



Information to Latvenergo AS Noteholders

28 November 2019

Disclaimer

This presentation and any materials distributed or made available in connection herewith (collectively, the “presentation”) have been prepared by Latvenergo AS (the “Company”) solely for your use and benefit for information purposes only. By accessing, downloading, reading or otherwise making available to yourself any content of the presentation, in whole or in part, you hereby agree to be bound by the following limitations and accept the terms and conditions as set out below.

You are only authorized to view, print and retain a copy of the presentation solely for your own use. No information contained in the presentation may be copied, photocopied, duplicated, reproduced, passed on, redistributed, published, exhibited or the contents otherwise divulged, released or disseminated, directly or indirectly, in whole or in part, in any form by any means and for any purpose to any other person than your directors, officers, employees or those persons retained to advise you, who agree to be bound by the limitations set out herein.

The presentation does not constitute or form part of, and should not be construed as, an offer, solicitation or invitation to subscribe for, underwrite or otherwise acquire, any securities of the Company or any member of its group nor should it or any part of it form the basis of, or be relied on in connection with, any contract to purchase or subscribe for any securities of the Company or any member of its group, nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Any person considering the purchase of any securities of the Company must inform himself or herself independently before taking any investment decision. The presentation has been provided to you solely for your information and background and is subject to amendment. Further, the information in this presentation has been compiled based on information from a number of sources and reflects prevailing conditions as of its date, which are subject to change.

Not all information contained in this presentation has been independently verified. Information derived from the interim consolidated financial statements are unaudited and no auditor has opined that these unaudited financial statements present fairly, in all material respects, the financial position and the results of operations of the Company for the period reported in accordance with generally accepted accounting principles. Therefore, once audited by an independent auditor, the audited financial statements of the Company may differ from the unaudited financial statements presented. However, the Company has prepared the unaudited financial statements on the same basis as its audited financial statements, and in the opinion of the Company’s management, the unaudited financial statements include all adjustments that the Company considers necessary for a fair presentation of its financial position and results of operations for the period presented.

Information about the financial indicators and coefficients used by the Latvenergo Group is available in Latvenergo Group’s consolidated and Latvenergo AS Unaudited Interim Financial statements, see the section “Formulas”.

The information in this presentation is subject to verification, completion and change without notice and the Company is not under any obligation to update or keep current the information contained herein. Accordingly, no representation or warranty, express or implied, is made or given by or on behalf of the Company or any of its respective members, directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this presentation, and any reliance you place on such information or opinions will be at your sole risk. Neither the Company nor any of its respective members, directors, officers or employees nor any other person accepts any liability whatsoever for any loss howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith.

This presentation includes “forward-looking statements,” which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words “targets,” “believes,” “expects,” “aims,” “intends,” “will,” “may,” “anticipates,” “would,” “plans,” “could” or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company’s control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Accordingly, any reliance you place on such forward-looking statements will be at your sole risk. These forward-looking statements speak only as at the date as of which they are made. Past performance of the Company cannot be relied on as a guide to future performance. No statement in this presentation is intended to be a profit forecast.

This presentation is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Contents

1. Latvenergo Group profile (page 4)
2. On unbundling of transmission system assets (page 13)

1. LATVENERGO GROUP PROFILE

Latvenergo Group



Latvenergo Group is one of the largest power suppliers in the Baltics, which operates in

- electricity and thermal energy generation and trade
- natural gas trade
- electricity distribution services
- lease of transmission system assets

MISSION

To ensure high-quality, safe and environmentally friendly energy generation and supply to customers sustainably, thus promoting an increase in the long-term value of the Group

VISION

To be one of the leading and primary customer-chosen providers of sustainable and high-quality power supply services in the Baltic markets.



VALUES

RESPONSIBILITY

We are reliable

EFFICIENCY

We strive for excellence

OPENNESS

We are transparent and open to new ideas

Group Structure

Latvenergo Group

Latvenergo AS	
Elektrum Eesti OÜ	100 %
Elektrum Lietuva UAB	100 %
Energijas publiskais tirgotājs AS	100 %
Liepājas enerģija SIA	51 %
Sadales tīkls AS	100 %
Latvijas elektriskie tīkli AS	100 %

- Vertically integrated utility
- Wholly owned by the Republic of Latvia, shares held by the Ministry of Economics

Operating Segments

Generation and trade

(2018: 55% of revenues; 46% of EBITDA)

Generation of electricity and thermal energy, electricity and natural gas trade in the Baltic states, and administration of the mandatory electricity procurement process in Latvia

Distribution

(2018: 35% of revenues; 37% of EBITDA)

The distribution service ensures the flow of electricity from the transmission network to consumers. Sadales tīkls AS is the country's largest distribution system operator and covers approximately 99% of the territory of Latvia

Lease of transmission system assets

(2018: 5% of revenues; 13% of EBITDA)

Leasing transmission system assets (330 kV and 110 kV electricity transmission lines, substations and distribution points) to the transmission system operator

 Latvenergo

 elektrum

 Energijas publiskais tirgotājs

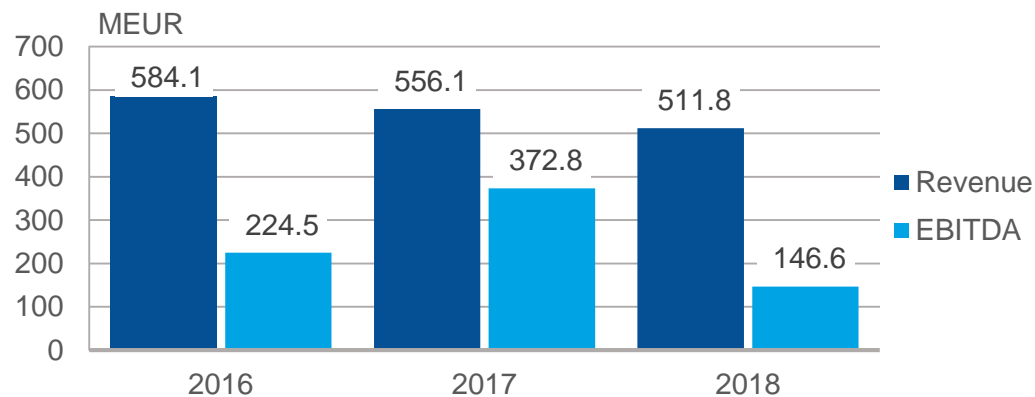
 LIEPĀJAS ENERĢIJA

 ST

 LET

Operating Segments: Generation and Trade

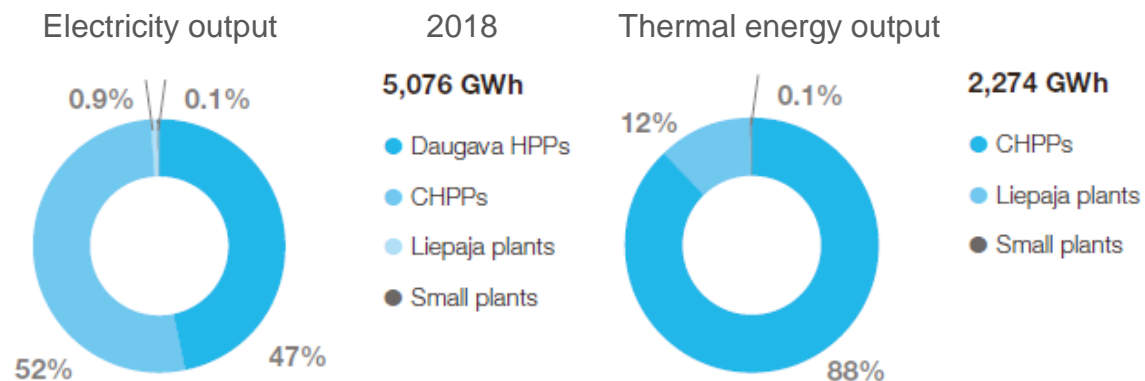
Revenue and EBITDA



Key highlights 2018

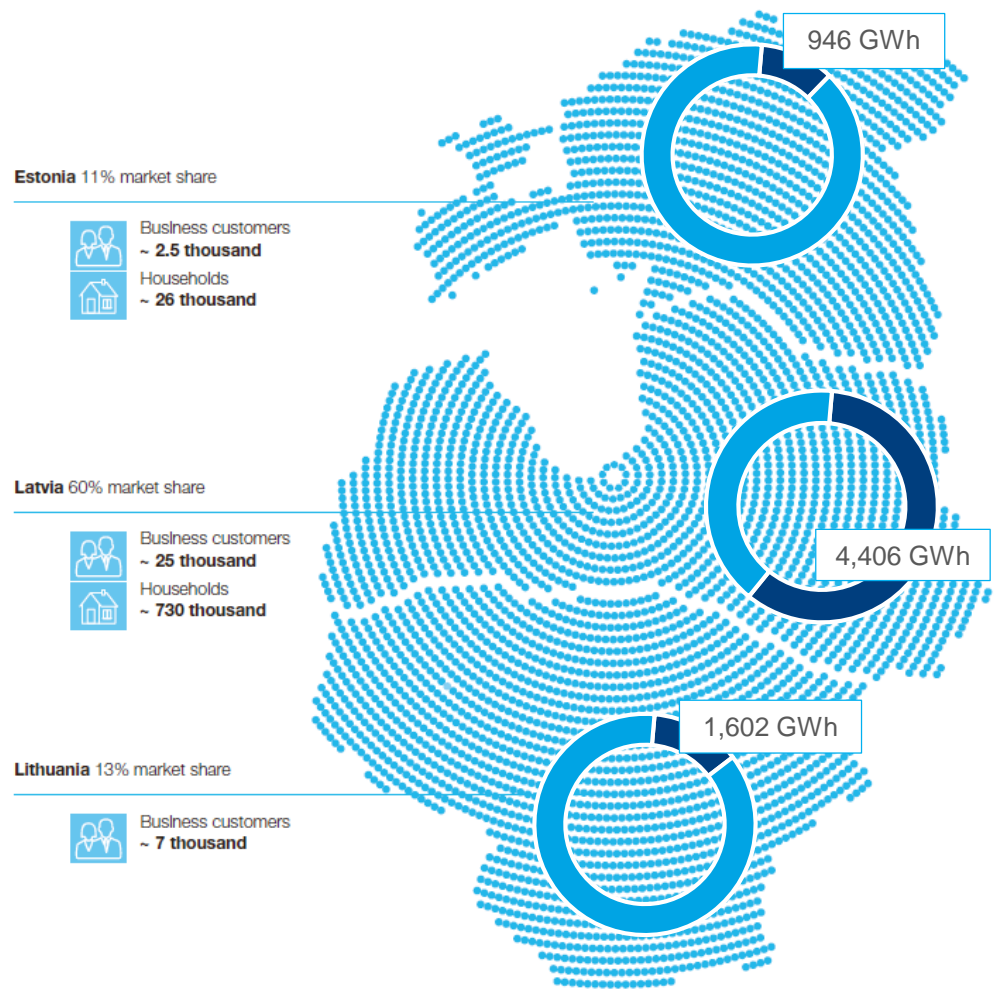
- 2018: 55% of revenues; 46% of EBITDA
- Latvenergo Group has a balanced and environmentally friendly energy generation portfolio, consisting mostly of hydropower plants and highly efficient combined heat and power plants
- Installed electrical capacity – 2,581 MW (approx. 89% of the total capacity in Latvia); installed thermal capacity – 1,838 MW
- Segment results in 2018 were negatively impacted by lower electricity output at the Daugava HPPs, as well as by higher prices of energy resources and CO2 emission allowances

Electricity and thermal energy output



Operating Segments: Generation and Trade

Trade in the Baltic states

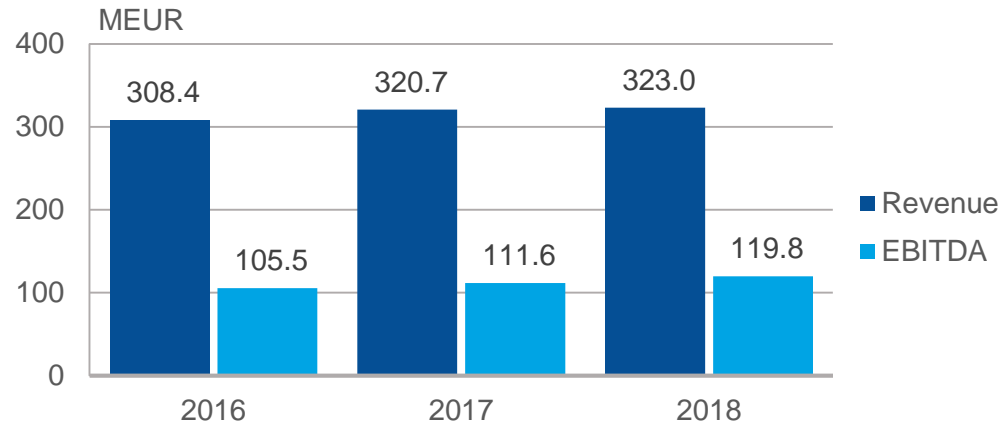


Key highlights 2018

- The Group is one of the leading energy traders in the Baltic states with ~25% market share in the Baltic electricity market, where the total consumption is around 28 TWh
- In 2018, 7 TWh of electricity were sold to retail customers in the Baltics
- The amount of natural gas consumed by the Group for its own use and sold to customers amounted to 6.9 TWh
- The Group has about 800 thousand customers across the Baltics, 96% of these are households and 4% are business customers
- The service *Elektrum Solar* that offers the possibility to use independently generated electricity from solar light, is now also available in Lithuania and Estonia
- In 2018, 370 *Elektrum Smart House* devices were installed for our customers providing them with remote control of home heating and electrical appliances
- In the reporting year, the Group successfully started trading of natural gas in Lithuania

Operating Segments: Distribution

Revenue and EBITDA

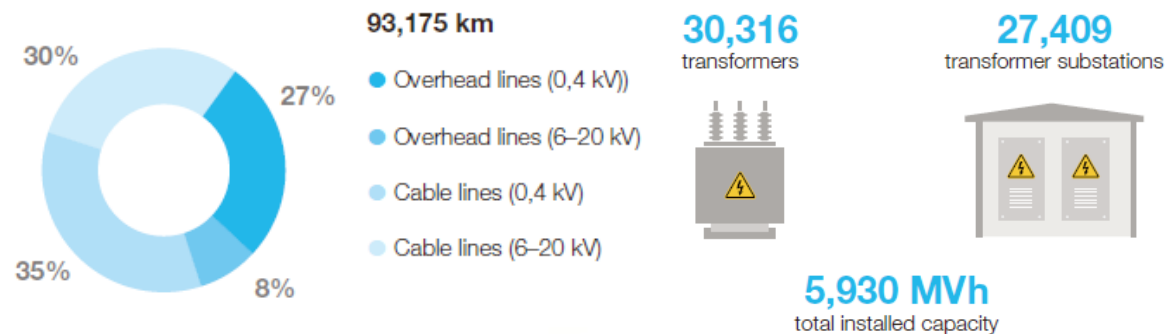


Key highlights 2018

- **2018: 35% of revenues; 37% of EBITDA**
- Operations involve the provision of distribution system services to approximately 811 thousand customers in Latvia at regulated tariffs
- Since the launch of the efficiency programme in 2017, the number of employees at [Sadales tīkls AS](#) has been reduced by about 19% or 480 jobs
- Smart electricity meters installed by the company reaches 544.3 thousand or ½ of all electricity meters
- In 2018, results were positively impacted by 7.2 MEUR lower personnel termination costs (efficiency programme) and by 2% larger volume of distributed electricity, negatively impacted by higher electricity prices -> higher costs of distribution losses

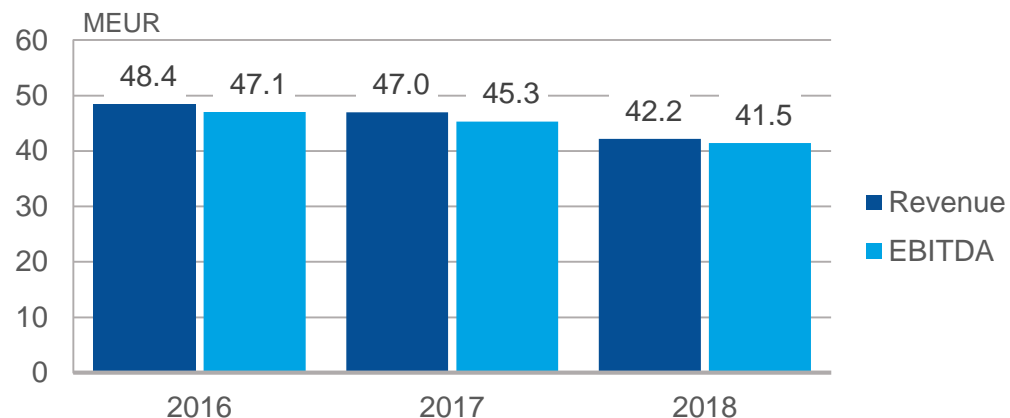
Distribution network

Length of electricity distribution lines in 2018



Operating Segments: Lease of Transmission System Assets

Revenue and EBITDA



Key highlights 2018

- 2018: 5% of revenues; 13% of EBITDA
- Operations include lease of [Latvijas elektriskie tīkli AS](#) owned transmission system assets (330 kV and 110 kV electricity transmission lines, substations and distribution points) in Latvia to the transmission system operator Augstsprieguma tīkls AS
- Lease of transmission system assets is a regulated segment, and the revenues are calculated according to the methodology approved by the Public Utilities Commission

Transmission network



5,243 km
total length of electricity
transmission lines

16 330 kV
substations with a total
autotransformer capacity of
3,950 MVA

123 110 kV
substations with a total
transformer capacity of
5,215 MVA

Group Strategy 2018-2022

Strategic objectives

1. Strengthen a sustainable and economically sound market position on home markets (in the Baltics) while considering geographical and/or product/service expansion

- In 2018, the Group is one of the largest energy traders and the most valuable energy company in the Baltics
- Started sales of natural gas in Lithuania
- *Elektrum Solar* introduced also in Lithuania and Estonia

2. Development of a generation portfolio suitable for synergy with trade and increasing the Group's value

- In 2018, 21.1 MEUR were invested in the reconstruction of the Daugava HPPs' hydropower units, and three units were modernised
- The performance indicators of the Latvenergo AS CHPPs in 2018 fully justified the investments made in their reconstruction in previous years
- In 2018, the Group was exploring opportunities in a wind power plant pilot project

3. Development of a functional, safe and efficient network corresponding to customer needs

- In 2018, the distribution network was further reconstructed and upgraded, which facilitated decrease in the System Average Interruption Duration Index (SAIDI) by 13% and the System Average Interruption Frequency Index (SAIFI) by 11%
- Project for improvement of the operational efficiency of Sadales tīkls AS is continuing
- Considerable progress has been achieved in network digitalisation (smart meters were metering 83% of the total amount of electricity distributed)

Financial objectives

Target group	Ratio	2017	2018	2022	Industry average ratio*
Profitability					
<i>ambitious, yet achievable profitability, which is consistent with the average ratios of benchmark companies in the European energy sector and provides for an adequate return on the business risk</i>	Return on equity (ROE)	12.2%	2.9%	> 6%	5 – 8%
Capital structure					
<i>an optimal and industry-relevant capital structure that limits potential financial risks</i>	Net debt to equity	21%	30%	< 50%	30 – 50%
	Net debt to EBITDA	1.1	2.0	< 3	2.5 – 3
Dividend policy					
<i>a dividend policy that is consistent with the planned investment policy and capital structure targets</i>	Dividend payout ratio**	90.1 MEUR	156.4 MEUR	> 80%	60 – 70%

* based on the data at the time of development of the strategy

** dividends are paid in compliance with the legislation of the Republic of Latvia

Bonds

	35 MEUR bonds 2.8% annual coupon due 22 May 2020	100 MEUR Green bonds 1.9% annual coupon due 10 June 2022
ISIN	LV0000801165	LV0000801777
Issued in	2013 (2 tranches)	2015-2016 (2 tranches)
Use of proceeds	Financing of capital expenditures programme	Financing and refinancing of eligible projects according to the Green Bond Framework
Programme	Latvenergo AS 85 MLVL (~121 MEUR) Programme	The second Latvenergo AS 100 MEUR Programme

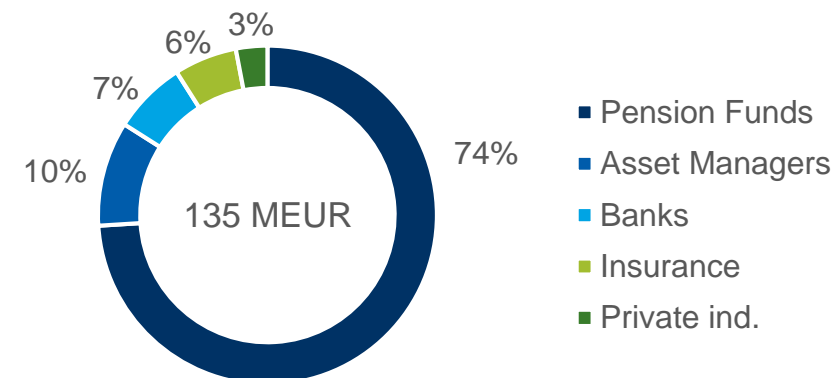


Green bonds

- Second opinion on Green Bond Framework provided by CICERO*; strongest rating assigned – dark green shading
- Rated by Moody's – Baa2/stable
- The highest Green Bond Assessment grade GB1 (excellent) assigned by Moody's
- Green Bond Report is being published annually (as part of Sustainability Report)

* Center for International Climate and Environmental Research – Oslo

Investors by type*



* according to the coupon payments of 2018

First state-owned and investment grade green bond issuer in Eastern Europe

First green bond in CEE rated by international credit rating agency



On 9 October 2019, the Shareholders' Meeting of Latvenergo AS passed a decision to issue debt securities (bonds) under a new program for the issuance of bonds in the amount of up to 200 MEUR in nominal value

2. ON UNBUNDLING OF TRANSMISSION SYSTEM ASSETS

Outline of the Situation

- According to the European Union (EU) regulation (EU Directive 2009/72/EC), the electricity transmission system operator (TSO) should be unbundled from the companies operating in generation and supply of electricity
- The EU has defined three types of unbundling of transmission asset ownership (see next page)
- In 2011, an independent system operator model was introduced in Latvia, as a result of which the electricity transmission system assets are owned by Latvenergo AS subsidiary Latvijas elektriskie tīkli AS (LET) and are leased out to transmission system operator Augstsprieguma tīkls AS (AST). Such a model of unbundling of transmission assets is one of the most uncommon in Europe
- On 8 October 2019, the Cabinet of Ministers of the Republic of Latvia (CM) passed a decision to support full unbundling of ownership of the electricity TSO. Deadline for implementation – 1 July 2020.
- The change of ownership of transmission assets is planned through the reduction of the share capital of Latvenergo AS by withdrawing from the base of assets of Latvenergo AS the capital shares of LET

Types of Unbundling of TSO Assets

EU Directive 2009/72/EC

Full ownership unbundling

Assets and functions of TSO are unbundled from vertically integrated company

Independent system operator

Functions of TSO are unbundled from vertically integrated company, but the assets are managed by a separate person within the vertically integrated company

Independent transmission operator

The functions of TSO are unbundled and assets are owned by TSO, but the TSO remains part of the vertically integrated company and a supervisory board is established

In Latvia: 2011 – 1 July, 2020

Independent system operator

By Order of CM No.12 of 12 January 2011, an independent system operator model was implemented in Latvia. The model was certified by Latvian PUC and European Commission

In Latvia: from 1 July, 2020

Full ownership unbundling

On October 8, 2019, CM (Paragraph 38 of the Protocol Decision (TA-1767)) passed a decision to implement the model of full ownership unbundling

Ownership Unbundling of Transmission Assets

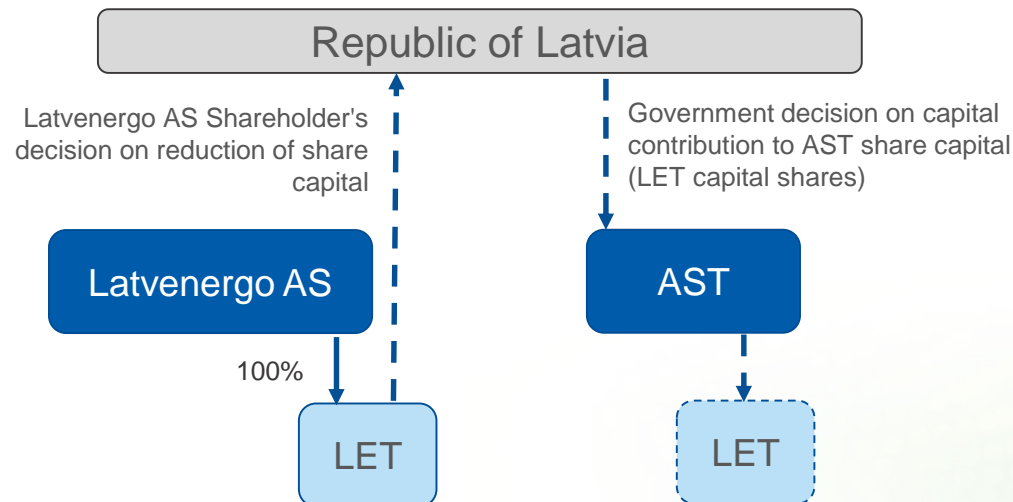
Transmission system asset lease segment

- Lease of transmission system assets segment is the smallest segment of the Latvenergo Group both by income (5% of Group's income in 2018) and EBITDA (13% of Group's EBITDA in 2018)
- The total assets of lease of transmission system assets segment as of 31 December 2018 amounted to 579.3 MEUR (14% of the Group's assets), the number of employees – 8

Unbundling process

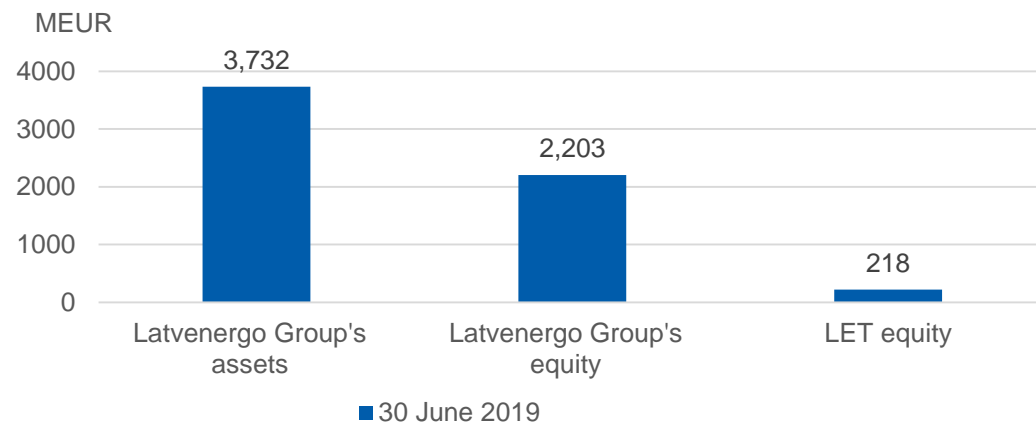
- It is planned to reduce share capital of Latvenergo AS by withdrawing capital shares of LET (LET equity – 218 MEUR as of 30 June 2019; KPMG Baltics AS has been involved to determine market value of LET)
- **CM decision of 8 October 2019 stipulates** that several conditions should be met during the unbundling process, including the increase of the share capital of Latvenergo AS by **investing retained earnings from previous years** (as of 30 June 2019 Latvenergo AS retained earnings from previous years - 235 MEUR), but not more than the market value of the shares of LET determined by independent valutors. Such action mitigates the negative impact of this process on Latvenergo Group

Schematic illustration of unbundling

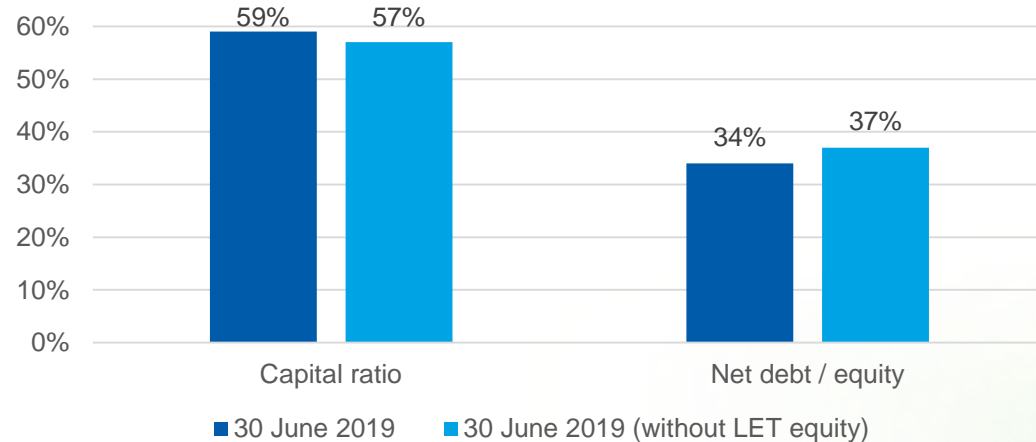


Impact on Financial Situation

Assets and equity



Indicative changes in capital structure ratios of Latvenergo Group



Main aspects

- **EBITDA would decrease**, in 2018 – 41.5 MEUR
- **The amount of investment** necessary for the coming years **would decrease**, in 2018 - 87 MEUR, and **would decrease a need for external financing**
- **LET**, becoming a subsidiary of AST, **would repay loans received from Latvenergo AS** (as of 30 June 2019 – 169.7 MEUR), which would result in a decrease in the amount of Latvenergo Group borrowings over time
- **Financial covenants would not be breached** (including financial covenant included in the General Terms and Conditions of the Notes - capital ratio, which should be ≥ 0.3)
- On 15 October 2019, **Moody's affirmed Latvenergo AS credit rating at Baa2 investment grade with a stable future outlook**. The planned ownership unbundling of transmission assets was taken into account in assessing the credit rating

Information on requested consent

- Disposal of shares of Latvijas elektriskie tīkli AS qualifies under the covenant of cessation of business (in accordance with Clause 18 (f) Cessation of Business of the General Terms and Conditions)
- Wording of the requested consent:

The holders of EUR 100,000,000 Notes due 2022 (ISIN code: LV0000801777) issued under Latvenergo AS Second programme for the issuance of Notes in the amount of EUR 100,000,000 (the “Notes”):

(1) consent that Latvenergo AS (the “Issuer”) may cease to carry on the business related to the lease of transmission system assets and may dispose of all of the Issuer’s shares in Akciju sabiedrība “Latvijas elektriskie tīkli”, registration number: 40103379313, by a way of capital reduction of the Issuer and the return of such shares to the Issuer’s shareholder or otherwise, as determined in the Issuer’s sole discretion (the “Disposal”); and

(2) waive any Event of Default which may occur by operation of Clause 18 (f) of the General Terms and Conditions of the Notes as a result of such Disposal.

Contacts

Jānis Irbe, Group Treasurer
ph. + 371 67 728 239

Inese Vilciņa, Financing and Investor Relations Manager
ph. + 371 67 728 767

✉ investor.relations@latvenergo.lv

🌐 www.latvenergo.lv

📍 Latvenergo AS
Pulkveža Brieža Street 12, Riga, LV-1230

 Latvenergo

 Latvenergo

 Latvenergo video