

# LATVENERGO GROUP CONSOLIDATED AND LATVENERGO AS UNAUDITED CONDENSED ANNUAL FINANCIAL STATEMENTS FOR 2017

28.02.2018 / RIGA

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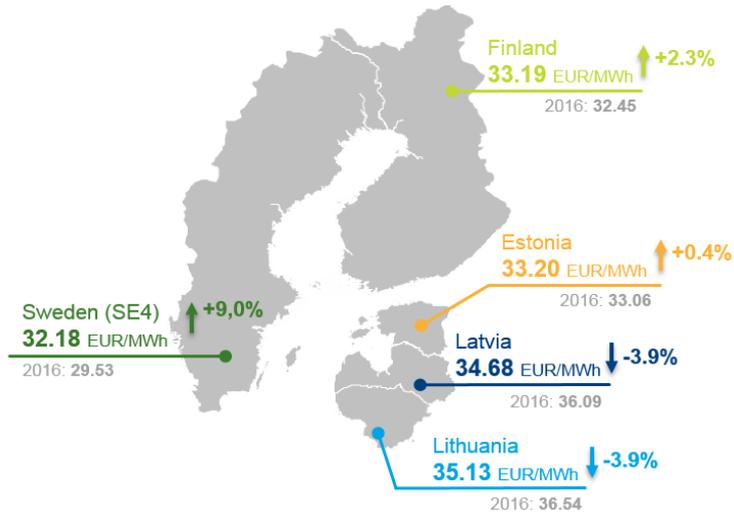
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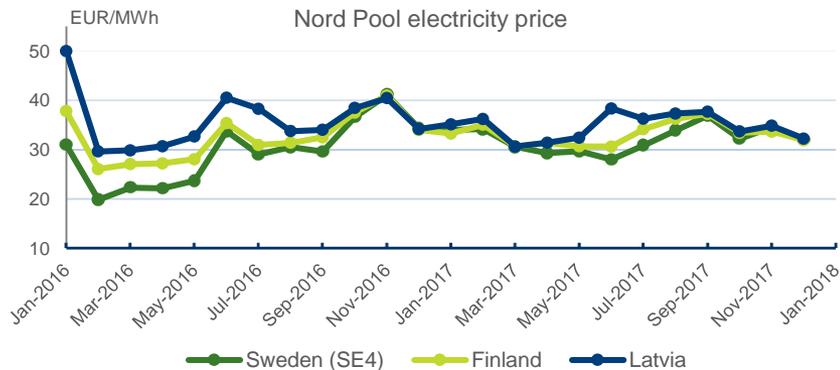
# Electricity price convergence in the Baltics continues



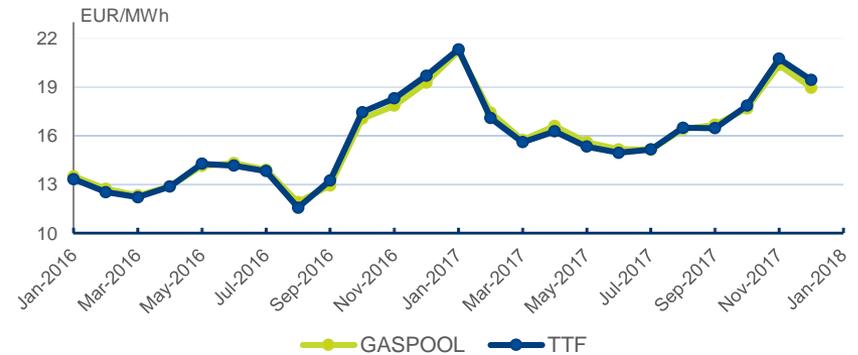
## Main facts – 2017

- *NordBalt* interconnection contributed to convergence of electricity spot prices between the Nordic countries and the Baltics
- The price dynamics in the Baltics was also influenced by higher level of electricity generation in the Daugava HPPs
- The natural gas market is open in Latvia
- Natural gas price was 19% higher than in 2016

## Electricity price convergence

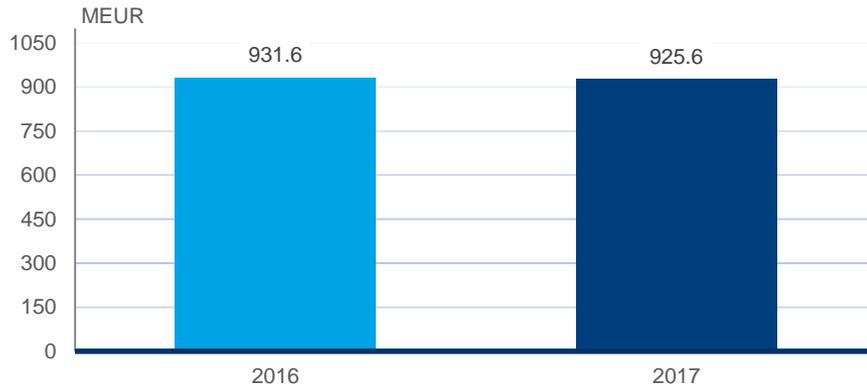


## Natural gas price increases

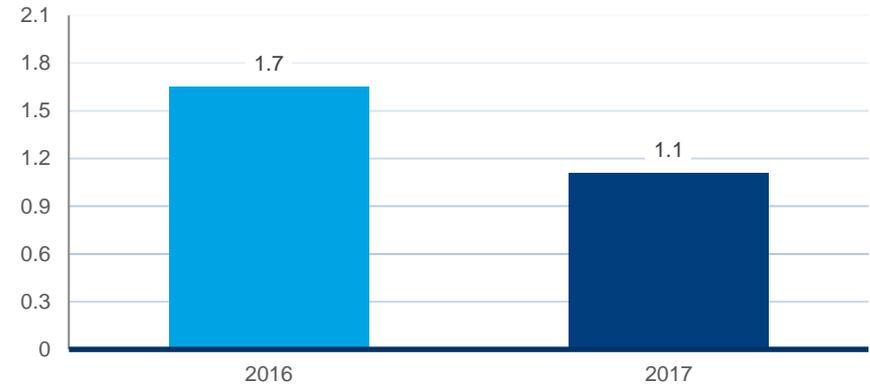


# Key financial figures

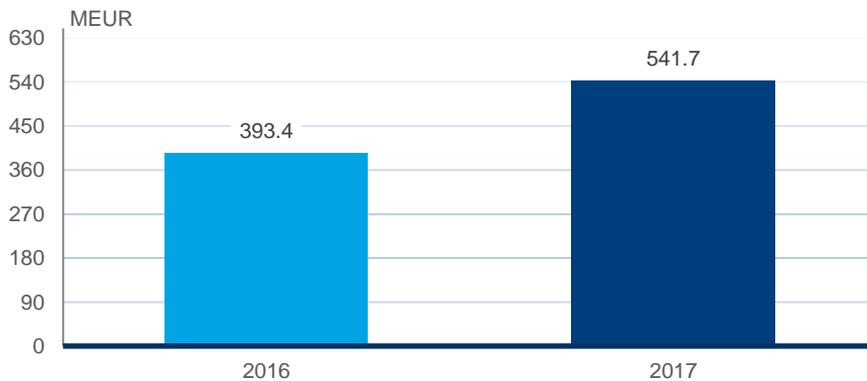
## Revenue



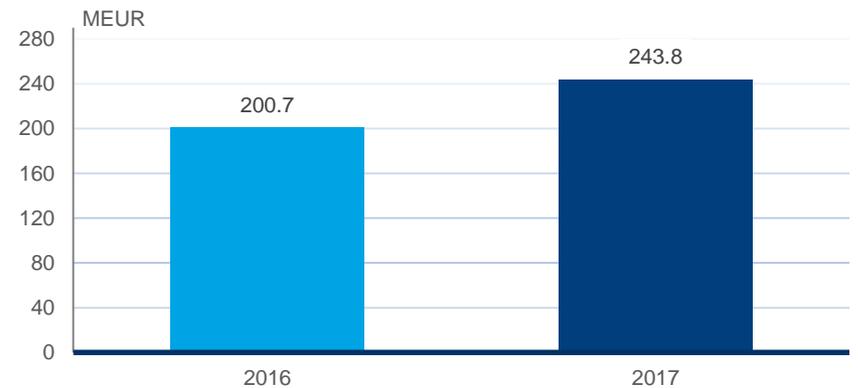
## Net debt/EBITDA



## EBITDA\*



## Investments



\*In 2017, EBITDA includes a one-off compensation for the Riga CHPPs' capacity payments – EUR 140 million is recognized as *Other revenue*

# The Group's EBITDA increased

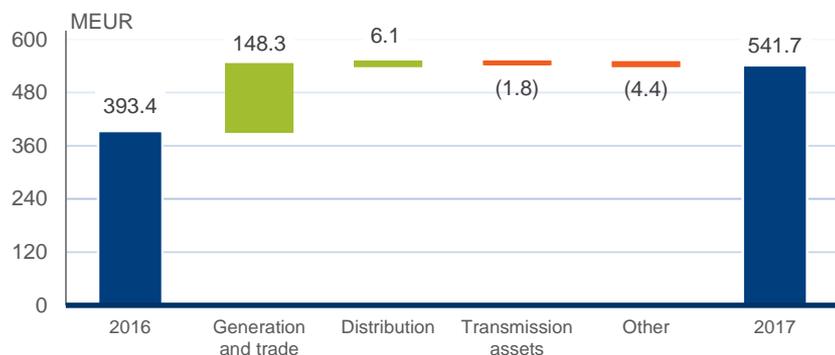
## Revenue dynamics by segments



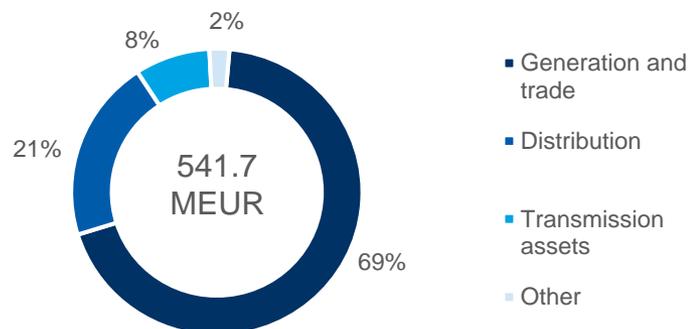
## 38% EBITDA growth

- The results were positively impacted mainly by:
  - 74% greater electricity output at the Daugava HPPs
  - increase in distribution service revenue by 11.8 MEUR
  - one-off compensation for the Riga CHPPs' capacity payments (2017 – 140 MEUR)
- The results were negatively impacted mainly by lower electricity sales price in the Baltics
- Net profit: 322.2 MEUR
  - annual operating result 173.1 MEUR
  - deferred tax reversal in the amount of 149.1 MEUR as a result of the corporate income tax reform

## EBITDA dynamics by segments



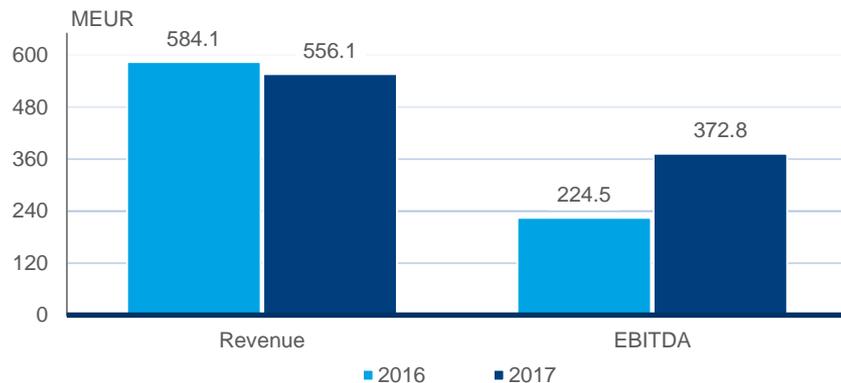
## EBITDA weight by segments



# Generation and trade



## Segment revenue and EBITDA



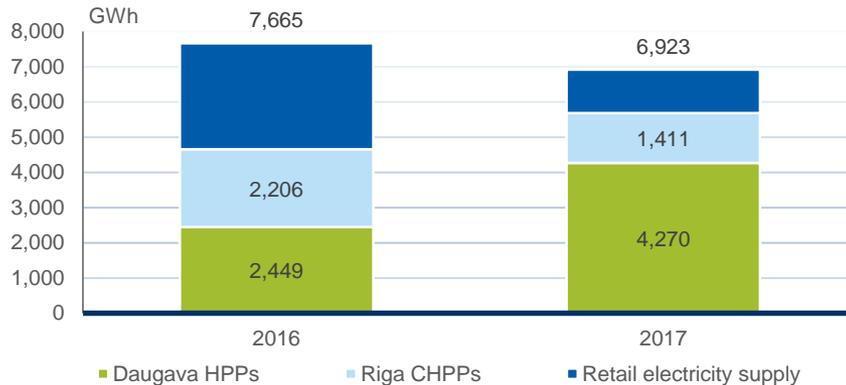
## The largest segment of the Group

- Generation of electricity increased by 22%
- Latvenergo AS receives a one-off compensation in the amount of 454,4 MEUR for the reduction of Riga CHPPs' capacity payments (140 MEUR is recognized as *Other revenue* in the year 2017)
- Results of the segment were positively impacted by higher electricity output at the Daugava HPPs and the one-off compensation for the Riga CHPPs' capacity payments, while negatively – by lower electricity sales prices in the Baltics
- Latvenergo Group – one of the leading electricity suppliers in the Baltics
- The average mandatory procurement PSO fee decreased by 1 EUR/MWh from 1 January 2018

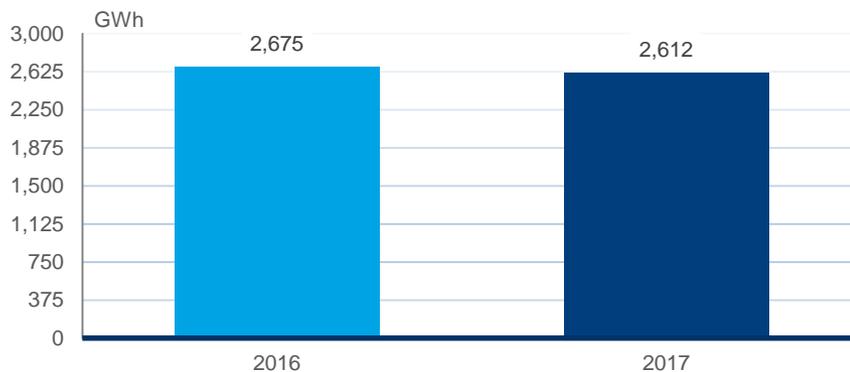
# Effective and balanced generation sources



## 5,734 GWh of electricity generated



## 2,612 GWh of thermal energy generated



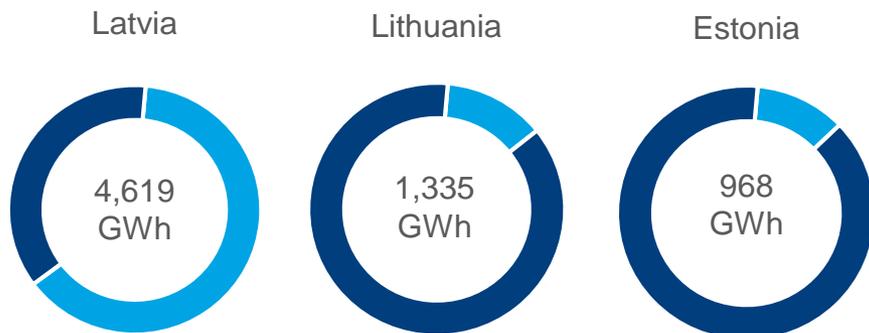
## Significantly higher electricity output at the Daugava HPPs

- Generation of total electricity increased by 22%
- Electricity output generated at the Daugava HPPs in 2017 is the largest since 1998 and the third largest in observation history since the year 1966
- Riga CHPPs operated in market conjuncture efficiently planning operating modes and fuel consumption
- The share of electricity generated from renewable energy sources in the Latvenergo Group is 75% (2016: 52%)
- Total electricity generated corresponds to 83% of retail electricity supply (2016: 61%)
- Relatively warmer weather in heating season and increasing competition in the thermal energy market determined lower generation of thermal energy – decrease by 2%

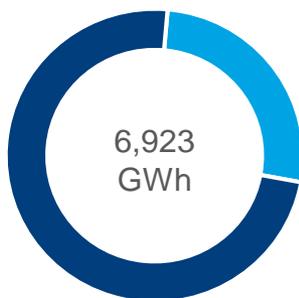


# Trade of electricity and natural gas

## Retail electricity supply\*



## The Baltics



■ Latvenergo Group ■ other suppliers

## Main facts – year 2017

- Retail electricity supply\* reached 6,923 GWh, 1/3 of it supplied outside Latvia
- The total number of customers outside Latvia exceeds 35 thousand
- Latvenergo launches natural gas trade to customers in Latvia and Estonia
- 2 new products for the household segment:



*Elektrum Smart house*



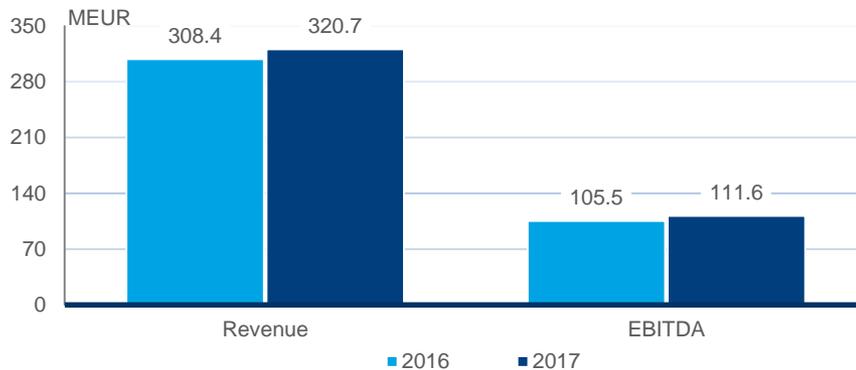
*Elektrum Solārais*

\* including operational consumption

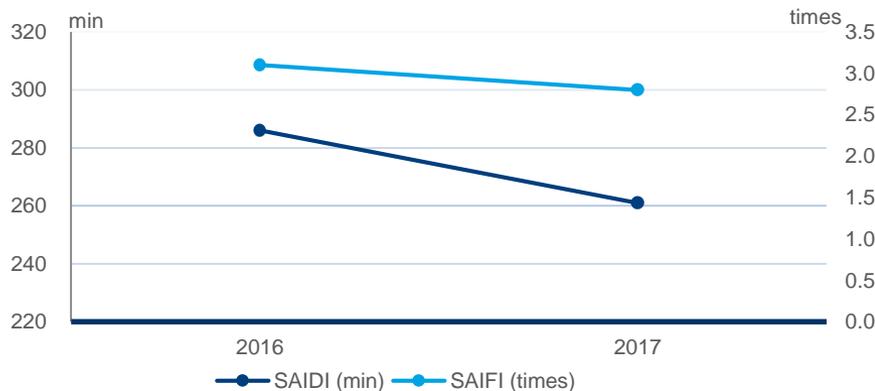
# We are improving the quality of distribution services



## Segment revenue and EBITDA



## Improved SAIDI and SAIFI ratios



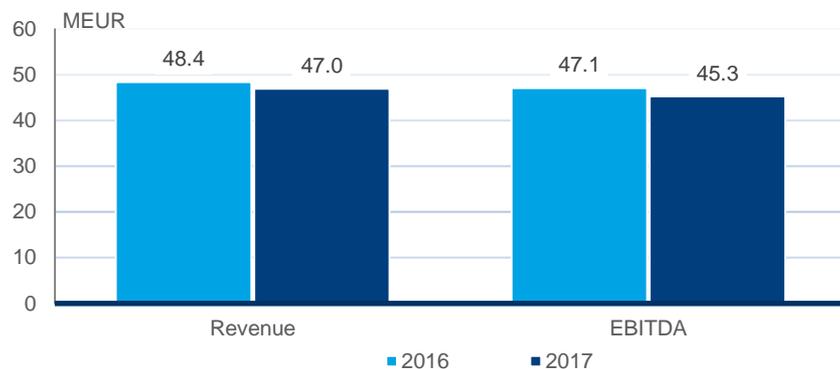
## Segment revenue and EBITDA has increased

- Results positively impacted by increase in distribution services revenue (11.8 MEUR) resulting from the rebalanced distribution system services tariff that came into force on 1 August 2016
- Results were negatively impacted by the increase in personnel termination costs of 8.4 MEUR
- Electricity distributed – 6,463 GWh (2016: 6,465 GWh)
- Investments in distribution assets – 107.7 MEUR (2016: 106.4 MEUR)
- Due to the investments, the value of distribution assets increased to 1,641.3 MEUR
- Since 2013, SAIDI decreased by 58% and SAIFI – by 38%

# Transmission asset value exceeds 500 MEUR



## Segment revenue and EBITDA

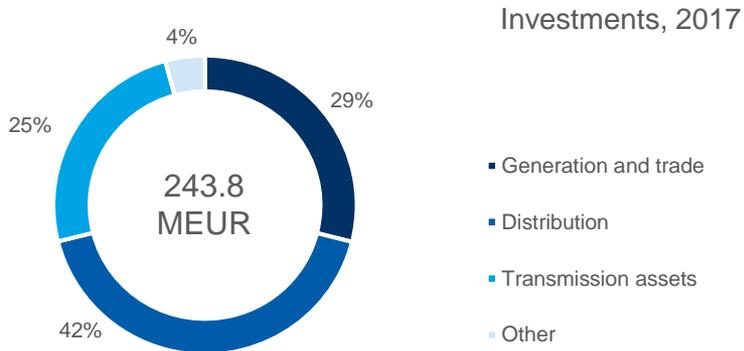


## Main facts – year 2017

- Investments in transmission system assets – 63.1 MEUR (2016: 25.5 MEUR)
- Major investment projects: *Kurzeme Ring* and the third power transmission interconnection between Estonia and Latvia
- Due to the investments, the value of transmission assets increased to 500.9 MEUR

# Investment in power network assets – 2/3 of the total

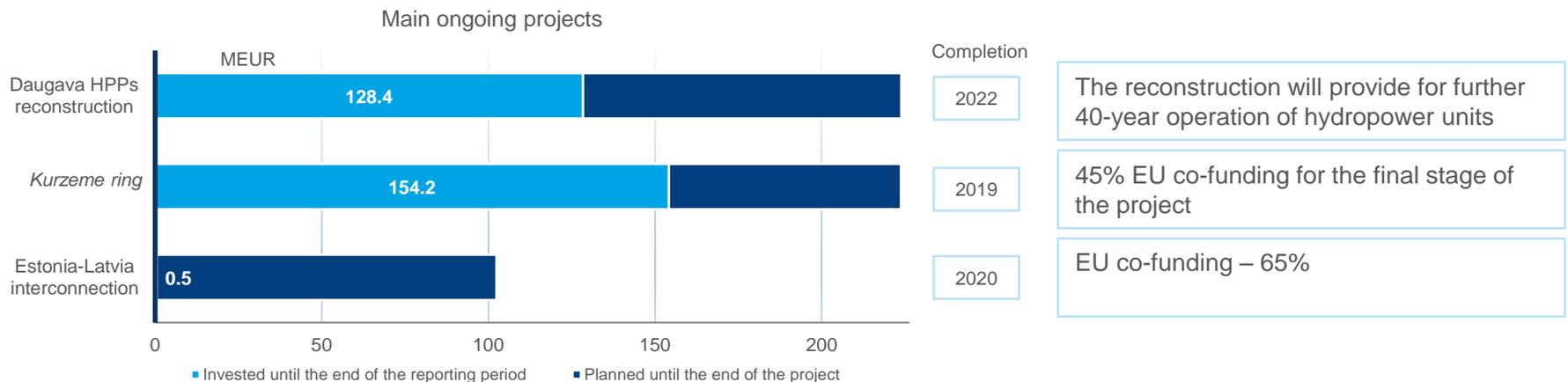
## Investments increased by 21%



## Investments in environmentally friendly projects

- Investments in the Daugava HPPs hydropower unit reconstruction amounted to 41.8 MEUR
- At the end of 2017, one reconstructed hydropower unit of the Plavinas HPP was put into operation
- Distribution service quality and technical parameters gradually improved by investments in power network assets

## Major investment projects

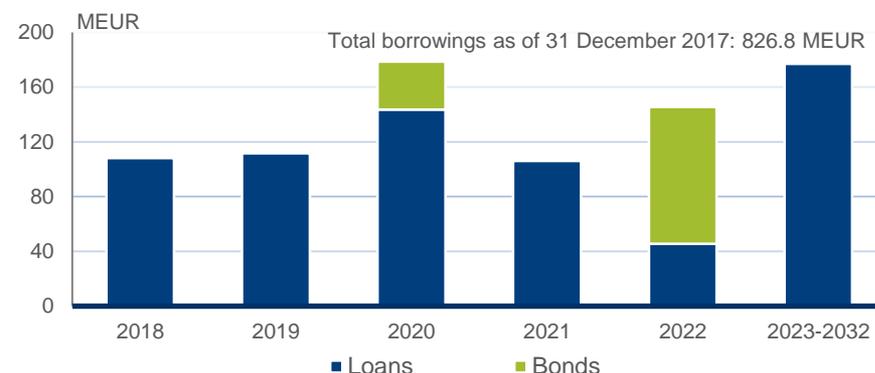


# Best investor relations among bond issuers in the Baltics

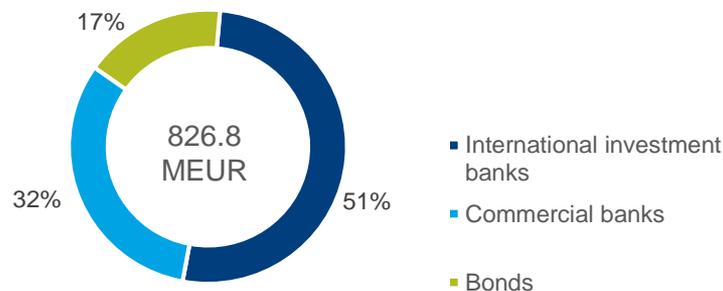
## The first bonds that have reached their maturity was repayed

- On December 15, 2017, the first repayment of the principal amount of maturing bonds amounting to EUR 70 million was executed
- At the end of the year, the outstanding amount of bonds reached 135 MEUR, incl. 100 MEUR *green* bonds
- Latvenergo AS is the first company in the Baltics to receive the Nasdaq exchange award “Best Investor Relations in the Baltics among Bond Issuers”
- On 14 August, Latvenergo rang the trading session opening bell at the Nasdaq MarketSite in New York
- Moody’s credit rating – Baa2 (stable)
- Capital ratio: 65%

## Debt repayment schedule



## Diversified sources of funding



## Main figures

31.12.2017

Share of fixed interest rate*	54%
Duration	2.0 years
Effective weighted average interest rate*	1.7%

\* 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\*

	2017	2016
	EUR'000	EUR'000
Revenue	925,627	931,619
Other income	149,950**	6,656
Raw materials and consumables used	(346,911)	(385,813)
Personnel expenses	(113,289)	(96,019)
Other operating expenses	(73,681)	(63,044)
<b>EBITDA</b>	<b>541,696</b>	<b>393,399</b>
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(307,614)	(232,626)
<b>Operating profit</b>	<b>234,082</b>	<b>160,773</b>
Finance income	1,243	2,328
Finance costs	(11,211)	(14,156)
<b>Profit before tax</b>	<b>224,114</b>	<b>148,945</b>
Income tax	(51,029)	(23,498)
Deferred tax changes	149,106***	5,146
<b>Profit for the year</b>	<b>322,191</b>	<b>130,593</b>
<b>Profit attributable to:</b>		
- equity holder of the Parent Company	319,840	129,045
- non-controlling interests	2,351	1,548

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

\*\* Other income in 2017 includes one-off compensation payment for the electric power capacity installed at Latvenergo AS Riga TEC-1 and Riga TEC-2 CHPPs in the amount of EUR 140,000 thousand

\*\*\* In 2017 deferred tax liabilities reversed in the Statement of Profit or Loss in accordance with the changes of tax regulations and laws of the Republic of Latvia starting from 1 January 2018

# Consolidated Statement of Financial Position\*

	31/12/2017	31/12/2016
	EUR'000	EUR'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets and property, plant and equipment	3,322,398	3,370,331
Investment property	753	563
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	16,984	17,034
Other non-current receivables	286	986
<b>TOTAL non-current assets</b>	<b>3,340,462</b>	<b>3,388,955</b>
<b>Current assets</b>		
Inventories	76,247	41,458
Prepayment for inventories	81	–
Trade receivables and other receivables	751,427	273,957
Deferred expenses	3,241	3,227
Derivative financial instruments	4,619	6,134
Investments in held-to-maturity financial assets	–	3,520
Cash and cash equivalents	236,003	183,980
<b>TOTAL current assets</b>	<b>1,071,618</b>	<b>512,276</b>
<b>TOTAL ASSETS</b>	<b>4,412,080</b>	<b>3,901,231</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	1,288,715	1,288,715
Reserves	1,126,520	937,074
Retained earnings	423,783	185,840
<b>Equity attributable to equity holder of the Parent Company</b>	<b>2,839,018</b>	<b>2,411,629</b>
Non-controlling interests	8,042	7,084
<b>TOTAL equity</b>	<b>2,847,060</b>	<b>2,418,713</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	718,674	635,620
Deferred income tax liabilities**	–	315,759
Provisions	21,910	18,643
Derivative financial instruments	4,914	7,946
Other liabilities and deferred income	522,362***	195,407
<b>TOTAL non-current liabilities</b>	<b>1,267,860</b>	<b>1,173,375</b>
<b>Current liabilities</b>		
Borrowings	108,083	155,946
Trade and other payables	143,428	117,817
Income tax payable	27,555	17,718
Deferred income	14,924	14,022
Derivative financial instruments	3,170	3,640
<b>TOTAL current liabilities</b>	<b>297,160</b>	<b>309,143</b>
<b>TOTAL liabilities</b>	<b>1,565,020</b>	<b>1,482,518</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4,412,080</b>	<b>3,901,231</b>

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\*\* Deferred tax liabilities in the amount of 149,106 thousand EUR (the Company: 10,082 thousand EUR) are reversed in the Statement of Profit or Loss for 2017 and 166,653 thousand EUR – in the equity on 31 December 2017 (the Company: 116,178 thousand EUR), as initially they were accounted for within the equity, in accordance with the amendments to the laws and regulations of the Republic of Latvia that entered into force from 1 January 2018

\*\*\* Recognised compensation in the amount of EUR 314,413 thousand for abandonment from State-guaranteed fee for the electric power capacity installed at Latvenergo AS Riga TEC-1 and Riga TEC-2 CHPPs in the support period, to be recognised as revenue in the next periods by fulfilling the commitments stated in the Regulations No. 221 of the Cabinet of Ministers of the Republic of Latvia till the end of State support - 23 September 2028

# Consolidated Statement of Cash Flows\*

	2017	2016
	EUR'000	EUR'000
<b>Cash flows from operating activities</b>		
Profit before tax	224,114	148,945
<b>Adjustments:</b>		
– Amortisation, depreciation and impairment of non-current assets	312,878	236,769
– Net financial adjustments	12,038	4,579
– Other adjustments	6,703	(313)
<b>Operating profit before working capital adjustments</b>	<b>555,733</b>	<b>389,980</b>
Increase in current assets	(497,053)	(26,837)
Increase / (decrease) in trade and other payables	330,844	(844)
<b>Cash generated from operating activities</b>	<b>389,524</b>	<b>362,299</b>
Interest paid	(11,484)	(15,529)
Interest received	1,390	2,457
Corporate income tax and real estate tax paid	(41,221)	(8,041)
<b>Net cash flows generated from operating activities</b>	<b>338,209</b>	<b>341,186</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible assets and property, plant and equipment	(233,744)	(185,674)
Proceeds from redemption of held-to-maturity assets	3,569	7,914
Proceeds on financing from EU funds and other financing	–	242
<b>Net cash flows used in investing activities</b>	<b>(230,175)</b>	<b>(177,518)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issued debt securities (bonds)	–	26,267
Repayment of issued debt securities (bonds)	(70,000)	–
Proceeds on borrowings from financial institutions	186,500	55,744
Repayment of borrowings	(80,976)	(87,452)
Dividends paid to equity holder of the Parent Company	(90,142)	(77,413)
Dividends paid to non-controlling interests	(1,393)	(1,377)
<b>Net cash flows used in financing activities</b>	<b>(56,011)</b>	<b>(84,231)</b>
<b>Net increase in cash and cash equivalents</b>	<b>52,023</b>	<b>79,437</b>
Cash and cash equivalents at the beginning of the year	183,980	104,543
<b>Cash and cash equivalents at the end of the year</b>	<b>236,003</b>	<b>183,980</b>

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