LATVENERGO CONSOLIDATED AND LATVENERGO AS UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE 3-MONTH PERIOD
ENDING 31 MARCH 2018

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

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Management Report

Unaudited Condensed Interim 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

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)

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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 prices increase in the Nordics and the Baltics**

  In Q1 2018, electricity spot prices increased in both the Nordics and the Baltics. This was mainly due to a rapid decrease in air temperatures in the region in February and March, lower electricity output at WPPs and lower water levels at the Scandinavian hydropower reservoirs. In Q1 2018, the electricity spot price in Latvia was 25% higher compared to the respective period a year ago.

- **4% increase in electricity output**

  In the reporting period, Latvenergo Group generated 1,929 GWh of electricity at its plants, which is 4% more compared to the respective period a year ago. Electricity output at the Riga CHPPs increased by 31%. The increase in the Riga CHPPs' output is attributable to the ability to respond effectively to the regional market situation by offering electricity at competitive prices. Electricity output at the Daugava HPPs decreased by 12%, which was due to lower water inflow in the river Daugava in the spring flood period. Thermal energy output in Q1 2018 increased by 6% and amounted to 1,204 GWh.

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

  In Q1 2018, a total of 1.8 TWh of electricity were sold to retail customers in the Baltics. Retail electricity supply outside Latvia comprises approximately one third of the total retail electricity supply. The amount of natural gas supplied by Latvenergo and the number of customers continued to increase in the reporting period. As of the end of the reporting period, the total number of natural gas customers was close to 180. Latvenergo Group is the second largest natural gas consumer in the Baltics.

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

  In Q1 2018, Latvenergo Group's revenue decreased by 2% and amounted to EUR 259.7 million. Meanwhile, EBITDA decreased by 4%, reaching EUR 109.7 million. The results were positively affected mainly by the increase in electricity market prices in the Baltics. On the other hand, the financial results were negatively affected by the lower electricity output at the Daugava HPPs as well as 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 that was recognised in the profit and loss statement of Latvenergo AS. Latvenergo Group's profit in Q1 2018 was EUR 64.8 million, which is an increase of 18% compared to the respective period a year ago.

- **Investment in network assets – 85% of the total**

  In Q1 2018, the total amount of investments was EUR 33.0 million, 85% of which was invested in network assets. The Group is also continuing the reconstruction of the Daugava HPPs' hydropower units.

- **Capital release of Latvenergo AS**

  On 20 March 2018, Latvenergo AS registered changes in its capital; it was reduced by EUR 454.4 million. The capital release was carried out taking into account the order of 21 November 2017 by the Cabinet of Ministers of the Republic of Latvia, which supported repurchasing of future liabilities of the state to Latvenergo AS on the electrical capacity payments for Riga CHPP-1 and Riga CHPP-2. In order to reduce support payments in the future, a one-off compensation of EUR 454.4 million was paid out in 2017, and it was financed by the capital release of Latvenergo AS.

- **Latvenergo AS maintains its credit rating**

  On 14 March 2018, 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 took into account the recent changes in the support intensity for the Riga CHPPs and the Latvenergo AS capital release.

Latvenergo Group in Brief

Latvenergo Group is one of the largest power supply providers in the Baltics 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

		3M 2018	3M 2017	3M 2016	3M 2015	3M 2014
Total electricity supply, incl.	GWh	2,904	30,029	2,741	2,697	2,758
Retail[2)]	GWh	1,766	1,882	2,174	2,166	2,522
Wholesale[3)]	GWh	1,138	1,147	567	531	236
Electricity generation	GWh	1,929	1,855	1,236	1,027	1,192
Thermal energy generation	GWh	1,204	1,137	1,173	1,019	1,123
Number of employees		3,736	4,133	4,181	4,142	4,567
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa3 (stable)	Baa3 (stable)

Latvenergo Group Financial Figures

		3M 2018	3M 2017	3M 2016	3M 2015	3M 2014
Revenue	MEUR	259.7	265.8	263.5	259.5	324.5
EBITDA[1)]	MEUR	109.7	113.8	100.1	94.8	82.5
Profit	MEUR	64.8	55.1	38.6	39.3	30.8
Assets	MEUR	4,001.4	3,956.2	3,607.5	3,526.8	3,598.0
Equity	MEUR	2,460.1	2,471.6	2,133.4	2,059.4	2,050.1
Net debt[1)]	MEUR	515.0	530.6	657.7	688.6	679.7
Investments	MEUR					

Latvenergo Group Financial Ratios

	3M 2018	3M 2017	3M 2016	3M 2015	3M 2014
Net debt / EBITDA[1)]	1.0	1.5	2.2	2.7	2.4
EBITDA margin[1)]	58%	44%	33%	26%	24%
Return on equity (ROE)[1)]	13.5%	6.4%	4.0%	1.9%	3.4%
Return on assets (ROA)[1)]	8.3%	3.9%	2.4%	1.1%	2.0%
Return on capital employed (ROCE)[1)]	7.1%	5.8%	3.6%	2.1%	2.9%
Net debt / equity[1)]	21%	21%	31%	33%	33%

1) Definitions of ratios and terms are available in the List of Abbreviations and Formulas on page 21
2) Including operating consumption
3) Including sale of energy purchased within the mandatory procurement on the Nord Pool

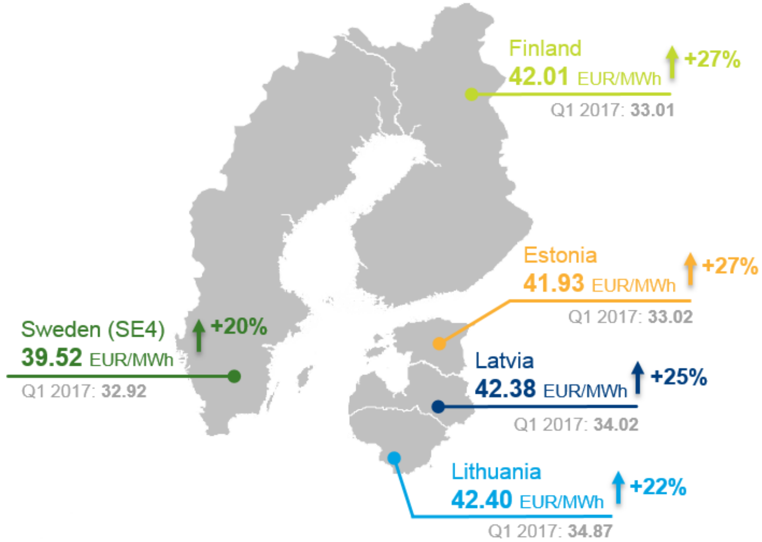
Operating Environment

Latvenergo Group's operations and performance are influenced by various global and regional factors, including prices of electricity and natural gas. In Q1 2018:

- there was a significant increase of more than 20% in the electricity spot prices in both the Nordics and the Baltics. In Latvia, the price increased by 25%;
- compared to the previous year, there were no significant changes in the price of natural gas at the GASPOOL and TTF trading platforms.

Increase in electricity market prices

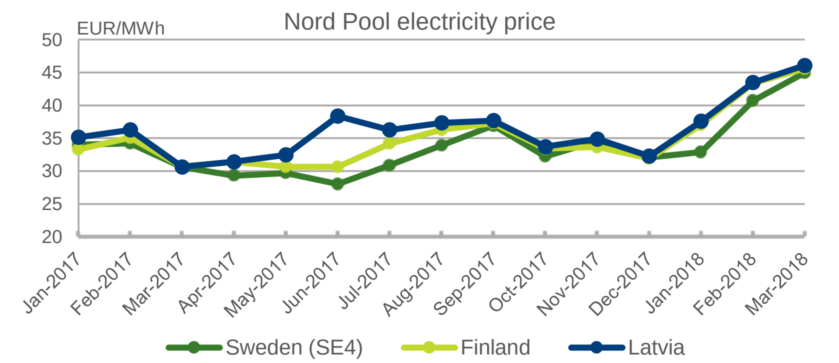
In Q1 2018, there was an increase in the electricity spot prices in the Nordics and the Baltics compared to the respective period a year ago.



The increase was significantly affected by lower air temperatures in the region in February and March, lower electricity output at WPPs and lower water levels at the Scandinavian hydropower reservoirs due to relatively low levels of precipitation. Likewise, the price convergence between the bidding areas was limited by transmission interconnection outages.

The *Estlink* interconnection for electricity transmission to Estonia operated at full capacity, while the *NordBalt* interconnection was turned off for more than a week in January. There were also limitations in electricity transmission in other interconnections (with Kaliningrad, Poland and Belarus) throughout Q1.

In Q1 2018, the electricity price differences between the Nordics and the Baltics increased by 0.93 EUR/MWh on average compared to the previous year. The electricity price difference between Latvia and Estonia decreased by 55% and amounted to 0.45 EUR/MWh. Meanwhile, electricity prices in Latvia and Lithuania have effectively converged.



The total electricity consumption in the Baltics was almost 8 TWh. In Q1 2018, electricity consumption increased in all the Baltic States compared to last year. Consumption increased by 3% in Latvia, by 6% in Lithuania and by 5% in Estonia.

The electricity output in the Baltics decreased by 3% compared to the respective period a year ago and amounted to 6.3 TWh. Due to higher electricity consumption relative to the electricity output in the Baltic States, electricity imports from the other Nord Pool areas increased and reached 1.5 TWh.

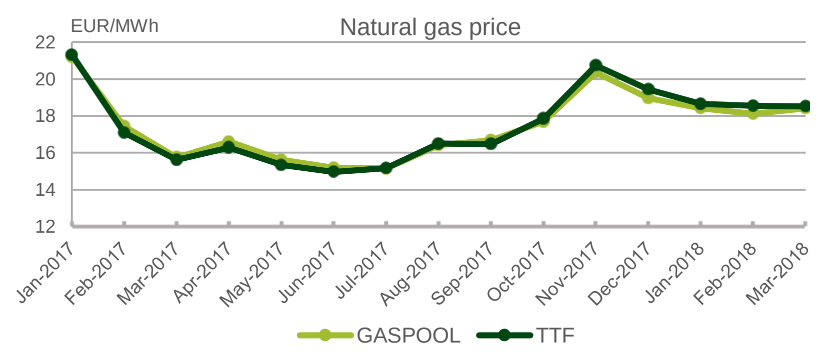
Operating Environment

Free natural gas market 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 the gas market opened, 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.

Last year, under the *Elektrum* brand, Latvenergo AS launched natural gas trade to business customers in Latvia and the Group's subsidiary *Elektrum Eesti* launched natural gas trade to business customers in Estonia by offering 12-month fixed-price contracts. As of the end of the reporting period, close to 180 contracts have been signed.

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.



In Q1 2018, the average price of natural gas at the GASPOOL trading platform was 1.0% higher than in the respective period a year ago and at TTF it was 3.2% higher.

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 Q1 2018 was 66.8 USD/bbl, which was 24% higher than in the respective period a year ago. Oil price trends are still largely influenced by shale oil development in the USA, while the efforts of OPEC to limit oil output counteract this effect.
- In Q1 2018, the average price of coal (API2 Front Month) increased by 10% compared to Q1 2017, reaching 85.9 USD/t. In the European coal market, trade and regional demand were still relatively low. In Asia, demand continued to rise in January; however, by the end of the month and onwards it remained relatively low.
- The average price of CO_2 emissions in the reporting period increased by 90%, reaching 9.8 EUR/t. CO_2 emission prices increased along with a higher market demand that by the end of Q1 was additionally facilitated by the approaching due date for submission of emission reports. In January, there was a decrease on the supply side due to Great Britain postponing auctioning of its emission allowances; auctioning started only in February. The reform package of the EU emissions trading system (ETS) was also approved in February.

Operating Environment

Capital release of Latvenergo AS

On 20 March 2018, according to the Shareholder Resolution of 24 November 2017, Latvenergo AS registered changes in its capital; it was reduced by EUR 454.4 million. The capital of Latvenergo AS now amounts to EUR 834.3 million. The capital release was carried out taking into account the order of 21 November 2017 by the Cabinet of Ministers of the Republic of Latvia, which supported repurchasing 75% of future liabilities of the state to Latvenergo AS on the electrical capacity payments for Riga CHPP-1 and Riga CHPP-2. In order to reduce support payments in the future, a one-off compensation of EUR 454.4 million was paid out in 2017.

The compensation was divided into two parts: EUR 140 million were to be recognized as other income in the profit and loss statement of Latvenergo AS in 2017, while EUR 314.4 million were to be recognized as income spread evenly over the following reporting periods until fulfilment of liabilities at the end of the support period on 23 September 2028. In Q1 2018, EUR 7.3 million were recognized as other income of Latvenergo AS.

In recent years, the financial results of Latvenergo Group have improved substantially. As of 31 March 2018, the Group's asset value reaches EUR 4 billion and its equity is close to EUR 2.5 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 March 2018, the Group's net debt to equity was 21% and its net debt to EBITDA ratio was 1.0.

Latvenergo Group has been able to maintain adequate financial elasticity and good financial ratios corresponding to its current credit rating. On 14 March 2018, the international 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 took into account the recent changes in the support intensity for the Riga CHPPs and the Latvenergo AS capital release.

Dividends

Latvenergo AS dividend payout in the next few years is regulated by the law "On the medium-term budgetary framework for 2018, 2019 and 2020" and the order of 7 May 2018 by the Cabinet of Ministers of the Republic of Latvia "On reduction of the total mandatory procurement public service obligation". According to the regulations, the dividend payout in the year 2019 (for the reporting year 2018) amounts to EUR 148.7 million (incl. corporate income tax), and in 2020 it amounts to EUR 136.9 million (incl. corporate income tax). 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. 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 fee during the following years.

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.

Financial Results

In Q1 2018, Latvenergo Group's revenue decreased by 2% and comprised EUR 259.7 million. Meanwhile, EBITDA decreased by 4% and reached EUR 109.7 million.

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

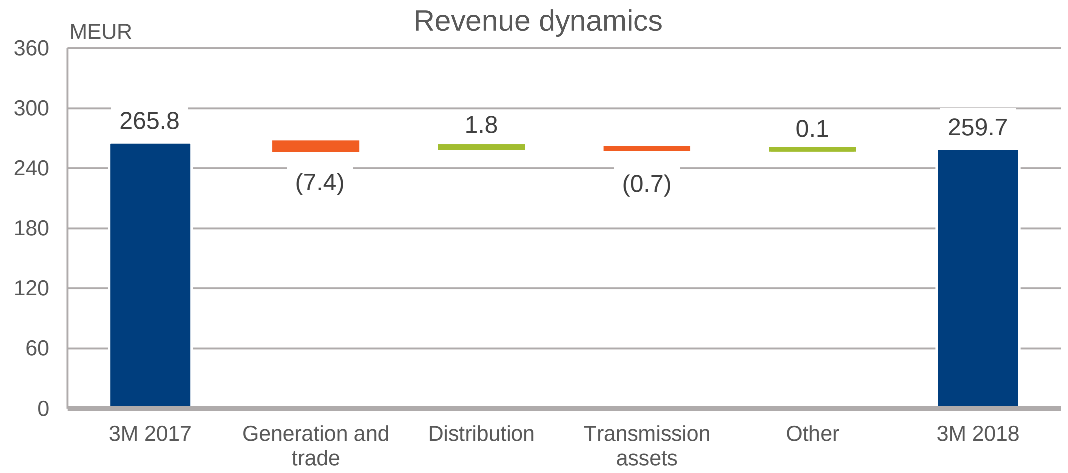
The Group's results in the reporting period were positively impacted mainly by the increase in electricity market prices in the Baltics. In Q1 2018, the Nord Pool electricity spot price in Latvia was 25% higher compared to the respective period a year ago.

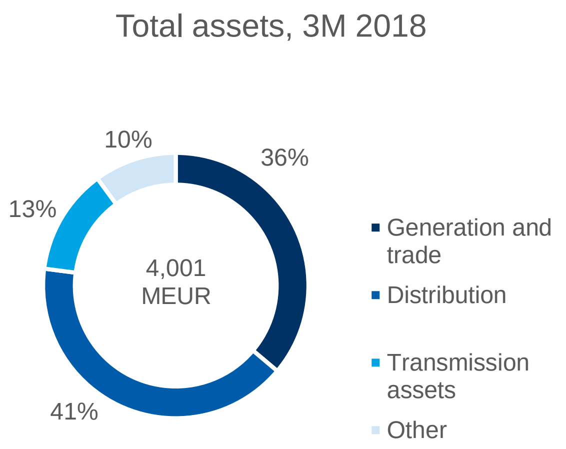
Latvenergo Group financial figures		3M 2018	3M 2017	Δ	Δ, %
Revenue	MEUR	259.7	265.8	(6.1)	(2%)
EBITDA	MEUR	109.7	113.8	(4.1)	(4%)
Net profit	MEUR	64.8	55.1	9.7	18%
Assets	MEUR	4,001.4	3,956.2	45.2	1%

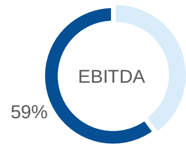
However, the results were negatively impacted by 12% lower electricity output at the Daugava HPPs as well as 75% lower revenue from the installed electrical capacity at the Riga CHPPs, which was partially offset by the compensation for the Riga CHPPs' capacity payments that was recognised in the profit and loss statement of Latvenergo AS. In Q1 2018, EUR 7.3 million of the compensation were recognized as other income of Latvenergo AS.

Latvenergo Group's profit in Q1 2018 was EUR 64.8 million, which is an increase of 18% compared to the respective period a year ago.

Furthermore, the EBITDA margin improved, reaching 58% in Q1 2018 (in the respective period in 2017 it was 44%).







Generation and Trade

Segment weight in Latvenergo Group

Revenue **60%**

EBITDA **59%**

Assets **36%**

Employees **25%**

Generation and trade is Latvenergo Group's largest operating segment by both revenue and EBITDA value. In the reporting period, the majority or 77% of the segment's revenue came from electricity and related services, while 23% came from thermal energy supply.

The segment's results were positively impacted by the increase in electricity market prices in the Nordics. However, the results were negatively impacted by lower electricity output at the Daugava HPPs as well as lower revenue from the installed electrical capacity at the Riga CHPPs, which was partially offset by the compensation for the Riga CHPPs' capacity payments that was recognised in the profit and loss statement of Latvenergo AS.

In Q1 2018, Latvenergo Group generated 1,929 GWh of electricity at its plants, which corresponds to 109% of the amount of electricity sold to retail customers (in Q1 2017: 99%).

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		**3M 2018**	**3M 2017**	**Δ**	**Δ, %**
Total electricity supply	GWh	2,904	30,029	(125)	(4%)
Electricity generation	GWh	1,929	1,855	74	4%
Thermal energy generation	GWh	1,204	1,137	67	6%

Financial figures		**3M 2018**	**3M 2017**	**Δ**	**Δ, %**
Revenue	MEUR	162.7	170.1	(7.4)	(4%)
EBITDA	MEUR	64.6	66.9	(2.4)	(4%)
Assets	MEUR	1,445.9	1,543.1	(97.3)	(6%)
Investments	MEUR	1.5	5,0	(3.5)	(70%)
EBITDA margin		67.5	40.3	27.2	67%

Generation

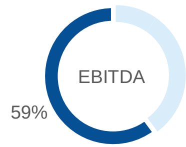
In the reporting period, the total amount generated by Latvenergo Group's power plants comprised 1,929 GWh of electricity and 1,204 GWh of thermal energy.

Overall, the amount of electricity generated increased by 4% compared to the respective period a year ago.

In Q1 2018, the amount of power generated at the Riga CHPPs increased by 31% compared to the respective period a year ago, reaching 904 GWh. The increase was fostered by higher electricity prices in the region.

The Riga CHPPs operated in a market conjuncture by effectively planning operating modes and fuel consumption.

In Q1 2018, the amount of power generated at the Daugava HPPs decreased by 12% compared to the respective period a year ago and reached 1,010 GWh. The amount of power generated at the Daugava HPPs was impacted by lower water inflow in the river Daugava in the spring flood period.



Generation and Trade

Power generated at the Riga CHPPs increased by 31%

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 period, the share of electricity generated from renewable energy sources at Latvenergo Group was 53% (Q1 2017: 62%).

The total amount of thermal energy generated by Latvenergo Group in Q1 2018 increased by 6% compared to the previous year. The increase was influenced mainly by colder weather in the heating season.

Operational figures		3M 2018	3M 2017	Δ	Δ, %
Total electricity supply, incl.	GWh	2,904	3,029	(125)	(4%)
*Retail**	GWh	1,766	1,882	(116)	(6%)
*Wholesale***	GWh	1,138	1,147	(9)	(1%)
Electricity generation	GWh	1,929	1,855	74	4%
Daugava HPPs	GWh	1,010	1,148	(138)	(12%)
Riga CHPPs	GWh	904	692	212	31%
Liepaja plants and small plants	GWh	15	15	0	0%
Thermal energy generation		1,204	1,137	67	6%
Riga CHPPs	GWh	1,076	1,025	51	5%
Liepaja plants and small plants	GWh	128	112	16	15%

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

Trade

In Q1 2018, Latvenergo Group was one of the leading energy trading companies in the Baltics.

In the reporting period, the Group supplied 1.8 TWh of electricity to Baltic retail customers (in Q1 2017: 1.9 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 accounted for 1/3 of the total, reaching 0.6 TWh. The electricity trade volume in Latvia was 1.2 TWh, while in Lithuania it was 0.3 TWh and in Estonia it was also 0.3 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, the Group commenced natural gas trade to business customers in Latvia and Estonia. The amount of natural gas supplied by Latvenergo and the number of customers continued to increase in the reporting period. At the end of the reporting period, the total number of natural gas customers was close to 180.

Latvenergo Group is the second largest natural gas consumer in the Baltics. In the reporting period, the amount of natural gas used for both operating consumption and trade reached 2.5 TWh.

Generation and Trade

Mandatory procurement

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

Mandatory procurement expenditures* are covered through a public service obligation fee (hereinafter – 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.

> The average PSO fee will decrease starting from 1 July 2018

Unsettled revenue from the mandatory procurement PSO fee recognised as assets		3M 2018	3M 2017	Δ	Δ, %
At the beginning of the reporting period	MEUR	**164.4**	**142.1**	**22.2**	**15.6%**
Mandatory procurement PSO fee income	MEUR	43.2	47.9	(4.6)	(9.7%)
Received state grant	MEUR	0.0	19.7	(19.7)	(100.0%)
Mandatory procurement expenditures*	MEUR	44.6	68.8	(24.2)	(35.2%)
Incl. cogeneration	MEUR	15.2	38.6	(23.5)	(60.8%)
Incl. renewable energy resources	MEUR	29.3	30.0	(0.8)	(2.6%)
At the end of the reporting period	MEUR	**165.7**	**143.3**	**22.4**	**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**

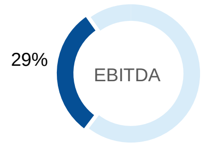
As of 1 January 2018 the average PSO fee amounts to 2.579 euro cents/kWh (including the variable component of 1.463 euro cents/kWh). Thus, it has decreased by 0.1 euro cents/kWh compared to the previous PSO fee (from 1 April 2014 to 31 December 2017, the PSO fee was 2.679 euro cents/kWh). The decrease in the PSO fee was fostered by the order of 22 September 2017 "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 the Riga CHPPs, thus receiving a one-off compensation in the amount of EUR 454.4 million.

After the end of the reporting period on 7 May 2018 the Cabinet of Ministers of the Republic of Latvia issued Order No. 202 "On reduction of the total mandatory procurement public service obligation". The order provides for reduction of the average PSO fee from 2.579 euro cents/kWh to 2.268 euro cents/kWh starting from 1 July 2018. Furthermore, according to the abovementioned order, EUR 62.2 million from Latvenergo AS dividends will be diverted for the PSO fee reduction, in addition to the required amount, regulated by the law "On the medium-term budgetary framework for 2018, 2019 and 2020". EUR 10.5 million will be used for the PSO fee reduction in the second half of the year and EUR 51.7 million will be used for the reduction of the compensation's advance payment for the Riga CHPPs. In order to foster the decrease in the PSO fee Enerģijas publiskais tirgotājs AS receives a state grant. After the end of the reporting period on 19 April 2018 a state grant in the amount of EUR 80 million was received. 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 Q1 2018, MP expenditures comprised EUR 44.6 million (in Q1 2017: EUR 68.8 million). The expenditures decreased mainly due to the 75% lower revenue from the installed electrical capacity at the Riga CHPPs starting from 1 January 2018 (-18.7 million euros).

In Q1 2018, Enerģijas publiskais tirgotājs AS made payments from the state budget to energy-intensive manufacturing companies in the amount of EUR 1.1 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.

As of 31 March 2018, assets recognised as unearned PSO fee revenue increased by EUR 22.4 million, comprising EUR 165.7 million.



Distribution

Segment weight in Latvenergo Group	
Revenue	32%
EBITDA	29%
Assets	41%
Employees	58%

The distribution segment is Latvenergo Group's largest segment by asset value and the second largest segment by revenue. In Q1 2018, the segment's revenue increased by 2% compared to the respective period a year ago and comprised EUR 86.3 million, while EBITDA decreased by 4%, reaching EUR 32.2 million.

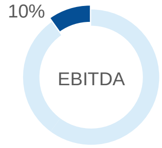
> The distribution segment's asset value exceeds 1.6 billion euros

The segment's results were positively impacted by the increase in the distributed electricity of 2.7% compared to the respective period a year ago. However, the results were negatively impacted by an increase of 2.2 million euros in personnel termination costs. This increase 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		**3M 2018**	**3M 2017**	**Δ**	**Δ, %**
Electricity distributed	GWh	1,786	1,739	47	3%
Distribution losses	GWh	118	111	7	6%
SAIFI	number	0.4	0.5	(0.1)	(22%)
SAIDI	minutes	37	49	(12)	(24%)
Financial figures		**3M 2018**	**3M 2017**	**Δ**	**Δ, %**
Revenue	MEUR	86.3	84.4	1.8	2%
EBITDA	MEUR	32.2	33.4	(1.2)	(4%)
Assets	MEUR	1,636.8	1,628.1	8.6	1%
Investments	MEUR	16.8	24.0	(7.2)	(30%)
EBITDA margin		34.2	35.9	(1.6)	(5%)

Investments in distribution assets during the reporting period decreased by 30% compared to the respective period a year ago and comprised EUR 16.8 million. Due to the investments, the value of distribution assets increased to EUR 1,636.8 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.



Lease of Transmission System Assets

Segment weight in Latvenergo Group

Revenue	4%
EBITDA	10%
Assets	13%
Employees	0.2%

The value of transmission system assets exceeds 500 million EUR

The revenue of the transmission system asset leasing segment represents 4% of Latvenergo Group's revenue. In Q1 2018, the segment's revenue was EUR 10.4 million, while EBITDA did not change significantly compared to the respective period a year ago; it was EUR 10.5 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.

Financial figures		3M 2018	3M 2017	Δ	Δ, %
Revenue	MEUR	10.4	11.1	(0.7)	(6%)
EBITDA	MEUR	10.5	10.6	(0%)	(0%)
Total assets	MEUR	516.6	445.8	70.8	16%
Investments	MEUR	12.7	3.2	9.5	293%

In Q1 2018, investment in transmission system assets was in the amount of EUR 12.7 million. The amount of investments is almost four times greater than the respective period a year ago. The largest investment was made in the energy infrastructure project *Kurzeme Ring*. In Q1 2018, EUR 11 million was invested in this project (Q1 2017: EUR 1.2 million).

The value of transmission assets increased to EUR 516.6 million.

The return on transmission system assets in Q1 2018 was 4.4% (Q1 2017: 2.1%).

Investments

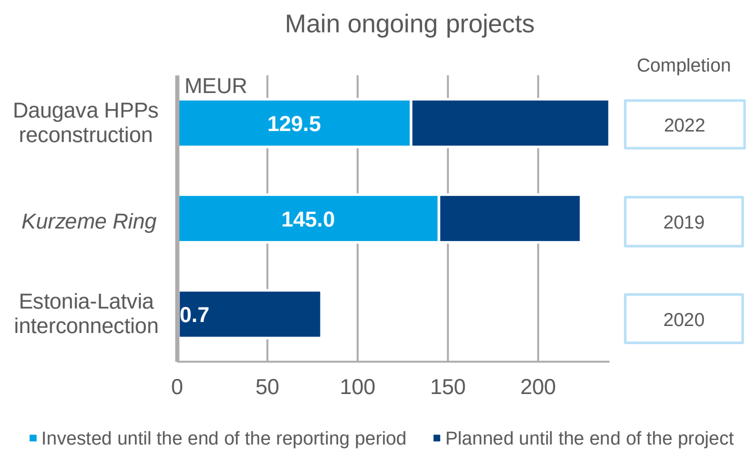
In Q1 2018, the total amount of investment did not change significantly compared to the respective period a year ago; it comprised EUR 33 million.

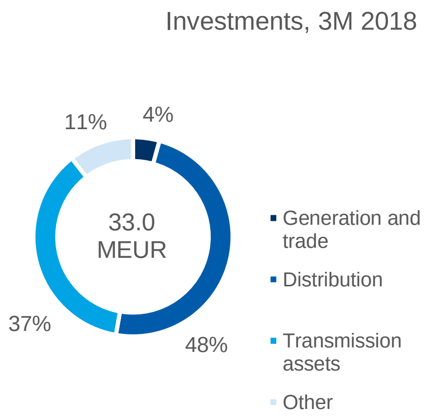
> Investment in power network assets – approximately 85% of the total

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 period, the amount invested in power network assets represented 85% of total investment.

Contributing to environmentally friendly projects, in the first 3 months of 2018, EUR 1.1 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. 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 230 million. As of 31 March 2018, work completed within the scope of the contract reached EUR 129.5 million. Reconstruction will ensure functionality of the hydropower units for another 40 years.

<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.

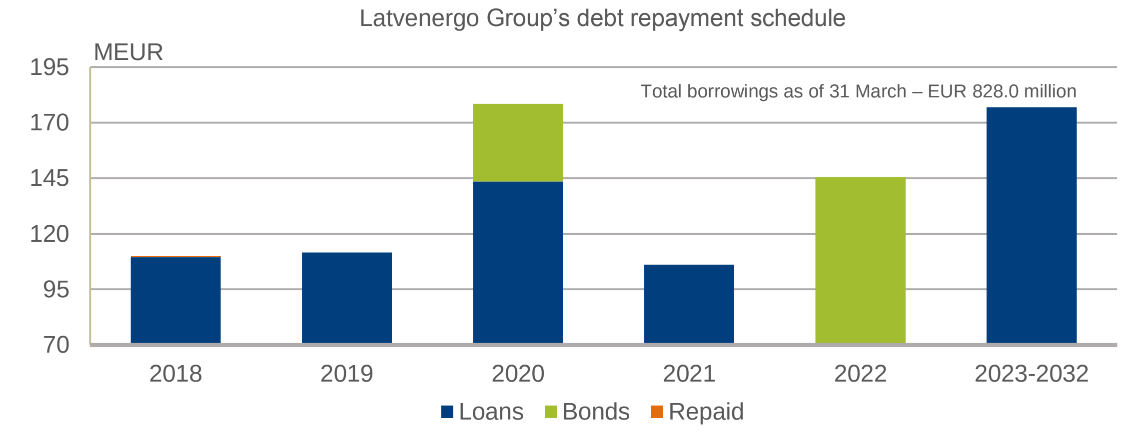
The *Kurzeme Ring* project is scheduled for completion in 2019, and the total planned project construction costs are EUR 230 million. The project consists of three stages. Investment in the first and second stage of the project comprised a total of EUR 95 million, approximately half of which was covered 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. As of 31 March 2018, EUR 50.2 million was invested in the last stage of this project. In Q1 2018, research was completed for all the projects, coordination with the building authorities was ongoing for several construction projects, several 330 kV transmission lines were under construction and rebuilding work was 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 80 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.



Diversified sources of funding

As of 31 March 2018, the Group's borrowings amount to EUR 828.0 million (31 March 2017: EUR 790.6 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 March 2018, all borrowings are denominated in euro currency. The weighted average repayment period is 4.1 years (31 March 2017: 3.7 years). The effective weighted average interest rate (with interest rate swaps) is 1.4% (31 March 2017: 1.8%). Also, sufficient coverage of debt service requirements has been ensured (debt service coverage ratio: 4.1).

As of 31 March 2018, the net borrowings of Latvenergo Group are EUR 515.0 million (31 March 2017: EUR 530.6 million), while the net debt / EBITDA ratio is 1.0 (31 March 2017: 1.5). In Q1 2018, all the binding financial covenants set in Latvenergo Group's loan agreements have been met.

On 14 March 2018, the credit rating agency Moody's approved the credit rating of Latvenergo AS at the Baa2 level with a stable future outlook. The rating has been stable for several years, confirming the company's operational reliability and financial soundness. In the assessment, Moody's also took into account the changes in the support intensity for the Riga CHPPs and the related 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 1.9 years as of 31 March 2018.

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 March 2018, all borrowings of Latvenergo Group are denominated in euros, and during the reporting period, 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 period, 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 March 2018, Latvenergo Group's liquid assets (cash and short-term deposits up to 3 months) reached EUR 313.0 million (31 March 2018: EUR 260.0 million), while the current ratio was 2.2 (1.9).

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

		3M 2018	3M 2017	3M 2016
Retail electricity supply in Latvia**	GWh	1,213	1,263	1,528
Electricity generation	GWh	1,916	1,842	1,223
Thermal energy generation	GWh	1,078	1,027	1,063
Number of employees		1,423	1,480	1,475
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

Latvenergo AS financial figures

		3M 2018	3M 2017	3M 2016
Revenue	MEUR	143.6	150.2	152.1
EBITDA*	MEUR	63.6	68.2	59.6
Profit	MEUR	97.3	46.1	31.7
Assets	MEUR	3,279.2	3,251.0	3,210.0
Equity	MEUR	2,028.3	2,221.0	2,144.6
Net debt*	MEUR	508.5	525.2	648.5
Investments	MEUR	5.3	7.5	11.9

Latvenergo AS financial ratios

	3M 2018	3M 2017	3M 2016
Return on equity (ROE)*	9.5%	7.0%	4.7%
Net debt / equity*	25%	24%	30%
EBITDA margin*	78%	49%	35%

* Definitions of ratios and terms are available in the List of Abbreviations and Formulas on page 21
** 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 Interim Financial Statements for the 3-Month Period Ending 31 March 2018*, 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 Interim Financial Statements for the 3-Month Period Ending 31 March 2018* were approved by the Management Board of Latvenergo AS on 29 May 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

29 May 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

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

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

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

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

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

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

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

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

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

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

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

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

Unaudited Condensed Interim Financial Statements

Statement of Profit or Loss

EUR'000

	Notes	Group		Parent Company	
		01/01-31/03/2018	**01/01-31/03/2017**	**01/01-31/03/2018**	**01/01-31/03/2017**
Revenue	4	259,675	265,816	143,582	150,233
Other income		13,460	1,638	12,140*	973
Raw materials and consumables used	5	(120,247)	(109,682)	(68,844)	(56,949)
Personnel expenses		(28,877)	(25,926)	(11,589)	(10,917)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	6	(42,938)	(47,012)	(18,569)	(22,140)
Other operating expenses		(14,274)	(18,059)	(11,644)	(15,140)
Operating profit		**66,799**	**66,775**	**45,076**	**46,060**
Finance income		281	310	3,570	2,878
Finance costs		(2,244)	(3,058)	(2,538)	(3,175)
Received dividends from subsidiaries		–	–	51,175	6,855
Profit before tax		**64,836**	**64,027**	**97,283**	**52,618**
Income tax		(6)	(8,940)	–	(6,564)
Profit for the period		**64,830**	**55,087**	**97,283**	**46,054**
Profit attributable to:					
– Equity holder of the Parent Company		*63,077*	*53,979*	–	–
– Non–controlling interests		*1,753*	*1,108*	–	–

*In accordance with the Law on Corporate Income Tax of the Republic of Latvia, in force since 1 January 2018, the application of corporate income tax has been transferred from the moment of profit gain to the moment of distribution of profit

Statement of Comprehensive Income

EUR'000

	Notes	Group		Parent Company	
		01/01-31/03/2018	**01/01-31/03/2017**	**01/01-31/03/2018**	**01/01-31/03/2017**
Profit for the period		**64,830**	**55,087**	**97,283**	**46,054**
Comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods:					
– income / (loss) from change in hedge reserve	11 c	2,765	(2,162)	2,765	(2,162)
Net comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods	**11 c**	**2,765**	**(2,162)**	**2,765**	**(2,162)**
Total comprehensive income / (loss) for the period		**2,765**	**(2,162)**	**2,765**	**(2,162)**
Total comprehensive income for the period		**67,595**	**52,925**	**100,048**	**43,892**
Comprehensive income attributable to:					
– Equity holder of the Parent Company		*65,842*	*51,817*	–	–
– Non–controlling interests		*1,753*	*1,108*	–	–

Statement of Financial Position

EUR'000

	Notes	Group		Parent Company	
		31/03/2018	**31/12/2017**	**31/03/2018**	**31/12/2017**
ASSETS					
Non-current assets					
Intangible assets and property, plant and equipment	6	3,311,216	3,322,398	1,235,652	1,248,915
Investment property		439	753	64,258	64,807
Non–current financial investments	8	40	40	817,048	817,048
Non–current loans to subsidiaries	12 e	–	–	382,251	397,976
Investments in held–to–maturity financial assets	11 a	16,972	16,984	16,972	16,984
Other non-current receivables	9 b	3,227	3,229	284	284
Total non–current assets		**3,331,894**	**3,343,404**	**2,516,465**	**2,546,014**
Current assets					
Inventories	7	32,032	76,328	17,213	61,824
Receivables from contracts with customers	9 a	109,704	105,369	85,362	82,799
Other current receivables	9 b	198,138	646,761	70,064	18,079
Prepayment for income tax		5,938	–	5,090	–
Deferred expenses		4,207	3,241	2,508	2,205
Current loans to subsidiaries	12 e	–	–	268,036	700,805
Derivative financial instruments	11 c	6,505	4,619	6,505	4,619
Cash and cash equivalents	10	313,015	236,003	307,983	232,855
Total current assets		**669,539**	**1,072,321**	**762,761**	**1,103,186**
TOTAL ASSETS		**4,001,433**	**4,415,725**	**3,279,226**	**3,649,200**
EQUITY AND LIABILITIES					
Equity					
Share capital	9 b	834,302	1,288,715	834,302	1,288,715
Reserves		1,128,465	1,126,521	794,307	791,906
Retained earnings		487,511	423,613	399,664	302,017
Equity attributable to equity holder of the Parent Company		**2,450,278**	**2,838,849**	**2,028,273**	**2,382,638**
Non–controlling interests		9,795	8,042	–	–
Total equity		**2,460,073**	**2,846,891**	**2,028,273**	**2,382,638**
Liabilities					
Non–current liabilities					
Borrowings	11 b	718,186	718,674	710,114	710,125
Provisions		22,123	21,910	8,999	8,835
Derivative financial instruments	11 c	4,312	4,914	4,312	4,914
Deferred income on contracts from customers		143,085	142,132	–	–
Other liabilities and deferred income		347,196	350,926	278,754	286,085
Total non–current liabilities		**1,234,902**	**1,238,556**	**1,002,179**	**1,009,959**
Current liabilities					
Borrowings	11 b	109,831	108,083	106,408	104,647
Trade and other payables		121,311	147,072	85,165	94,689
Income tax payable		27,747	27,725	24,739	24,739
Deferred income on contracts from customers		12,738	12,500	–	–
Other deferred income		31,721	31,728	29,352	29,358
Derivative financial instruments	11 c	3,110	3,170	3,110	3,170
Total current liabilities		**306,458**	**330,278**	**248,774**	**256,603**
Total liabilities		**1,541,360**	**1,568,834**	**1,250,953**	**1,266,562**
TOTAL EQUITY AND LIABILITIES		**4,001,433**	**4,415,725**	**3,279,226**	**3,649,200**

Statement of Changes in Equity

EUR'000

	Group						Parent Company			
	Attributable to equity holder of the Parent Company						Attributable to equity holder of the Parent Company			
	Share capital	Reserves	Retained earnings	Total	Non-controlling interests	TOTAL	Share capital	Reserves	Retained earnings	TOTAL
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**
Disposal of property, plant and equipment revaluation reserve net of deferred income tax	–	(228)	228	**–**	–	**–**	–	–	–	**–**
Total contributions and profit distributions recognised directly in equity	**–**	**(228)**	**228**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit for the period	–	–	53,979	**53,979**	1,108	**55,087**	–	–	46,054	**46,054**
Other comprehensive loss	–	(2,162)	–	**(2,162)**	–	**(2,162)**	–	(2,162)	–	**(2,162)**
Total comprehensive income / (loss) for the period	**–**	**(2,162)**	**53,979**	**51,817**	**1,108**	**52,925**	**–**	**(2,162)**	**46,054**	**43,892**
As of 31 March 2017	**1,288,715**	**934,684**	**240,037**	**2,463,436**	**8,192**	**2,471,628**	**1,288,715**	**647,858**	**284,388**	**2,220,961**
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	–	(4,149)	4,149	**–**	–	**–**	–	(1,762)	1,762	**–**
Total contributions and profit distributions recognised directly in equity	**–**	**(4,149)**	**(85,993)**	**(90,142)**	**(1,393)**	**(91,535)**	**–**	**(1,762)**	**(88,380)**	**(90,142)**
Profit for the period	–	–	265,691	**265,691**	1,243	**266,934**	–	–	104,837	**104,837**
Other comprehensive income	–	195,986	3,878	**199,864**	–	**199,864**	–	145,810	1,172	**146,982**
Total comprehensive income for the period	**–**	**195,986**	**269,569**	**465,555**	**1,243**	**466,798**	**–**	**145,810**	**106,009**	**251,819**
As of 31 December 2017	**1,288,715**	**1,126,521**	**423,613**	**2,838,849**	**8,042**	**2,846,891**	**1,288,715**	**791,906**	**302,017**	**2,382,638**
Decrease of share capital (Note 9 b)	(454,413)	–	–	**(454,413)**	–	**(454,413)**	(454,413)	–	–	**(454,413)**
Disposal of property, plant and equipment revaluation reserve	–	(821)	821	**–**	–	**–**	–	(364)	364	**–**
Total contributions and profit distributions recognised directly in equity	**(454,413)**	**(821)**	**821**	**(454,413)**	**–**	**(454,413)**	**(454,413)**	**(364)**	**364**	**(454,413)**
Profit for the period	–	–	63,077	**63,077**	1,753	**64,830**	–	–	97,283	**97,283**
Other comprehensive income for the period	–	2,765	–	**2,765**	–	**2,765**	–	2,765	–	**2,765**
Total comprehensive income for the period	**–**	**2,765**	**63,077**	**65,452**	**1,753**	**67,595**	**–**	**2,765**	**97,283**	**100,048**
As of 31 March 2018	**834,302**	**1,128,465**	**487,511**	**2,450,278**	**9,795**	**2,460,073**	**834,302**	**794,307**	**399,664**	**2,028,273**

Statement of Cash Flows

EUR'000

	Notes	Group		Parent Company	
		01/01-31/03/2018	01/01-31/03/2017	01/01-31/03/2018	01/01-31/03/2017
Cash flows from operating activities					
Profit before tax		64,836	64,027	97,283	52,618
Adjustments:					
– Amortisation, depreciation and impairment of non–current assets		43,298	47,623	18,631	22,291
– Net financial adjustments		2,163	5,184	(52,005)	2,733
– Other adjustments		213	256	164	(6,738)
Operating profit before working capital adjustments		**110,510**	**117,090**	**64,073**	**70,904**
Decrease / (increase) in current assets		487,544	(1,169)	(10,240)	(15,284)
(Decrease) / increase in trade and other payables		(467,027)	4,155	41,567	6,789
Cash generated from operating activities		**131,027**	**120,076**	**95,400**	**62,409**
Interest paid		(675)	(180)	(992)	(316)
Interest received		270	1,129	3,559	4,357
Corporate income tax and real estate tax paid		(5,848)	(1,266)	(5,090)	(945)
Net cash flows from operating activities		**124,774**	**119,759**	**92,877**	**65,505**
Cash flows from investing activities					
Loans issued to subsidiaries		–	–	(5,919)	–
Repayment of loans issued to subsidiaries		–	–	–	23,902
Purchase of intangible assets and property, plant and equipment		(47,263)	(43,995)	(11,842)	(15,081)
Proceeds from redemption of held–to–maturity assets		12	3,532	12	3,532
Net cash flows (used in) / generated from investing activities		**(47,251)**	**(40,463)**	**(17,749)**	**12,353**
Cash flows from financing activities					
Repayment of borrowings	11 b	(511)	(3,256)	–	(2,000)
Net cash flows used in financing activities		**(511)**	**(3,256)**	**–**	**(2,000)**
Net increase in cash and cash equivalents	**10**	**77,012**	**76,040**	**75,128**	**75,858**
Cash and cash equivalents at the beginning of the period	10	236,003	183,980	232,855	181,197
Cash and cash equivalents at the end of the period	**10**	**313,015**	**260,020**	**307,983**	**257,055**

Notes to unaudited condensed interim financial statements

1. CORPORATE INFORMATION

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 1 March 2018 was comprised of the following members: Āris Žīgurs (Chairman of the Board), Uldis Bariss, Māris Kuņickis, Guntars Baļčūns and Guntis Stafeckis. From 1 March 2018 Guntis Stafeckis does not continue work on the Management Board.

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 Group Consolidated and Latvenergo AS Annual Report 2017 has been approved on 9 May 2018 by the Latvenergo AS Shareholder's meeting (see on Latvenergo AS web page section "Investors" – http://www.latvenergo.lv/eng/investors/reports/).

The Unaudited Interim Condensed Financial Statements of Latvenergo Group and Latvenergo AS for the 3–month period ending 31 March 2018 include the financial information in respect of the *Latvenergo* Group and Latvenergo AS for the period starting on 1 January 2018 and ending on 31 March 2018 and comparative information for the 3–month period ending 31 March 2017.

The Unaudited Interim Condensed Financial Statements of Latvenergo Group and Latvenergo AS for the 3–month period ending 31 March 2018 were authorised by the Latvenergo AS Management Board on 29 May 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

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

The preparation of the Financial Statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from those.

Latvenergo Group and Latvenergo AS has applied IFRS 15 *Revenue from contracts with customers* with initial application date as of 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.

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 Group Consolidated and Latvenergo AS Annual Report 2017.

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 (EUR'000). All figures, unless stated otherwise are rounded to the nearest thousand.

3. OPERATING SEGMENT INFORMATION

Operating segments of the Group and the Parent Company

For segment reporting purposes, the division into operating segments is based on the Latvenergo Group's and the Parent 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 Parent 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 Parent 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 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 Parent Company generation and trade segment comprises the Parent 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 Latvenergo Group's and the Parent Company's operating segments.
Inter–segment revenue is eliminated on disclosure of the Group's and the Company's total revenue.

EUR'000

	Group							Parent Company				
	Generation and trade	Distribution	Lease of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Group	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Parent Company
Period: 01/01–31/03/2018												
Revenue												
External customers	162,341	85,752	9,742	1,840	**259,675**	–	**259,675**	131,241	12,341	**143,582**	–	**143,582**
Inter–segment	374	502	622	11,428	**12,926**	(12,926)	**–**	99	5,761	**5,860**	(5,860)	**–**
Total revenue	**162,715**	**86,254**	**10,364**	**13,268**	**272,601**	**(12,926)**	**259,675**	**131,340**	**18,102**	**149,442**	**(5,860)**	**143,582**
Results												
EBITDA	**64,552**	**32,215**	**10,539**	**2,431**	**109,737**	**–**	**109,737**	**58,070**	**5,575**	**63,645**	**–**	**63,645**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(14,899)	(19,101)	(6,069)	(2,869)	**(42,938)**	–	**(42,938)**	(14,127)	(4,442)	**(18,569)**	–	**(18,569)**
Segment profit / (loss)	**49,653**	**13,114**	**4,470**	**(438)**	**66,799**	**(1,963)**	**64,836**	**43,943**	**1,133**	**45,076**	**52,207**	**97,283**
Capital expenditure	1,486	16,786	12,721	3,649	**34,642**	**(1,675)**	**32,967**	1,451	3,826	**5,277**	**–**	**5,277**
Period: 01/01–31/03/2017												
Revenue												
External customers	169,424	83,932	10,429	2,031	**265,816**	–	**265,816**	137,954	12,279	**150,233**	–	**150,233**
Inter–segment	686	501	634	13,073	**14,894**	(14,894)	**–**	86	7,472	**7,558**	(7,558)	**–**
Total revenue	**170,110**	**84,433**	**11,063**	**15,104**	**280,710**	**(14,894)**	**265,816**	**138,040**	**19,751**	**157,791**	**(7,558)**	**150,233**
Results												
EBITDA	**66,903**	**33,415**	**10,556**	**2,913**	**113,787**	**–**	**113,787**	**62,289**	**5,911**	**68,200**	**–**	**68,200**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(18,398)	(19,447)	(6,191)	(2,976)	**(47,012)**	–	**(47,012)**	(17,606)	(4,534)	**(22,140)**	–	**(22,140)**
Segment profit / (loss)	**48,505**	**13,968**	**4,365**	**(63)**	**66,775**	**(2,748)**	**64,027**	**44,683**	**1,377**	**46,060**	**6,558**	**52,618**
Capital expenditure	5,025	23,957	3,237	2,001	**34,220**	**(2,129)**	**32,091**	4,991	2,497	**7,488**	**–**	**7,488**

Segment assets

EUR'000

	Group							Parent Company				
	Generation and trade	Distribution	Lease of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Group	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Parent Company
As of 31 March 2018	1,445,860	1,636,753	516,565	86,117	**3,685,295**	316,138	**4,001,433**	1,276,752	198,589	**1,475,341**	1,803,885	**3,279,226**
As of 31 December 2017	1,956,888	1,641,318	500,863	85,584	**4,184,653**	231,072	**4,415,725**	1,286,478	192,435	**1,478,913**	2,170,287	**3,649,200**

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 Parent 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

EUR'000

	Group		Parent Company	
	01/01-31/03/2018	01/01-31/03/2017	01/01-31/03/2018	01/01-31/03/2017
Segment profit	**66,4799**	**66,775**	**45,076**	**46,060**
Finance income	281	310	3,570	2,878
Finance costs	(2,244)	(3,058)	(2,538)	(3,175)
Dividends received from subsidiaries	–	–	51,175	6,855
Profit before corporate income tax	**64,836**	**64,027**	**97,283**	**52,618**

Reconciliation of assets

EUR'000

	Group		Parent Company	
	31/03/2018	31/12/2017	31/03/2018	31/12/2017
Segment operating assets	**3,685,295**	**4,184,653**	**1,475,264**	**1,556,756**
Connection usage rights	(26,334)	(26,652)	–	–
Non–current financial investments	40	40	817,048	817,048
Loans to subsidiaries	–	–	650,287	1,098,781
Held–to–maturity financial assets	16,972	16,984	16,972	16,984
Derivative financial instruments	6,505	4,619	6,505	4,619
Other assets and assets held for sale	5,940	78	5,090	–
Cash and cash equivalents	313,015	236,003	307,983	232,855
Total assets	**4,001,433**	**4,415,725**	**3,279,226**	**3,649,200**

4. REVENUE

EUR'000

	IFRS or IAS applied	Group		Parent Company	
		01/01-31/03/2018	01/01-31/03/2017	01/01-31/03/2018	01/01-31/03/2017
Revenue from contracts with customers recognised over time:					
Trade of energy and related supply services	IFRS 15	122,033	132,719	98,252	105,801
Distribution system services	IFRS 15	81,397	79,840	–	–
Heat sales	IFRS 15	37,619	35,737	31,479	30,401
Other revenue	IFRS 15	8,448	6,606	9,866	10,089
Total revenue from contracts with customers		**249,497**	**254,902**	**139,597**	**146,291**
Other revenue:					
Lease of transmission system assets	IAS 17	9,616	10,303	–	–
Lease of other assets	IAS 17	436	485	3,985	3,942
Other revenue	IAS 17	126	126	–	–
Total other revenue		**10,178**	**10,914**	**3,985**	**3,942**
Total revenue		**259,675**	**265,816**	**143,582**	**150,233**

Gross amounts transferred to customers by applying agent accounting principle recognized on net basis under trade of energy and related supply services: EUR'000

	Group		Parent Company	
	01/01-31/03/2018	01/01-31/03/2017	01/01-31/03/2018	01/01-31/03/2017
Mandatory procurement PSO fees	28,250	31,536	29,040	32,723
Distribution system services	2,956	2,956	56,967	58,471
Transmission system services	414	423	418	425
Total revenue recognised applying agent accounting principle	**31,620**	**34,915**	**86,425**	**91,619**

5. RAW MATERIALS AND CONSUMABLES USED

EUR'000

	Group		Parent Company	
	01/01-31/03/2018	01/01-31/03/2017	01/01-31/03/2018	01/01-31/03/2017
Electricity:				
Purchased electricity	31,871	31,598	5,604	3,384
Fair value loss on electricity forwards and futures (Note 11 c, II)	217	2,437	217	2,437
Electricity transmission services costs	18,296	18,621	216	221
	50,384	**52,656**	**6,037**	**6,042**
Energy resources costs	63,780	50,527	60,817	48,312
Raw materials, spare parts and maintenance costs	6,083	6,499	1,990	2,595
Total raw materials and consumables used	**120,247**	**109,682**	**68,844**	**56,949**

6. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

a) Intangible assets

EUR'000

	Group			Parent Company		
	01/01-31/03/2018	01/01-31/03/2017	2017	01/01-31/03/2018	01/01-31/03/2017	2017
Net book amount at the beginning of the period	**13,413**	**14,534**	**14,534**	**17,461**	**18,769**	**18,769**
Additions	175	167	2,588	159	167	2,531
Transfers to property, plant and equipment	–	–	–	–	–	(3)
Disposals	(53)	(53)	(212)	(164)	(164)	(653)
Amortisation charge	(870)	(808)	(3,497)	(791)	(730)	(3,183)
Net book amount at the end of the period	**12,665**	**13,840**	**13,413**	**16,665**	**18,042**	**17,461**

b) Property, plant and equipment

EUR'000

	Group			Parent Company		
	01/01-31/03/2018	01/01-31/03/2017	2017	01/01-31/03/2018	01/01-31/03/2017	2017
Net book amount at the beginning of the period	**3,308,985**	**3,355,797**	**3,355,797**	**1,231,454**	**1,322,518**	**1,322,518**
Additions	32,791	31,923	241,220	4,832	6,751	84,370
Increase due PPE revaluation	–	–	22,167	–	–	22,167
Decrease due PPE revaluation	–	–	(2,260)	–	–	(2,260)
Reclassified from intangible assets	–	–	–	–	–	3
Reclassified to investment property	(9)	(27)	(1,182)	(21)	(10)	(1,059)
Reclassified from investment property	–	–	–	–	–	8,335
Disposals	(1,148)	(567)	(4,900)	(34)	–	(487)
Impairment charge	4,829	(12)	(116,246)	4,875	9	(116,257)
Depreciation	(46,897)	(46,192)	(185,611)	(22,119)	(20,747)	(85,876)
Net book amount at the end of the period	**3,298,551**	**3,340,922**	**3,308,985**	**1,218,987**	**1,308,521**	**1,231,454**

7. INVENTORIES

EUR'000

	Group		Parent Company	
	31/03/2018	31/12/2017	31/03/2018	31/12/2017
Raw materials and materials	16,807	16,547	1,557	1,583
Natural gas	8,477	53,079	8,477	53,078
Other inventories	8,153	8,115	8,076	8,075
Prepayments for inventories	84	81	84	80
Allowance for raw materials and other inventories	(1,489)	(1,494)	(981)	(992)
Total inventories	**32,032**	**76,328**	**17,213**	**61,824**

Movement on the allowance

EUR'000

	Group			Parent Company		
	01/01-31/03/2018	01/01-31/03/2017	2017	01/01-31/03/2018	01/01-31/03/2017	2017
At the beginning of the period	**1,494**	**1,659**	**1,659**	**992**	**1,060**	**1,060**
Inventories written off	–	(20)	(62)	–	–	–
Changes included to the Statement of Profit or Loss	(5)	5	(103)	(11)	51	(68)
At the end of the period	**1,489**	**1,644**	**1,494**	**981**	**1,111**	**992**

8. NON–CURRENT FINANCIAL INVESTMENTS

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

Name of the company	Country of incorporation	Business activity held	31/03/2018 Interest held, %	31/03/2018 EUR'000	31/12/2017 Interest held, %	31/12/2017 EUR'000
Investments in 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	Administration of mandatory electricity procurement process	100%	40	100%	40
Elektrum Eesti, OÜ	Estonia	Electricity trade & gas	100%	35	100%	35
Elektrum Lietuva, UAB	Lithuania	Electricity trade	100%	98	100%	98
Liepājas enerģija SIA	Latvia	Thermal energy generation and trade, 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 trade, electricity generation	0,0051%	3	0,0051%	3
TOTAL				**39**		**39**

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

9. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS AND OTHER RECEIVABLES

a) Receivables from contracts with customers, net

EUR'000

	Group		Parent Company	
	31/03/2018	**31/12/2017**	**31/03/2018**	**31/12/2017**
Receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers	133,660	134,699	104,530	105,257
– Heating customers	12,367	10,922	9,661	8,851
– Other receivables from contracts with customers	12,446	8,610	6,495	4,155
– Subsidiaries (Note 12 b, c)	–	–	9,418	9,404
	158,473	**154,231**	**130,104**	**127,667**
Provisions for impaired receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers	(45,421)	(45,561)	(44,345)	(44,472)
– Heating customers	(322)	(329)	(306)	(310)
– Other receivables from contracts with customers	(3,026)	(2,972)	(91)	(86)
	(48,769)	**(48,862)**	**(44,742)**	**(44,868)**
Receivables from contracts with customers, net:				
– Electricity, natural gas trade and related services customers	88,239	89,138	60,185	60,785
– Heating customers	12,045	10,593	9,355	8,541
– Other receivables from contracts with customers	9,420	5,638	6,404	4,069
– Subsidiaries (Note 12 b, c)	–	–	9,418	9,404
	109,704	**105,369**	**85,362**	**82,799**

Movements in provisions for impaired receivables from contracts with customers

EUR'000

	Group			Parent Company		
	01/01-31/03/2018	**01/01-31/03/2017**	**2017**	**01/01-31/03/2018**	**01/01-31/03/2017**	**2017**
At the beginning of the period	**48,862**	**48,100**	**48,100**	**44,868**	**44,177**	**44,177**
Receivables written off as uncollectible	(404)	(354)	(1,710)	(374)	(277)	(1,343)
Provisions for impaired receivables	311	827	2,472	248	654	2,034
At the end of the period	**48,769**	**48,573**	**48,862**	**44,742**	**44,554**	**44,868**

b) Other receivables

EUR'000

	Group		Parent Company	
	31/03/2018	31/12/2017	31/03/2018	31/12/2017
Other non–current receivables	3,227	3,229	284	284
Total non–current receivables	**3,227**	**3,229**	**284**	**284**
Current financial receivables:				
Receivable of guaranteed fee for the installed electrical capacity of cogeneration power plants CHPP-1 and CHPP-2*	–	454,413	–	–
Unsettled revenue on mandatory procurement PSO fee recognised as assets**	165,708	164,365	–	–
Receivables for lease	9,616	3,535	2,705	2,443
Other financial receivables from related parties (Note 12 b, c)	–	–	14,704	10,664
Other accrued income	2,900	3,572	200	872
Other current financial receivables	17,763	15,947	972	3,959
Dividends receivable from subsidiaries	–	–	51,175	–
Total current financial receivables	**195,987**	**641,832**	**69,756**	**17,938**
Current non–financial receivables:				
Pre–tax and overpaid taxes	1,021	3,703	1	22
Other current receivables	1,130	1,226	307	119
Total current non–financial receivables	**2,151**	**4,929**	**308**	**141**
Total current receivables	**198,138**	**646,761**	**70,064**	**18,079**
Total other receivables	**201,365**	**649,990**	**70,348**	**18,363**

* On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order on one–off compensation to Latvenergo AS on guaranteed support for the installed capacity of cogeneration power plants. Following the order No. 685 of the Cabinet of Ministers of the Republic of Latvia accepted on 21 November 2017, a trilateral agreement was concluded on 28 November 2017 between Republic of Latvia (represented by Ministry of Economics), the Parent Company and its subsidiary Enerģijas publiskais tirgotājs AS (public trader) on settlement of the one–off compensation on the decrease of the guaranteed support for the installed electrical capacity in cogeneration power plants Riga CHPP-1 and CHPP-2. Accordingly to the agreement, public trader has recognised receivable from state for one-off compensation in the amount of EUR 454,4 million thousand as the one–off settlement for Latvenergo AS. On 29 November 2017 public trader and the Parent Company has concluded agreement on loan issue to ensure the financing of compensation. On 26 March 2018 the Parent Company settled its liability towards Ministry of Economics for the capital release by netting of the balance with the respective grant receivable from the state in accordance with the trilateral agreement. In accordance with the provisions of the same agreement, the Parent Company netted balances with Enerģijas publiskais tirgotājs AS on the same date.

** by applying agent principle unsettled revenue on mandatory procurement PSO fee is recognised as assets in net amount 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)

10. CASH AND CASH EQUIVALENTS

EUR'000

	Group		Parent Company	
	31/03/2018	31/12/2017	31/03/2018	31/12/2017
Cash at bank	312,092	233,624	307,060	230,476
Restricted cash and cash equivalents*	923	2,379	923	2,379
Total cash and cash equivalents	**313,015**	**236,003**	**307,983**	**232,855**

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

11. FINANCIAL ASSETS AND LIABILITIES

a) Held–to–maturity financial assets

As of 31 March 2018 the entire Group's and the Parent 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

EUR'000

	Group		Parent Company	
	31/03/2018	**31/12/2017**	**31/03/2018**	**31/12/2017**
Held–to–maturity financial assets:				
– current	16,972	16,984	16,972	16,984
Total held–to–maturity financial assets	**16,972**	**16,984**	**16,972**	**16,984**

b) Borrowings

EUR'000

	Group		Parent Company	
	31/03/2018	**31/12/2017**	**31/03/2018**	**31/12/2017**
Non–current borrowings from financial institutions	582,836	583,313	574,764	574,764
Issued debt securities (bonds)	135,350	135,361	135,350	135,361
Total non–current borrowings	**718,186**	**718,674**	**710,114**	**710,125**
Current portion of non–current borrowings from financial institutions	105,897	105,931	102,522	102,522
Accrued interest on non–current borrowings	1,530	468	1,482	441
Accrued coupon interest on issued debt securities (bonds)	2,404	1,684	2,404	1,684
Total current borrowings	**109,831**	**108,083**	**106,408**	**104,647**
Total borrowings	**828,017**	**826,757**	**816,522**	**814,772**

Movement in Borrowings

EUR'000

	Group			Parent Company		
	01/01-31/03/2018	**01/01-31/03/2017**	**2017**	**01/01-31/03/2018**	**01/01-31/03/2017**	**2017**
At the beginning of the period	**826,757**	**791,566**	**791,566**	**814,772**	**778,323**	**778,323**
Borrowings received	–	–	186,500	–	3,657	185,000
Borrowing repaid	(511)	(3,256)	(80,976)	–	(2,000)	(78,221)
Change in accrued interest on borrowings	1,782	2,302	(126)	1,761	2,282	(123)
Repaid issued debt securities (bonds)	–	–	(70,000)	–	–	(70,000)
Changes in outstanding value of issued debt securities (bonds)	(11)	(30)	(207)	(11)	(30)	(207)
At the end of the period	**828,017**	**790,582**	**826,757**	**816,522**	**782,232**	**814,772**

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 Parent Company's Statement of Profit or Loss.

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

EUR'000

	Group						Parent Company					
	01/01-31/03/2018		01/01-31/03/2017		2017		01/01-31/03/2018		01/01-31/03/2017		2017	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the period	**(31)**	**8,061**	**–**	**11,563**	**–**	**11,563**	**(31)**	**8,061**	**–**	**11,563**	**–**	**11,563**
Included in comprehensive income	(35)	(639)	–	(1,320)	(31)	(3,502)	(35)	(639)	–	(1,320)	(31)	(3,502)
Outstanding fair value at the end of the period	**(66)**	**7,422**	**–**	**10,243**	**(31)**	**8,061**	**(66)**	**7,422**	**–**	**10,243**	**(31)**	**8,061**

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 comprehensive income.

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

EUR'000

	Group						Parent Company					
	01/01-31/03/2018		01/01-31/03/2017		2017		01/01-31/03/2018		01/01-31/03/2017		2017	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the period	**(4,588)**	**23**	**(6,134)**	**23**	**(6,134)**	**23**	**(4,588)**	**23**	**(6,134)**	**23**	**(6,134)**	**23**
Included in Statement of Profit or Loss (Note 5)	240	(23)	2,280	157	3,435	–	240	(23)	2,280	157	3,435	–
Included in comprehensive income	(2,091)	–	2,154	1,328	(1,889)	–	(2,091)	–	2,154	1,328	(1,889)	–
Outstanding fair value at the end of the period	**(6,439)**	**–**	**(1,700)**	**1,508**	**(4,588)**	**23**	**(6,439)**	**–**	**(1,700)**	**1,508**	**(4,588)**	**23**

12. RELATED PARTY TRANSACTIONS

The Parent Company and, indirectly, its subsidiaries are controlled by the Latvian state. Related parties of the Latvenergo Group and the Parent Company are Shareholder of the Parent Company who controls or who has significant influence over the Parent Company in accepting operating business decisions, members of Latvenergo Group entities' management boards, members of the Supervisory board of the Parent Company, members of Supervisory body – 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 Parent Company's customers.

a) Income and expenses from transactions with subsidiaries

EUR'000

	Parent Company	
	01/01-31/03/2018	01/01-31/03/2017
Income:		
– Subsidiaries	20,706	40,078
	20,706	**40,078**
Expenses:		
– Subsidiaries	90,391	91,704
	90,391	**91,704**
including expenses from transactions with subsidiaries recognised in net amount through profit or loss:		
– Sadales tīkls AS	*84,910*	*90,056*
– Enerģijas publiskais tirgotājs AS	*–*	*157*
	84,910	***90,213***

EUR'000

	Group		Parent Company	
	31/03/2018	31/12/2017	31/03/2018	31/12/2017
b) Balances at the end of the period arising from sales/purchases of goods and services				
Receivables from related parties:				
– Subsidiaries (Note 9 a, b)	–	–	13,648	17,435
	–	**–**	**13,648**	**17,435**
Payables to related parties:				
– Subsidiaries	–	–	31,629	30,994
– Other related parties*	205	281	88	88
	205	**281**	**31,717**	**31,082**

* Pirmais Slēgtais Pensiju Fonds AS

	Group		Parent Company	
c) Accrued income raised from transactions with related parties				
– For goods sold / services received from subsidiaries (Note 9 a, b)	–	–	11,625	3,199
– For interest received from subsidiaries (Note 9 a, b)	–	–	1,553	1,875
	–	**–**	**13,178**	**5,074**
d) Accrued expenses raised from transactions with related parties				
– For purchased goods / received services from subsidiaries	–	–	2,432	1,176
	–	**–**	**2,432**	**1,176**

In the 3 months period ended 31 March 2018 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 595.8 thousand (3 months period of 2017: EUR 592.4 thousand).

In the 3 months period ended 31 March 2018 remuneration to the Parent Company's management includes remuneration to the members of the Parent 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 293.9 thousand (3 months period of 2017: EUR 256.4 thousand).

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

e) Loans to related parties

The Parent Company's non–current and current loans to related parties:

EUR'000

	Parent Company	
	31/03/2018	**31/12/2017**
Non–current loans to subsidiaries		
Sadales tīkls AS	299,614	312,582
Latvijas elektriskie tīkli AS	82,637	85,394
Total non–current loans	**382,251**	**397,976**
Current portion of non–current loans		
Sadales tīkls AS	50,914	50,914
Latvijas elektriskie tīkli AS	8,490	8,490
Current loans to subsidiaries		
Latvijas elektriskie tīkli AS	13,600	1,294
Sadales tīkls AS	27,836	28,157
Elektrum Eesti OÜ	7,517	5,134
Elektrum Lietuva, UAB	3,826	2,172
Enerģijas publiskais tirgotājs AS	155,853	604,644
Total current loans	**268,036**	**700,805**
Total loans to subsidiaries	**650,287**	**1,098,781**

Movement in loans issued by the Parent Company:

EUR'000

	Parent Company		
	01/01-31/03/2018	**01/01-31/03/2017**	**2017**
At the beginning of the period	**1,098,781**	**622,704**	**622,704**
(Repaid) / issued current loans (net)	(432,769)	(10,354)	536,302
Repaid non–current loans	(15,725)	(9,891)	(60,225)
At the end of the period	**650,287**	**602,459**	**1,098,781**

13. EVENTS AFTER THE REPORTING PERIOD

On 10 April 2018 according to the Shareholder's decision, dated 20 March 2018, Latvijas elektriskie tīkli AS paid out dividends to the Shareholder – Latvenergo AS for year 2017 in the amount of EUR 50,462 thousand.

On 9 April 2018 according to the Shareholder's decision, dated 27 March 2018, Elektrum Eesti, OÜ and Elektrum Lietuva, UAB paid out dividends to the Shareholder – Latvenergo AS for year 2017 in the amount of EUR 232 thousand and EUR 481 thousand, accordingly.

On 19 April 2018 Enerģijas publiskais tirgotājs AS received a part of government grant in the amount of EUR 80.0 million.

Public Utilities Commission (PUC) on 23 May 2018 approved mandatory procurement public service obligation (PSO) fees and guaranteed fees for installed electrical capacity which will come into force from 1 July 2018. Approved PSO fees determine an average decrease of payment from EUR 25,79 for MWh to EUR 22,68 for MWh.

On 9 May 2018 Latvenergo AS Shareholder's meeting decided to pay out dividends to the State in the amount of EUR 156,418 thousand.

There have been no other significant events subsequent to the end of the reporting period that might have a material effect on the Latvenergo Group and Latvenergo AS Unaudited Interim Condensed Financial Statements for the 3-month period ending 31 March 2018.