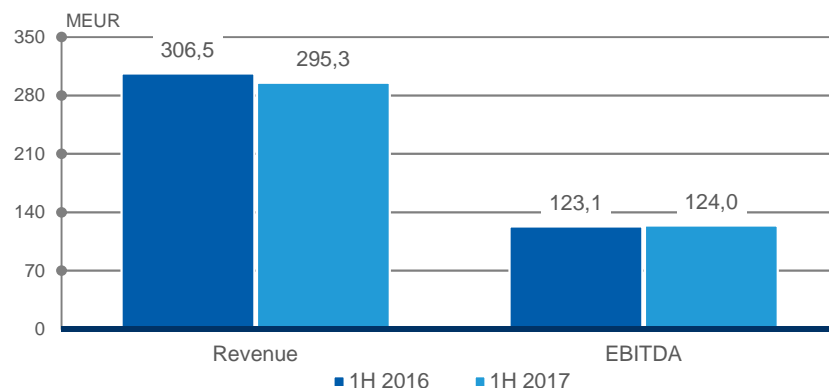




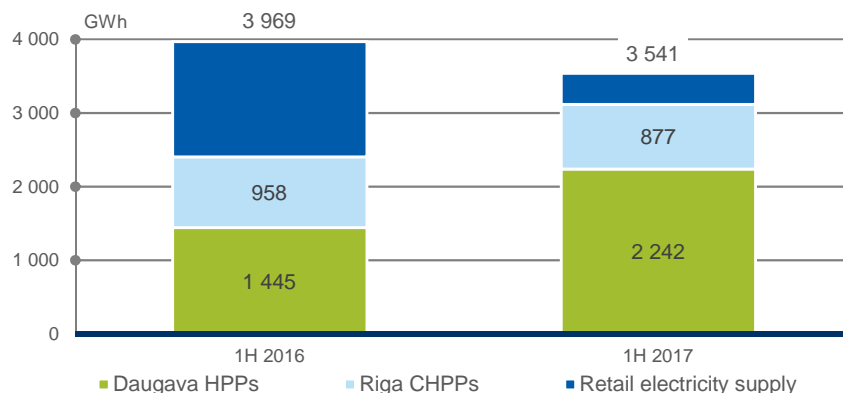
# Generation and Trade



## Segment EBITDA increased



## 3,147 GWh of electricity generated



## Key highlights

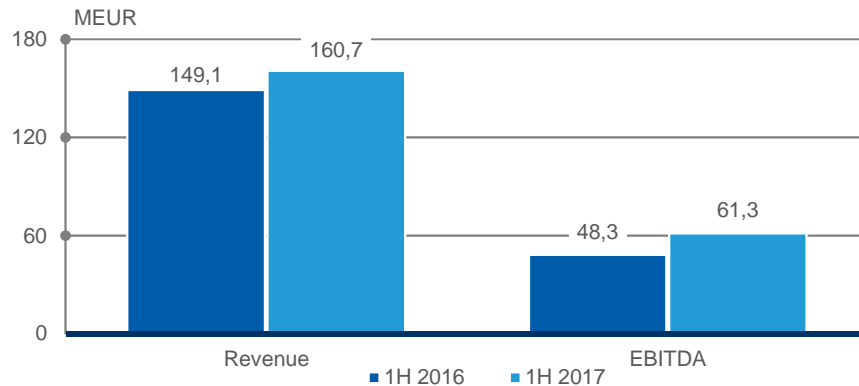
- Results of the segment were positively impacted by higher electricity output at the Daugava HPPs, while negatively – by lower electricity sales prices in the Baltics
- Total electricity generated represents 89% of retail electricity supply (1H 2016: 61%)
- Power generated by the Daugava HPPs increased by 55%, consequently generation of electricity increased by 29%
- Latvenergo Group has maintained the position of leading electricity supplier in the Baltics
- Latvenergo Group under the *Elektrum* brand commences natural gas trade to business customers in Latvia
- Since July new product – *Elektrum Solārais* – has been launched
- As of 1 April 2017, PSO fee remains at the previous level (2.679 cents/kWh)



# Distribution and Lease of Transmission Assets



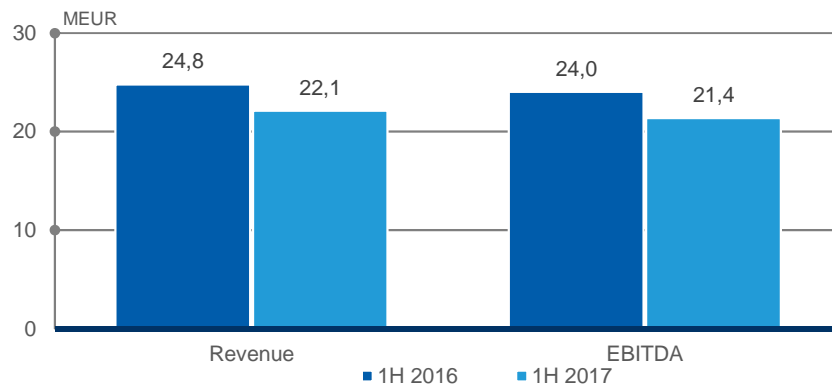
## Distribution revenue and EBITDA



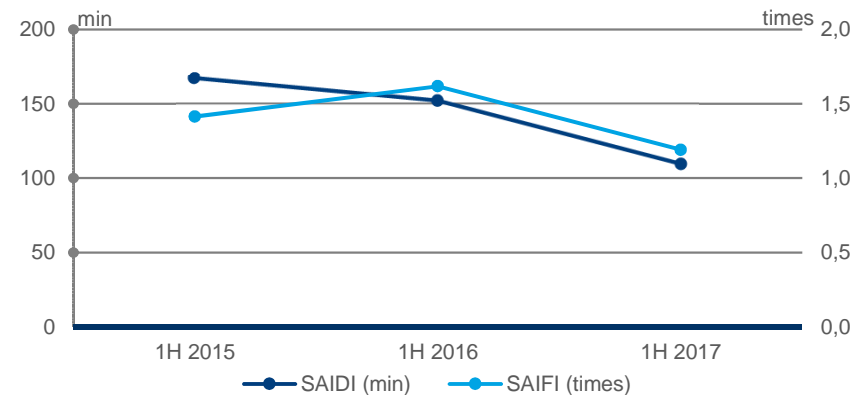
## Key highlights

- Electricity distributed reached 3,250 GWh (1H 2016: 3,276 GWh)
- Positive impact on the results due to increased distribution services revenue (11.5 MEUR) resulting from change in distribution system service tariffs that came into force on 1 August 2016

## Transmission revenue and EBITDA

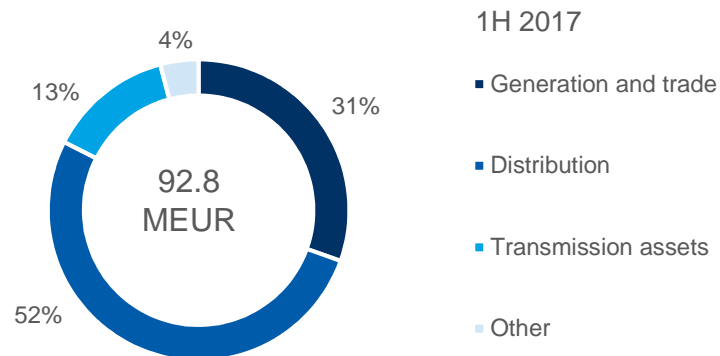


## Improved distribution SAIDI and SAIFI ratios



# Investments

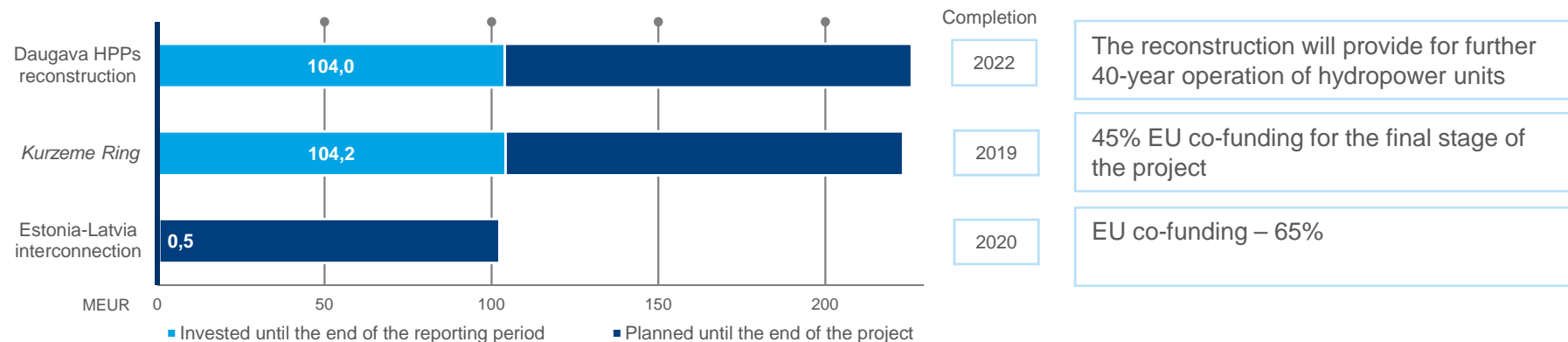
Investments increased by 17%



## Investments in environmentally friendly projects

- Investments in the Daugava HPPs hydropower unit reconstruction amounted to 13.4 MEUR
- Network service quality and technical parameters gradually improved by investments in network assets
- Investments in Kurzeme ring project 3-rd stage reached 3.7 MEUR

## Major investment projects

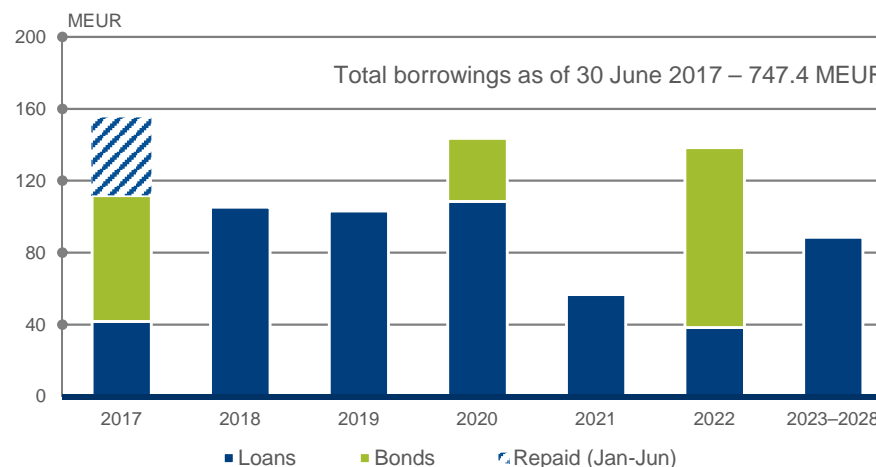


# Funding

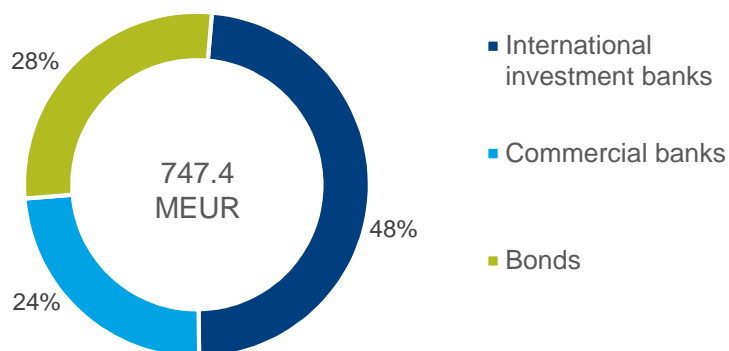
## Diversified borrowing sources

- Total amount of bonds issued reached 205 MEUR, incl. 100 MEUR *green* bonds
- On 16 February 2017, Moody's credit rating reaffirmed – Baa2 (stable)
- Capital ratio – 63%

## Debt repayment schedule



## Debt by lender category



## Liquidity

Liquid assets (cash and short term bank deposits with maturity up to 3 months)	181 MEUR
<i>Committed long-term loans</i>	235 MEUR
<i>Investment in liquid financial assets</i>	17 MEUR
Additional liquidity reserves	252 MEUR

# Agenda

Group Profile

Financials 1H 2017

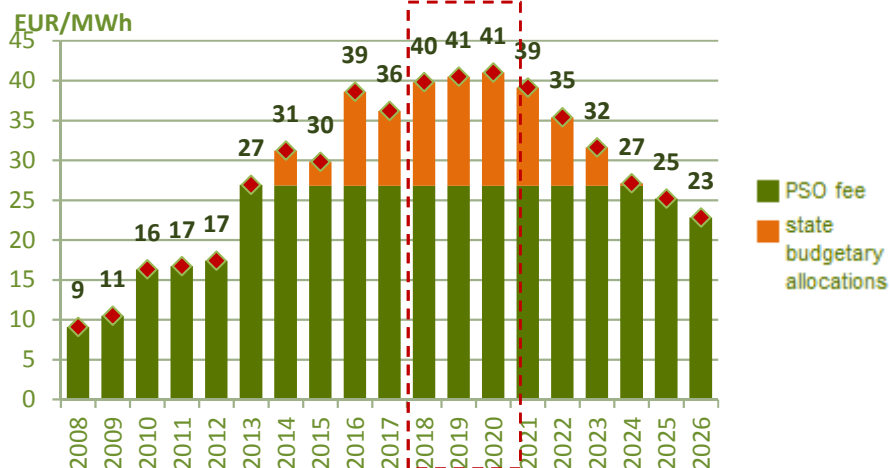
Current Issues

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Q&A

# PSO fee solution

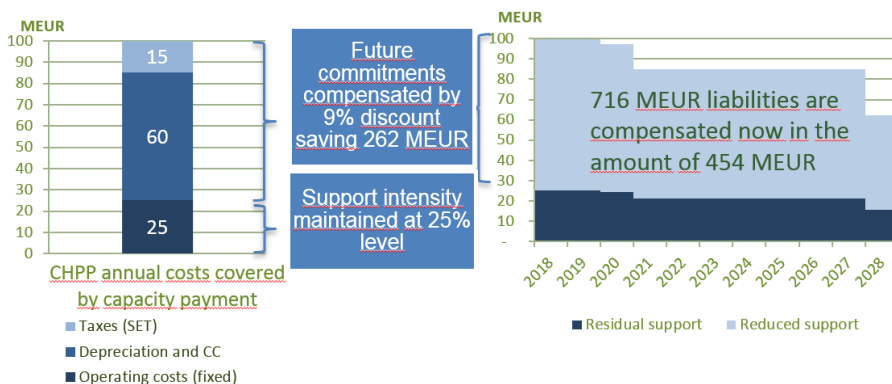
## PSO fee forecast



## Proposed solution by the Ministry of Economics

- Proposed solution – to compensate 75% of future commitments as one-off compensation of 454 MEUR, that corresponds to asset value of CHPPs
- 25% of current support would be received further on annually, providing a sufficient basis for continuation of power plant commercial operation
- Solution would be financed through capital release of Latvenergo AS

## Decrease of support and compensation



## Positive outcomes

- The average PSO fee slightly reduced
- Substantially reduced necessity for annual state budgetary allocations
- The proposed solution ensures preservation of CHPPs assets and continuation of their commercial operations

# Latvenergo Group financial results

## Key financial figures

Profit or loss statement (mEUR)	2014	2015	2016	1H 2017
Revenue	1,011	929	932	479
EBITDA	237	307	393	213
Profit	30	85	131	98
Balance sheet (m EUR)	2014	2015	2016	1H 2017
Assets	3,487	3,517	3,901	3,842
Equity	2,021	2,097	2,419	2,426
Borrowings	827	797	792	748
Net Debt	706	693	608	567
Financial Ratios	2014	2015	2016	1H 2017
Net debt / EBITDA	2,9	2,3	1,7	1,5
Return on Equity (ROE)	1.5 %	4.1 %	5.8 %	6.8 %
Net debt / Equity	35 %	33 %	25 %	23 %
Capital Ratio	58 %	60 %	62 %	63 %
Moody's credit rating	Baa3 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

1) Net debt – borrowings at the end of the period minus cash and cash equivalents at the end of the period

2) Capital Ratio – equity / total assets \* 100 %

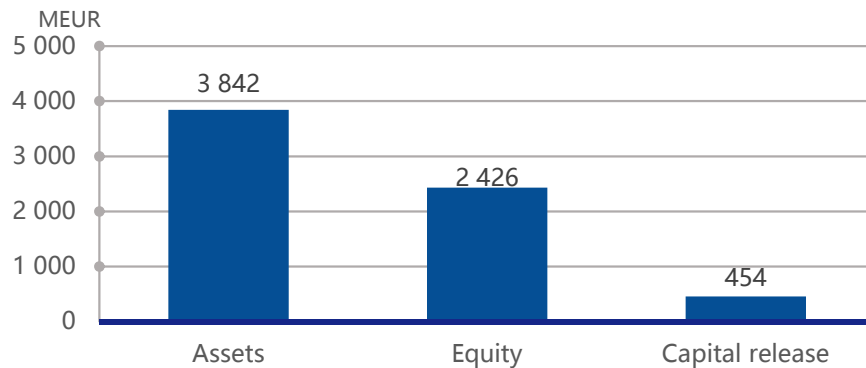
## Good financial performance and strong capital structure

- In recent years, financial results have improved substantially
- Profitability ratio (ROE) corresponds to industry average
- Capital structure with high equity proportion (63%)
- Creditworthiness (net debt / EBITDA – 1.5) is higher than industry average\* (3.0)
- Latvenergo dividends are used as funding to maintain PSO fee at the current level (26.79 EUR/MWh)
- Major generation asset reconstruction projects are completed

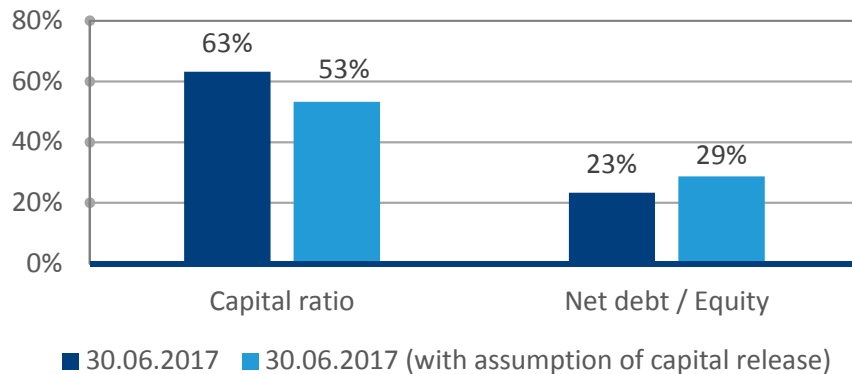
\* According to the research carried out by independent international third parties

# Capital release as solution for PSO fee

## Assets and equity (30.06.2017)



## Indicative change in capital structure ratios



## Main aspects

- Capital release has been identified as a solution for PSO fee funding
- Compensation of 454 MEUR corresponds to asset value of CHPPs, hence the solution would have a neutral effect on financial results of 2017
- Mutual payments would be carried out by offsetting, thus no increase in borrowings is expected
- Financial covenants would not be breached and reasonable headroom maintained
- After the capital release the capital structure would be in line with industry average ratios



# Latvenergo opens trading session in Nasdaq MarketSite New York

- In January Latvenergo AS as the first company received Nasdaq Baltic Market Award of **Best Investor Relations in Baltics among Bond Issuers** in 2016
- Along with the award invitation to bell ringing ceremony at Nasdaq in NY was received
- On 14 August, Latvenergo rang the trading session opening bell at the Nasdaq MarketSite in NY
- Video “Green energy. Green country. Green bonds” rolled on Nasdaq Video Tower for an hour
- Recorded video of bell ringing ceremony and video run on Nasdaq Video Tower are available on Latvenergo YouTube channel
- *A great opportunity to bring image of Latvenergo and Latvia around the world*



# Q&A

or send to:

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

[www.latvenergo.lv](http://www.latvenergo.lv)

Latvenergo AS

P. Brieža iela 12, Rīga, LV-1230



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# Consolidated Statement of Profit or Loss\*

	01/01-30/06/2017	01/01-30/06/2016
	EUR'000	EUR'000
Revenue	478,902	475,998
Other income	3,535	3,224
Raw materials and consumables used	(182,180)	(195,800)
Personnel expenses	(51,363)	(48,731)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(94,122)	(111,542)
Other operating expenses	(35,744)	(31,438)
<b>Operating profit</b>	<b>119,028</b>	<b>91,711</b>
Finance income	627	1,211
Finance costs	(5,930)	(7,386)
Received dividends from subsidiaries	–	–
<b>Profit before tax</b>	<b>113,725</b>	<b>85,536</b>
Income tax	(15,854)	(10,856)
<b>Profit for the period</b>	<b>97,871</b>	<b>74,680</b>

# Consolidated Statement of Financial Position\*

	30/06/2017	31/12/2016
	EUR'000	EUR'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets and property, plant and equipment	3,367,370	3,370,331
Investment property	669	563
Non-current financial investments	41	41
Non-current loans to subsidiaries	–	–
Investments in held-to-maturity financial assets	17,009	17,034
Other non-current receivables	987	986
<b>TOTAL non-current assets</b>	<b>3,386,076</b>	<b>3,388,955</b>
<b>Current assets</b>		
Inventories	42,049	41,458
Prepayment for inventories	57	–
Trade receivables and other receivables	228,506	273,957
Deferred expenses	2,390	3,227
Current loans to subsidiaries	–	–
Derivative financial instruments	2,190	6,134
Investments in held-to-maturity financial assets	–	3,520
Cash and cash equivalents	180,600	183,980
<b>TOTAL current assets</b>	<b>455,792</b>	<b>512,276</b>
<b>TOTAL ASSETS</b>	<b>3,841,868</b>	<b>3,901,231</b>
<b>EQUITY</b>		
Share capital	1,288,715	1,288,715
Reserves	937,181	937,074
Retained earnings	193,083	185,840
<b>Equity attributable to equity holder of the Parent Company</b>	<b>2,418,979</b>	<b>2,411,629</b>
Non-controlling interests	6,934	7,084
<b>TOTAL equity</b>	<b>2,425,913</b>	<b>2,418,713</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	610,821	635,620
Deferred income tax liabilities	313,169	315,759
Provisions	19,159	18,643
Derivative financial instruments	5,670	7,946
Other liabilities and deferred income	194,254	195,407
<b>Total non-current liabilities</b>	<b>1,143,073</b>	<b>1,173,375</b>
<b>Current liabilities</b>		
Borrowings	136,561	155,946
Trade and other payables	105,537	117,817
Income tax payable	13,018	17,718
Deferred income	14,264	14,022
Derivative financial instruments	3,502	3,640
<b>TOTAL current liabilities</b>	<b>272,882</b>	<b>309,143</b>
<b>TOTAL liabilities</b>	<b>1,415,955</b>	<b>1,482,518</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,841,868</b>	<b>3,901,231</b>

\*Unaudited Condensed Consolidated Interim Financial Statements.  
Prepared in accordance with the IFRS as adopted by the EU.

# Consolidated Statement of Cash Flows\*

	01/01-30/06/2017	01/01-30/06/2016
	EUR'000	EUR'000
<b>Cash flows from operating activities</b>		
Profit before tax	113,725	85,536
<b>Adjustments:</b>		
- Amortisation, depreciation and impairment of non-current assets	95,402	112,746
- Net financial adjustments	7,715	1,753
- Other adjustments	498	460
<b>Operating profit before working capital adjustments</b>	<b>217,340</b>	<b>200,495</b>
Decrease / (increase) in current assets	48,164	18,228
Decrease in trade and other payables	(9,865)	(9,313)
<b>Cash generated from operating activities</b>	<b>255,639</b>	<b>209,410</b>
Interest paid	(7,022)	(8,458)
Interest received	1,177	1,530
Corporate income tax and real estate tax paid	(23,219)	(4,031)
<b>Net cash flows from operating activities</b>	<b>226,575</b>	<b>198,451</b>
<b>Cash flows from investing activities</b>		
Loans issued to subsidiaries	–	–
Repayment of loans issued to subsidiaries	–	–
Purchase of intangible assets and property, plant and equipment	(98,293)	(77,186)
Proceeds from redemption of held-to-maturity assets	3,544	30
Proceeds from investments in subsidiaries	–	–
<b>Net cash flows (used in) / generated from investing activities</b>	<b>(94,749)</b>	<b>(77,156)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issued debt securities (bonds)	–	26,267
Proceeds on borrowings from financial institutions	–	55,000
Repayment of borrowings	(43,671)	(45,826)
Dividends paid to equity holder of the Parent Company	(90,142)	(77,413)
Dividends paid to non-controlling interests	(1,393)	–
<b>Net cash flows used in financing activities</b>	<b>(135,206)</b>	<b>(41,972)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(3,380)</b>	<b>79,323</b>
Cash and cash equivalents at the beginning of the period	183,980	104,543
<b>Cash and cash equivalents at the end of the period</b>	<b>180,600</b>	<b>183,866</b>