

LATVENERGO CONSOLIDATED UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE 3-MONTH PERIOD ENDING 31 MARCH 2018

31.05.2018, Riga

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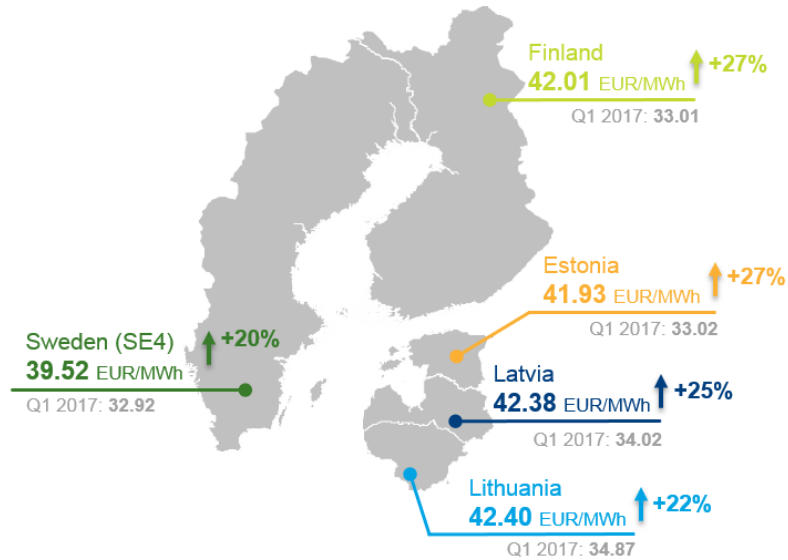
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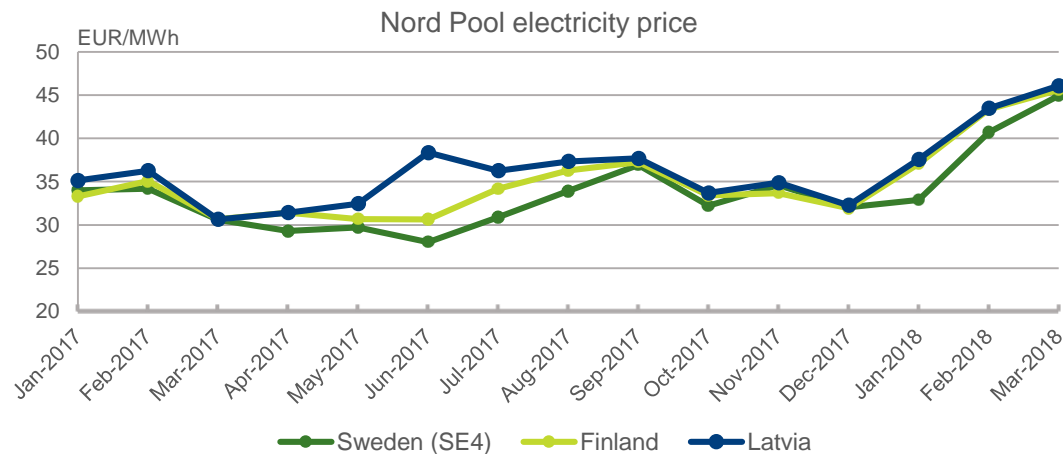
Electricity prices increase in the Nordics and the Baltics



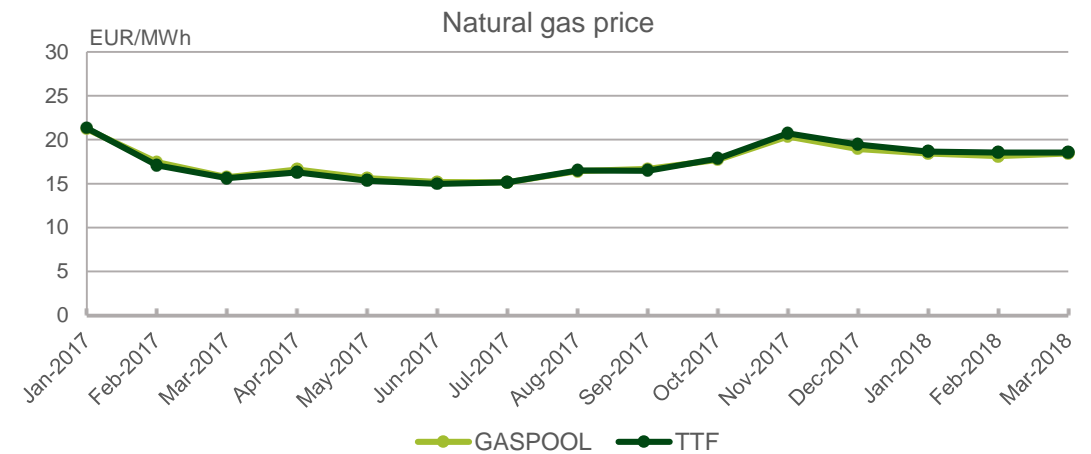
Main facts – 3 months of 2018

- Electricity spot prices increased due to:
 - lower air temperatures in the region in February and March
 - poorer water levels at the Scandinavian hydropower reservoirs
 - lower electricity output at WPPs
- Price convergence between the bidding areas was limited by transmission interconnection outages

Electricity prices increase

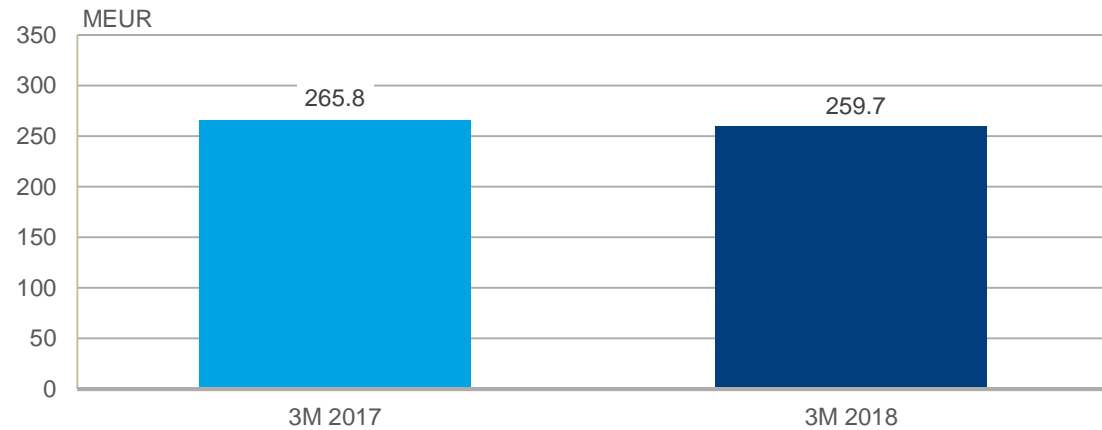


The price of natural gas did not change significantly

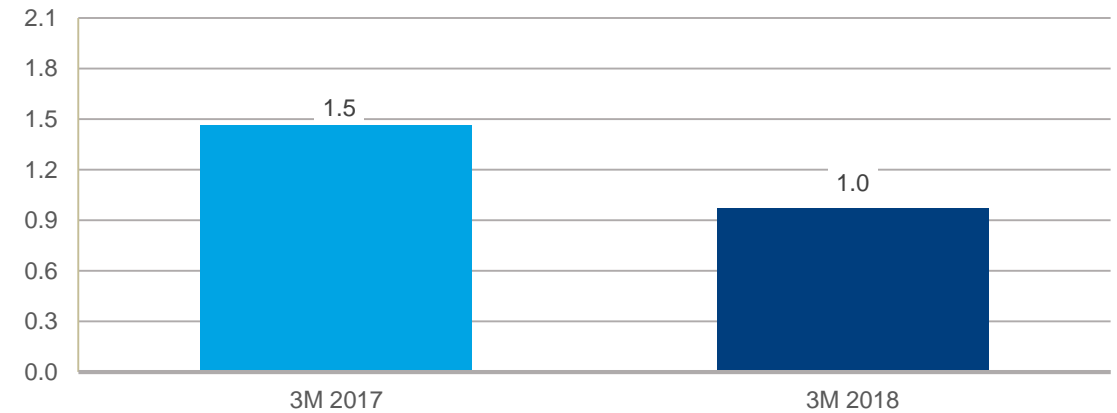


Key financial figures

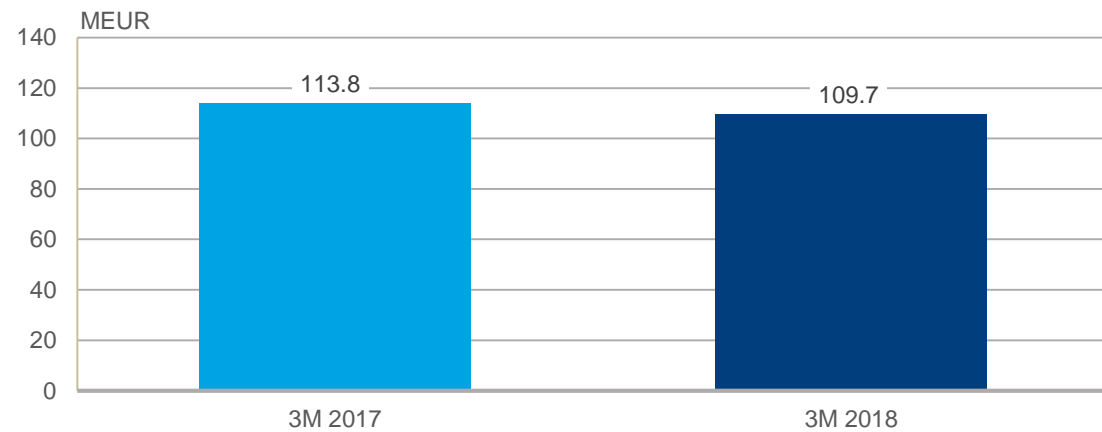
Revenue



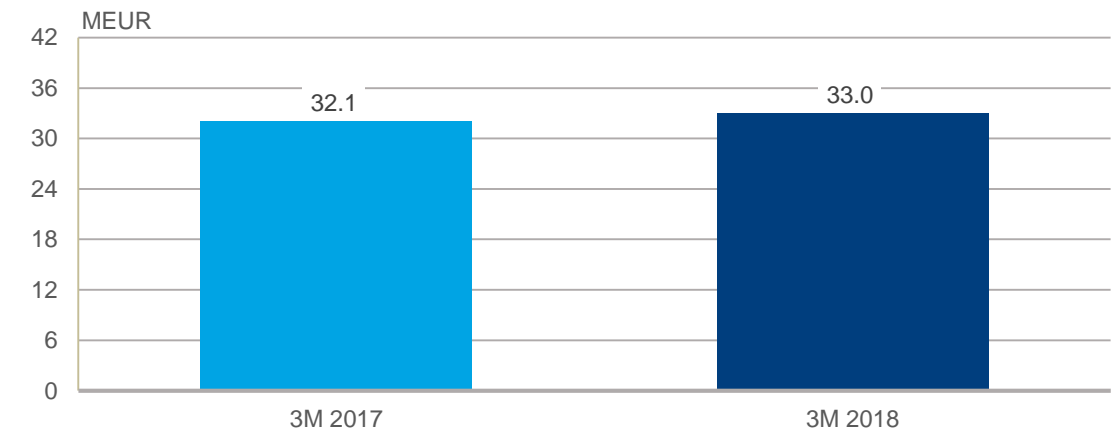
Net debt/EBITDA



EBITDA

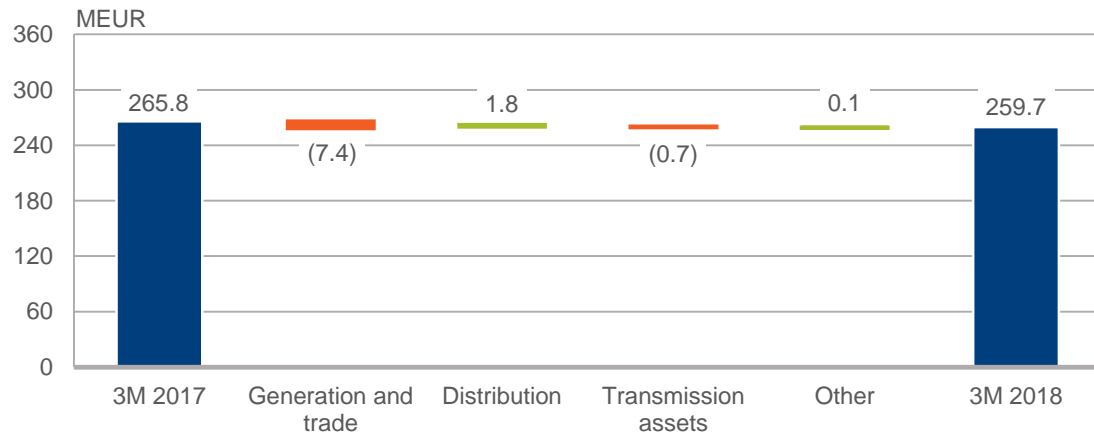


Investments



The results were impacted by lower electrical capacity payments for the Riga CHPPs

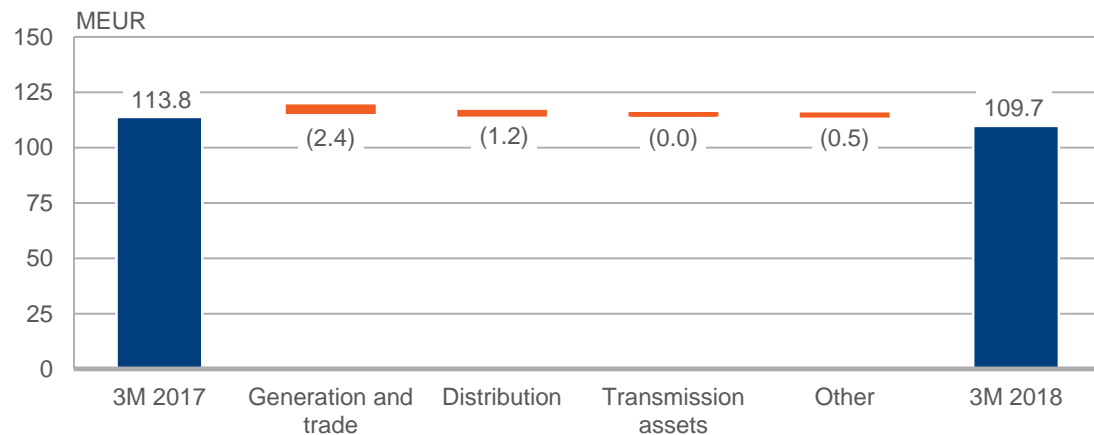
Revenue dynamics by segments



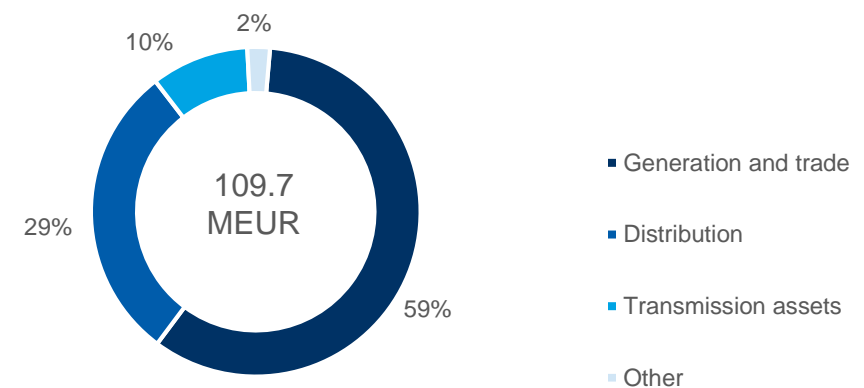
Main facts – 3 months of 2018

- The results were positively impacted mainly by the increase in electricity market prices in the Baltics
- The results were negatively impacted mainly by:
 - 75% lower revenue from the installed electrical capacity at the Riga CHPPs, which was partially offset by the compensation for the Riga CHPPs' capacity payments (Q1 2018: 7.3 MEUR)
 - 12% lower electricity output at the Daugava HPPs
- EBITDA margin was 58% (Q1 2017: 44%)
- Net profit: 64.8 MEUR (Q1 2017: 55.1 MEUR)

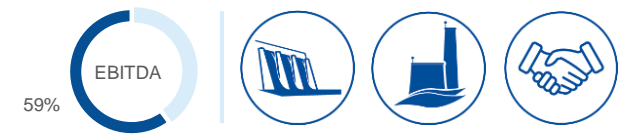
EBITDA dynamics by segments



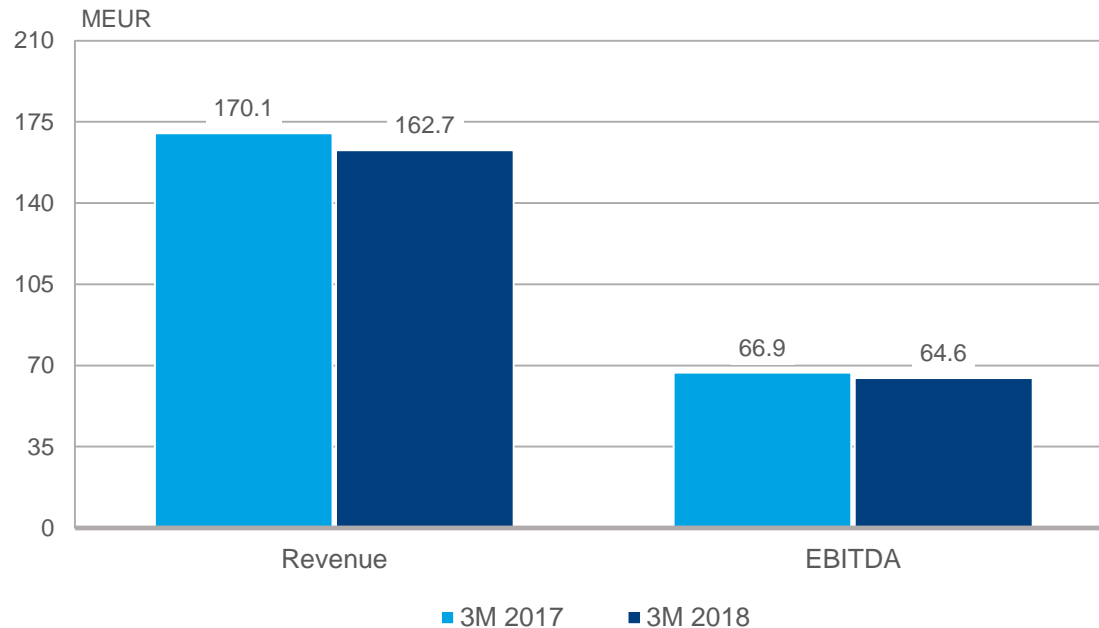
EBITDA weight by segments



Generation and trade



Segment revenue and EBITDA



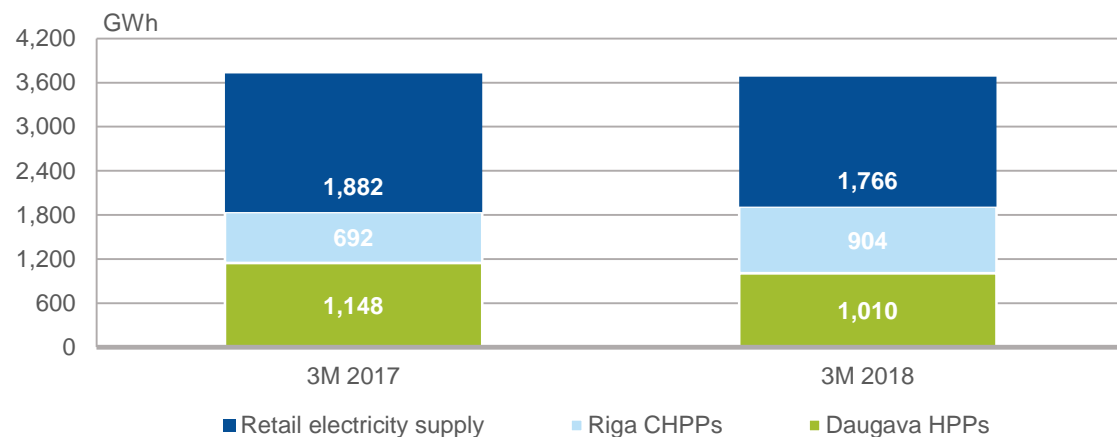
Main facts – 3 months of 2018

- Generation of electricity increased by 4%
- Results of the segment were positively impacted by higher electricity market prices in the Baltics, while negatively – by lower revenue from the electrical capacity payments at the Riga CHPPs and lower electricity output at the Daugava HPPs
- Latvenergo Group – one of the leading energy trading companies in the Baltics
- The average mandatory procurement PSO fee will decrease by 3.11 EUR/MWh starting from 1 July 2018



Energy generation

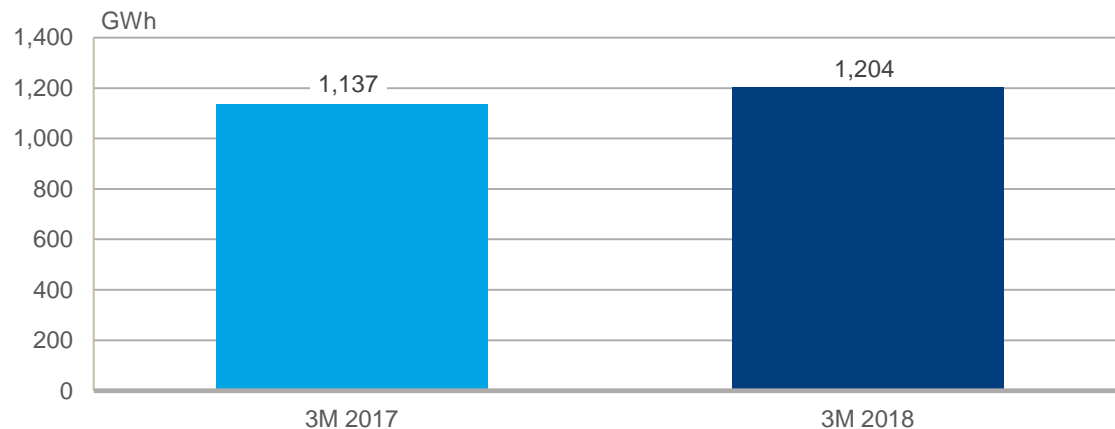
1,929 GWh of electricity generated



Main facts – 3 months of 2018

- Power generated at the Riga CHPPs increased by 31%
- Riga CHPPs operated in market conjuncture efficiently planning operating modes and fuel consumption
- Power generated at the Daugavas HPPs decreased by 12% due to lower water inflow during the spring flood period
- Total amount of electricity generated at Latvenergo power plants exceeds the amount of electricity sold to retail customers by 9%
- Due to the colder weather, the amount of thermal energy generated has increased by 6%

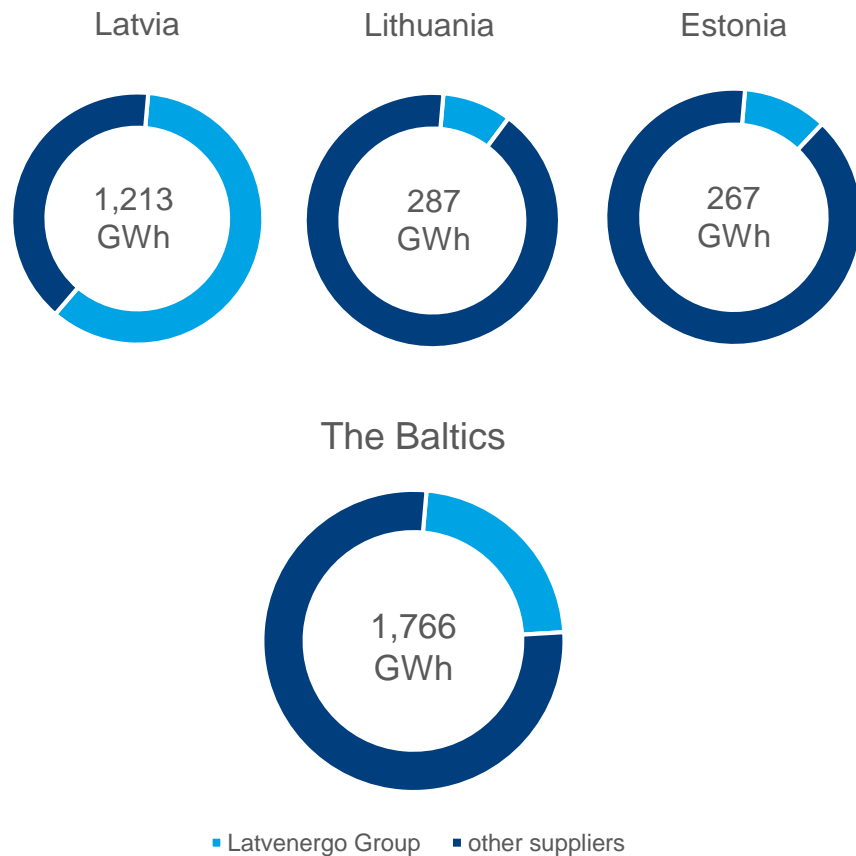
1,204 GWh of thermal energy generated





Trade of electricity and natural gas

Retail electricity supply*



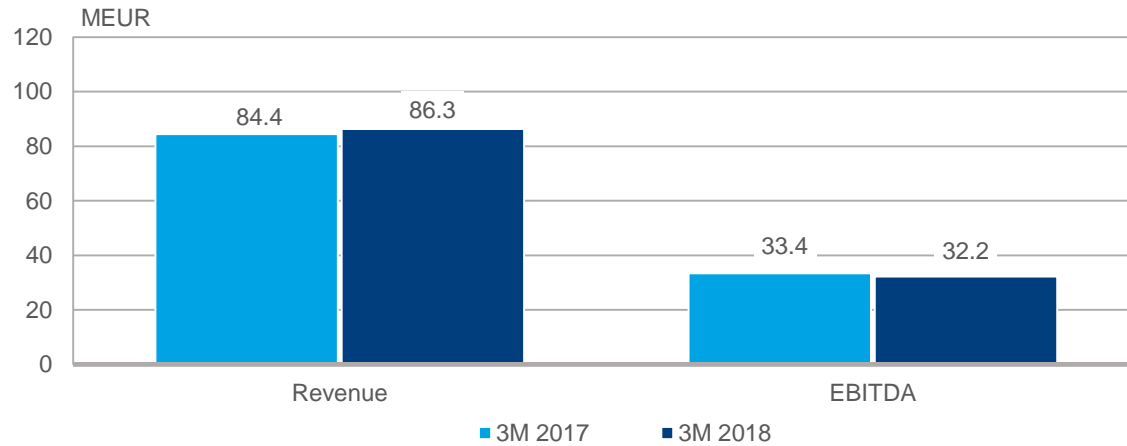
* including operational consumption

Main facts – 3 months of 2018

- Retail electricity supply* in the Baltics reached 1,766 GWh, 1/3 of it supplied outside Latvia
- The total number of electricity customers outside Latvia exceeds 35 thousand
- The amount of natural gas supplied by Latvenergo and the number of customers continued to increase
- The amount of natural gas used for both operating consumption and trade reached 2.5 TWh

Distribution

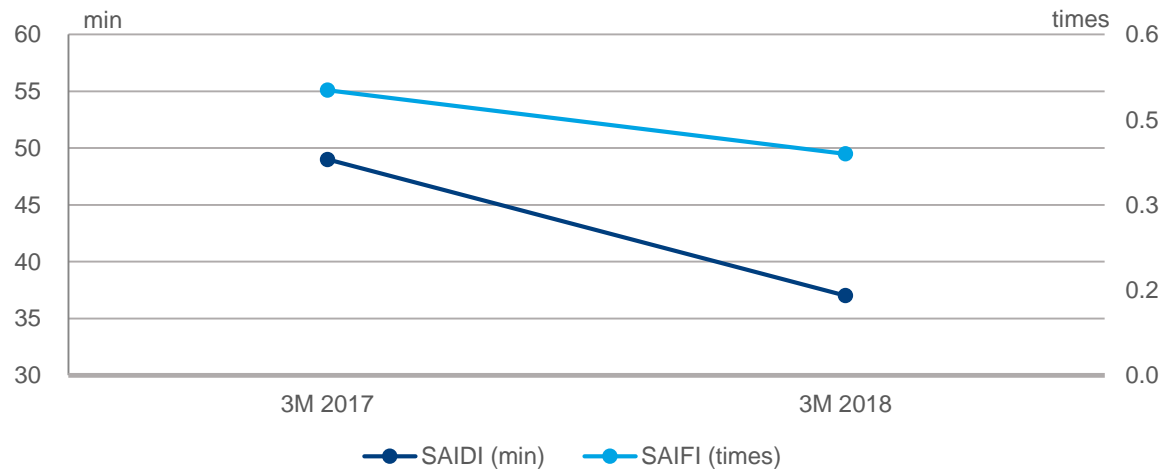
Segment revenue and EBITDA



Main facts – 3 months of 2018

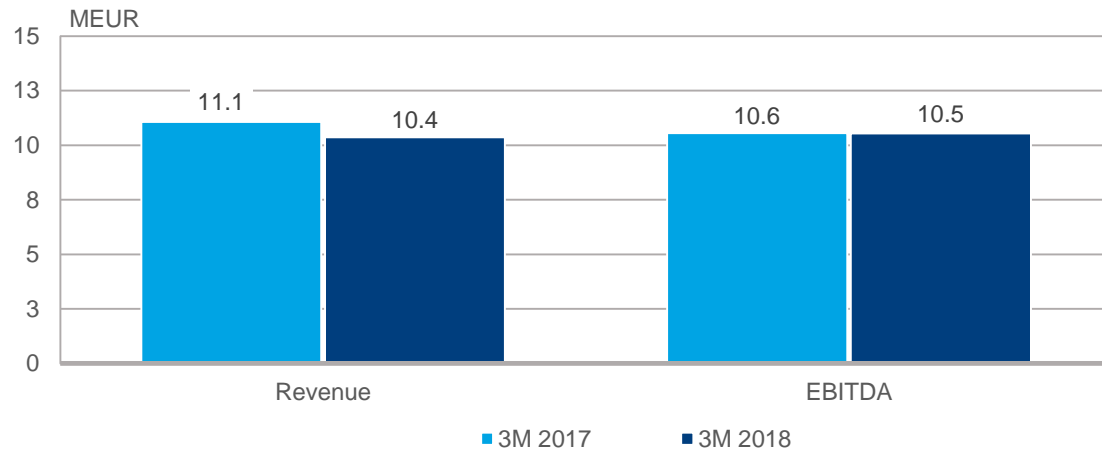
- Electricity distributed – 1,786 GWh (Q1 2017: 1,739 GWh)
- Results positively impacted by 3% larger volume of distributed electricity, while negatively – by increase in personnel termination costs of 2.2 MEUR
- Investments in distribution assets – 16.8 MEUR (Q1 2017: 24.0 MEUR)
- Due to the investments, the value of distribution assets increased to 1,636.8 MEUR

Improved SAIDI and SAIFI ratios



Transmission system asset leasing

Segment revenue and EBITDA

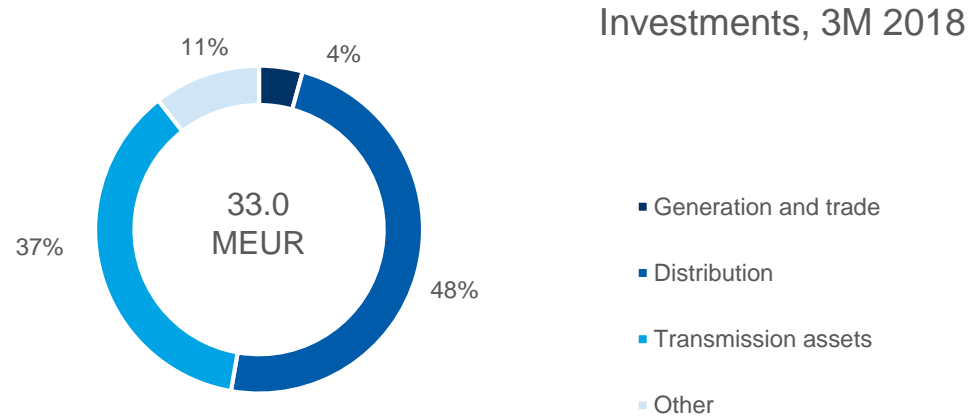


Main facts – 3 months of 2018

- Investments in transmission system assets – 12.7 MEUR (Q1 2017: 3.2 MEUR)
- Major investment projects: *Kurzeme Ring* and the third power transmission interconnection between Estonia and Latvia
- Due to the investments, the value of transmission assets increased to 516.6 MEUR

Investments

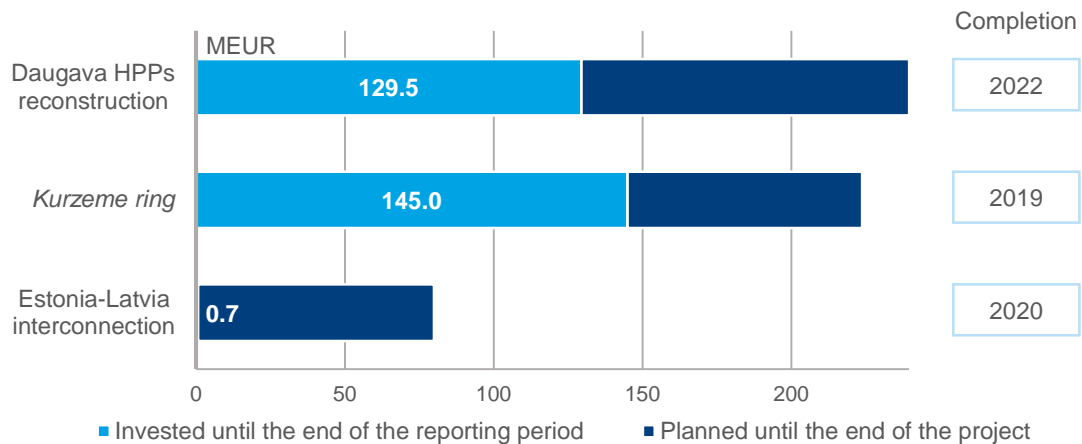
Investment in network assets – 85% of the total



Main facts – 3 months of 2018

- Total investments – 33.0 MEUR (Q1 2017: 32.1 MEUR)
- Investments in power network assets provides for improved distribution service quality and technical parameters

Major investment projects



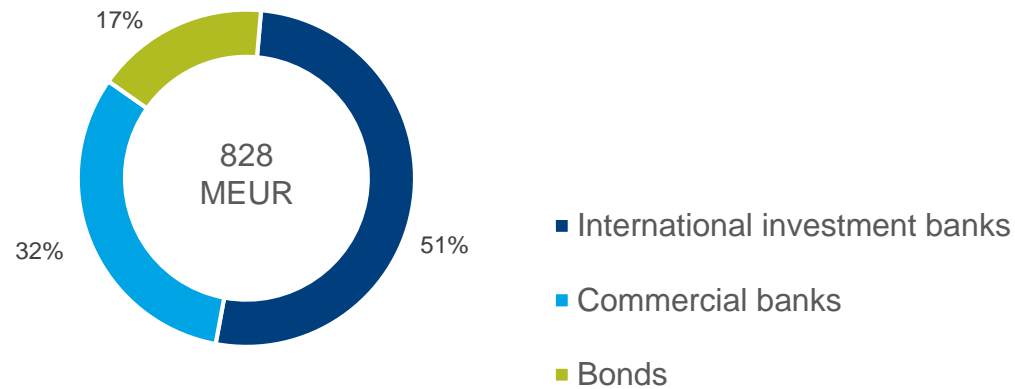
The reconstruction will provide for further 40-year operation of hydropower units

45% EU co-funding for the final stage of the project

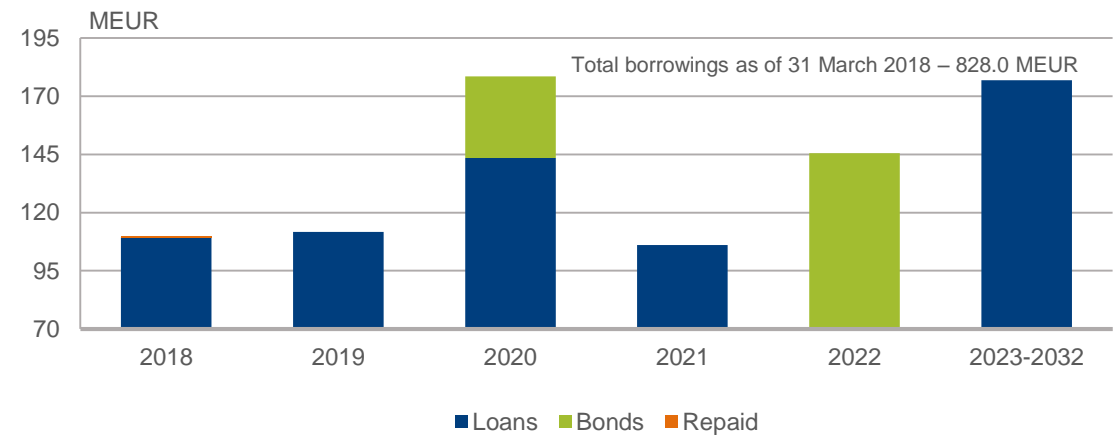
EU co-funding – 65%

Funding and Liquidity

Diversified sources of funding



Debt repayment schedule



Main facts – 3 months of 2018

- Total borrowings – 828.0 MEUR (31 March 2017: 790.6 MEUR)
- At the end of the reporting period, the outstanding amount of bonds reached 135 MEUR, incl. 100 MEUR *green* bonds
- Moody’s credit rating – Baa2 (stable)
- Capital ratio: 61%

Main figures

	31.03.2018
Share of fixed interest rate*	54%
Duration	1.9 years
Effective weighted average interest rate*	1.4%

* with interest rate swaps

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Abbreviations

Daugava HPPs – Daugava hydropower plants

EBITDA – Earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortization, and impairment of intangible and fixed assets

EU – European Union

IFRS – International Financial Reporting Standards

MEUR – Million euros

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

PSO fee – Public service obligation fee

Riga CHPPs – Riga combined heat and power plants

SAIDI – System Average Interruption Duration Index

SAIFI – System Average Interruption Frequency Index

Consolidated Statement of Profit or Loss*

EUR'000

	01/01- 31/03/2018	01/01- 31/03/2017
Revenue	259,675	265,816
Other income	13,460	1,638
Raw materials and consumables used	(120,247)	(109,682)
Personnel expenses	(28,877)	(25,926)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(42,938)	(47,012)
Other operating expenses	(14,274)	(18,059)
Operating profit	66,799	66,775
Finance income	281	310
Finance costs	(2,244)	(3,058)
Profit before tax	64,836	64,027
Current income tax	(6)	(8,940)
Profit for the reporting period	64,830	55,087
Profit attributable to:		
– Equity holder of the Parent Company	63,077	53,979
– Non-controlling interests	1,753	1,108

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

Consolidated Statement of Financial Position*

EUR'000

	31/03/2018	31/12/2017
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,311,216	3,322,398
Investment property	439	753
Non-current financial investments	40	40
Investments in held-to-maturity financial assets	16,972	16,984
Other non-current receivables	3,227	3,229
Total non-current assets	3,331,894	3,343,404
Current assets		
Inventories	32,032	76,328
Receivables from contracts with customers	109,704	105,369
Other current receivables	198,138	646,761
Prepayment for income tax	5,938	–
Deferred expenses	4,207	3,241
Derivative financial instruments	6,505	4,619
Cash and cash equivalents	313,015	236,003
Total current assets	669,539	1,072,321
TOTAL ASSETS	4,001,433	4,415,725
EQUITY AND LIABILITIES		
EQUITY		
Share capital	834,302	1,288,715
Reserves	1,128,465	1,126,521
Retained earnings	487,511	423,613
Equity attributable to equity holder of the Parent Company	2,450,278	2,838,849
Non-controlling interests	9,795	8,042
Total equity	2,460,073	2,846,891
LIABILITIES		
Non-current liabilities		
Borrowings	718,186	718,674
Provisions	22,123	21,910
Derivative financial instruments	4,312	4,914
Deferred income on contracts from customers	143,085	142,132
Other liabilities and deferred income	347,196	350,926
Total non-current liabilities	1,234,902	1,238,556
Current liabilities		
Borrowings	109,831	108,083
Trade and other payables	121,311	147,072
Income tax payable	27,747	27,725
Deferred income on contracts from customers	12,738	12,500
Other deferred income	31,721	31,728
Derivative financial instruments	3,110	3,170
Total current liabilities	306,458	330,278
Total liabilities	1,541,360	1,568,834
TOTAL EQUITY AND LIABILITIES	4,001,433	4,415,725

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

Consolidated Statement of Cash Flows*

EUR'000

	Group	
	01/01- 31/03/2018	01/01- 31/03/2017
Cash flows from operating activities		
Profit before tax	64,836	64,027
Adjustments:		
– Amortisation, depreciation and impairment non-current assets	43,298	47,623
– Net financial adjustments	2,163	5,184
– Other adjustments	213	256
Operating profit before working capital adjustments	110,510	117,090
Decrease / (increase) in current assets	487,544	(1,169)
(Decrease) / increase in trade and other payables	(467,027)	4,155
Cash generated from operating activities	131,027	120,076
Interest paid	(675)	(180)
Interest received	270	1,129
Corporate income tax and real estate tax paid	(5,848)	(1,266)
Net cash flows from operating activities	124,774	119,759
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(47,263)	(43,995)
Proceeds from redemption of held-to-maturity assets	12	3,532
Net cash flows (used in) / generated from investing activities	(47,251)	(40,463)
Cash flows from financing activities		
Repayment of borrowings	(511)	(3,256)
Net cash flows used in financing activities	(511)	(3,256)
Net increase in cash and cash equivalents	77,012	76,040
Cash and cash equivalents at the beginning of the period	236,003	183,980
Cash and cash equivalents at the end of the period	313,015	260,020

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