

A nighttime photograph of a modern building with a facade of vertical light strips. The strips are illuminated with green and blue light. The building is reflected in a pool of water in the foreground. Light trails from cars are visible in the lower part of the image.

# 2015 Annual Audited Consolidated Financial Statements

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20.04.2016/ RIGA

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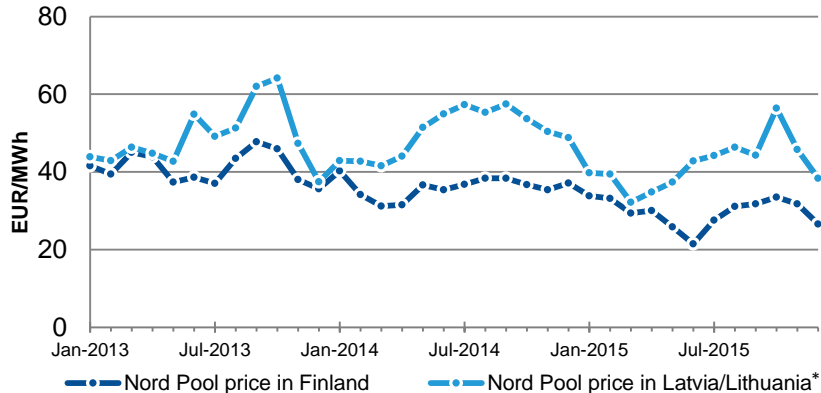
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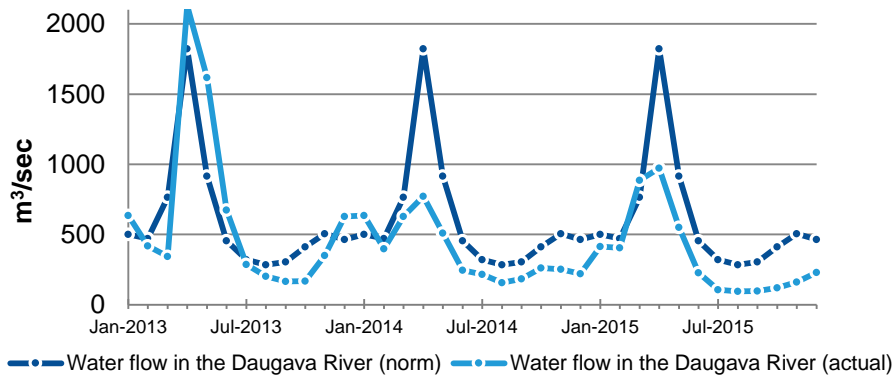
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# Electricity price decreased in the Nordics and the Baltics

## Low electricity price



## Unusually low water inflow in the Daugava River



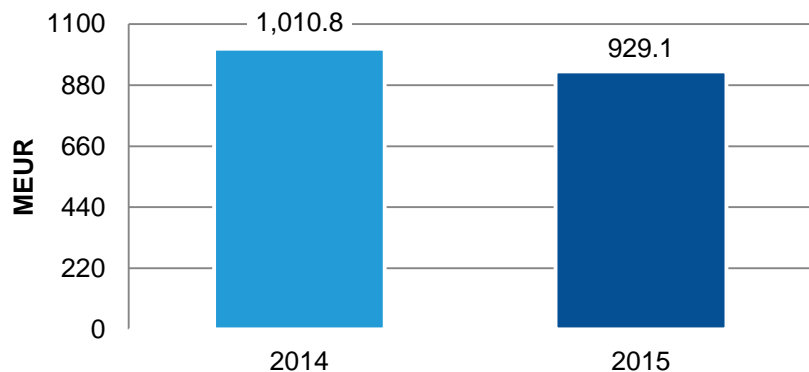
## Main facts – 2015

- ▶ Nord Pool price decreased by 17% in Estonia and by 18% in Finland (31.1 EUR/MWh and 29.7 EUR/MWh respectively) and by 16% in Latvia/Lithuania\* (41.8 EUR/MWh)
- ▶ Electricity price decrease was determined by increased generation of hydropower in the Nordics and lower coal prices
- ▶ Transmission system capacity shortage determines price differences between the Latvia/Lithuania and Estonia bidding areas
- ▶ Natural gas price in Latvia decreased by 15% reaching 30.4 EUR/MWh
- ▶ Similarly to 2014, water inflow in the Daugava River in 2015 unusually low – the lowest since 1976.

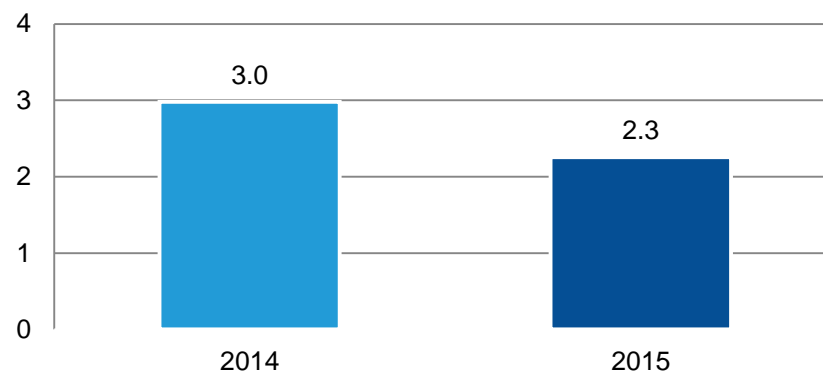
\* In 2015, electricity prices in the Latvia and Lithuania bidding areas were equal 99% hours.

# Key Financial Figures

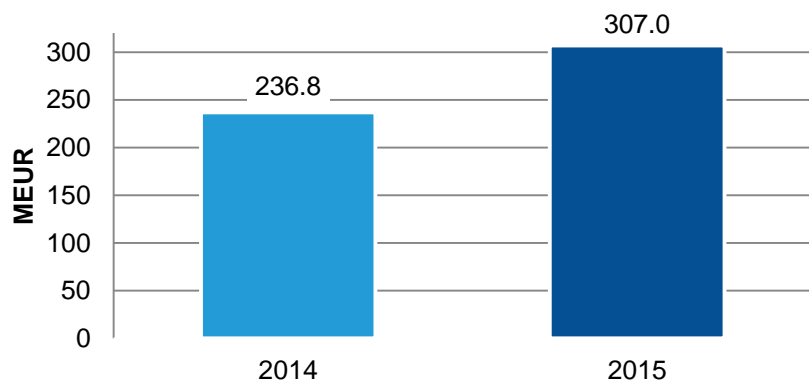
## Revenue



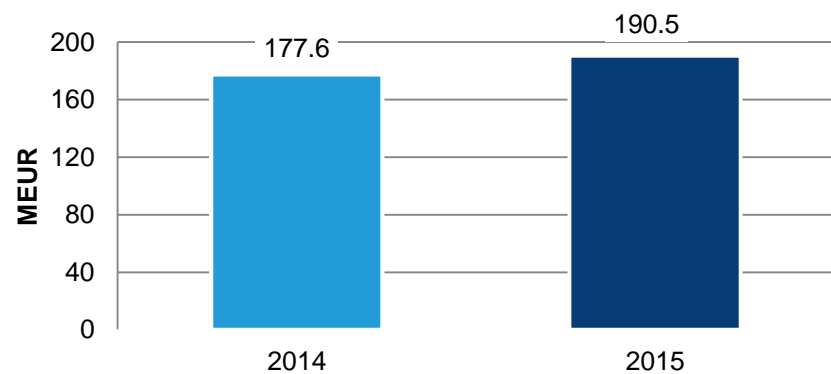
## Net debt/EBITDA



## EBITDA

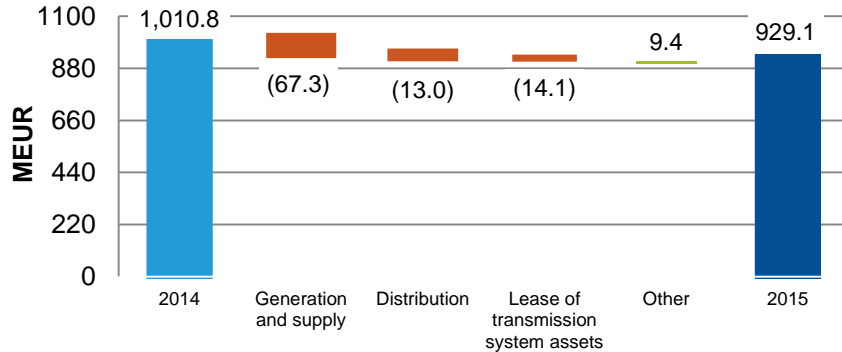


## Investments



# EBITDA of the Group has increased

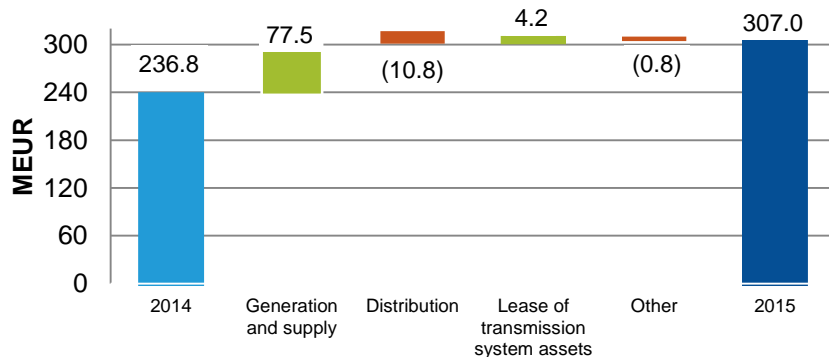
## Revenue dynamics by segments



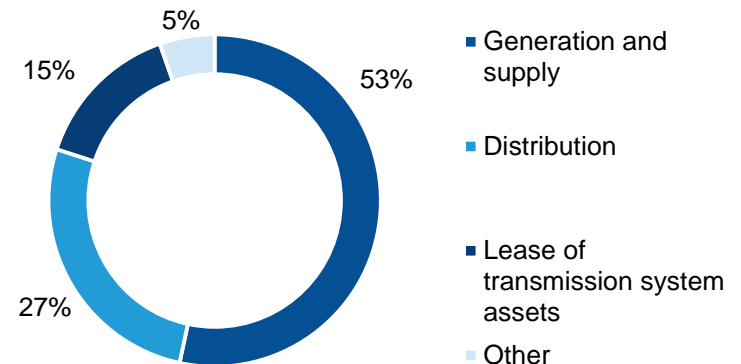
## EBITDA reached 307.0 MEUR

- ▶ The results were positively impacted by electricity market opening for households in Latvia and by lower electricity and natural gas prices
- ▶ Lower revenue in generation and supply segment - mandatory procurement PSO fee revenues are no longer recognised in the revenue of the Group\*
- ▶ EBITDA margin – 33% (2014: 23%)

## EBITDA dynamics by segments



## EBITDA weight by segments

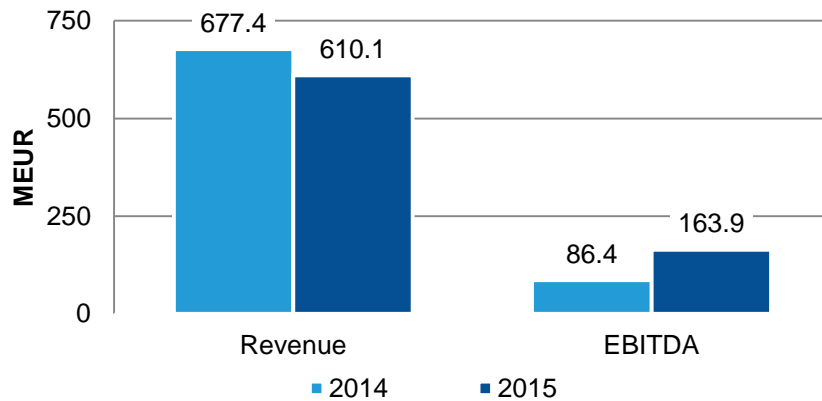


\* Along with Energijas publiskais tirgotājs AS entrance into operation as of 1 April 2014, mandatory procurement PSO fee revenues are not recognised in the revenue

# Generation and supply



## Segment revenue and EBITDA



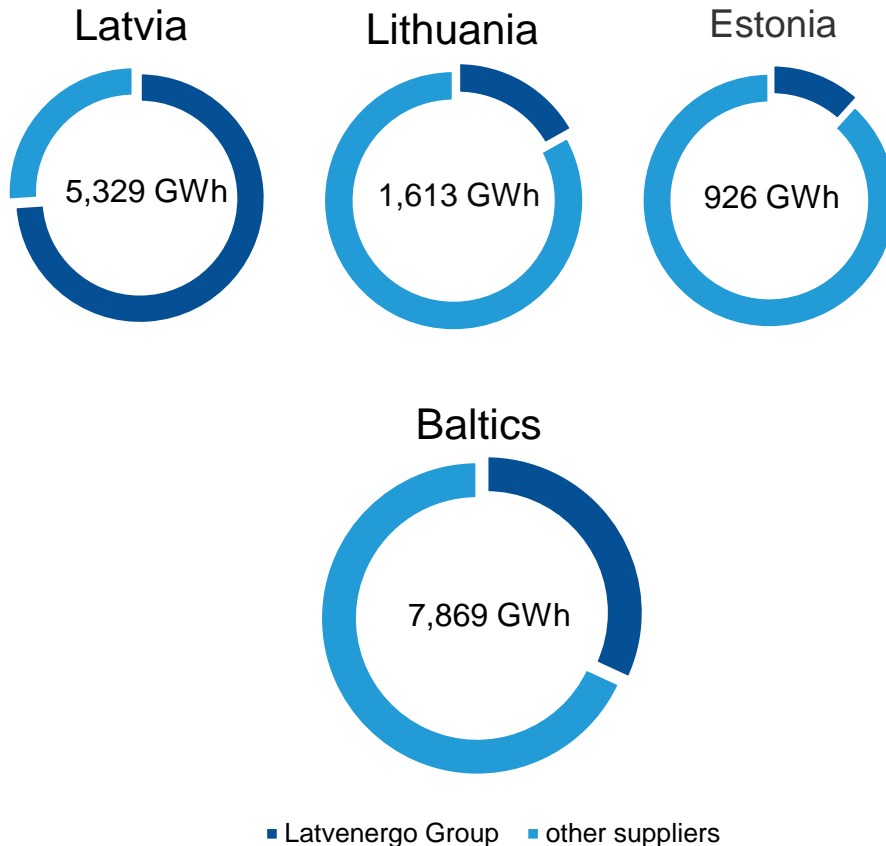
## The largest segment of the Group

- ▶ The results of the segment were positively impacted by the opening of electricity market in Latvia and by lower electricity and natural gas prices. In 2015, lost revenues due to electricity supply at the regulated tariff were 48.2 MEUR
- ▶ The results of the segment were negatively impacted by 6% lower amount of power generated at the Daugava HPPs
- ▶ Lower revenue - mandatory procurement PSO fee revenues are no longer recognised in the revenue of the Group\*

\* Along with Energijas publiskais tirgotājs AS entrance into operation as of 1 April 2014, mandatory procurement PSO fee revenues are not recognised in the revenue

# Elektrum – the most purchased electricity products in the Baltics

## Retail electricity supply



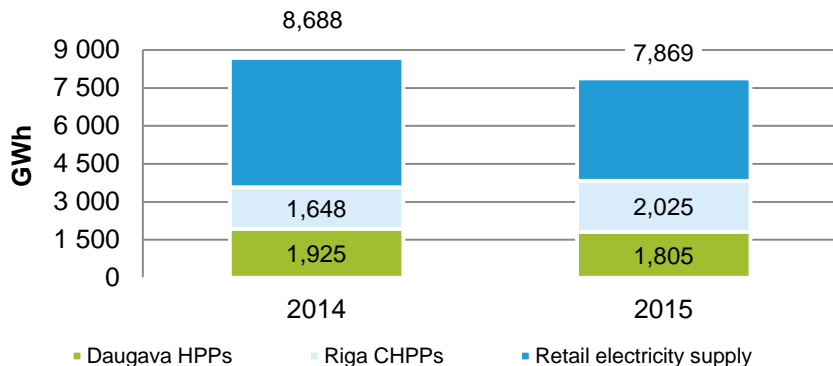
## Focused and successful operations in the market

- ▶ The number of business clients in Estonia and Lithuania was increased by about 33%
- ▶ Retail electricity supply in neighbouring countries reached 2,539 GWh, which is more than 40% higher than the amount provided by competing electricity suppliers in Latvia
- ▶ Electricity market is open for households in Latvia as of 1 January 2015
- ▶ In 2015, the majority of household customers have chosen to keep Latvenergo as their electricity supplier
- ▶ Latvenergo Group's electricity trading brand's *Elektrum* products are tailored to customer needs

# Effective and balanced generation sources



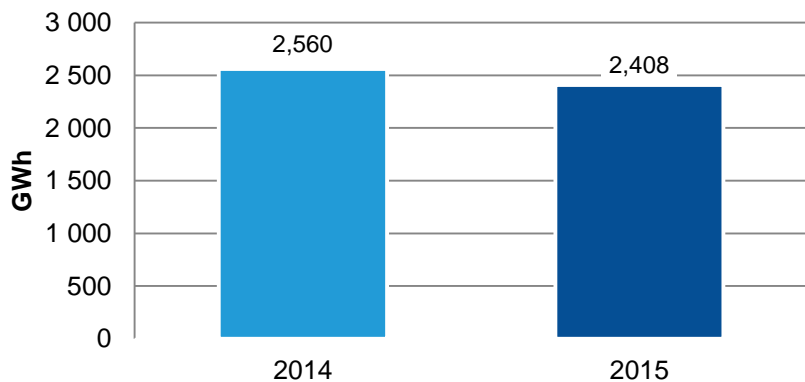
## 3,882 GWh of electricity generated



## Riga CHPPs electricity generation increased by 23%

- ▶ Riga CHPPs operated in market conjuncture effectively planning operating modes and fuel consumption
- ▶ Similarly to 2014, the water inflow in the Daugava River remained unusually low - the amount of power generated by Daugava HPPs decreased by 6%
- ▶ The total electricity generated represents 49% of retail electricity supply (2014: 42%)
- ▶ Warmer weather conditions determined lower consumption of thermal energy – thermal energy generation decreased by 6%.

## 2,408 GWh of thermal energy generated





# Mandatory procurement PSO fee remains at the previous level

## Recognised accrued PSO fee income

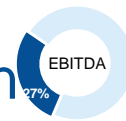
|   |      | 2015          | 2014          | Δ             | Δ, %       |
|---|------|---------------|---------------|---------------|------------|
| Mandatory procurement PSO fee income    | MEUR | 173.3         | 182.5         | (9.2)         | (5%)       |
| Received State grant                    | MEUR | 20.3          | 29.3          | (8.9)         | (31%)      |
| Mandatory procurement expenditures*     | MEUR | 255.7         | 245.9         | 9.8           | 4%         |
| <i>Incl. Cogeneration</i>               | MEUR | 155.3         | 157.5         | (2.2)         | (1%)       |
| <i>Incl. Renewable energy resources</i> | MEUR | 99.6          | 88.2          | 11.4          | 13%        |
| <b>Difference</b>                       | MEUR | <b>(62.0)</b> | <b>(34.1)</b> | <b>(27.9)</b> | <b>82%</b> |

## Balanced mandatory procurement PSO fee income and costs

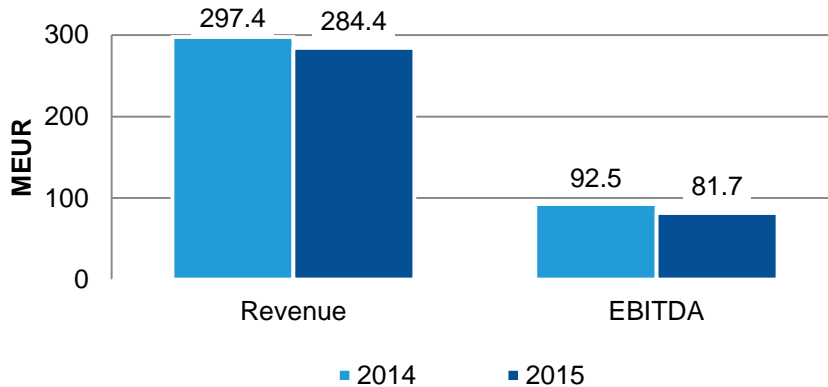
- ▶ As of 1 April 2014 the public trader functions are performed by Enerģijas publiskais tirgotājs AS
- ▶ Starting from 1 April 2016 PSO fee remains unchanged (EUR 2.679 cents/kWh)
- ▶ In order to maintain the mandatory procurement PSO fee at the same level, a State grant in the amount of 78.9 MEUR, of which 59.7 MEUR are expected in 2016 (2015: 20.3 MEUR), has been taken into account upon the calculation of the fee
- ▶ The difference between PSO fee income and expenditures\* was 62.0 MEUR
- ▶ Dividends of Latvenergo AS are intended as one of the funding sources for the State grant

\* Mandatory procurement expenditures – costs of electricity purchased within the mandatory procurement and guaranteed fee for electrical capacity installed at power plants minus revenues from sale of purchased electricity on the Nord Pool exchange and plus the costs of mandatory procurement balancing

# Investments in distribution assets exceed EUR 100 million



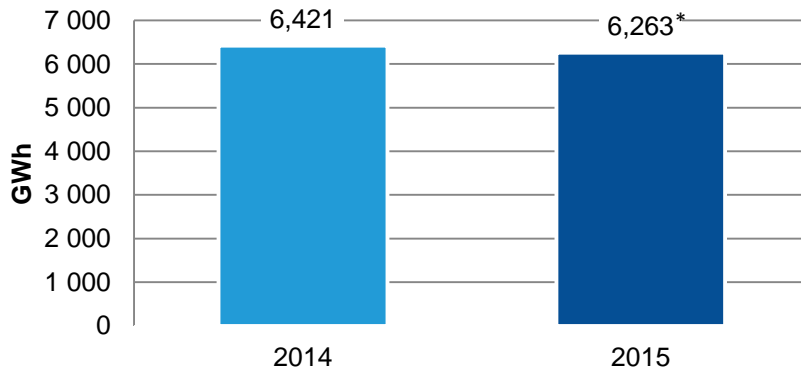
## Segment revenue and EBITDA



## Distribution assets increase by 3% due to investments

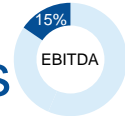
- ▶ Investments in distribution assets reached 101.3 MEUR (2014: 99.8 MEUR)
- ▶ Positive impact on the results was from lower electricity price
- ▶ Negative impact on the results was due to decrease by 2% in distributed electricity\*
- ▶ On 20 January 2016 Sadales tīkls AS submitted PUC electricity distribution system services tariff rebalancing project

## Electricity distributed

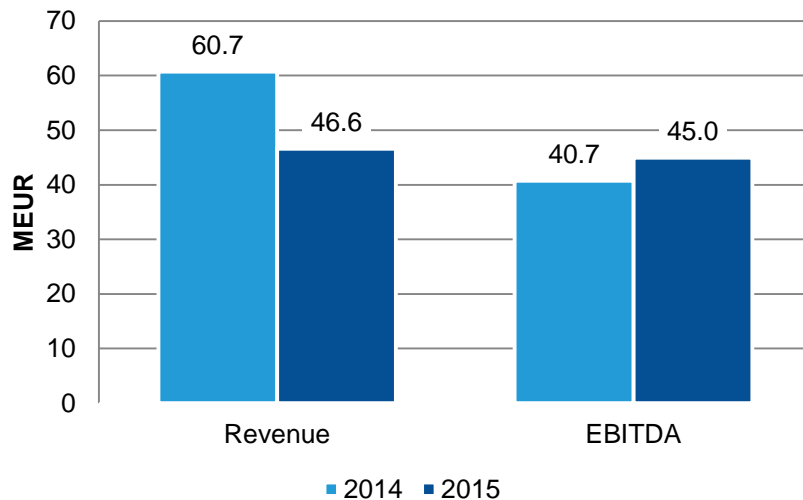


\* The volume of electricity distributed excludes 123 GWh; that amount corresponds to the regulated electricity tariff revenues received at the beginning of 2015, that were recognized in 2014

# Transmission system assets – gradually improving returns



## Increase in EBITDA by 10%



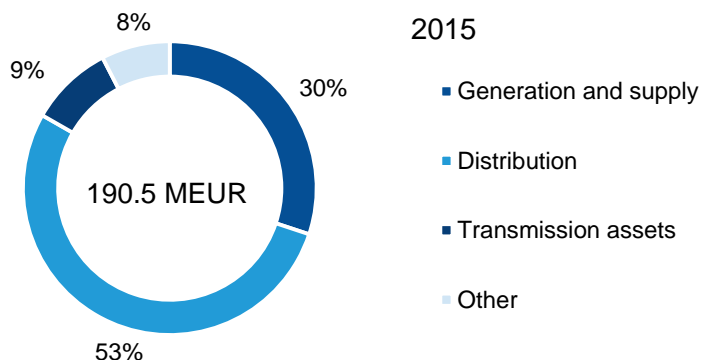
## Return on transmission system assets\* – 4.7%

- ▶ Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- ▶ Revenue decrease was influenced by system asset construction and maintenance function transfer to TSO as of 1 January 2015

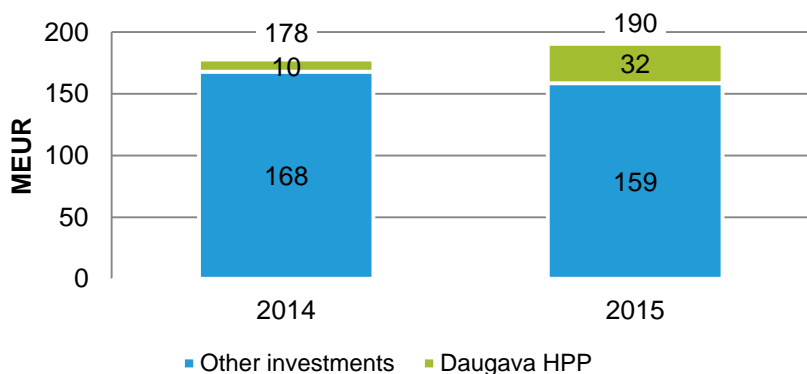
\* Return on segment assets – operating profit of the segment / average segment assets ((assets at the beginning of the year + assets at the end of the year) / 2)

# Investments in environmentally friendly projects

## Investments in network assets exceed 60%



## Investment increase due to Daugava HPPs hydropower unit reconstruction



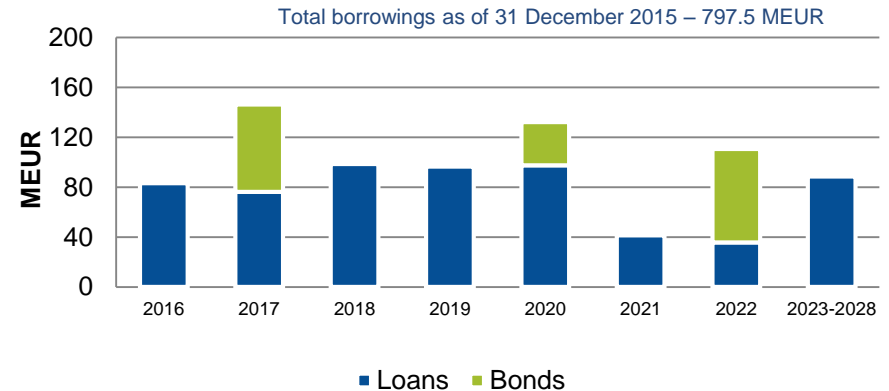
## Investment projects

- ▶ **Daugava HPPs hydropower unit reconstruction:**
  - ▶ Estimated costs > 200 MEUR
  - ▶ Completion in 2022
  - ▶ Reconstruction will provide for further 40-year operation of hydropower units
  
- ▶ **NordBalt 02-330kV, Kurzeme Ring:**
  - ▶ Total costs ~220 MEUR
    - ▶ incl. 95 MEUR in the 1st and 2nd stage of the project
  - ▶ Completion in 2019
  - ▶ EU co-funding for the final stage – 45%
  
- ▶ **Estonia – Latvia third power transmission network interconnection**
  - ▶ Estimated costs ~ 100 MEUR
  - ▶ Completion till 2020
  - ▶ EU co-funding – 65%
  - ▶ Environmental impact assessment of the interconnection project is being carried out

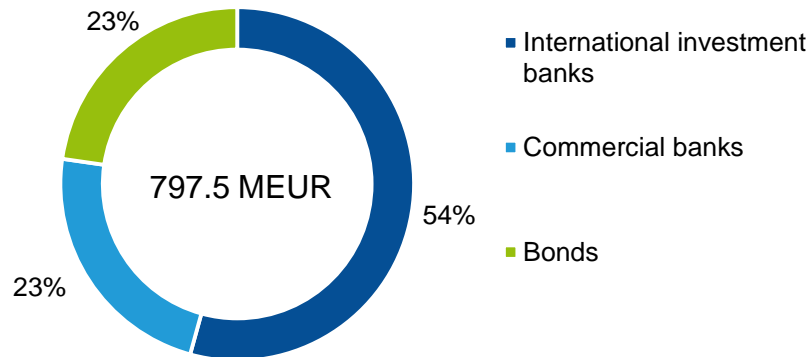
# Diversified borrowing sources

## More than 1/5 of the total borrowings are bonds Debt repayment schedule

- ▶ Financial needs for coming investment projects and refinancing of loans are attracted in a timely manner
- ▶ *Green* bonds in the amount of EUR 75 million were issued, Moody's assigned Baa2 (stable) to the bonds
- ▶ At the beginning of 2015 Moody's upgraded Latvenergo AS credit rating to Baa2 with a stable outlook and on 12 February 2016 reconfirmed the rating
- ▶ Capital ratio – 60%



## Lenders by category



## Liquidity

|  |             |
|--|-------------|
| Liquid assets (cash and short term bank deposits with maturity up to 3 months) | 104.5 MEUR  |
| Committed long-term loans  | 290.0 MEUR* |
| Investment in liquid financial assets  | 28.5 MEUR   |
| Additional liquidity reserves  | 318.5 MEUR  |

\* As of 31.12.2015. After the reporting end of the reporting period a long-term loan in the amount of 40.0 MEUR was withdrawn

## Contacts

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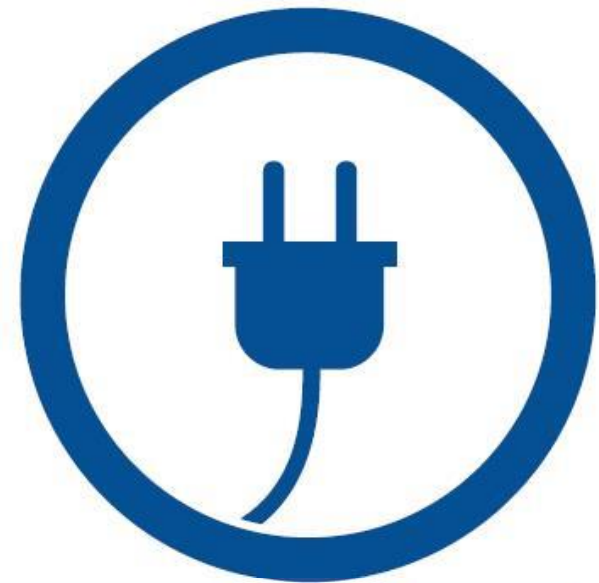
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Latvenergo AS

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Latvia



# Abbreviations

|              |   |
|--------------|---|
| EC –         | European Commission                         |
| EU –         | European Union                              |
| HPPs –       | Hydropower plants                           |
| IFRS –       | International Financial Reporting Standards |
| PSO fee –    | Public service obligation fee               |
| PUC –        | Public Utilities Commission                 |
| Riga CHPPs – | Riga combined heat and power plants         |
| TSO –        | Transmission system operator                |

# Consolidated Statement of Profit or Loss\*

|  | 2015           | 2014          |
|--|----------------|---------------|
|  | EUR'000        | EUR'000       |
| Revenue  | 929 128        | 1 010 757     |
| Other income   | 4 880          | 5 273         |
| Raw materials and consumables used   | (470 444)      | (621 285)     |
| Personnel expenses   | (94 609)       | (97 954)      |
| Depreciation, amortisation and impairment of intangible assets and property, plant and equipment | (198 827)      | (187 595)     |
| Other operating expenses   | (61 940)       | (59 953)      |
| <b>Operating profit</b>  | <b>108 188</b> | <b>49 243</b> |
| Finance income   | 2 926          | 3 004         |
| Finance costs  | (18 579)       | (20 380)      |
| Share of profit / (loss) of associates   | –              | (357)         |
| <b>Profit before tax</b>   | <b>92 535</b>  | <b>31 510</b> |
| Income tax   | (7 496)        | (1 720)       |
| <b>Profit for the year</b>   | <b>85 039</b>  | <b>29 790</b> |

\* Prepared in accordance with the IFRS as adopted by the EU



# Consolidated Statement of Financial Position\*

|  | 31/12/2015       | 31/12/2014       |
|--|------------------|------------------|
|  | EUR'000          | EUR'000          |
| <b>ASSETS</b>  |                  |                  |
| <b>Non-current assets</b>  |                  |                  |
| Intangible assets  | 14 405           | 13 011           |
| Property, plant and equipment                                      | 3 076 256        | 3 066 316        |
| Investment property  | 696              | 1 343            |
| Non-current financial investments                                  | 41               | 41               |
| Other non-current receivables                                      | 1 712            | 14               |
| Investments in held-to-maturity financial assets                   | 20 609           | 28 528           |
| <b>Total non-current assets</b>                                    | <b>3 113 719</b> | <b>3 109 253</b> |
| <b>Current assets</b>  |                  |                  |
| Inventories  | 24 791           | 22 560           |
| Trade receivables and other receivables                            | 263 452          | 233 045          |
| Deferred expenses  | 3 008            | 707              |
| Investments in held-to-maturity financial assets                   | 7 859            | –                |
| Cash and cash equivalents  | 104 543          | 121 011          |
| <b>Total current assets</b>  | <b>403 653</b>   | <b>377 323</b>   |
| <b>TOTAL ASSETS</b>  | <b>3 517 372</b> | <b>3 486 576</b> |
| <b>EQUITY</b>  |                  |                  |
| Share capital  | 1 288 531        | 1 288 446        |
| Reserves   | 669 596          | 645 829          |
| Retained earnings  | 131 662          | 79 995           |
| <b>Equity attributable to equity holders of the Parent Company</b> | <b>2 089 789</b> | <b>2 014 270</b> |
| Non-controlling interests  | 6 913            | 6 531            |
| <b>Total equity</b>  | <b>2 096 702</b> | <b>2 020 801</b> |
| <b>LIABILITIES</b>   |                  |                  |
| <b>Non-current liabilities</b>                                     |                  |                  |
| Borrowings   | 714 291          | 688 297          |
| Deferred income tax liabilities                                    | 273 987          | 268 026          |
| Provisions   | 15 984           | 15 588           |
| Derivative financial instruments                                   | 8 291            | 11 698           |
| Other liabilities and deferred income                              | 196 386          | 194 474          |
| <b>Total non-current liabilities</b>                               | <b>1 208 939</b> | <b>1 178 083</b> |
| <b>Current liabilities</b>   |                  |                  |
| Trade and other payables   | 117 249          | 139 909          |
| Income tax payable   | 4 007            | 3                |
| Borrowings   | 83 192           | 138 925          |
| Derivative financial instruments                                   | 7 283            | 8 855            |
| <b>Total current liabilities</b>                                   | <b>211 731</b>   | <b>287 692</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                | <b>3 517 372</b> | <b>3 486 576</b> |

\* Prepared in accordance with the IFRS as adopted by the EU

# Consolidated Statement of Cash Flows\*

|  | 2015             | 2014             |
|--|------------------|------------------|
|  | EUR'000          | EUR'000          |
| <b>Cash flows from operating activities</b>  |                  |                  |
| Profit before tax  | 92 535           | 31 510           |
| <b>Adjustments:</b>  |                  |                  |
| – Amortisation, depreciation and impairment of intangible assets and property, plant and equipment | 198 828          | 187 595          |
| – Loss from disposal of non-current assets   | 4 075            | 2 470            |
| – Losses on investments accounting at equity method  | –                | 357              |
| – Interest costs   | 18 693           | 20 351           |
| – Interest income  | (1 578)          | (2 045)          |
| – Fair value gains on derivative financial instruments   | (902)            | (8 759)          |
| – (Decrease) / increase in provisions  | (762)            | 150              |
| – Unrealised losses on currency translation differences  | 27               | 65               |
| <b>Operating profit before working capital adjustments</b>   | <b>310 916</b>   | <b>231 694</b>   |
| (Increase) / decrease in inventories   | (2 231)          | 2 468            |
| (Increase) in trade and other receivables  | (27 626)         | (93 285)         |
| (Decrease) / increase in trade and other payables  | (20 825)         | 19 062           |
| <b>Cash generated from operating activities</b>  | <b>260 234</b>   | <b>159 939</b>   |
| Interest paid  | (19 189)         | (20 915)         |
| Interest received  | 1 606            | 2 082            |
| Repaid / (paid) corporate income tax and real estate tax   | 3 627            | (5 777)          |
| <b>Net cash flows from operating activities</b>  | <b>246 278</b>   | <b>135 329</b>   |
| <b>Cash flows from investing activities</b>  |                  |                  |
| Purchase of intangible assets and PPE  | (188 915)        | (177 988)        |
| Proceeds from sales of investments   | –                | 5 779            |
| Proceeds on financing from EU funds and other financing  | 17 972           | 2 161            |
| Proceeds from redemption of held-to-maturity assets  | 70               | 60               |
| <b>Net cash flows used in investing activities</b>   | <b>(170 873)</b> | <b>(169 988)</b> |
| <b>Cash flows from financing activities</b>  |                  |                  |
| Proceeds from issued debt securities (bonds)   | 74 893           | –                |
| Proceeds on borrowings from financial institutions   | 30 000           | 22 600           |
| Repayment of borrowings  | (134 875)        | (139 695)        |
| Dividends paid to non-controlling interests  | (1 148)          | (1 197)          |
| Dividends received from associates   | –                | 1 924            |
| Dividends paid to equity holders of the Parent Company **  | (31 479)         | (12 649)         |
| <b>Net cash flows used in financing activities</b>   | <b>(62 609)</b>  | <b>(129 017)</b> |
| <b>Net increase / (decrease) in cash and cash equivalents</b>                                      | <b>12 796</b>    | <b>(163 676)</b> |
| Cash and cash equivalents at the beginning of the year   | 91 747           | 255 423          |
| <b>Cash and cash equivalents at the end of the year ***</b>  | <b>104 543</b>   | <b>91 747</b>    |

\* Prepared in accordance with the IFRS as adopted by the EU

\*\* Dividends declared for 2013 in the amount of EUR 23,605 thousand are settled partly by corporate income tax overpayment in the amount of EUR 10,956 thousand

\*\*\* At the end of 2014 received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 was not included in cash and cash equivalents because it was defined as restricted cash and cash equivalents