Latvenergo

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

Latvenergo Group is the most valuable energy company in the Baltics. Latvenergo Group's asset value exceeds EUR 4 billion.

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Management Report

Unaudited Condensed Financial Statements*

** Financial Statements include* Latvenergo *consolidated and Latvenergo AS financial information prepared in accordance with the International Financial Reporting Standards as adopted by the European Union*

FINANCIAL CALENDAR

18. 04. 2018

Latvenergo Consolidated and Latvenergo AS Annual Report 2017

31. 05. 2018

Condensed Consolidated Interim Financial Statements for the 3-month period ending 31 March 2018 (unaudited)

31. 08. 2018

Condensed Consolidated Interim Financial Statements for the 6-month period ending 30 June 2018 (unaudited)

30. 11. 2018

Condensed Consolidated Interim Financial Statements for the 9-month period ending 30 September 2018 (unaudited)

CONTACT DETAILS FOR INVESTOR RELATIONS

E-mail: investor.relations@latvenergo.lv

Website: http://www.latvenergo.lv

DISCLAIMER

The financial report includes future projections that are subject to risks, uncertainties and other important factors beyond the control of Latvenergo Group; therefore, the actual results in the future may differ materially from those stated or implied in the future projections.

The report has been prepared in Latvian and in English. In the event of any discrepancies between the Latvian and the English reports, the Latvian version shall prevail.

Summary

- **Electricity price convergence between the Nordics and the Baltics**

  In 2017, there was an increase in average electricity spot prices in the Nordics and Estonia, while in Latvia and Lithuania they decreased by 4%. This is mainly attributable to the operation of the *NordBalt* interconnection, which has decreased the electricity price difference between the Baltic and Nordic bidding areas.

- **Significantly higher electricity output generated at the Daugava HPPs**

  In 2017, Latvenergo Group generated 5,734 GWh of electricity at its plants. Taking into consideration the relatively higher water inflow, electricity output generated at the Daugava HPPs in 2017 was the largest since 1998. The electricity output generated at the Daugava HPPs increased by 74% compared to the previous year and totalled 4,270 GWh. The amount of thermal energy generated did not change significantly and totalled 2,612 GWh.

- **Latvenergo – one of the leading electricity suppliers in the Baltics**

  Latvenergo Group has approximately 27% of the market share of the Baltic electricity retail market. Retail electricity supply outside Latvia comprises approximately one third of the total retail electricity supply.

- **Latvenergo launches natural gas trade to customers in Latvia and Estonia**

  In 2017, Latvenergo Group, under the *Elektrum* brand, commenced natural gas trade to business customers in Latvia and Estonia. Latvenergo is the second largest consumer of natural gas in the Baltics.

- **EBITDA growth of 38%**

  In 2017, Latvenergo Group's revenue remained at the same level as the previous year; it amounted to EUR 925.6 million. Meanwhile, EBITDA increased by 38%, reaching EUR 541.7 million. The results were positively affected by higher electricity output at the Daugava HPPs, an increase in distribution service revenue and a one-off compensation for the Riga CHPPs' capacity payments. However, the financial results were negatively affected by the downward trend of electricity prices in the market since the *NordBalt* interconnection was launched.

  The Group's net profit in 2017 amounted to EUR 322.2 million, which consists of the Group's annual operating result in the amount of EUR 173.1 million and a deferred tax reversal in the amount of EUR 149.1 million as a result of the corporate income tax reform.

- **Investment in network assets – approximately 2/3 of the total**

  In 2017, the overall amount of investments was EUR 243.8 million, 65% of which was invested in network assets. We are also continuing the reconstruction of the Daugava HPPs' hydropower units. In the reporting period, EUR 41.8 million was invested in this project. At the end of 2017, one reconstructed hydropower unit of the Plavinas HPP was put into operation.

- **Latvenergo receives a one-off compensation for the Riga CHPPs' capacity payments**

  In November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order regarding guaranteed support payments for the installed capacity of Latvenergo AS cogeneration power plants Riga CHPP-1 and Riga CHPP-2. The order supports the reduction of these payments during the remaining support period by paying out a one-off compensation in the amount of EUR 454.4 million. The compensation will be financed by applying the rights of the state as the Shareholder to carry out a capital release of Latvenergo AS in the amount of the compensation.

- **Latvenergo AS maintains its credit rating**

  On 7 September 2017, the credit rating agency Moody's did not revise the credit rating of Latvenergo AS at the Baa2 level with a stable future outlook. In their assessment, Moody's also took into account the one-off compensation from the state, the planned changes in the support intensity for the Riga CHPPs and the planned Latvenergo AS capital release.

- **Latvenergo rings the trading session opening bell at Nasdaq MarketSite in New York**

  Latvenergo AS is the first company in the Baltics to receive the Nasdaq exchange award "Best Investor Relations in the Baltics among Bond Issuers". Along with accepting the award on 14 August, Āris Žīgurs, Chief Executive Officer of Latvenergo AS, rang the traditional Nasdaq MarketSite trading session opening bell at Times Square, New York.

Latvenergo Group in Brief

Latvenergo Group is the largest power supply provider operating in electricity and thermal energy generation and trade, natural gas trade, electricity distribution services and lease of transmission system assets.

Latvenergo Group is comprised of the parent company Latvenergo AS and seven subsidiaries. All shares of Latvenergo AS are owned by the state and held by the Ministry of Economics of the Republic of Latvia.

Latvenergo Group divides its operations into three operating segments: generation and trade, distribution and lease of transmission system assets. This division is made according to the internal organisational structure, which forms the basis for regular performance monitoring, decision-making on resources allocated to segments and their performance measurement. From a commercial point of view, each segment is managed differently.

The generation and trade segment comprises electricity and thermal energy generation operations, conducted by Latvenergo AS and Liepājas enerģija SIA, as well as electricity trade (incl. electricity wholesale) in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB. Natural gas trade is carried out by Latvenergo AS and Elektrum Eesti OÜ. Mandatory procurement is administrated by Enerģijas publiskais tirgotājs AS.

	Country of operation	Type of operation	Participation share
Latvenergo AS	Latvia	Generation and trade of electricity and thermal energy, trade of natural gas	
Sadales tīkls AS	Latvia	Electricity distribution	100%
Latvijas elektriskie tīkli AS	Latvia	Lease of transmission system assets	100%
Enerģijas publiskais tirgotājs AS	Latvia	Administration of mandatory electricity procurement process	100%
Elektrum Eesti OÜ*	Estonia	Electricity trade & gas	100%
Elektrum Lietuva UAB	Lithuania	Electricity trade	100%
Liepājas enerģija SIA	Latvia	Thermal energy generation and trade in Liepaja, electricity generation	51%

* Elektrum Eesti OÜ owns a subsidiary, Elektrum Latvija SIA, which is not engaged in any business activities.

Latvenergo AS is a shareholder in an associated company – Pirmais Slēgtais Pensiju Fonds AS (46.3%; Latvenergo Group – 48.15%) – and has a shareholding in Rīgas siltums AS (0.005%).

The distribution segment provides electricity distribution services in Latvia (approximately 99% of the territory of Latvia). Services are provided by Sadales tīkls AS – the largest distribution system operator in Latvia (about 820 thousand customers). Distribution system tariffs are approved by the Public Utilities Commission (PUC).

The transmission system asset leasing segment is managed by Latvijas elektriskie tīkli AS – the company that owns the transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points) and conducts their lease to the transmission system operator Augstsprieguma tīkls AS. Payments for the lease of transmission system assets are calculated in accordance with the methodology approved by the PUC.

Latvenergo Group in Brief

Latvenergo Group's Strategy

On 19 October 2016, the Shareholder Meeting approved Latvenergo Group's strategy for 2017–2022.

Taking into consideration the main challenges within the industry and business environment, three main operational objectives are defined in the strategy:

- strengthening of a sustainable and economically sound market position in core markets (in the Baltics) while considering geographic and / or product / service expansion;
- development of a generation portfolio that fosters synergy with trade and that promotes an increase in value for the Group;
- development of a customer-driven, functional, safe and efficient power network.

Along with the strategy approval, Latvenergo Group's financial targets have been set. The targets are divided into three groups – profitability, capital structure and dividend policy.

The financial targets are set to ensure:

- 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;
- an optimal and industry-relevant capital structure that limits potential financial risks;
- an adequate dividend policy that is consistent with the planned investment policy and capital structure targets.

Target group	Ratio	Year 2022
Profitability	Return on equity	> 6%
Capital structure	Net debt to equity	< 50%
	Net debt to EBITDA	< 3 times
Dividend policy	Dividend payout ratio	> 80%

Strategy development included a detailed analysis of the industry and operating environment, an evaluation of business opportunities, and discussions with industry experts and stakeholders.

Taking into consideration the defined development directions of the Group, on 14 November 2017 the Management Board of Latvenergo AS approved the Strategic Development and Efficiency Programme. While the strategic development section includes major strategic projects, the efficiency section provides for the revision, centralization and digitalization of the Group's processes in order to maintain the Group's profitability in the long term considering the increase in costs due to inflation. The estimated efficiency potential for the Group's EBITDA is up to EUR 30 million. This is the Group's largest optimization plan in the last decade, and it will allow the Group to increase its value in the long run and to remain competitive in an open market and a changing energy industry.

Latvenergo Group Key Performance Indicators

Latvenergo Group Operational Figures

		2017	2016	2015	2014	2013
Total electricity supply, incl.	GWh	10,371	10,140	9,868	9,427	9,408
Retail[2)]	GWh	6,923	7,665	7,961	8,800	8,065
Wholesale[3)]	GWh	3,449	2,474	1,907	0,627	1,343
Electricity generation	GWh	5,734	4,707	3,882	3,625	4,854
Thermal energy generation	GWh	2,612	2,675	2,408	2,560	2,566
Number of employees		3,908	4,131	4,177	4,563	4,512
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa3 (stable)	Baa3 (stable)

Latvenergo Group Financial Figures

		2017	2016	2015	2014	2013
Revenue	MEUR	925.6	931.6	929.1	1,010.8	1,099.9
EBITDA[1)]	MEUR	541.7[*]	393.4	307.0	236.8	248.7
Profit	MEUR	322.2[**]	130.6	85.0	29.8	46.1
Assets	MEUR	4,412.1	3,901.2	3,517.4	3,486.6	3,575.4
Equity	MEUR	2,847.1	2,418.7	2,096.7	2,020.8	2,021.7
Net debt[1)]	MEUR	590.8	607.6	692.9	706.2	689.3
Investments	MEUR	243.8	200.7	190.5	177.6	224.9

Latvenergo Group Financial Ratios

	2017	2016	2015	2014	2013
Net debt / EBITDA[1)]	1.1	1.7	2.3	2.9	2.6
EBITDA margin[1)]	59%	42%	33%	23%	23%
Return on equity (ROE)[1)]	12.2%	5.8%	4.1%	1.5%	2.3%
Return on assets (ROA)[1)]	7.8%	3.5%	2.4%	0.8%	1.3%
Return on capital employed (ROCE)[1)]	6.8%	5.3%	3.8%	1.7%	2.1%
Net debt / equity[1)]	21%	25%	33%	35%	34%

1) Definitions of ratios and terms are available in the List of Abbreviations and Formulas on 22
2) Including operating consumption
3) Including sale of energy purchased within the mandatory procurement on the Nord Pool
*) Including a one-off compensation for the Riga CHPPs' capacity payments – EUR 140 million is recognized as *other income* in the year 2017
**) Including a deferred tax reversal in the amount of EUR 149.1 million as a result of the corporate income tax reform

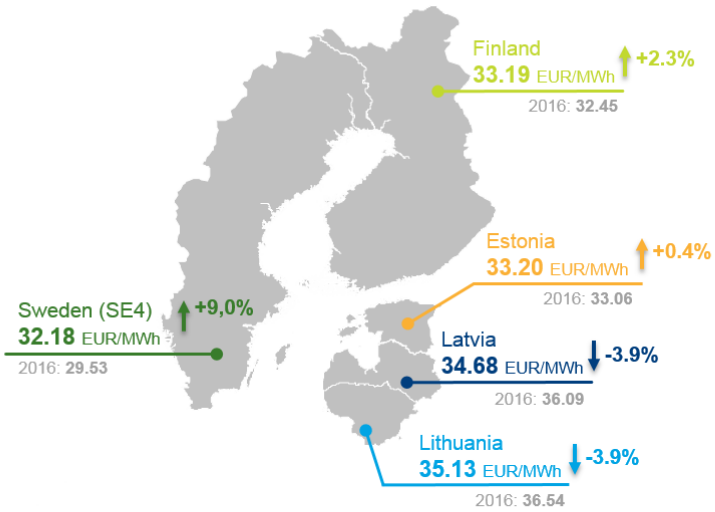
Operating Environment

Latvenergo Group's operations and performance are influenced by various global and regional factors, including prices of electricity and natural gas. In 2017:

- the average electricity spot price was higher in the Nordics and Estonia, while in Latvia and Lithuania it decreased by 4%;
- the price of natural gas at the GASPOOL and TTF trading platforms was on average 19% higher compared to the previous year.

Electricity price convergence in the Baltics continues

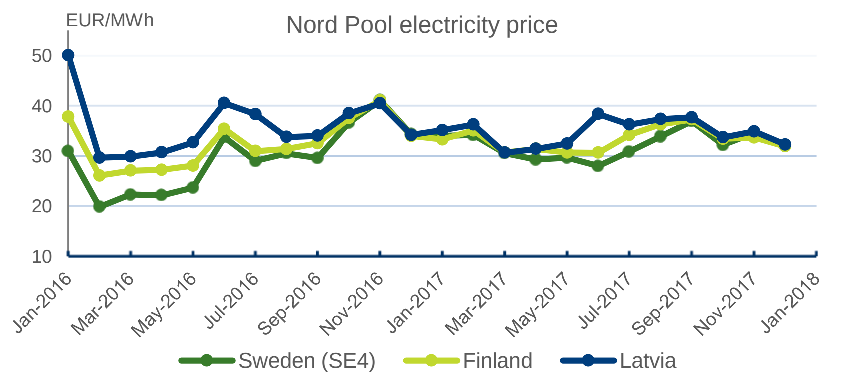
In 2017, the electricity price trend in the Baltic States indicated a close correlation with the overall price trends across Nordic bidding areas. Also, the price differences between the Baltic States and the Nordic trading areas continued to decrease.



In the Nordics and Estonia, there was an increasing trend in prices compared to the previous year. The price increase was mainly influenced by changing weather conditions and lower water levels at Scandinavian hydropower reservoirs. In contrast, electricity prices in Latvia and Lithuania decreased. The decrease was mainly impacted by functionality of the electricity interconnections which contribute to the convergence of spot prices in the Nord Pool region. In 2017, the price dynamics in the Baltics was also influenced by the relatively high level of electricity generation at the Daugava HPPs.

The electricity price differences between the Nordics and the Baltics decreased by almost half or 48% compared to the previous year. In 2016 the average electricity price difference between the Latvian and Finnish bidding areas was 3.64 EUR/MWh and the price difference between the Latvian and Swedish (SE4) bidding areas was 6.56 EUR/MWh, while in 2017 the average Nord Pool price in Latvia was only 1.49 EUR/MWh higher than in Finland and 2.50 EUR/MWh higher than in Sweden (SE4). The electricity price difference between Latvia and Estonia decreased by 1.55 EUR/MWh and amounted to 1.48 EUR/MWh. Meanwhile, the electricity price difference between Latvia and Lithuania remained unchanged. The price of electricity in Lithuania was on average 0.45 EUR/MWh higher than in Latvia, just like in the previous year.

Electricity price convergence was mainly influenced by higher availability of the *NordBalt* and *Estlink* transmission interconnections compared to the previous year. In 2017, *NordBalt* was available at 82% of full capacity (in 2016: 68%). *Estlink* was available at 98% of full capacity in the reporting year (in 2016: 87%). Also, the *LitPol* transmission interconnection was performing with a slightly higher available capacity.



Operating Environment

In 2017, electricity consumption in the Baltics increased slightly compared to the previous year, amounting to 26.0 TWh. Electricity consumption in Latvia did not change significantly, while in Lithuania and Estonia the amount of consumed electricity increased slightly – by 2% and 1%, respectively.

The total amount of electricity generated in the Baltics increased by 9%, amounting to 20.8 TWh. Due to the higher level of power generation in the Baltics, the amount of imported electricity from other Nord Pool bidding areas decreased by 24%, amounting to 5 TWh. The largest increase in electricity generation occurred in Latvia, where the output grew to 7.3 TWh, which is 18% more than in the previous year. This increase was mainly fostered by greater output at the Daugava HPPs. An increase in volume of generated electricity also occurred in Estonia, where output grew by 8%, amounting to 11 TWh. Meanwhile, the amount of electricity generated in Lithuania decreased by 7%, amounting to 2.5 TWh.

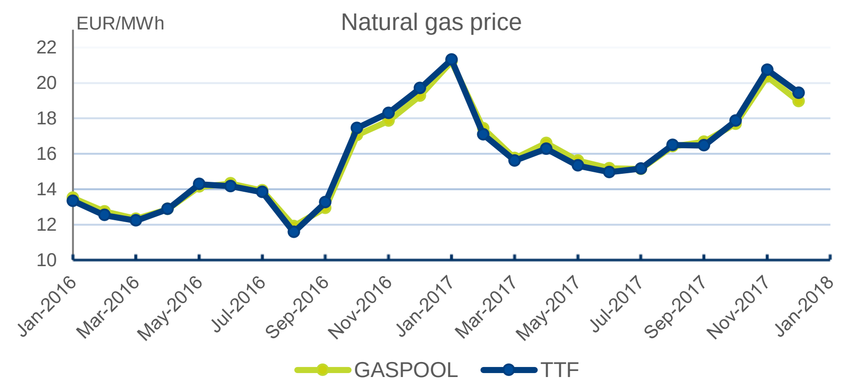
The natural gas market is open in Latvia

Until 3 April 2017, Latvian natural gas supply had been a fully regulated service and Latvijas Gāze AS was the only merchant in the territory of Latvia for natural gas supply service. On 3 April 2017, according to Energy Law stipulations, the natural gas market in Latvia was opened for all users. After opening the gas market, Latvenergo Group diversified its natural gas purchase portfolio, and now natural gas is also purchased from alternative sources of supply, including the Klaipeda Natural Gas Terminal. Meanwhile, use of Inčukalns Underground Gas Storage provides for timely reduction of natural gas purchase price risk exposure.

The price of natural gas is an important factor that affects the performance of the Riga CHPPs, since natural gas is the main fuel resource in their operation.

The price of natural gas in Latvia is affected by oil, coal and CO_2 emission prices:

- The average price of Brent (Front Month) crude oil in 2017 was 54.25 USD/bbl, which was 25% higher than in 2016. Oil price trends were mainly influenced by the decision of the Organization of the Petroleum Exporting Countries (OPEC) to prolong the agreement on oil output cuts till the end of the year 2018. Also, the price was influenced by events in the USA – growing output of shale oil and hurricanes registered in the second half of the reporting year.
- In 2017, the average price of coal (API2 Front Month) increased by 40%, reaching 83.13 USD/t. The rise was mainly fostered by higher coal demand in the Asia-Pacific region, while operational limitations were periodically recorded in South Africa, Australia and elsewhere.
- The average price of CO_2 emissions in 2017 increased by 9% and amounted to 5.84 EUR/t.



Due to the increase in oil, coal and CO_2 emission prices, there was an increase in the price of natural gas. In 2017, the average price of natural gas at the GASPOOL trading platform was 19.7% higher than in 2016, and at TTF it was 19.1% higher.

Latvenergo launches natural gas trade to customers in Latvia and Estonia

In Q2 2017, Latvenergo AS, under the *Elektrum* brand, commenced natural gas trade to business customers in Latvia. In Q3 2017, Latvenergo's subsidiary in Estonia, *Elektrum Eesti*, also commenced natural gas trade to business customers in Estonia by offering 12-month fixed-price contracts. By the end of the reporting period, the first contracts had been signed with approximately 100 business customers.

Operating Environment

Latvenergo AS receives a one-off compensation for the Riga CHPPs' capacity payments

On 22 September 2017, the Cabinet of Ministers of the Republic of Latvia accepted the order "On the conceptual report 'Compound Measures for the Development of the Electricity Market'". It provides for an efficient and sustainable reduction of the mandatory procurement public service obligation fee for electricity users. The report envisages the establishment of a mechanism under which the state would reduce its future commitments in cogeneration power plants with installed electrical capacity above 100 MW by paying out a one-off payment, agreeing to a reduction of the support intensity in the future.

In October 2017, Latvenergo AS applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the annual electrical capacity payments for cogeneration power plants Riga CHPP-1 and Riga CHPP-2. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order which supports the reduction of the guaranteed support payments during the remaining support period for the installed capacity of Latvenergo AS Riga CHPPs. According to the order, a one–off compensation in the amount of EUR 454.4 million is paid to Latvenergo AS. The compensation is divided into two parts, with the stipulation that EUR 140 million should be recognized as general government expenditure in 2017, while EUR 314.4 million should be recognized as an advance payment in even distribution over the coming reporting periods and fulfilling obligations until the end of the support period – September 23, 2028. The compensation will be financed by applying the rights of the state as the Shareholder to carry out a capital release of Latvenergo AS.

In recent years, the financial results of Latvenergo Group have improved substantially. As of 31 December 2017, the Group's asset value reaches EUR 4.4 billion and its equity is EUR 2.8 billion. According to an assessment carried out by independent international third parties, the capital structure ratios of Latvenergo Group are better than those of many industry benchmark companies. As of 31 December 2017, the Group's net debt to equity was 21% and its net debt to EBITDA ratio was 1.1.

The impact of the abovementioned actions and results on the financial stability of Latvenergo Group has also been evaluated by the credit rating agency Moody's, which has published an Issuer Comment, but has not revised the credit rating of Latvenergo AS or its future outlook. According to Moody's comment, Latvenergo will be able to maintain adequate financial flexibility and key financial metrics at a level that corresponds to the current rating Baa2 with a stable future outlook.

Dividends

According to the law "On the medium-term budgetary framework for 2018, 2019 and 2020", the dividend payout in the next few years will amount to EUR 94.2 million in 2018, EUR 132.9 million in 2019 and EUR 127.1 million in 2020. The actual amount of the dividend payout is set at the Shareholder's Meeting of Latvenergo AS after the approval of the annual report, upon evaluation of the results of the previous year.

Latvenergo Group's capital structure ratios are sufficient to proceed with the dividend payout even after the capital release of EUR 454.4 million. Latvenergo AS dividends will be used as a source of funding for the state budget programme *Electricity User Support*, thereby decreasing the mandatory procurement public service obligation (hereinafter – PSO) fee during the following years.

Operating Environment

Corporate income tax reform

As of 1 January 2018 the application procedure for corporate income tax (CIT) in Latvia has changed. Henceforth, in accordance with the Law on Corporate Income Tax, CIT is not applied to profits, it is applied to distributed profits as dividends. As of 1 January 2018 distributed profits and conditionally distributed profits are taxed at a rate of 20% of the gross amount or 20/80 of the net amount. The calculated CIT on dividend payout is recognized in the profit and loss statement as expenses in the reporting period in which dividend payout is announced. CIT is applied to other conditionally distributed profits, which are recognized in the profit and loss statement as expenses at the moment costs are incurred.

New CIT regulation eliminated all temporary differences between the financial accounting basis and tax basis of assets and liabilities as of 1 January 2018. This means that deferred tax assets or liabilities will no longer be recognised in the balance sheet as of 31 December 2017. In accordance with the International Financial Reporting Standards and the Law On Annual Financial Statements and Consolidated Financial Statements, all deferred tax liabilities previously incurred are reversed and recorded as income in the profit and loss statement or in the balance sheet equity reserves, depending on how the deferred tax liabilities were originally recognized.

The value of Latvenergo Group's fixed assets exceeds EUR 3 billion. Taking into consideration the great value of its fixed assets, the Group has been making significant investments in order to ensure the reconstruction of its assets and create new assets. The considerable amount of investments made over many years have created significant deferred tax liabilities. At the end of 2016, deferred tax liabilities amounted to EUR 316 million. At the end of 2017, part of the deferred tax liabilities was reversed as income in the profit and loss statement (deferred income tax in the amount of EUR 149 million) and the remaining part was recorded in the long-term revaluation reserve (EUR 167 million).

Financial results

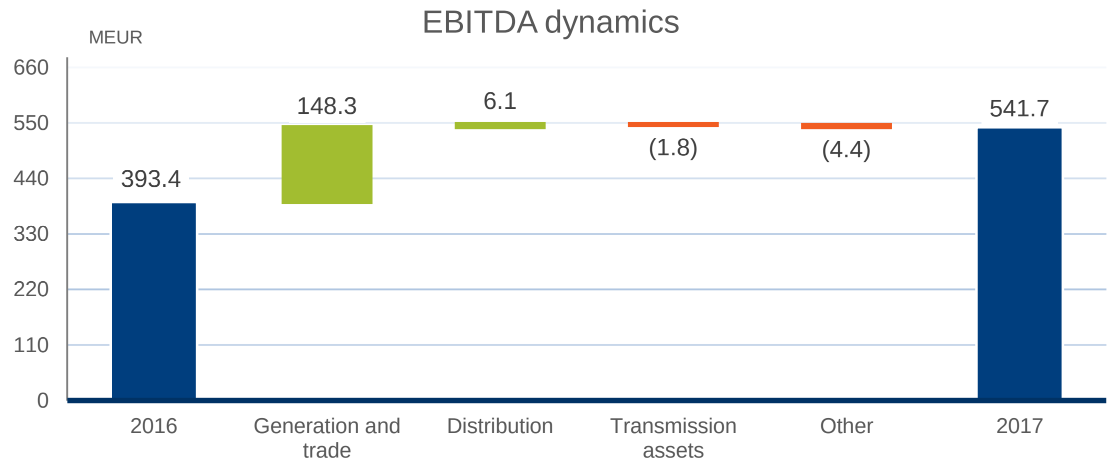
In 2017, Latvenergo Group's revenue remained at the same level as the previous year and comprises EUR 925.6 million.

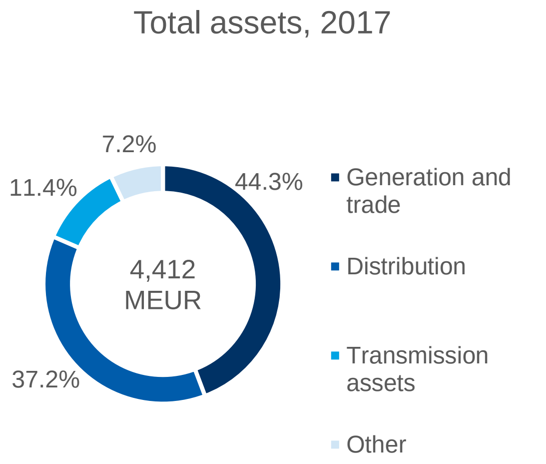
Latvenergo Group Financial figures		2017	2016	Δ	Δ, %
Revenue	MEUR	925.6	931.6	(6.0)	(1%)
EBITDA	MEUR	541.7	393.4	148.3	38%
Net profit	MEUR	322.2	130.6	191.6	147%
Assets	MEUR	4,412.1	3,901.2	510.8	13%

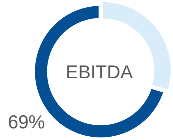
The Group's EBITDA and profit has increased

During the reporting year, Latvenergo Group's EBITDA increased by 38%, reaching EUR 541.7 million. The Group's EBITDA was positively impacted mainly by the 74% greater electricity output at the Daugava HPPs as well as the increase in distribution service revenue of EUR 11.8 million and the one-off compensation for the Riga CHPPs' capacity payments in amount of EUR 454.4 million. Part of the compensation payment, in the amount of EUR 140 million, is recognized as the Group's revenue in 2017 and the remaining part, in the amount of EUR 314.4 million, is recognized as an advance payment in the Group's balance sheet. However, the results were negatively impacted by lower electricity sales prices in the Baltics. Since 2016, the decrease in electricity prices in the Baltics has been impacted by the operation of the *NordBalt* electricity interconnection. Furthermore, the EBITDA margin improved, reaching 59% in 2017 (2016: 42%).

The Group's net profit in 2017 was EUR 322.2 million, which consists of the Group's annual operating result in the amount of EUR 173.1 million and a deferred tax reversal in the amount of EUR 149.1 million as a result of the corporate income tax reform.







Generation and Trade

Revenue **56%**
EBITDA **69%**
Assets **44%**
Employees **24%**
Segment weight in Latvenergo Group

Generation and trade is Latvenergo Group's largest operating segment by both revenue and EBITDA value. The majority or 85% of the segment's revenue comes from electricity and related services, while 15% comes from thermal energy supply.

The segment's results were positively impacted by higher electricity output at the Daugava HPPs and the one-off compensation for the Riga CHPPs' capacity payments in the amount of EUR 454.4 million (EUR 140 million is recognized as the Group's revenue in 2017). However, the results were negatively impacted by lower electricity sales prices in the Baltics.

In 2017, Latvenergo Group generated 5,734 GWh of electricity at its plants, which corresponds to 83% of the amount of electricity sold to retail customers (in 2016: 61%).

Latvenergo Group's electricity procurement process is targeted at cost optimisation and provides economic benefits to both the Group and its customers. Generation volumes of the Riga CHPPs and Daugava HPPs are linked to economically equivalent volumes of customer portfolios, thus achieving cost-effectiveness while excluding internal price risks between sale and purchase transactions. Latvenergo Group's customer portfolio can be made larger than its generation volumes. This is possible by including additional electricity financial instruments in the price risk management and making use of the flexibility of the Group's generation assets, switching strategically between electricity supply sources: the power exchange and the Group's own power plants. In this way, Latvenergo Group manages the profit potential of sales of electricity generated, utilizes possibilities to reduce the procurement costs of electricity necessary for customers, and reduces its exposure to market price fluctuation risks.

Operational figures		2017	2016	Δ	Δ, %
Total electricity supply	GWh	10,371	10,140	232	2%
Electricity generation	GWh	5,734	4,707	1,028	22%
Thermal energy generation	GWh	2,612	2,675	(63)	(2%)

Financial figures		2017	2016	Δ	Δ, %
Revenue	MEUR	556.1	584.1	(28.0)	(5%)
EBITDA	MEUR	372.8	224.5	148.3	66%
Assets	MEUR	1,953.2	1,557.0	396.2	25%
Investments	MEUR	74.0	60.0	14.1	23%
EBITDA margin		67.0%	38.4%	28.6pp	74%

Generation

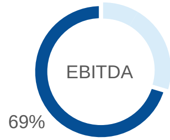
In the reporting year, the total amount generated by Latvenergo Group's power plants comprised 5,734 GWh of electricity and 2,612 GWh of thermal energy.

Overall, the amount of electricity generated increased by 22% compared to the previous year.

In 2017, the amount of power generated at the Daugava HPPs increased by 74% compared to the previous year, reaching 4,270 GWh (in 2016: 2,449 GWh), which comprised 74% of the total electricity generated at the Group (2016: 52%). The increase was fostered by higher water inflow in the river Daugava.

> Power generated at the Daugava HPPs increased by 74%

According to data from the LEGMC, the average water inflow in the Daugava river in 2017 was 849 m^3 / s, which is 140% of the average long-term inflow (1992 - 2017). Thus, electricity output generated at the Daugava HPPs in 2017 was the largest since 1998 and the third largest in observation history since the year 1966.



Generation and Trade

Taking into consideration increased production at the Daugava HPPs, the amount of power generated at the Riga CHPPs in 2017 decreased by 36% compared to the previous year, amounting to 1,411 GWh. The Riga CHPPs operated in a market conjuncture by effectively planning operating modes and fuel consumption.

Due to the optimal combination of Latvenergo Group's generation at the Riga CHPPs and Daugava HPPs and the import opportunities from other Nord Pool bidding areas, consumers in the Baltic States benefit from both price convergence to the Nordic price level and price stability in the long term.

In the reporting year, the share of electricity generated from renewable energy sources at Latvenergo Group was 75% (2016: 52%).

The total amount of thermal energy generated by Latvenergo Group in 2017 decreased by 2% compared to the previous year. The decrease was influenced mainly by the relatively warm weather in the heating season. In addition, three independent heat producers started their operation in the Riga TEC-2 zone, thus increasing competition in the thermal energy market.

Operational figures		2017	2016	Δ	Δ, %
Total electricity supply, incl.	GWh	10,371	10,140	232	2%
*Retail**	GWh	6,923	7,665	(743)	(10%)
*Wholesale***	GWh	3,449	2,474	975	39%
Electricity generation	GWh	5,734	4,707	1,028	22%
Daugava HPPs	GWh	4,270	2,449	1,822	74%
Riga CHPPs	GWh	1,411	2,206	(794)	(36%)
Liepaja plants and small plants	GWh	53	52	1	1%
Thermal energy generation		2,612	2,675	(63)	(2%)
Riga CHPPs	GWh	2,349	2,417	(69)	(3%)
Liepaja plants and small plants	GWh	263	258	5	2%

** Including operating consumption*
*** Including sale of energy purchased within the mandatory procurement on the Nord Pool*

Trade

In 2017, Latvenergo Group maintained its position as one of the leading energy companies in the Baltics. Latvenergo Group had approximately 27% of the market share of the Baltic electricity retail market.

In the reporting year, the Group commenced natural gas trade to business customers in Latvia and Estonia. The first contracts were signed with approximately 100 customers.

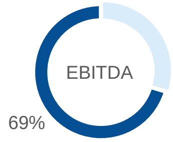
Latvenergo Group supplies electricity and natural gas to the Baltic countries under the *Elektrum* brand. Its product range consists of a variety of products tailored to different consumption volumes and habits, allowing customers to choose the most suitable product for them.

The Group supplied 6.9 TWh of electricity to Baltic retail customers (in 2016: 7.7 TWh). The decrease in the amount of electricity supplied was primarily related to intensified competition in the business customer segment.

The overall amount of retail electricity trade outside Latvia accounts for 1/3 of the total, reaching 2.3 TWh. The electricity trade volume in Latvia is 4.6 TWh, while in Lithuania it is 1.3 TWh and in Estonia it is 1 TWh.

Latvenergo Group has managed to maintain a stable client portfolio in the Baltics. Its total number of electricity customers reaches 834 thousand, including more than 35 thousand foreign clients.

In 2017, two new products were introduced for the household segment. One of them is *Elektrum Smart House*, which allows for remote control of heating and home appliances. The second product is *Elektrum solārais*, which provides an opportunity to use independently generated electricity from sunlight.



Generation and Trade

Mandatory procurement

According to the Electricity Market Law, the functions of public trader are performed by Enerģijas publiskais tirgotājs AS.

Public trader functions comprise the obligation to purchase electricity from manufacturers, who have the right to supply the electricity generated for mandatory procurement (hereinafter – MP) according to electricity purchase tariffs set by legislation and to pay a guaranteed fee for electrical capacity installed at cogeneration power plants.

> The average PSO decreased from 1 January 2018

MP expenditures* are covered through a PSO fee charged to end users in Latvia. The PSO fee is determined on the basis of the actual costs in the preceding year and approved by the PUC.

In November 2017, the PUC approved the PSO fee by establishing a new application procedure. The PSO fee is now composed of a variable component proportional to the electricity consumed and a fixed component (capacity component), which depends on the type of system service used by the consumer. From 1 January 2018 the average PSO fee amounts to 2.579 euro cents/kWh (including the variable component of 1.463 euro cents/kWh). Thus, it has decreased by 0.1 euro cents/kWh compared to the previous PSO fee (from 1 April 2014 to 31 December 2017, the PSO fee was 2.679 euro cents/kWh). The decrease in the PSO fee was fostered by the order “On the conceptual report ‘Compound Measures for the Development of the Electricity Market’”, issued by the Cabinet of Ministers of the Republic of Latvia, which provides for an efficient and sustainable reduction of the PSO fee for electricity users. Within its framework Latvenergo AS applied for a 75% reduction of the annual electrical capacity payments for Riga CHPPs, thus receiving a one-off compensation in the amount of EUR 454.4 million.

In order to foster the decrease in the PSO fee starting from 1 January 2018, a state grant in the amount of EUR 88.6 million is foreseen. Revenue from Latvenergo AS dividends are used as a funding source for this state grant.

Also, in the coming years, according to the law "On the medium-term budgetary framework for 2018, 2019 and 2020", Latvenergo AS dividends for the use of state capital will be used as the main funding source for compensation of MP expenditures.

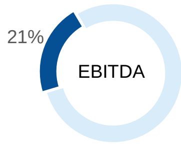
In 2017, MP expenditures comprised EUR 267.0 million (in 2016: EUR 238.0 million). The expenditures increased mainly due to the greater amount and higher price of the MP from the mandatory procurement power plants where electricity is generated from renewable sources (EUR +27.5 million).

In 2017, Enerģijas publiskais tirgotājs AS made payments from the state budget to energy-intensive manufacturing companies in the amount of EUR 3.0 million, thus reducing their MP payments. The decision on reduction of MP expenditures for energy-intensive manufacturing companies was made by the Ministry of Economics of the Republic of Latvia.

In 2017, assets recognised as unearned PSO fee revenue increased by EUR 22.2 million, comprising EUR 164.4 million. In 2017, a state grant in the amount of EUR 69.9 million was received.

Unsettled revenue from the mandatory procurement PSO fee recognised as assets		2017	2016	Δ	Δ, %
At the beginning of the year	MEUR	**142.1**	**141.1**	**1.1**	**0.8%**
Mandatory procurement PSO fee income	MEUR	174.9	177.7	(2.8)	(1.6%)
Received state grant	MEUR	69.9	59.2	10.7	18.0%
Mandatory procurement expenditures*	MEUR	267.0	238.0	29.0	12.2%
Incl. cogeneration	MEUR	141.8	140.1	1.6	1.2%
Incl. renewable energy resources	MEUR	124.5	97.1	27.5	28.3%
At the end of the year	MEUR	**164.4**	**142.1**	**22.2**	**15.6%**

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



Distribution

Segment weight in Latvenergo Group

Revenue **33%**

EBITDA **21%**

Assets **37%**

Employees **60%**

The distribution segment is Latvenergo Group's second largest segment by revenue. In 2017, the segment's revenue increased by 4% compared to the previous year, reaching EUR 320.7 million, while EBITDA increased by 6%, reaching EUR 111.6 million.

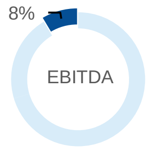
> We are improving the quality of distribution services

In 2017, the segment's results were positively impacted by the increase in distribution service revenue of EUR 11.8 million compared to the previous year. Growth in revenue from distribution services resulted from the change in the distribution system service tariffs that came into force on 1 August 2016. The tariffs provide for implementation of a fixed distribution service component that facilitates efficient utilization of distribution grid connection capacity. The results were negatively impacted by an increase in personnel termination costs of EUR 8.4 million. The increase in termination costs stems from the approved efficiency programme, which was launched in 2017 and will be fully implemented by 2022. During this period, the Group will reduce both the amount of resources required for work and the number of geographical locations of the Group's employees and specialized equipment.

Operational figures		**2017**	**2016**	**Δ**	**Δ, %**
Electricity distributed	GWh	6,463	6,465	(2)	(0%)
Distribution losses	GWh	337	334	3	1%
SAIFI	number	2.8	3.1	(0.3)	(10%)
SAIDI	minutes	261	286	(25)	(9%)
Financial figures		**2017**	**2016**	**Δ**	**Δ, %**
Revenue	MEUR	320.7	308.4	12.3	4%
EBITDA	MEUR	111.6	105.5	6.1	6%
Assets	MEUR	1,641.3	1,629.1	12.2	1%
Investments	MEUR	107.7	106.4	1.2	1%
EBITDA margin		34.8%	34.2%	0.6pp	2%

Investments in distribution assets during the reporting year did not change significantly compared to the previous year, reaching EUR 107.7 million. Due to the investments, the value of distribution assets increased to EUR 1,641.3 million.

The purpose of investments in the distribution segment is to promote the quality and security of the energy supply, reduce the frequency and duration of power supply disruptions caused by planned and unplanned maintenance, and ensure the appropriate voltage quality. Investments in modernization of distribution assets have increased the quality of distribution services by lowering SAIFI and SAIDI indicators. Since 2013, SAIDI has decreased by 58% and SAIFI has decreased by 38%.



Lease of Transmission System Assets

Revenue
5%

EBITDA
8%

Assets
11%

Employees
0.2%

Segment weight in Latvenergo Group

The value of transmission system assets exceeds 500 million EUR

Financial figures		2017	2016	Δ	Δ, %
Revenue	MEUR	47.0	48.4	(1.5)	(3%)
EBITDA	MEUR	45.3	47.1	(1.8)	(4%)
Total assets	MEUR	500.9	448.7	(52.2)	12%
Investments	MEUR	63.1	25.5	37.6	147%

The revenue of the transmission system asset leasing segment represents 5% of Latvenergo Group's revenue. In 2017, the segment's revenue was EUR 47.0 million, while EBITDA was EUR 45.3 million. Leasing of transmission system assets is a regulated segment. Revenue in this segment is calculated in accordance with the methodology approved by the PUC.

During the reporting year, investment in transmission system assets was in the amount of EUR 63.1 million. The amount of investments increased two and a half times compared to the previous year. The largest investment was made in the energy infrastructure project *Kurzeme Ring*. In 2017, EUR 34.7 million was invested in this project.

The value of transmission assets increased to EUR 500.9 million.

The return on transmission system assets in 2017 was 4.4% (in 2016: 2.4%).

Investments

In 2017, the total amount of investment increased by EUR 43 million or 21% compared to the previous year; it amounted to EUR 243.8 million. The increase resulted mainly from the greater investment in the transmission segment (*Kurzeme Ring* project) and the generation segment.

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

To ensure high quality power network service, technical parameters and operational safety, a significant amount is invested in the modernization of the power network. In the reporting year, the amount invested in power network assets represented 65% of total investment.

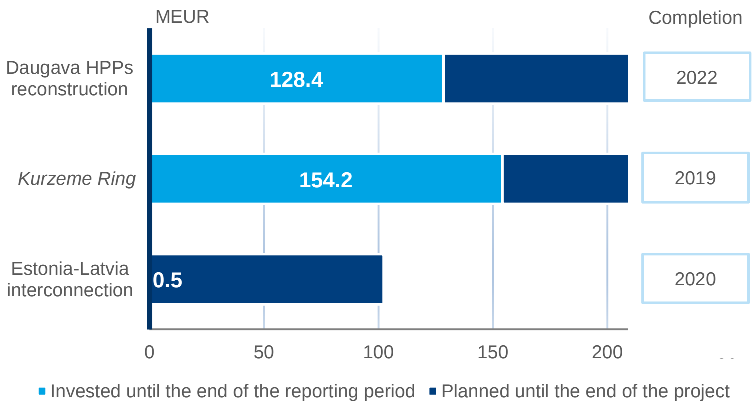
Contributing to environmentally friendly projects, in 2017, EUR 41.8 million was invested in the Daugava HPPs' hydropower unit reconstruction.

Investment projects:

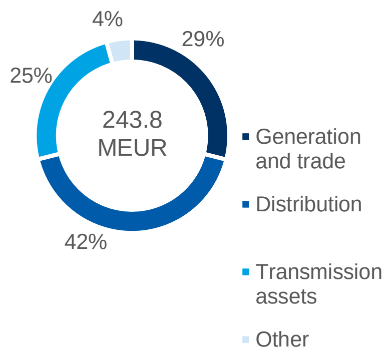
<u>Hydropower unit reconstruction programme for the Daugava HPPs (Reconstruction of the Daugava HPPs)</u>

The programme provides for the reconstruction of 11 hydropower units in order to provide environmentally safe, sustainable and competitive operations and efficient water resource management. At the end of 2017, the first reconstructed hydropower unit of Plavinas HPP was put into operation. Latvenergo Group is proceeding with a gradual overhaul of ten Daugava HPPs' hydropower units. The programme is scheduled for completion by 2022, with estimated total reconstruction costs exceeding EUR 200 million. At the end of the reporting year, work completed within the scope of the contract reached EUR 128.4 million. Reconstruction will ensure functionality of the hydropower units for another 40 years.

Main ongoing projects



Investments, 2017



<u>The *Kurzeme Ring* project</u>

The *Kurzeme Ring* project will increase the safety level of power supply in the Kurzeme region and Latvia as a whole, providing an opportunity for more efficient use of the Lithuania-Sweden marine cable *NordBalt* and allowing further integration of the Baltics into the Nordic electricity market.

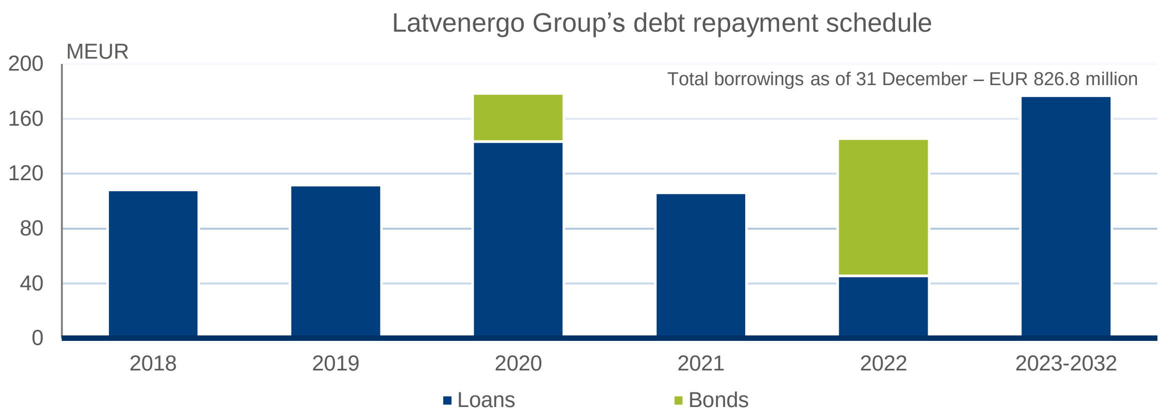
The *Kurzeme Ring* project is scheduled for completion in 2019, and the total planned project construction costs are EUR 230 million. The project consists of three stages. Investment in the first and second stage of the project comprised a total of EUR 95 million, approximately half of which was covered by the European Commission. For the final stage of the project *Ventspils–Tume–Rīga*, European Union co-funding in the amount of 45% of the construction cost was attracted. By the end of 2017, EUR 59.2 million was invested in the last stage of this project. During the reporting year, construction projects were developed, several 330 kV transmission lines were under construction and rebuilding works were continuing at several substations.

<u>The third Estonia–Latvia power transmission network interconnection</u>

The project is of major significance for the future electricity transmission infrastructure of the whole Baltic region. The construction of the new 330 kV interconnection is scheduled for completion by the end of 2020 and planned construction costs of the project in Latvia are about EUR 100 million. EU co-funding in the amount of 65% was attracted. In 2017, the procurement procedure for designing and constructing 330 kV transmission lines was completed and preparation of the territory for expansion of the substation TEC-2 was completed.

Funding and Liquidity

Latvenergo Group finances its investments from its own resources and external long-term borrowings, which are regularly sourced in financial and capital markets in a timely manner. Planning the sourcing of borrowings in a timely manner is also crucial in order to ensure loan refinancing risk management and debt repayment in due time. External borrowings are ensured to cover requirements for at least the following 12 months.



Best investor relations among Baltic bond issuers

Latvenergo AS is the first company in the Baltics to receive the Nasdaq exchange award "Best Investor Relations in the Baltics among Bond Issuers". Along with the award, Latvenergo AS was invited to the Nasdaq MarketSite studio in Times Square, New York. On 14 August, Āris Žīgurs, Chief Executive Officer of the Latvenergo AS, rang the traditional Nasdaq MarketSite trading session opening bell.

On December 15, 2017, the first repayment of the principal amount of maturing bonds amounting to EUR 70 million was executed.

As of 31 December 2017, the Group's borrowings amount to EUR 826.8 million (31 December 2016: EUR 791.6 million), comprising loans from commercial banks, international investment banks, and bonds amounting to EUR 135 million, of which EUR 100 million are *green* bonds.

External funding sources are purposefully diversified in the long run, thus creating a balance between lender categories in the total loan portfolio.

As of 31 December 2017, all borrowings are denominated in euro currency. The weighted average repayment period is 4.4 years (31 December 2016: 4.0 years). The effective weighted average interest rate (with interest rate swaps) is 1.7% (31 December 2016: 1.9%). Also, sufficient coverage of debt service requirements has been ensured (debt service coverage ratio: 3.1).

As of 31 December 2017, the net borrowings of Latvenergo Group are EUR 590.8 million (31 December 2016: EUR 607.6 million), while the net debt / EBITDA ratio is 1.1 (31 December 2016: 1.7). In 2017, all the binding financial covenants set in Latvenergo Group's loan agreements have been met.

On 7 September 2017, the credit rating agency Moody's did not revise the credit rating of Latvenergo AS at the Baa2 level with a stable future outlook. In the assessment, Moody's also took into account the one-off compensation from the state, the planned changes in the support intensity for the Riga CHPPs and the planned Latvenergo AS capital release.

Financial Risk Management

The activities of Latvenergo Group are exposed to a variety of financial risks: market risks, credit risk, and liquidity and cash flow risk. Latvenergo Group's Financial Risk Management Policy focuses on eliminating the potential adverse effects from such risks on financial performance. In the framework of financial risk management, Latvenergo Group uses various financial risk controls and hedging to reduce certain risk exposures.

a) Market risks

I) Price risk

Price risk might negatively affect the financial results of the Group due to falling revenue from generation and a mismatch between floating market prices and fixed retail prices.

The main sources of Latvenergo Group's exposure to price risk are the floating market prices of electricity on the Nord Pool power exchange in Baltic bidding areas and the fuel price for CHPPs. The financial results of the Group may be negatively affected by the volatility of the electricity market price, which depends on the weather conditions in the Nordic countries, global prices of resources, and the influence of local factors (water availability and ambient air temperature) on electricity generation opportunities. Due to supply-demand factors and seasonal fluctuations, natural gas price volatility may have a negative effect on the difference between fixed retail electricity prices in contracts with customers and variable generation costs at CHPPs.

In order to hedge the price risk, the Group enters into long-term fixed price customer contracts, uses electricity financial derivatives and enters into fixed price contracts for natural gas supply. The impact of price risk on generation is hedged gradually – 80%–90% of projected electricity output is sold prior to the upcoming year. Further hedging of risk is limited by the seasonal generation pattern of the Daugava HPPs.

II) Interest rate risk

Latvenergo Group's interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group to the risk that finance costs might increase significantly when the reference rate surges. Most of the borrowings from financial institutions have a variable interest rate, comprising 3, 6 or 12-month EURIBOR and a margin. The Group's Financial Risk Management Policy stipulates maintaining at least 35% of its borrowings as fixed interest rate borrowings (taking into account the effect of interest rate swaps and issued bonds) with a duration of 2–4 years. Taking into account the effect of interest rate swaps and bonds with a fixed interest rate, 54% of the borrowings had a fixed interest rate with an average period of 2.0 years as of 31 December 2017.

III) Currency risk

Foreign currency exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency other than the functional currency.

As of 31 December 2017, all borrowings of Latvenergo Group are denominated in euros, and during the reporting year, there was no substantial exposure to foreign currency risk as regards the Group's investments.

To manage the Group's foreign currency exchange risk, the Financial Risk Management Policy envisages use of foreign exchange forward contracts.

b) Credit risk

Credit risk is managed at the Latvenergo Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, and receivables. Credit risk exposure of receivables is limited due to the large number of Group customers as there is no significant concentration of credit risk with any single counterparty or group of counterparties with similar characteristics.

Credit risk related to cash and short-term deposits with banks is managed by balancing the placement of financial assets in order to simultaneously choose the best offers and reduce the probability of incurrence of loss. No credit limits were exceeded during the reporting year, and the Group's management does not expect any losses due to the occurrence of credit risk.

c) Liquidity risk and cash flow risk

Latvenergo Group's liquidity and cash flow risk management policy is to maintain a sufficient amount of cash and cash equivalents and the availability of long and short-term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks. On 31 December 2017, Latvenergo Group's liquid assets (cash and short-term deposits up to 3 months) reached EUR 236.0 million (2016: EUR 184.0 million), while the current ratio was 3.6 (2016: 1.7).

The Group continuously monitors cash flow and liquidity forecasts, which comprise the undrawn borrowing facilities and cash and cash equivalents.

Latvenergo AS Key Performance Indicators

Latvenergo AS operational figures

		2017	2016	2015
Retail electricity supply in Latvia**	GWh	4,619	5,290	5,422
Electricity generation	GWh	5,687	4,660	3,833
Thermal energy generation	GWh	2,354	2,422	2,179
Number of employees		1,431	1,472	1,464
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

Latvenergo AS financial figures

		2017	2016	2015
Revenue	MEUR	498.6	513.6	521.1
EBITDA*	MEUR	387.1	241.6	181.0
Profit	MEUR	151.1	137.4	94.8
Assets	MEUR	3,645.6	3,204.4	3,124.1
Equity	MEUR	2,382.8	2,177.1	2,114.9
Net debt*	MEUR	581.9	597.1	681.1
Investments	MEUR	89.3	79.9	78.7

Latvenergo AS financial ratios

	2017	2016	2015
Return on equity (ROE)*	6.6%	6.4%	4.6%
Net debt / equity*	24%	28%	32%
EBITDA margin*	78%	47%	35%

* Definitions of ratios and terms are available in the List of Abbreviations and Formulas on 22
** Including operating consumption

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS, the *Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Annual Financial Statements for 2017*, including the Management Report, have been prepared in accordance with the International Financial Reporting Standards and in all material aspects present a true and fair view of the assets, liabilities, financial position and profit and loss of Latvenergo Group and Latvenergo AS. Information provided in the Management Report is accurate.

The *Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Annual Financial Statements for 2017* were approved by the Management Board of Latvenergo AS on 27 February 2018 and have been signed by Chairman of the Management Board Āris Žīgurs and Member of the Management Board Guntars Baļčūns as authorized persons.

Āris Žīgurs
Chairman of the Management Board

Guntars Baļčūns
Member of the Management Board

27 February 2018

List of Abbreviations and Formulas

Abbreviations

bbl – barrel of oil (158.99 litres)

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

kV – kilovolt

LEGMC – Latvian Environment, Geology and Meteorology Centre

MEUR – million euros

MW – megawatt

MWh – megawatt hour (1,000,000 MWh = 1,000 GWh = 1 TWh)

MP – mandatory procurement

nm^3 – normal cubic meter

OECD – The Organisation for Economic Co-operation and Development

PSO – public service obligation

PUC – Public Utilities Commission

Riga CHPPs – Riga combined heat and power plants

SAIDI – System Average Interruption Duration Index

SAIFI – System Average Interruption Frequency Index

SET – Subsidised Energy Tax

Formulas

Net debt = borrowings at the end of the period - cash and cash equivalents at the end of the period

$$\text{Net debt/EBITDA} = \frac{\text{(net debt at the beginning of the 12-month period + net debt at the end of the 12-month period)} \times 0.5}{\text{EBITDA (12-month rolling)}}$$

$$\text{EBITDA margin} = \frac{\text{EBITDA (12-month rolling)}}{\text{revenue (12-month rolling)}} \times 100\%$$

$$\text{Net debt/equity} = \frac{\text{net debt at the end of the reporting period}}{\text{equity at the end of the reporting period}} \times 100\%$$

$$\text{Return on assets} = \frac{\text{net profit (12-month rolling)}}{\text{average value of assets}} \times 100\%$$

$$\text{Average value of assets} = \frac{\text{assets at the beginning of the 12month period + assets at the end of the 12-month period}}{2}$$

$$\text{Return on equity} = \frac{\text{net profit (12-month rolling)}}{\text{average value of equity}} \times 100\%$$

$$\text{Average value of equity} = \frac{\text{equity at the beginning of the 12-month period + equity at the end of the 12-month period}}{2}$$

$$\text{Return on capital employed} = \frac{\text{operating profit of the 12-month period}}{\text{average value of equity + average value of borrowings}} \times 100\%$$

$$\text{Average value of borrowings} = \frac{\text{borrowings from FI at the beginning of the 12-month period + borrowings from FI at the end of the 12-month period}}{2}$$

$$\text{Debt service coverage ratio} = \frac{\text{Net income +/- Extraordinary items + Depreciation + Interest expense}}{\text{Principal payments + Interest payments}}$$

$$\text{Current ratio} = \frac{\text{current assets at the end of the reporting period}}{\text{current liabilities at the end of the reporting period}}$$

$$\text{Return on segment assets} = \frac{\text{operating profit of the segment (12-month rolling)}}{\text{average value of segment assets}} \times 100\%$$

Unaudited Condensed Financial Statements

Statement of Profit or Loss

	Notes	Group 2017	Group 2016	Company 2017	Company 2016
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue	4	925,627	931,619	498,580	513,563
Other income		149,950*	6,656	147,502*	3,115
Raw materials and consumables used	5	(346,911)	(385,813)	(153,954)	(186,258)
Personnel expenses		(113,289)	(96,019)	(44,892)	(39,165)
Other operating expenses		(73,681)	(63,044)	(60,136)	(49,649)
EBITDA		**541,696**	**393,399**	**387,100**	**241,606**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		(307,614)	(232,626)	(209,684)	(100,535)
Operating profit		**234,082**	**160,773**	**177,416**	**141,071**
Finance income		1,243	2,328	11,433	12,958
Finance costs		(11,211)	(14,156)	(12,054)	(14,772)
Received dividends from subsidiaries		–	–	9,111	17,033
Profit before tax		**224,114**	**148,945**	**185,906**	**156,290**
Income tax	6	(51,029)	(23,498)	(44,930)	(20,331)
Deferred tax changes	6	149,106**	5,146	10,082**	1,482
Profit for the year		**322,191**	**130,593**	**151,058**	**137,441**
Profit attributable to:					
- Equity holder of the Parent Company		*319,840*	*129,045*	–	–
- Non–controlling interests		*2,351*	*1,548*	–	–

* 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 from1 January 2018

Unaudited Condensed Financial Statements

Statement of Comprehensive Income

	Notes	Group 2017	Group 2016	Company 2017	Company 2016
		EUR'000	EUR'000	EUR'000	EUR'000
Profit for the year		**322,191**	**130,593**	**151,058**	**137,441**
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):					
- income from change in hedge reserve	12 c	5,422	2,847	5,422	2,847
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**12 c**	**5,422**	**2,847**	**5,422**	**2,847**
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods (net of tax):					
- gains on revaluation of property, plant and equipment		22,166	269,485	22,166	–
- gains / (losses) as a result of re-measurement on defined post-employment benefit plan		3,460	(2,308)	1,054	(890)
Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods		**25,626**	**267,177**	**23,220**	**(890)**
TOTAL other comprehensive income for the year, net of tax		**31,048**	**270,024**	**28,642**	**1,957**
TOTAL comprehensive income for the year		**353,239**	**400,617**	**179,700**	**139,398**
Comprehensive income attributable to:					
- Equity holder of the Parent Company		*350,888*	*399,069*	–	–
- Non–controlling interests		*2,351*	*1,548*	–	–

Statement of Financial Position

	Notes	Group		Company	
		31/12/2017	31/12/2016	31/12/2017	31/12/2016
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non–current assets					
Intangible assets and property, plant and equipment	7	3,322,398	3,370,331	1,248,915	1,341,287
Investment property		753	563	64,807	72,833
Non–current financial investments	9	41	41	817,049	817,049
Non–current loans to subsidiaries	13 e	–	–	397,976	377,380
Investments in held–to–maturity financial assets	12 a	16,984	17,034	16,984	17,034
Other non–current receivables		286	986	284	977
TOTAL non–current assets		**3,340,462**	**3,388,955**	**2,546,015**	**2,626,560**
Current assets					
Inventories	8	76,247	41,458	61,743	9,118
Prepayment for inventories	8	81	–	80	16,693
Trade receivables and other receivables	10	751,427	273,957	97,230	113,659
Deferred expenses		3,241	3,227	2,205	2,189
Current loans to subsidiaries	13 e	–	–	700,805	245,324
Derivative financial instruments	12 c	4,619	6,134	4,619	6,134
Investments in held–to–maturity financial assets	12 a	–	3,520	–	3,520
Cash and cash equivalents	11	236,003	183,980	232,855	181,197
TOTAL current assets		**1,071,618**	**512,276**	**1,099,537**	**577,834**
TOTAL ASSETS		**4,412,080**	**3,901,231**	**3,645,552**	**3,204,394**
EQUITY					
Share capital		1,288,715	1,288,715	1,288,715	1,288,715
Reserves		1,126,520	937,074	791,906	650,020
Retained earnings		423,783	185,840	302,184	238,334
Equity attributable to equity holder of the Parent Company		**2,839,018**	**2,411,629**	**2,382,805**	**2,177,069**
Non–controlling interests		8,042	7,084	–	–
TOTAL equity		**2 847 060**	**2,418,713**	**2,382,805**	**2 177 069**
LIABILITIES					
Non–current liabilities					
Borrowings	12 b	718,674	635,620	710,125	627,691
Deferred income tax liabilities*	6	–	315,759	–	126,260
Provisions		21,910	18,643	8,835	7,924
Derivative financial instruments	12 c	4,914	7,946	4,914	7,946
Other liabilities and deferred income		522,362**	195,407	315,389**	1,055
TOTAL non–current liabilities		**1,267,860**	**1,173,375**	**1,039,263**	**770,876**
Current liabilities					
Borrowings	12 b	108,083	155,946	104,647	150,632
Trade and other payables		143,428	117,817	91,042	85,569
Income tax payable		27,555	17,718	24,571	16,549
Deferred income		14,924	14,022	54	59
Derivative financial instruments	12 c	3,170	3,640	3,170	3,640
TOTAL current liabilities		**297,160**	**309,143**	**223,484**	**256,449**
TOTAL liabilities		**1,565,020**	**1,482,518**	**1,262,747**	**1,027,325**
TOTAL EQUITY AND LIABILITIES		**4,412,080**	**3,901,231**	**3,645,552**	**3,204,394**

* deferred tax liabilities in the amount of EUR 149,106 thousand (Company: EUR 10,082 thousand) reversed in 2017 in the Statement of Profit or Loss and in the amount of EUR 166,653 thousand – in the equity as of 31 December 2017 (Company: EUR 116,178 thousand), because they were initially accounted in equity, in accordance with the changes of tax regulations and laws of the Republic of Latvia came 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 Regulations No. 221 of the Cabinet of Ministers of the Republic of Latvia till the end of State support - 23 September 2028

Statement of Changes in Equity

	Group						Company			
	Attributable to equity holder of the Parent Company				Non–control–ling interests	TOTAL	Attributable to equity holder of the Company			TOTAL
	Share capital	Reserves	Retained earnings	Total			Share capital	Reserves	Retained earnings	
	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**	EUR'000	EUR'000	EUR'000	**EUR'000**
As of 31 December 2015	**1,288,531**	**669,596**	**131,662**	**2,089,789**	**6,913**	**2,096,702**	**1,288,531**	**649,779**	**176,590**	**2,114,900**
Increase in share capital	184	–	–	**184**	–	**184**	184	–	–	**184**
Dividends for 2015	–	–	(77,413)	**(77,413)**	(1,377)	**(78,790)**	–	–	(77,413)	**(77,413)**
Disposal of property, plant and equipment revaluation reserve net of deferred income tax	–	(4,854)	4,854	**–**	–	**–**	–	(2,606)	2,606	**–**
TOTAL contributions and profit distributions recognised directly in equity	**184**	**(4,854)**	**(72,559)**	**(77,229)**	**(1,377)**	**(78,606)**	**184**	**(2,606)**	**(74,807)**	**(77,229)**
Profit for the year	–	–	129,045	**129,045**	1,548	**130,593**	–	–	137,441	**137,441**
Other comprehensive income / (loss)	–	272,332	(2,308)	**270,024**	–	**270,024**	–	2,847	(890)	**1,957**
TOTAL comprehensive income for the year	**–**	**272,332**	**126,737**	**399,069**	**1,548**	**400,617**	**–**	**2,847**	**136,551**	**139,398**
As of 31 December 2016	**1,288,715**	**937,074**	**185,840**	**2,411,629**	**7,084**	**2,418,713**	**1,288,715**	**650,020**	**238,334**	**2,177,069**
Implementation effect of IFRS 15 'Revenue from Contracts with Customers'	–	–	(10)	(10)	–	(10)	–	–	–	–
As of 1 January 2017	**1,288,715**	**937,074**	**185,830**	**2,411,619**	**7,084**	**2,418,703**	**1,288,715**	**650,020**	**238,334**	**2,177,069**
Dividends for 2016	–	–	(90,142)	**(90,142)**	(1,393)	**(91,535)**	–	–	(90,142)	**(90,142)**
Disposal of property, plant and equipment revaluation reserve net of deferred income tax	–	(5,149)	5,149	**–**	–	**–**	–	(2,072)	2,072	**–**
Reversal of deferred income tax	–	167,007	(354)	**166,653**	–	**166,653**	–	116,370	(192)	**116,178**
TOTAL contributions and profit distributions recognised directly in equity	**–**	**161,858**	**(85,347)**	**76,511**	**(1,393)**	**75,118**	**–**	**114,298**	**(88,262)**	**26,036**
Profit for the year	–	–	319,840	**319,840**	2,351	**322,191**	–	–	151,058	**151,058**
Other comprehensive income	–	27,588	3,460	**31,048**	–	**31,048**	–	27,588	1,054	**28,642**
TOTAL comprehensive income for the year	**–**	**27,588**	**323,300**	**350,888**	**2,351**	**353,239**	**–**	**27,588**	**152,112**	**179,700**
As of 31 December 2017	**1,288,715**	**1,126,520**	**423,783**	**2,839,018**	**8,042**	**2,847,060**	**1,288,715**	**791,906**	**302,184**	**2,382,805**

Statement of Cash Flows

	Notes	Group		Company	
		2017	2016	2017	2016
		EUR'000	EUR'000	EUR'000	EUR'000
Cash flows from operating activities					
Profit before tax		224,114	148,945	185,906	156,290
Adjustments:					
– Amortisation, depreciation and impairment of non–current assets		312,878	236,769	210,633	100,930
– Net financial adjustments		12,038	4,579	2,691	(5,433)
– Other adjustments		6,703	(313)	(7,167)	(16,787)
Operating profit before working capital adjustments		**555,733**	**389,980**	**392,063**	**235,000**
Increase in current assets		(497,053)	(26,837)	(18,822)	(26,924)
Increase / (decrease) in trade and other payables		330,844	(844)	320,917	3,594
Cash generated from operating activities		**389,524**	**362,299**	**694,158**	**211,670**
Interest paid		(11,484)	(15,529)	(12,324)	(16,136)
Interest received		1,390	2,457	11,632	13,306
Corporate income tax and real estate tax paid		(41,221)	(8,041)	(36,908)	(7,412)
Net cash flows generated from operating activities		**338,209**	**341,186**	**656,558**	**201,428**
Cash flows from investing activities					
Loans issued to subsidiaries		–	–	(536,302)	(78,446)
Repayment of loans issued to subsidiaries		–	–	60,225	80,319
Purchase of intangible assets and property, plant and equipment		(233,744)	(185,674)	(88,140)	(67,283)
Proceeds from redemption of held–to–maturity assets		3,569	7,914	3,569	7,914
Proceeds on financing from EU funds and other financing		–	242	–	–
Proceeds from investments in subsidiaries		–	–	9,111	17,033
Net cash flows used in investing activities		**(230,175)**	**(177,518)**	**(551,537)**	**(40,463)**
Cash flows from financing activities					
Proceeds from issued debt securities (bonds)		–	26,267	–	26,267
Repayment of issued debt securities (bonds)	12 b	(70,000)	–	(70,000)	–
Proceeds on borrowings from financial institutions	12 b	186,500	55,744	185,000	55,000
Repayment of borrowings	12 b	(80,976)	(87,452)	(78,221)	(85,441)
Dividends paid to equity holder of the Parent Company		(90,142)	(77,413)	(90,142)	(77,413)
Dividends paid to non–controlling interests		(1,393)	(1,377)	–	–
Net cash flows used in financing activities		**(56,011)**	**(84,231)**	**(53,363)**	**(81,587)**
Net increase in cash and cash equivalents	**11**	**52,023**	**79,437**	**51,658**	**79,378**
Cash and cash equivalents at the beginning of the year	11	183,980	104,543	181,197	101,819
Cash and cash equivalents at the end of the year	**11**	**236,003**	**183,980**	**232,855**	**181,197**

Notes to the Financial Statements

1. General Information on the Group and the Company

All of shares of public limited company Latvenergo (hereinafter – Latvenergo AS or the Company) are owned by the Republic of Latvia and are held by the Ministry of Economics of the Republic of Latvia. The registered address of the Company is 12 Pulkveža Brieža Street, Riga, Latvia, LV–1230. According to the Energy Law of the Rupublic of Latvia, Latvenergo AS is designated as a national economy object of State importance and, therefore, is not subject to privatisation.

Latvenergo AS is power supply utility engaged in electricity and thermal energy generation, as well as sales of electricity. Latvenergo AS is one of the largest corporate entities in the Baltics.

Latvenergo AS heads the *Latvenergo* Group (hereinafter – the Group) that includes the following subsidiaries:

- Sadales tīkls AS (since 18 September 2006) with 100% interest held;
- Elektrum Eesti OÜ (since 27 June 2007) and its subsidiary Elektrum Latvija SIA (since 18 September 2012) with 100% interest held;
- Elektrum Lietuva UAB (since 7 January 2008) with 100% interest held;
- Latvijas elektriskie tīkli AS (since 10 February 2011) with 100% interest held;
- Enerģijas publiskais tirgotājs AS (since 25 February 2014) with 100% interest held;
- Liepājas enerģija SIA (since 6 July 2005) with 51% interest held.

Latvenergo AS and its subsidiaries Sadales tīkls AS, Latvijas elektriskie tīkli AS and Enerģijas publiskais tirgotājs AS are also shareholders with 48.15% interest held in Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS helds 46.30% of interest) that manages a defined–contribution corporate pension plan in Latvia.

Latvenergo AS shareholding in its subsidiaries and other non–current financial investments of the Group are disclosed in Note 9 'Non–current Financial Investments'.

The Management Board of Latvenergo AS since 16 November 2015 until the date of approving of these Unaudited Interim Condensed Financial Statements of the Group and the Company was comprised of the following members: Āris Žīgurs (Chairman of the Board), Uldis Bariss, Māris Kuņickis, Guntars Baļčūns and Guntis Stafeckis.

On 16 December 2016 was established the Supervisory Board of Latvenergo AS and it was comprised of the following members: Andris Ozoliņš (Chairman of the Board), Andris Liepiņš (Deputy Chairman of the Board), Baiba Anda Rubesa, Mārtiņš Bičevskis and Martin Sedlacky.

The Supervisory body – Audit Committee since 4 December 2015 was comprised of the following members: Torben Pedersen (Chairman of the Committee), Svens Dinsdorfs and Marita Salgrāve and since 3 March 2017 as well Andris Ozoliņš and Andris Liepiņš.

Latvenergo Consolidated Annual Report 2016 and Latvenergo AS Annual Report 2016 had been approved on 10 May 2017 by the Latvenergo AS Shareholder's meeting (see on Latvenergo AS web page section "Investors" – http://www.latvenergo.lv/eng/investors/reports/).

The Unaudited Condensed Financial Statements of *Latvenergo* Group and Latvenergo AS for 2017 include the financial information in respect of the *Latvenergo* Group and Latvenergo AS for the period starting on 1 January 2017 and ending on 31 December 2017 and comparative information for the year 2016.

The Unaudited Condensed Financial Statements of *Latvenergo* Group and Latvenergo AS for the year 2017 were authorised by the Latvenergo AS Management Board on 27 February 2018.

2. Summary of Most Significant Accounting Policies

These Condensed Financial Statements of the *Latvenergo* Group and Latvenergo AS are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union and principal accounting policies applied to these financial statements were identical to those used in the Consolidated Financial Statements and Latvenergo AS Financial Statements for the 2016 financial year.

Latvenergo Group and Latvenergo AS has applied IFRS 15 'Revenue from Contracts with Customers' with initial application date 1 January 2017 and has chosen a modified retrospective application of IFRS 15. Implementation of the standard has not significantly changed the total amount of *Latvenergo* Group's and Latvenergo AS revenue recognized for contracts with customers, as well as timing of revenue recognition.

In accordance with IFRS requirements *Latvenergo* Group and Latvenergo AS are applied retrospectively all IFRS being effective for the year ended 31 December 2017. These policies have been consistently applied to all reporting periods presented in financial statements, unless otherwise stated. Where it is necessary, comparatives are reclassified.

New or revised IFRS and amendments to standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became mandatory for the Group and the Company from 1 January 2017 did not have any impact to the significant *Latvenergo* Group's and Company's accounting policies and these Condensed Financial Statements.

Unaudited Condensed Financial Statements of the *Latvenergo* Group and Latvenergo AS are prepared under the historical cost convention, except for some financial assets and liabilities (including derivative financial instruments) measured at fair value through profit or loss and for the revaluation of property, plant and equipment carried at revalued amounts through other comprehensive income as disclosed in accounting policies presented in *Latvenergo* Consolidated Annual Report 2016 and Latvenergo AS Annual Report 2016.

Unaudited Condensed Financial Statements of the *Latvenergo* Group and Latvenergo AS had been prepared in euros (EUR) currency and all amounts shown in these Financial Statements are presented in thousands of EUR. All figures, unless stated otherwise are rounded to the nearest thousand.

3. Operating Segment Information

Operating segments of the Group and the Company

For segment reporting purposes, the division into operating segments is based on the *Latvenergo* Group's and the Company's internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the operating segment decision maker.

The Group divides its operations into three main operating segments – ***generation and trade***, ***distribution*** and ***lease of transmission system assets***.

The Company divides its operations into one main operating segment – ***generation and trade***.

In addition, ***corporate functions***, that cover administration and other support services, are presented in the Group and the Company as separate segment.

In the *Latvenergo* Group ***generation and trade*** operating segment comprises the Group's electricity and thermal energy generation operations, which are organised into the two legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity trade (including electricity wholesale), in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB, as well as administration of the mandatory procurement process provided by Enerģijas publiskais tirgotājs AS. In the Company generation and trade segment comprises the Company's electricity and thermal energy generation operations, electricity sales (including electricity wholesale), customer services and credit control.

The operations of the ***distribution*** operating segment in the *Latvenergo* Group relate to the provision of electricity distribution services in Latvia and are managed by the subsidiary Sadales tīkls AS (the largest distribution system operator in Latvia) and by Latvenergo AS – the owner of real estate assets related to distribution system assets.

The operations of the ***lease of transmission system assets*** operating segment are managed both by Latvijas elektriskie tīkli AS – the owner of transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points), which provides financing of investments in these assets, and Latvenergo AS – the owner of real estate assets related to the transmission system assets, providing the lease of these assets to the transmission system operator Augstsprieguma tīkls AS.

The operations of the **corporate functions** operating segment relate to the provision of administrative and support services (information technology & telecommunication services, assets lease and maintenance, corporate management, vehicle fleet management and other services) for Generation and trade segment, other Latvenergo Group entities and other entities in Latvia.

The following table presents revenue, profit information and segment assets of the Group's and the Company's operating segments.

Inter–segment revenue is eliminated on disclosure of the Group's and the Company's total revenue.

	Group							Company				
	Generation and trade	**Distribution**	**Lease of transmission system assets**	**Corporate functions**	**TOTAL segments**	**Adjustments and eliminations**	**Consolidated**	**Generation and trade**	**Corporate functions**	**TOTAL segments**	**Adjustments and eliminations**	**TOTAL Company**
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
2017												
Revenue												
External customers	554,489	318,851	44,415	7,872	**925,627**	–	**925,627**	448,660	49,920	**498,580**	–	**498,580**
Inter–segment	1,605	1,851	2,541	52,739	**58,736**	(58,736)	**–**	346	29,089	**29,435**	(29,435)	**–**
TOTAL revenue	**556,094**	**320,702**	**46,956**	**60,611**	**984,363**	**(58,736)**	**925,627**	**449,006**	**79,009**	**528,015**	**(29,435)**	**498,580**
Results												
EBITDA	**372,829**	**111,599**	**45,305**	**11,963**	**541,696**	**–**	**541,696**	**362,534**	**24,566**	**387,100**	**–**	**387,100**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(194,376)	(76,630)	(24,345)	(12,263)	**(307,614)**	–	**(307,614)**	(191,228)	(18,456)	**(209,684)**	–	**(209,684)**
Segment profit / (loss)	**178,453**	**34,969**	**20,960**	**(300)**	**234,082**	**(9,968)**	**224,114**	**171,306**	**6,110**	**177,416**	**8,490**	**185,906**
Capital expenditure	74,021	107,683	63,085	10,815	**255,604**	**(11,793)**	**243,811**	73,150	16,128	**89,278**	**–**	**89,278**
2016												
Revenue												
External customers	570,828	306,700	45,879	8,212	**931,619**	–	**931,619**	464,928	48,635	**513,563**	–	**513,563**
Inter–segment	13,310	1,712	2,538	46,330	**63,890**	(63,890)	**–**	342	23,060	**23,402**	(23,402)	**–**
TOTAL revenue	**584,138**	**308,412**	**48,417**	**54,542**	**995,509**	**(63,890)**	**931,619**	**465,270**	**71,695**	**536,965**	**(23,402)**	**513,563**
Results												
EBITDA	**224,493**	**105,471**	**47,058**	**16,377**	**393,399**	**–**	**393,399**	**214,008**	**27,598**	**241,606**	**–**	**241,606**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(86,308)	(98,317)	(36,416)	(11,585)	**(232,626)**	–	**(232,626)**	(83,168)	(17,367)	**(100,535)**	–	**(100,535)**
Segment profit	**138,185**	**7,154**	**10,642**	**4,792**	**160,773**	**(11,828)**	**148,945**	**130,840**	**10,231**	**141,071**	**15,219**	**156,290**
Capital expenditure	59,964	106,436	25,513	12,664	**204,577**	**(3,900)**	**200,677**	58,248	21,665	**79,913**	**–**	**79,913**

Assets of the Group's and the Company's operating segments

	Group							Company				
	Generation and trade	Distribution	Lease of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Company
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
As of 31 December 2017	1,953,243	1,641,318	500,863	85,584	**4,181,008**	231,072	**4,412,080**	1,282,830	192,434	**1,475,264**	2,170,288	**3,645,552**
As of 31 December 2016	1,557,032	1,629,107	448,707	88,431	**3,723,277**	177,954	**3,901,231**	1,372,835	183,921	**1,556,756**	1,647,638	**3,204,394**

Adjustments and eliminations

Finance income and expenses, fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on the Company's basis. Taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on the Company's basis.

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries.

Reconciliation of profit

	Group		Company	
	2017	2016	2017	2016
	EUR'000	EUR'000	EUR'000	EUR'000
Profit of operating segments	**234,082**	**160,773**	**177,416**	**141,071**
Finance income	1,243	2,328	11,433	12,958
Finance costs	(11,211)	(14,156)	(12,054)	(14,772)
Received dividends from subsidiaries	–	–	9,111	17,033
Profit before corporate income tax	**224,114**	**148,945**	**185,906**	**156,290**

Reconciliation of assets

	Group		Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Assets of operating segments	**4,181,008**	**3,723,277**	**1,475,264**	**1,556,756**
Connection usage rights	(26,652)	(32,791)	–	–
Non–current financial investments	41	41	817,049	817,049
Loans to subsidiaries	–	–	1,098,781	622,704
Held–to–maturity financial assets	16,984	20,554	16,984	20,554
Derivative financial instruments	4,619	6,134	4,619	6,134
Other assets and assets held for sale	77	36	–	–
Cash and cash equivalents	236,003	183,980	232,855	181,197
TOTAL assets	**4,412,080**	**3,901,231**	**3,645,552**	**3,204,394**

4. Revenue

	Group		Company	
	2017	2016	2017	2016
	EUR'000	EUR'000	EUR'000	EUR'000
Energy trade and related supply services	467,126	483,963	370,626	386,679
Distribution system services	301,874	290,084	–	–
Heat sales	83,239	82,709	71,422	71,093
Lease of transmission system assets	43,911	45,371	–	–
Lease of other assets	1,868	1,862	15,922	15,432
Other revenue	27,609	27,630	40,610	40,359
TOTAL revenue	**925,627**	**931,619**	**498,580**	**513,563**

5. Raw Materials and Consumables Used

	Group		Company	
	2017	2016	2017	2016
	EUR'000	EUR'000	EUR'000	EUR'000
Electricity:				
Purchased electricity	124,521	148,453	27,094	48,083
Fair value loss / (income) on electricity forwards and futures (Note 12 c, II)	3,435	(6,515)	3,435	(6,515)
Electricity transmission services costs	71,044	72,584	845	1,009
	199,000	**214,522**	**31,374**	**42,577**
Energy resources costs	118,185	137,720	112,248	131,952
Raw materials, spare parts and maintenance costs	29,726	33,571	10,332	11,729
TOTAL raw materials and consumables used	**346,911**	**385,813**	**153,954**	**186,258**

6. Income Tax

	Group		Company	
	2017	2016	2017	2016
	EUR'000	EUR'000	EUR'000	EUR'000
Current income tax expense	51,029	23,498	44,930	20,331
Deferred tax changes	(149,106)*	(5,146)	(10,082)*	(1,482)
TOTAL income tax	**(98,077)**	**18,352**	**34,848**	**18,849**

* deferred income tax liabilities reversed in 2017 in accordance with the changes of tax regulations and laws of the Republic of Latvia came into force from 1 January 2018

The movement on the deferred income tax accounts

	Group		Company	
	2017	2016	2017	2016
	EUR'000	EUR'000	EUR'000	EUR'000
Deferred tax liabilities at the beginning of the year	**315,759**	**273,987**	**126,260**	**127,899**
Changes attributable to the equity	–	46,918	–	(157)
Changes attributable to the Statement of Profit or Loss	(20,002)	(5,146)	(20,020)	(1,482)
Deferred tax liabilities at the end of the year before reversal	**295,757**	**315,759**	**106,240**	**126,260**
Reversed to the equity	(166,653)	–	(116,178)	–
Reversed in the Statement of Profit or Loss	(129,104)	–	9,938	–
Deferred tax liabilities at the end of the year	**–**	**315,759**	**–**	**126,260**

7. Intangible Assets and Property, Plant and Equipment

a) Intangible assets

	Group		Company	
	2017	2016	2017	2016
	EUR'000	EUR'000	EUR'000	EUR'000
Net book amount	**14,534**	**14,405**	**18,769**	**19,846**
Additions	2,586	3,703	2,531	2,692
Transfers to property, plant and equipment	–	–	(3)	(48)
Disposals	(211)	(211)	(653)	(698)
Amortisation charge	(3,496)	(3,363)	(3,183)	(3,023)
Closing net book amount	**13,413**	**14,534**	**17,461**	**18,769**

b) Property, plant and equipment

	Group		Company	
	2017	2016	2017	2016
	EUR'000	EUR'000	EUR'000	EUR'000
Net book amount	**3,355,797**	**3,076,256**	**1,322,518**	**1,344,670**
Additions	241,230	196,838	84,374	73,196
Invested in share capital	–	184	–	184
Increase due to property, plant and equipment revaluation	22,166	317,041	22,166	–
Impairment charge due to property, plant and equipment revaluation	(2,260)	(35,774)	(2,260)	–
Transfers from intangible assets	–	–	3	48
Reclassified to investment properties	(1,190)	(214)	9,379	(195)
Disposals	(4,900)	(5,045)	(485)	(412)
Impairment charge	(116,247)	(10,024)	(116,258)	(10,116)
Depreciation	(185,611)	(183,465)	(87,983)	(84,857)
Closing net book amount	**3,308,985**	**3,355,797**	**1,231,454**	**1,322,518**

8. Inventories

	Group		Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Raw materials	16,547	17,438	1,583	1,267
Natural gas	53,079	17,506	53,078	817
Technological combustibles and other inventories	8,115	8,173	8,074	8,094
Prepayments for inventories (Note 13 b)	81	–	80	16,693
Allowance for impairment of inventories	(1,494)	(1,659)	(992)	(1,060)
TOTAL inventories	**76,328**	**41,458**	**61,823**	**25,811**

Movements on allowances for impairment of inventories

	Group		Company	
	2017	2016	2017	2016
	EUR'000	EUR'000	EUR'000	EUR'000
At the beginning of the year	**1,659**	**1,614**	**1,060**	**1,027**
Inventories written off	(62)	(87)	–	–
Credited / (charged) to the Statement of Profit or Loss	(103)	132	(68)	33
At the end of the year	**1,494**	**1,659**	**992**	**1,060**

9. Non-Current Financial Investments

The Company's participating interest in subsidiaries (%) and other non–current financial investments:

Companies	Country of incorporation	Business activity held	31/12/2017		31/12/2016	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Subsidiaries						
Latvijas elektriskie tīkli AS	Latvia	Lease of transmission system assets	100%	185,624	100%	185,624
Sadales tīkls AS	Latvia	Electricity distribution	100%	627,656	100%	627,656
Enerģijas publiskais tirgotājs AS	Latvia	Management of the mandatory procurement process	100%	40	100%	40
Elektrum Eesti OÜ	Estonia	Electricity supply	100%	35	100%	35
Elektrum Lietuva, UAB	Lithuania	Electricity supply	100%	98	100%	98
Liepājas enerģija SIA	Latvia	Thermal energy generation and supply in Liepaja city, electricity generation	51%	3,556	51%	3,556
TOTAL				**817,009**		**817,009**
Other non–current financial investments						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	46.30%	36	46.30%	36
Rīgas siltums AS	Latvia	Thermal energy generation and supply in Riga, electricity generation	0.0051%	4	0.0051%	4
TOTAL				**40**		**40**

The Company owns 46.30% of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS. However, the Company is only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the Company's employees who are members of the pension fund. Therefore, investment in Pirmais Slēgtais Pensiju Fonds AS is valued at cost.

10. Trade Receivables and Other Current Receivables

a) Trade receivables, net

	Group		Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Trade receivables:				
– Electricity, natural gas trade and related services customers	134,699	147,808	105,257	120,500
– Heating customers	10,922	11,629	8,851	9,530
– Other trade receivables	12,147	11,027	4,155	3,086
– Subsidiaries (Note 13 b, c)	–	–	22,509	22,602
	157,768	**170,464**	**140,772**	**155,718**
Allowances for impaired trade receivables:				
– Electricity, natural gas trade and related services customers	(45,561)	(44,801)	(44,472)	(43,674)
– Heating customers	(329)	(391)	(310)	(369)
– Other trade receivables	(2,972)	(2,440)	(86)	(134)
	(48,862)	**(47,632)**	**(44,868)**	**(44,177)**
Trade receivables, net:				
– Electricity, natural gas trade and related services customers	89,138	103,007	60,785	76,826
– Heating customers	10,593	11,238	8,541	9,161
– Other trade receivables	9,175	8,587	4,069	2,952
– Subsidiaries (Note 13 b, c)	–	–	22,509	22,602
	108,906	**122,832**	**95,904**	**111,541**

Movements in allowances for impaired trade receivables

	Group		Company	
	2017	2016	2017	2016
	EUR'000	EUR'000	EUR'000	EUR'000
At the beginning of the year	**47,632**	**46,089**	**44,177**	**43,422**
Receivables written off during the period as uncollectible	(1,710)	(1,511)	(1,343)	(1,294)
Allowance for impaired receivables	2,940	3,054	2,034	2,049
At the end of the year	**48,862**	**47,632**	**44,868**	**44,177**

b) Other current receivables

	Group		Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Unsettled revenue on mandatory procurement public service obligation (PSO) fee recognised as assets*	164,365	142,132	–	–
Other accrued income	3,572	1,024	872	1,024
Pre–tax and overpaid taxes	3,703	4,008	22	17
Other current financial receivables	469,655**	2,797	313	927
Other current receivables	1,226	1,164	119	150
TOTAL other current receivables	**642,521**	**151,125**	**1,326**	**2,118**

* unsettled revenue on mandatory procurement PSO fee is recognised as assets in net amount, by applying agent principle, as difference between revenue from sale of electricity in Nord Pool power exchange by market price, received mandatory procurement PSO fees, received government grant for compensating the increase of mandatory procurement costs and costs of purchased electricity under the mandatory procurement from electricity generators who generate electricity in efficient cogeneration process or using renewable energy sources, as well as guaranteed fees for installed electrical capacity in cogeneration plants (over 4 MW)

** as of 31 December 2017 included liabilities of State for one-off compensation for the electric power capacity installed at Latvenergo AS Riga TEC–1 and Riga TEC–2 CHPPs in the amount EUR 454,413 thousand

11. Cash and Cash Equivalents

	Group		Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Cash at bank	233,624	176,626	230,476	173,843
Short–term bank deposits	–	7,000	–	7,000
Restricted cash and cash equivalents*	2,379	354	2,379	354
TOTAL cash and cash equivalents	**236,003**	**183,980**	**232,855**	**181,197**

* Restricted cash and cash equivalents consist of the financial security for participating in NASDAQ OMX Commodities Exchange

12. Financial Assets and Liabilities

a) Held–to–maturity financial assets

As of 31 December 2017 the entire Group's and the Company's held-to-maturity financial assets were State Treasury bonds with 5 year and 10 year maturity, which were purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield.

All held-to-maturity financial assets are denominated in euros. The maximum exposure to credit risk at the reporting date is the carrying amount of held-to-maturity financial assets.

Carrying amount of held–to–maturity financial assets:

	Group		Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Held–to–maturity financial assets:				
– current	–	3,520	–	3,520
– non–current	16,984	17,034	16,984	17,034
TOTAL held–to–maturity financial assets	**16,984**	**20,554**	**16,984**	**20,554**

b) Borrowings

	Group		Company	
	31/12/2017	**31/12/2016**	**31/12/2017**	**31/12/2016**
	EUR'000	EUR'000	EUR'000	EUR'000
Non–current borrowings from financial institutions	583,313	500,215	574,764	492,286
Issued debt securities (bonds)	135,361	135,405	135,361	135,405
TOTAL non–current borrowings	**718,674**	**635,620**	**710,125**	**627,691**
Current portion of non–current borrowings from financial institutions	105,931	82,762	102,522	78,222
Current portion of issued debt securities (bonds)	–	70,075	–	70,075
Current borrowings from financial institutions	–	744	–	–
Accrued interest on non–current borrowings	468	594	441	564
Accrued coupon interest on issued debt securities (bonds)	1,684	1,771	1,684	1,771
TOTAL current borrowings	**108,083**	**155,946**	**104,647**	**150,632**
TOTAL borrowings	**826,757**	**791,566**	**814,772**	**778,323**

Movement in Borrowings:

	Koncerns		Sabiedrība	
	2017	**2016**	**2017**	**2016**
	EUR'000	EUR'000	EUR'000	EUR'000
At the beginning of the year	**791,566**	**797,483**	**778,323**	**782,965**
Borrowings received	186,500	55,744	185,000	55,000
Borrowing repaid	(80,976)	(87,452)	(78,221)	(85,441)
Change in accrued interest on borrowings	(126)	15	(123)	23
Issued debt securities (bonds)	–	25,776	–	25,776
Repaid issued debt securities (bonds)	(70,000)	–	(70,000)	–
Changes in outstanding value of issued debt securities (bonds)	(207)	–	(207)	–
At the end of the year	**826,757**	**791,566**	**814,772**	**778,323**

c) Derivative financial instruments

I) Interest rate swaps

All contracts are designed as cash flow hedges. It was established that they are fully effective and therefore there is no ineffective portion to be recognised within profit or loss in the Group's and the Company's Statement of Profit or Loss.

Fair value changes of the *Latvenergo* Group's and the Company's interest rate swaps:

	Group				Company			
	2017		2016		2017		2016	
	EUR'000		EUR'000		EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**11,563**	**–**	**13,016**	**–**	**11,563**	**–**	**13,016**
Included in the Statement of Profit or Loss, net	–	–	–	(760)	–	–	–	(760)
Included in the Statement of Comprehensive Income	(31)	(3,502)	–	(693)	(31)	(3,502)	–	(693)
Outstanding fair value at the end of the year	**(31)**	**8,061**	**–**	**11,563**	**(31)**	**8,061**	**–**	**11,563**

II) Electricity forwards and futures

Latvenergo AS enters into electricity future contracts in the Nasdaq Commodities power exchange, as well as concludes electricity forward contracts with other counterparties.

Electricity forward and future contracts are intended for hedging of the electricity price risk and are used for fixing the price of electricity purchased in the Nord Pool AS power exchange.

For the contracts which are ineffective fair value changes are recorded through profit or loss in the Statement of Profit or Loss (see Note 5), and for fully effective contracts fair value gains and losses are included in other comprehensive income.

Fair value changes of the *Latvenergo* Group's and the Company's electricity forward and future contracts:

	Group				Company			
	2017		2016		2017		2016	
	EUR'000		EUR'000		EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**(6,134)**	**23**	**–**	**2,558**	**(6,134)**	**23**	**–**	**2,558**
Included in the Statement of Profit or Loss (Note 5)	3,435	–	(3,980)	(2,535)	3,435	–	(3,980)	(2,535)
Included in the Statement of Comprehensive Income	(1,889)	–	(2,154)	–	(1,889)	–	(2,154)	–
Outstanding fair value at the end of the year	**(4,588)**	**23**	**(6,134)**	**23**	**(4,588)**	**23**	**(6,134)**	**23**

13. Related Party Transactions

The Company and, indirectly, its subsidiaries are controlled by the Latvian state. Related parties of the *Latvenergo* Group and the Company are Shareholder of the Company who controls or who has significant influence over the Company in accepting operating business decisions, members of *Latvenergo* Group entities' management boards, members of the Supervisory board of the Company, members of Supervisory body of the Company – the Audit Committee and close family members of any above–mentioned persons, as well as entities over which those persons have control or significant influence. Trading transactions taking place under normal business activities with the Latvian government including its departments and agencies and transactions between state–controlled entities and providers of public utilities, for which the *IAS 24* exemptions have been applied and which do not represent a significant portion of a type of transaction, are excluded from the scope of related party disclosures. Quantification of transactions with those related parties is impossible due to broad range of the *Latvenergo* Group's and the Company's customers.

a) *Income and expenses from transactions with subsidiaries*

	Company	
	2017	2016
	EUR'000	EUR'000
Income:		
– subsidiaries	155,338	172,522
	155,338	**172,522**
Expenses:		
– subsidiaries	344,038	360,421
	344,038	**360,421**
including expenses from transactions with subsidiaries recognised in net amount through profit or loss :		
– Sadales tīkls AS	*332,172*	*346,753*
– Enerģijas publiskais tirgotājs AS	*520*	*534*
	332,692	***347,287***

	Group		Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
b) Balances at the end of the period arising from sales/purchases of goods and services:				
Prepayments for inventories:				
– subsidiaries (Note 8)*	–	–	–	16,682
	–	**–**	**–**	**16,682**
Trade receivables:				
– subsidiaries (Note 10 a)	–	–	17,435	14,851
	–	**–**	**17,435**	**14,851**
Trade payables:				
– subsidiaries	–	–	30,994	33,267
– other related parties**	281	236	88	98
	281	**236**	**31,082**	**33,365**

* prepayment to the subsidiary Elektrum Eesti OÜ
** Pirmais Slēgtais Pensiju fonds AS

	Group		Company	
c) Accrued income raised from transactions with related parties:				
– for goods sold / services received from subsidiaries (Note 10 a)	–	–	3,199	5,581
– for interest received from subsidiaries (Note 10 a)	–	–	1,875	2,170
	–	**–**	**5,074**	**7,751**
d) Accrued expenses raised from transactions with related parties:				
– for purchased goods / received services from subsidiaries	–	–	1,176	826
	–	**–**	**1,176**	**826**

In 2017 remuneration to the *Latvenergo* Group's management includes remuneration to the members of the Management Boards the Group entities, the Supervisory Board and the Supervisory body (Audit Committee) of the Parent Company, including salary, social insurance contributions and payments to pension plan and is amounted to EUR 2,592.5 thousand (2016: EUR 1,977.7 thousand).

In 2017 remuneration to the Company's management includes remuneration to the members of the Company's Management Board, the Supervisory Board and the Supervisory body (Audit Committee), including salary, social insurance contributions and payments to pension plan and is amounted to EUR 1,077.9 thousand (2016: EUR 811.5 thousand).

Remuneration to the *Latvenergo* Group's and the Company's management is included in the Statement of Profit or Loss position 'Personnel expenses'.

e) Loans to related parties

The Company's non–current and current loans to subsidiaries:

	Company	
	31/12/2017	**31/12/2016**
	EUR'000	EUR'000
Non–current loans to subsidiaries		
Sadales tīkls AS	312,582	313,497
Latvijas elektriskie tīkli AS	85,394	63,883
TOTAL non–current loans	**397,976**	**377,380**
Current portion of non–current loans		
Sadales tīkls AS	50,915	48,880
Latvijas elektriskie tīkli AS	8,490	11,345
Current loans to subsidiaries		
Latvijas elektriskie tīkli AS	1,294	3,678
Sadales tīkls AS	28,157	41,651
Elektrum Eesti OÜ	5,134	5,046
Elektrum Lietuva, UAB	2,172	4,788
Enerģijas publiskais tirgotājs AS	604,643	129,936
TOTAL current loans	**700,805**	**245,324**
TOTAL loans to subsidiaries	**1,098,781**	**622,704**

Movement in loans issued by the Company:

	Company	
	2017	**2016**
	EUR'000	EUR'000
At the beginning of the year	**622,704**	**624,577**
Issued current loans (net)	536,302	78,446
Repaid non-current loans	(60,225)	(80,319)
At the end of the year	**1,098,781**	**622,704**

14. Events After the Reporting Period

There have been no significant events subsequent to the end of the reporting period that might have a material effect on the *Latvenergo* Group and Latvenergo AS Unaudited Condensed Financial Statements for 2017.