

LATVENERGO CONSOLIDATED AND LATVENERGO AS UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

**FOR THE 6-MONTH PERIOD
ENDING 30 JUNE 2018**

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

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** 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

30. 11. 2018

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

CONTACT DETAILS FOR INVESTOR RELATIONS

E-mail: investor.relations@latvenergo.lv

Website: <http://www.latvenergo.lv>

DISCLAIMER

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

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

Summary

- **Electricity prices increase in the Nordics and the Baltics**

In 1H 2018, electricity spot prices increased in both the Nordics and the Baltics. This was mainly due to the warm, dry weather in Europe, lower electricity output at WPPs and lower water levels at Scandinavian hydropower reservoirs. In 1H 2018, the electricity spot price in Latvia was 28% higher compared to the respective period a year ago.

- **Higher electricity output at the Riga CHPPs**

In the reporting period, Latvenergo Group generated 3,139 GWh of electricity at its plants. Electricity output at the Riga CHPPs increased by 29%. The increase in the Riga CHPPs' output is attributable to the ability to respond effectively to the regional market situation by offering the necessary amount of electricity. Electricity output at the Daugava HPPs decreased by 12% due to lower water inflow, which was affected by the warm, dry weather. Thermal energy output in 1H 2018 was 1,442 GWh. This is 8% less than the respective period a year ago and is due to increased competition in the thermal energy market.

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

In 1H 2018, a total of 3.3 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 exceeds 250. Latvenergo Group is the second largest natural gas consumer in the Baltics.

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

In 1H 2018, Latvenergo Group's revenue decreased by 6% and amounted to EUR 450.2 million. Meanwhile, EBITDA decreased by 12%, reaching EUR 187.5 million. The 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 1H 2018 was EUR 97.4 million, which is approximately the same as in the respective period a year ago.

- **Investment in network assets – 80% of the total**

In 1H 2018, the total amount of investments was EUR 96.6 million, 80% of which was invested in network assets. The Group is also continuing the reconstruction of the Daugava HPPs' hydropower units.

- **Latvenergo AS receives the Platinum category of the Sustainability Index and the highest overall assessment in the history of its operations**

During the closing ceremony of the Sustainability Index 2018 held on 14 June, Latvenergo AS received the Platinum (highest) category for the sixth consecutive year. This is an assessment of the company's sustainability in all aspects of corporate social responsibility, based on international requirements. In 2018, Latvenergo AS received the highest overall assessment in the history of its operations: 97.2%.

- **Moody's affirms the green bond assessment of Latvenergo AS**

On 15 June 2018, international credit rating agency Moody's Investors Service affirmed the assessment of Latvenergo AS *green* bonds as GB1 (excellent), indicating the well-defined organizational structure and decision-making process for selecting eligible projects as well as the comprehensive description of projects included in the *green* bond report 2017.

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 Liepāja, 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

		1H 2018	1H 2017	1H 2016	1H 2015	1H 2014
Total electricity supply, incl.	GWh	5,254	5,465	5,124	4,985	5,030
<i>Retail²⁾</i>	GWh	3,320	3,541	3,969	3,989	4,636
<i>Wholesale³⁾</i>	GWh	1,934	1,924	1,155	997	394
Electricity generation	GWh	3,139	3,147	2,431	1,931	2,111
Thermal energy generation	GWh	1,442	1,574	1,527	1,395	1,465
Number of employees		3,539	4,112	4,187	4,163	4,548
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa3 (stable)	Baa3 (stable)

Latvenergo Group Financial Figures

		1H 2018	1H 2017	1H 2016	1H 2015	1H 2014
Revenue	MEUR	450.2	478.9	476.0	474.1	543.1
EBITDA ¹⁾	MEUR	187.5	213.1	203.3	177.8	146.2
Profit	MEUR	97.4	97.9	74.7	61.7	42.3
Assets	MEUR	3,834.2	3,842.2	3,545.5	3,527.5	3,528.3
Equity	MEUR	2,342.4	2,425.9	2,091.5	2,054.0	2,034.5
Net debt ¹⁾	MEUR	611.6	566.8	648.4	703.6	681.2
Investments	MEUR	96.6	92.8	79.6	79.3	64.7

Latvenergo Group Financial Ratios

	1H 2018	1H 2017	1H 2016	1H 2015	1H 2014
Net debt / EBITDA ¹⁾	1.1	1.5	2.0	2.6	2.5
EBITDA margin ¹⁾	58%	43%	36%	29%	25%
Return on equity (ROE) ¹⁾	13.5%	6.8%	4.7%	2.4%	3.0%
Return on assets (ROA) ¹⁾	8.4%	4.2%	2.8%	1.4%	1.7%
Return on capital employed (ROCE) ¹⁾	6.9%	6.2%	4.1%	2.4%	2.7%
Net debt / equity ¹⁾	26%	23%	31%	34%	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

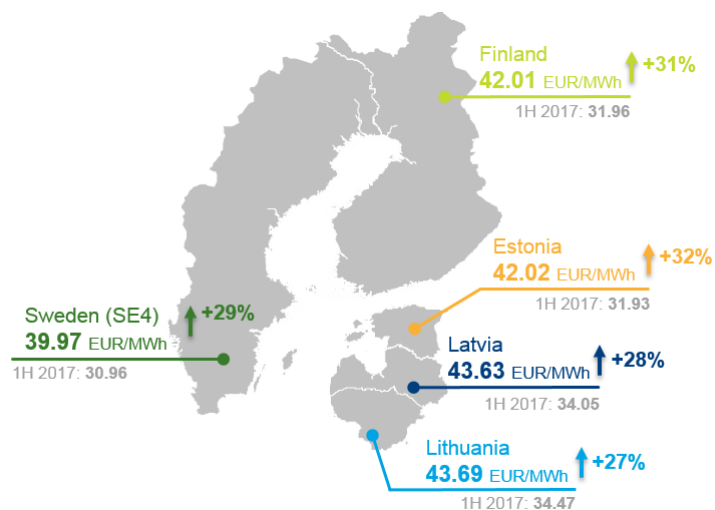
Operating Environment

Latvenergo Group's operations and performance are influenced by various global and regional factors, including prices of electricity and natural gas. In 1H 2018:

- there was a significant increase of 30% on average in the retail electricity prices in all Nord Pool bidding areas. In Latvia, the price increased by 28%;
- the price of natural gas at the GASPOOL and TTF trading platforms was on average 17% higher compared to the respective period a year ago.

The warm, dry weather contributed to the increase in prices in all Nord Pool bidding areas

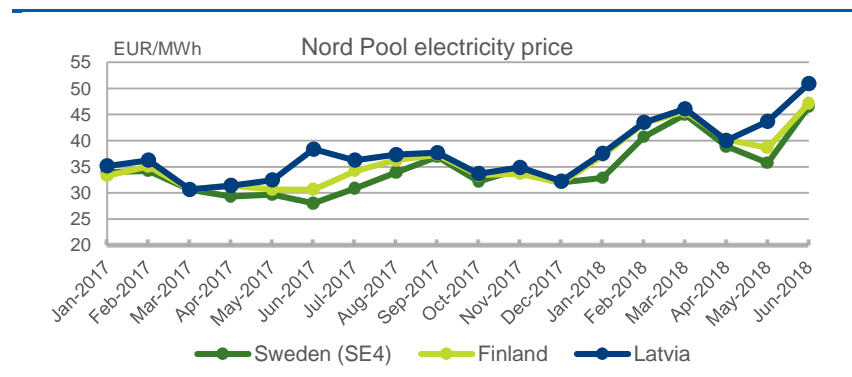
In 1H 2018, electricity prices increased significantly in the Nordics and the Baltics compared to the respective period a year ago.



The increase in electricity prices was affected by the warm, dry weather in the region, which resulted in lower water levels at the Scandinavian hydropower reservoirs and lower output of hydroelectricity. The insufficient electricity output at wind farms, increasing demand for coal and high CO2 emission price also affected electricity spot prices. Likewise, the price convergence between the bidding areas was limited by some transmission interconnection outages.

The *NordBalt* interconnection had a few minor outages due to planned maintenance work in January and April. The *Estlink* interconnection experienced a small decrease in capacity due to planned maintenance work as well.

In 1H 2018, the electricity price differences between the Nordics and Latvia increased by 0.26 EUR/MWh on average compared to the previous year and reached 4.11 EUR/MWh. The electricity price difference between Latvia and Estonia decreased by 24% and amounted to 1.61 EUR/MWh. Meanwhile, the price of electricity for 1 megawatt hour in Latvia and Lithuania does not differ significantly.



The total electricity consumption in the Baltics was almost 14.3 TWh. In 1H 2018, electricity consumption increased in all the Baltic States compared to last year. Consumption increased by 2% in Latvia, by 4% in Lithuania and by 4% in Estonia.

The electricity output in the Baltics decreased by 1% compared to the respective period a year ago and amounted to 10.9 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 3.2 TWh.

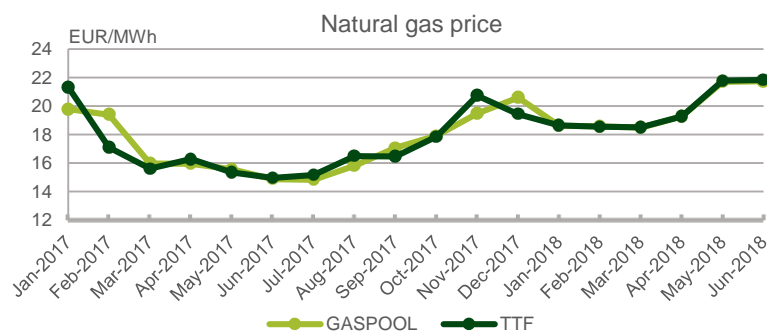
Operating Environment

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, more than 250 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 1H 2018, the average price of natural gas at the GASPOOL trading platform was 16% higher than in the respective period a year ago and at TTF it was 18% higher.

The price of natural gas in Latvia is affected by oil, coal and CO₂ emission prices:

- The average price of Brent (Front Month) crude oil in the first 6 months of 2018 was 71.4 USD/bbl, which was 36% higher than in the respective period a year ago. Oil price trends are influenced by the OPEC agreement on oil output limitation as well as insurgency in the Middle East.
- In 1H 2018, the average price of coal (API2 Front Month) increased by 15% compared to the respective period in 2017, reaching 88.1 USD/t. Coal prices increased due to higher coal demand in Europe as well as the development of Asian countries.
- The average price of CO₂ emissions in 1H 2018 increased by 143% compared to the respective period in 2017, reaching 12.1 EUR/t. CO₂ emission prices increased along with a higher market demand and higher raw material prices. Also, the expected reform of the EU emissions trading system (ETS) increased CO₂ emission prices.

Operating Environment

75% lower revenue from the installed electrical capacity at the Riga CHPPs

In October 2017, Latvenergo AS applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the annual electrical capacity payments for cogeneration power plants Riga CHPP-1 and Riga CHPP-2. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order which supports the reduction of the guaranteed support payments during the remaining support period for the installed capacity of Latvenergo AS Riga CHPPs by paying out a one-off compensation in the amount of EUR 454.4 million which was financed by the capital release of Latvenergo AS. 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 1H 2018, EUR 14.7 million were recognized as other income of Latvenergo AS.

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.

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. As of 30 June 2018, the Group's asset value exceeds EUR 3.8 billion and its equity exceeds EUR 2.3 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 30 June 2018, the Group's net debt to equity was 26% and its net debt to EBITDA ratio was 1.1. 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.

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 as of 2018.

Financial Results

In the first 6 months of 2018, Latvenergo Group's revenue decreased by 6% and comprised EUR 450.2 million. Meanwhile, EBITDA decreased by 12% and reached EUR 187.5 million.

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

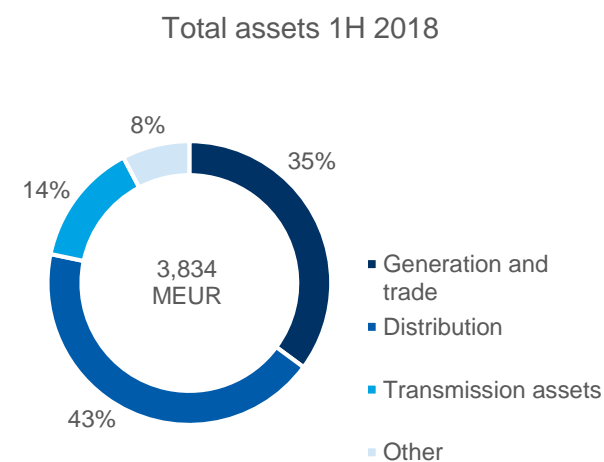
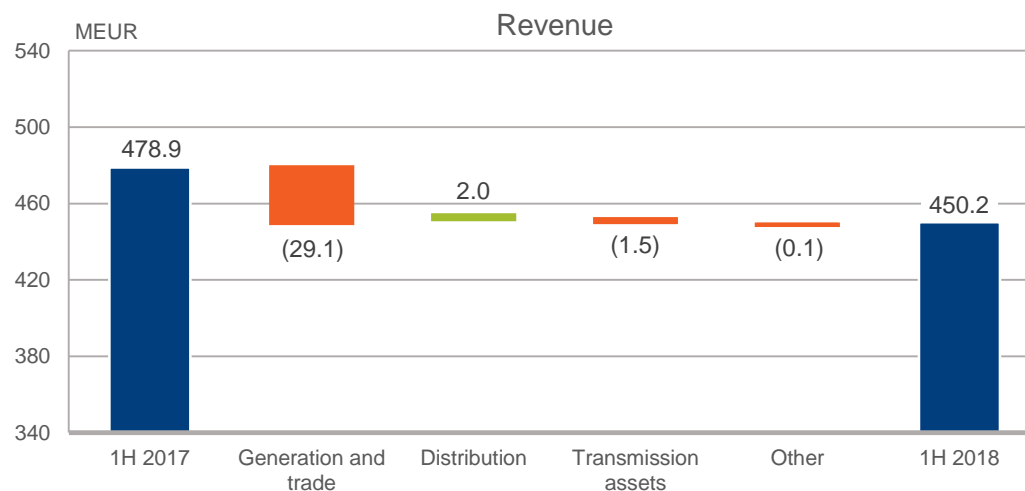
The Group's results in the reporting period were impacted by 12% lower electricity output at the Daugava HPPs as well as 75% lower revenue from the installed electrical capacity at the Riga CHPPs, which was partially offset by the compensation for

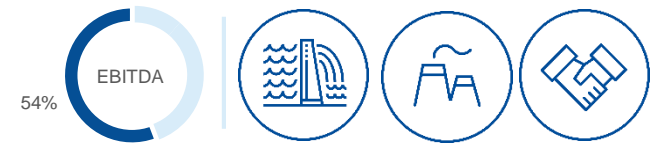
Latvenergo Group financial figures		1H 2018	1H 2017	Δ	Δ, %
Revenue	MEUR	450.2	478.9	(28.7)	(6%)
EBITDA	MEUR	187.5	213.1	(25.6)	(12%)
Net profit	MEUR	97.4	97.9	(0.5)	(0%)
Assets	MEUR	3,834.2	3,842.2	(8.0)	(0%)

the Riga CHPPs' capacity payments that was recognised in the profit and loss statement of Latvenergo AS. In 1H 2018, EUR 14.7 million of the compensation were recognized as other income of Latvenergo AS.

Latvenergo Group's profit in 1H 2018 was EUR 97.4 million, which is approximately the same as in the respective period a year ago.

In 1H 2018, the EBITDA margin improved, reaching 58% (in the respective period in 2017 it was 43%).





Generation and Trade

Revenue

56%

EBITDA

54%

Assets

35%

Employees

26%

Segment weight in Latvenergo Group

Generation and trade is Latvenergo Group's largest operating segment by both revenue and EBITDA value. In the reporting period, the majority or 83% of the segment's revenue came from electricity and related services, while 17% came from thermal energy supply.

The segment's 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 the first 6-month period of 2018, the volume of electricity generated at Latvenergo Group's plants remained at the same level as a year ago; it amounts to 3,139 GWh, which corresponds to 95% of the amount of electricity sold to retail customers (in 1H 2017: 89%).

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

Generation

In the reporting period, the total amount generated by Latvenergo Group's power plants comprised 3,139 GWh of electricity and 1,442 GWh of thermal energy.

In 1H 2018, the amount of power generated at the Riga CHPPs increased by 29% compared to the respective period a year ago, reaching 1,135 GWh. The increase was fostered by higher electricity prices in the region.

Operational figures		1H 2018	1H 2017	Δ	Δ, %
Total electricity supply	GWh	5,254	5,465	(211)	(4%)
Electricity generation	GWh	3,139	3,147	(8)	(0%)
Thermal energy generation	GWh	1,442	1,574	(132)	(8%)

Financial figures		1H 2018	1H 2017	Δ	Δ, %
Revenue	MEUR	266.2	295.3	(29.1)	(10%)
EBITDA	MEUR	100.9	124.0	(23.1)	(19%)
Assets	MEUR	1,346.0	1,504.9	(158.9)	(11%)
Investments	MEUR	13.1	29.7	(16.6)	(56%)
EBITDA margin		66.4%	39.3%	27.0 pp	69%

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.

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

Power generated at the Riga CHPPs increased by 29%

In 1H 2018, the amount of power generated at the Daugava HPPs decreased by 12% compared to the respective period a year ago and reached 1,977 GWh. The amount of power generated at the Daugava HPPs was impacted by lower water inflow in the river Daugava compared to the respective period a year ago.

Generation and Trade

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 63% (in 1H 2017: 72%).

The total amount of thermal energy generated by Latvenergo Group in 1H 2018 decreased by 8% compared to the respective period a year ago. The decrease was impacted by increasing competition in the thermal energy market: at the end of 2017 and at the beginning of 2018 four new competitors entered the territory of the Riga CHPPs.

Trade

In 1H 2018, Latvenergo Group was one of the leading energy trading companies in the Baltics.

In the reporting period, the Group supplied 3.3 TWh of electricity to Baltic retail customers (in 1H 2017: 3.5 TWh). The decrease in the amount of electricity supplied was primarily related to intensified competition in the business customer segment.

Operational figures		1H 2018	1H 2017	Δ	Δ, %
Total electricity supply, incl.	GWh	5,254	5,465	(211)	(4%)
<i>Retail*</i>	GWh	3,320	3,541	(221)	(6%)
<i>Wholesale**</i>	GWh	1,934	1,924	10	1%
Electricity generation	GWh	3,139	3,147	(8)	(0%)
<i>Daugava HPPs</i>	GWh	1,977	2,242	(265)	(12%)
<i>Riga CHPPs</i>	GWh	1,135	877	257	29%
<i>Liepaja plants and small plants</i>	GWh	27	28	(0.4)	(1%)
Thermal energy generation		1,442	1,574	(132)	(8%)
<i>Riga CHPPs</i>	GWh	1,278	1,420	(142)	(10%)
<i>Liepaja plants and small plants</i>	GWh	164	154	10	6%

* Including operating consumption

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

The overall amount of retail electricity trade outside Latvia accounted for 1/3 of the total, reaching 1.1 TWh. The electricity trade volume in Latvia was 2.2 TWh, while in Lithuania it was 0.6 TWh and in Estonia it was 0.5 TWh.

Latvenergo Group has managed to maintain a stable client portfolio in the Baltics. Its total number of electricity customers comprises approximately 800 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. As of the end of the reporting period, more than 250 contracts have been signed.

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 3.2 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 decreased starting from 1 July 2018

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". According to the order the average PSO fee decreased 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 was 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 of this sum was diverted for the PSO fee reduction starting from 1 July 2018, while EUR 51.7 million was diverted for the reduction of the compensation's advance payment for the Riga CHPPs.

Unsettled revenue from the mandatory procurement PSO fee recognised as assets		1H 2018	1H 2017	Δ	Δ, %
At the beginning of the reporting period	MEUR	164.4	142.1	22.2	16%
Mandatory procurement PSO fee income	MEUR	83.3	89.6	(6.3)	(7%)
Received state grant	MEUR	80.0	66.9	13.0	19%
Mandatory procurement expenditures*	MEUR	84.8	135.8	(50.9)	(38%)
<i>Incl. cogeneration</i>	MEUR	28.5	74.7	(46.2)	(62%)
<i>Incl. renewable energy resources</i>	MEUR	56.0	60.8	(4.8)	(8%)
At the end of the reporting period	MEUR	86.0	121.4	(35.4)	(29%)

* 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

In order to foster the decrease in the PSO fee Enerģijas publiskais tirgotājs AS receives a state grant. On 19 April 2018 a state grant in the amount of EUR 80.0 million was received. Revenue from Latvenergo AS dividends is 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 1H 2018, MP expenditures comprised EUR 84.8 million (in 1H 2017: EUR 135.8 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 (–37.3 million euros).

In 1H 2018, Enerģijas publiskais tirgotājs AS made payments from the state budget to energy-intensive manufacturing companies in the amount of EUR 2.6 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 30 June 2018, assets recognised as unearned PSO fee revenue decreased by EUR 35.4 million, comprising EUR 86.0 million.



Distribution

Revenue	34%
EBITDA	32%
Assets	43%
Employees	57%

Segment weight in Latvenergo Group

The distribution segment is Latvenergo Group's largest segment by asset value and the second largest segment by revenue. In 1H 2018, the segment's revenue remained at the same level as a year ago and comprised EUR 162.8 million, while EBITDA decreased by 3%, reaching EUR 59.5 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% compared to the respective period a year ago. However, the results were negatively impacted by an increase of 4.0 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		1H 2018	1H 2017	Δ	Δ, %
Electricity distributed	GWh	3,321	3,250	71	2%
Distribution losses	GWh	166	165	1	1%
SAIFI	number	1.1	1.2	(0.1)	(6%)
SAIDI	minutes	105	110	(5)	(5%)
Financial figures		1H 2018	1H 2017	Δ	Δ, %
Revenue	MEUR	162.8	160.7	2.0	1%
EBITDA	MEUR	59.5	61.3	(1.9)	(3%)
Assets	MEUR	1,655.2	1,627.0	28.3	2%
Investments	MEUR	40.7	50.6	(9.9)	(20%)
EBITDA margin		34.0%	37.0%	(3.0pp)	(8%)

Investments in distribution assets during the reporting period decreased by 20% compared to the respective period a year ago and comprised EUR 40.7 million. Due to the investments, the value of distribution assets increased to EUR 1,655.2 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

Revenue	4%
EBITDA	11%
Assets	14%
Employees	0.2%

Segment weight in Latvenergo Group

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 the first half year of 2018, the segment's revenue was EUR 20.6 million, while EBITDA was EUR 20.5 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		1H 2018	1H 2017	Δ	Δ, %
Revenue	MEUR	20.6	22.1	(1.5)	(7%)
EBITDA	MEUR	20.5	21.4	(0.9)	(4%)
Total assets	MEUR	538.0	450.6	(87.4)	19%
Investments	MEUR	37.9	13.1	(24.8)	190%

In 1H 2018, investment in transmission system assets was in the amount of EUR 37.9 million. The amount of investments is almost three times greater than the respective period a year ago. The largest investment was made in the energy infrastructure project *Kurzeme Ring*. In 1H 2018, EUR 32.4 million was invested in this project (1H 2017: EUR 3.7 million).

The value of transmission assets increased to EUR 538.0 million.

The return on transmission system assets in 1H 2018 was 4.0% (1H 2017: 3.0%).

Investments

In 1H 2018, the total amount of investment increased by 4% compared to the respective period a year ago; it comprised EUR 96.6 million.

Investment in power network assets – approximately 80% 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 80% of total investment.

Contributing to environmentally friendly projects, in the first 6 months of 2018, EUR 11 million was invested in the Daugava HPPs' hydropower unit reconstruction.

Investment projects:

Hydropower unit reconstruction programme for the Daugava HPPs (Reconstruction of the Daugava HPPs)

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 30 June 2018, work completed within the scope of the contract reached EUR 139.4 million. Reconstruction will ensure functionality of the hydropower units for another 40 years.

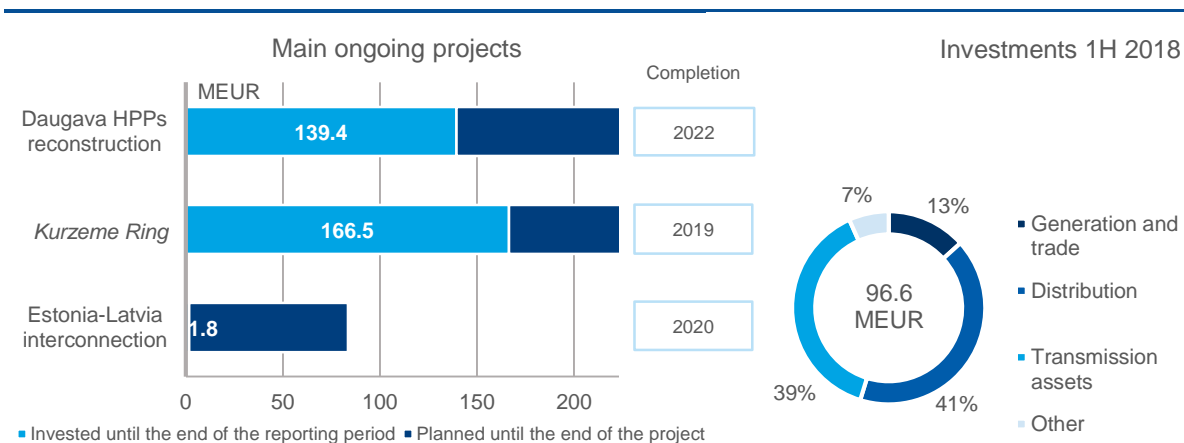
The Kurzeme Ring project

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 220 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 30 June 2018, EUR 71.7 million was invested in the last stage of this project. In 1H 2018, research was completed for all the projects, several 330 kV transmission lines were under construction and rebuilding work was continuing at several substations.

The third Estonia–Latvia power transmission network interconnection

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 the reporting period, an agreement was signed with the general contractor, and design and construction work has started.



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.

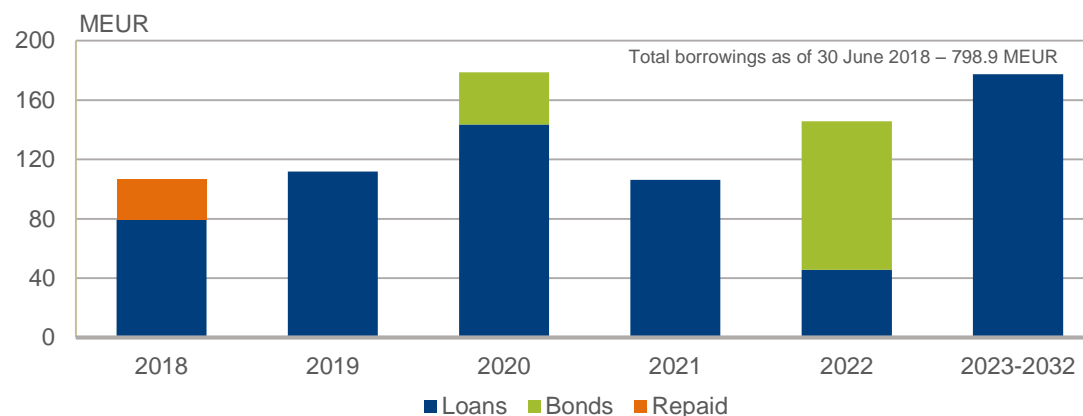
Diversified sources of funding

As of 30 June 2018, the Group's borrowings amount to EUR 798.9 million (30 June 2017: EUR 747.4 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 30 June 2018, all borrowings are denominated in euro currency. The weighted average repayment period is 4.0 years (30 June 2017: 3.7 years). The effective weighted average interest rate (with interest rate swaps) is 1.4% (30 June 2017: 1.8%). Also, sufficient coverage of debt service requirements has been ensured (debt service coverage ratio: 3.3).

Latvenergo Group's debt repayment schedule



As of 30 June 2018, the net borrowings of Latvenergo Group are EUR 611.6 million (30 June 2017: EUR 566.8 million), while the net debt / EBITDA ratio is 1.1 (30 June 2017: 1.5). In 1H 2018, all the binding financial covenants set in Latvenergo Group's loan agreements have been met.

On 15 June 2018, international credit rating agency Moody's Investors Service affirmed the assessment of Latvenergo AS *green* bonds as GB1 (excellent), indicating the well-defined organizational structure and decision-making process for selecting eligible projects as well as the comprehensive description of projects included in the *green* bond report 2017.

Moody's credit rating for Latvenergo AS has been stable for several years and is at the Baa2 level with a stable future outlook. The last credit rating affirmation was on 14 March 2018.

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, 59% of the borrowings had a fixed interest rate with an average period of 2.2 years as of 30 June 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 30 June 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 incurrance 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 30 June 2018, Latvenergo Group's liquid assets (cash and short-term deposits up to 3 months) reached EUR 187.3 million (30 June 2018: EUR 180.6 million), while the current ratio was 1.6 (1.7).

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

Latvenergo AS Key Performance Indicators

Latvenergo AS operational figures

		1H 2018	1H 2017	1H 2016
Retail electricity supply in Latvia**	GWh	2,236	2,359	2,751
Electricity generation	GWh	3,114	3,122	2,406
Thermal energy generation	GWh	1,281	1,423	1,383
Number of employees		1,375	1,476	1,478
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

Latvenergo AS financial figures

		1H 2018	1H 2017	1H 2016
Revenue	MEUR	236.2	262.7	267.4
EBITDA*	MEUR	106.1	130.1	130.4
Profit	MEUR	248.0	82.2	87.4
Assets	MEUR	3,223.9	3,129.2	3,172.2
Equity	MEUR	2,030.9	2,170.0	2,122.4
Net debt*	MEUR	602.4	556.9	641.3
Investments	MEUR	20.1	34.7	30.3

Latvenergo AS financial ratios

	1H 2018	1H 2017	1H 2016
Return on equity (ROE)*	15.1%	6.2%	5.3%
Net debt / equity*	30%	26%	30%
EBITDA margin*	77%	47%	38%

* 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 6-Month Period Ending 30 June 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 6-Month Period Ending 30 June 2018* were approved by the Management Board of Latvenergo AS on 28 August 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

28 August 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

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

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

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

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

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

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

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

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

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

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

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

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

Unaudited Condensed Interim Financial Statements

Statement of Profit or Loss

	Notes	Group		Parent Company	
				EUR'000	
		01/01- 30/06/2018	01/01- 30/06/2017	01/01- 30/06/2018	01/01- 30/06/2017
Revenue	4	450,235	478,902	236,245	262,691
Other income		22,911	3,535	21,235	2,397
Raw materials and consumables used	5	(201,991)	(182,185)	(106,991)	(83,491)
Personnel expenses		(56,579)	(51,363)	(22,770)	(21,550)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	6	(86,139)	(94,122)	(36,812)	(44,314)
Other operating expenses		(27,109)	(35,739)	(21,576)	(29,909)
Operating profit		101,328	119,028	69,331	85,824
Finance income		577	627	6,140	5,723
Finance costs		(4,401)	(5,930)	(5,081)	(6,232)
Received dividends from subsidiaries		–	–	177,645	9,111
Profit before tax		97,504	113,725	248,035	94,426
Income tax*		(101)	(15,854)	(20)	(12,249)
Profit for the period		97,403	97,871	248,015	82,177
Profit attributable to:					
– Equity holder of the Parent Company		95,723	96,628	248,015	82,177
– Non-controlling interests		1,680	1,243	–	–

*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

	Notes	Group		Parent Company	
				EUR'000	
		01/01- 30/06/2018	01/01- 30/06/2017	01/01- 30/06/2018	01/01- 30/06/2017
Profit for the period		97,403	97,871	248,015	82,177
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>					
– income from change in hedge reserve	11 c	10,583	864	10,583	864
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		10,583	864	10,583	864
Total other comprehensive income for the period		10,583	864	10,583	864
Total comprehensive income for the period		107,986	98,735	258,598	83,041
Comprehensive income attributable to:					
– Equity holder of the Parent Company		106,306	97,492	258,598	83,041
– Non-controlling interests		1,680	1,243	–	–

Statement of Financial Position

EUR'000

	Notes	Group		Parent Company	
		30/06/2018	31/12/2017	30/06/2018	31/12/2017
ASSETS					
Non-current assets					
Intangible assets and property, plant and equipment	6	3,330,222	3,322,398	1,232,227	1,248,915
Investment property		464	753	63,902	64,807
Non-current financial investments	8	40	40	817,048	817,048
Non-current loans to subsidiaries	12 e	–	–	419,423	397,976
Investments in held-to-maturity financial assets	11 a	16,960	16,984	16,960	16,984
Other non-current receivables	9 b	3,227	3,229	284	284
Total non-current assets		3,350,913	3,343,404	2,549,844	2,546,014
Current assets					
Inventories	7	37,709	76,328	22,752	61,824
Receivables from contracts with customers	9 a	87,900	105,369	65,807	82,799
Other current receivables	9 b	119,663	646,761	137,262	18,079
Prepayment for income tax		11,770	–	10,159	–
Deferred expenses		4,519	3,241	2,561	2,205
Current loans to subsidiaries	12 e	–	–	216,506	700,805
Derivative financial instruments	11 c	14,438	4,619	14,438	4,619
Current financial investments		20,000	–	20,000	–
Cash and cash equivalents	10	187,294	236,003	184,543	232,855
Total current assets		483,293	1,072,321	674,028	1,103,186
TOTAL ASSETS		3,834,206	4,415,725	3,223,872	3,649,200
EQUITY AND LIABILITIES					
Equity					
Share capital	6 b, 9 b	834,791	1,288,715	834,791	1,288,715
Reserves		1,134,300	1,126,521	800,691	791,906
Retained earnings		365,722	423,613	395,412	302,017
Equity attributable to equity holder of the Parent Company		2,334,813	2,838,849	2,030,894	2,382,638
Non-controlling interests		7,606	8,042	–	–
Total equity		2,342,419	2,846,891	2,030,894	2,382,638
Liabilities					
Non-current liabilities					
Borrowings	11 b	664,462	718,674	656,458	710,125
Provisions		22,676	21,910	9,010	8,835
Derivative financial instruments	11 c	4,018	4,914	4,018	4,914
Deferred income on contracts from customers		142,306	142,132	–	–
Other liabilities and deferred income		349,318	350,926	271,401	286,085
Total non-current liabilities		1,182,780	1,238,556	940,887	1,009,959
Current liabilities					
Borrowings	11 b	134,391	108,083	130,527	104,647
Trade and other payables		126,566	147,072	88,759	94,689
Income tax payable		–	27,725	–	24,739
Deferred income on contracts from customers		12,874	12,500	–	–
Other deferred income		31,723	31,728	29,352	29,358
Derivative financial instruments	11 c	3,453	3,170	3,453	3,170
Total current liabilities		309,007	330,278	252,091	256,603
Total liabilities		1,491,787	1,568,834	1,192,978	1,266,562
TOTAL EQUITY AND LIABILITIES		3,834,206	4,415,725	3,223,872	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
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	-	(757)	757	-	-	-	-	-	-	-
Total contributions and profit distributions recognised directly in equity	-	(757)	(89,385)	(90,142)	(1,393)	(91,535)	-	-	(90,142)	(90,142)
Profit for the period	-	-	96,628	96,628	1,243	97,871	-	-	82,177	82,177
Other comprehensive income	-	864	-	864	-	864	-	864	-	864
Total comprehensive income for the period	-	864	96,628	97,492	1,243	98,735	-	864	82,177	83,041
As of 30 June 2017	1,288,715	937,181	193,073	2,418,969	6,934	2,425,903	1,288,715	650,884	230,369	2,169,968
Disposal of property, plant and equipment revaluation reserve net of deferred income tax	-	(3,620)	3,620	-	-	-	-	(1,762)	1,762	-
Total contributions and profit distributions recognised directly in equity	-	(3,620)	3,620	-	-	-	-	(1,762)	1,762	-
Profit for the period	-	-	223,042	223,042	1,108	224,150	-	-	68,714	68,714
Other comprehensive income	-	192,960	3,878	196,838	-	196,838	-	142,784	1,172	143,956
Total comprehensive income for the period	-	192,960	226,920	419,880	1,108	420,988	-	142,784	69,886	212,670
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 (Notes 6 b, 9 b)	(453,924)	-	-	(453,924)	-	(453,924)	(453,924)	-	-	(453,924)
Dividends for 2017	-	-	(156,418)	(156,418)	(2,116)	(158,534)	-	-	(156,418)	(156,418)
Disposal of property, plant and equipment revaluation reserve	-	(2,804)	2,804	-	-	-	-	(1,798)	1,798	-
Total contributions and profit distributions recognised directly in equity	(453,924)	(2,804)	(153,614)	(610,342)	(2,116)	(612,458)	(453,924)	(1,798)	(154,620)	(610,342)
Profit for the period	-	-	95,723	95,723	1,680	97,403	-	-	248,015	248,015
Other comprehensive income	-	10,583	-	10,583	-	10,583	-	10,583	-	10,583
Total comprehensive income for the period	-	10,583	95,723	106,306	1,680	107,986	-	10,583	248,015	258,598
As of 30 June 2018	834,791	1,134,300	365,722	2,334,813	7,606	2,342,419	834,791	800,691	395,412	2,030,894

* In March 2018 registered decrease of share capital in the amount of EUR 454,413 thousand, related to the trilateral agreement between Republic of Latvia, Latvenergo AS and Enerģijas publiskais tirgotājs AS (public trader) on the decrease of the intensity of support of the future state commitments to Latvenergo AS regarding its cogeneration power plants Riga TEC-1 and Riga TEC-2 (CHPPs) in exchange to a one-off compensation (see Note 9 b).

In June 2018, in accordance with the Directive No. 765 of the Cabinet of Ministers of the Republic of Latvia, dated 19 December 2017 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 489 thousand was invested in the share capital of Latvenergo AS (see Note 6 b).

Statement of Cash Flows

EUR'000

	Notes	Group		Parent Company	
		01/01-30/06/2018	01/01-30/06/2017	01/01-30/06/2018	01/01-30/06/2017
Cash flows from operating activities					
Profit before tax		97,504	113,725	248,035	94,426
Adjustments:					
– Amortisation, depreciation and impairment of non-current assets		88,587	95,402	37,260	44,484
– Net financial adjustments		3,920	7,715	(950)	2,921
– Received dividends from subsidiaries		–	–	(177,645)	(9,111)
– Other adjustments		766	498	175	222
Operating profit before working capital adjustments		190,777	217,340	106,875	132,942
Decrease in current assets		561,606	48,164	40,792	20,801
Decrease in trade and other payables		(466,603)	(9,865)	(19,678)	(8,796)
Cash generated from operating activities		285,780	255,639	127,989	144,946
Interest paid		(6,274)	(7,022)	(6,964)	(7,319)
Interest received		554	1,177	6,118	6,395
Corporate income tax and real estate tax paid		(39,294)	(23,219)	(34,918)	(20,808)
Net cash flows generated from operating activities		240,766	226,575	92,225	123,214
Cash flows from investing activities					
Repayment of loans issued to subsidiaries		–	–	8,439	34,015
Purchase of intangible assets and property, plant and equipment		(104,553)	(98,293)	(19,660)	(40,043)
Proceeds from redemption of held-to-maturity assets		25	3,544	25	3,544
Proceeds from investments in subsidiaries		–	–	53,378	9,111
Net cash flows (used in) / generated from investing activities		(104,528)	(94,749)	42,182	6,627
Cash flows from financing activities					
Proceeds on borrowings from financial institutions		1,000	–	–	–
Repayment of borrowings	11 b	(27,413)	(43,671)	(26,301)	(41,921)
Dividends paid to equity holder of the Parent Company		(156,418)	(90,142)	(156,418)	(90,142)
Dividends paid to non-controlling interests		(2,116)	(1,393)	–	–
Net cash flows used in financing activities		(184,947)	(135,206)	(182,719)	(132,063)
Net decrease in cash and cash equivalents	10	(48,709)	(3,380)	(48,312)	(2,222)
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	187,294	180,600	184,543	178,975

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 Republic 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 holds 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 Marīta 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 6–month period ending 30 June 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 30 June 2018 and comparative information for the 6–month period ending 30 June 2017.

The Unaudited Interim Condensed Financial Statements of Latvenergo Group and Latvenergo AS for the 6–month period ending 30 June 2018 were authorised by the Latvenergo AS Management Board on 28 August 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						
	Generation and trade	Distribution	Lease of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Group
Period: 01/01-30/06/2018							
Revenue							
External customers	265,500	161,865	19,245	3,625	450,235	–	450,235
Inter-segment	720	900	1,345	23,078	26,043	(26,043)	–
Total revenue	266,220	162,765	20,590	26,703	476,278	(26,043)	450,235
Results							
EBITDA	100,873	59,451	20,488	6,655	187,467	–	187,467
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(29,145)	(38,285)	(12,658)	(6,051)	(86,139)	–	(86,139)
Segment profit / (loss)	71,728	21,166	7,830	604	101,328	(3,824)	97,504
Capital expenditure	13,095	40,733	37,868	6,577	98,273	(1,668)	96,605
Period: : 01/01-30/06/2017							
Revenue							
External customers	294,224	159,786	20,857	4,035	478,902	–	478,902
Inter-segment	1,109	945	1,268	26,004	29,326	(29,326)	–
Total revenue	295,333	160,731	22,125	30,039	508,228	(29,326)	478,902
Results							
EBITDA	123,994	61,332	21,375	6,449	213,150	–	213,150
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(36,725)	(38,974)	(12,367)	(6,056)	(94,122)	–	(94,122)
Segment profit / (loss)	87,269	22,358	9,008	393	119,028	(5,303)	113,725
Capital expenditure	29,679	50,643	13,070	3,994	97,386	(4,622)	92,764

Segment assets

	Group						
	Generation and trade	Distribution	Lease of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Group
As of 30 June 2018	1,346,015	1,655,226	537,998	86,086	3,625,325	208,881	3,834,206
As of 31 December 2017	1,956,888	1,641,318	500,863	85,584	4,184,653	231,072	4,415,725

Parent Company				
Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Parent Company
211,731	24,514	236,245	–	236,245
196	11,460	11,656	(11,656)	–
211,927	35,974	247,901	(11,656)	236,245
93,144	12,999	106,143	–	106,143
(27,602)	(9,210)	(36,812)	–	(36,812)
65,542	3,789	69,331	178,704	248,035
12,726	7,408	20,134	–	20,134
238,013	24,678	262,691	–	262,691
167	14,330	14,497	(14,497)	–
238,180	39,008	277,188	(14,497)	262,691
117,572	12,566	130,138	–	130,138
(35,142)	(9,172)	(44,314)	–	(44,314)
82,430	3,394	85,824	8,602	94,426
29,432	5,222	34,654	–	34,654

EUR'000

Parent Company				
Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Parent Company
1,336,401	188,394	1,524,795	1,699,077	3,223,872
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

	Group		Parent Company	
	01/01-30/06/2018	01/01-30/06/2017	01/01-30/06/2018	01/01-30/06/2017
Segment profit	101,328	119,028	69,331	85,824
Finance income	577	627	6,140	5,723
Finance costs	(4,401)	(5,930)	(5,081)	(6,232)
Dividends received from subsidiaries	–	–	177,645	9,111
Profit before corporate income tax	97,504	113,725	248,035	94,426

Reconciliation of assets

	Group		Parent Company	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Segment assets	3,625,325	4,184,653	1,524,795	1,556,756
Connection usage rights	(41,622)	(26,652)	–	–
Non-current financial investments	40	40	817,048	817,048
Loans to subsidiaries	–	–	635,929	1,098,781
Held-to-maturity financial assets	16,960	16,984	16,960	16,984
Derivative financial instruments	14,438	4,619	14,438	4,619
Current financial investments	20,000	–	20,000	–
Other assets and assets held for sale	11,771	78	10,159	–
Cash and cash equivalents	187,294	236,003	184,543	232,855
Total assets	3,834,206	4,415,725	3,223,872	3,649,200

4. REVENUE

	IFRS or IAS applied	Group		Parent Company	
				EUR'000	
		01/01-30/06/2018	01/01-30/06/2017	01/01-30/06/2018	01/01-30/06/2017
Revenue from contracts with customers recognised over time					
Trade of energy and related supply services	IFRS 15	215,205	241,902	169,385	191,332
Distribution system services	IFRS 15	153,034	151,437	–	–
Heat sales	IFRS 15	46,484	50,239	38,934	43,096
Other revenue	IFRS 15	15,424	13,527	20,011	26,214
Total revenue from contracts with customers		430,147	457,105	228,330	260,642
Other revenue					
Lease of transmission system assets	IAS 17	18,993	20,605	–	–
Lease of other assets	IAS 17	843	940	7,915	2,049
Other revenue	IAS 17	252	252	–	–
Total other revenue		20,088	21,797	7,915	2,049
Total revenue		450,235	478,902	236,245	262,691

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	
			EUR'000	
	01/01-30/06/2018	01/01-30/06/2017	01/01-30/06/2018	01/01-30/06/2017
Mandatory procurement PSO fees	53,463	58,631	55,103	61,141
Distribution system services	5,397	5,197	106,018	110,871
Transmission system services	768	861	789	875
Total revenue recognised applying agent accounting principle	59,628	64,689	161,910	172,887

5. RAW MATERIALS AND CONSUMABLES USED

	Group		Parent Company	
			EUR'000	
	01/01-30/06/2018	01/01-30/06/2017	01/01-30/06/2018	01/01-30/06/2017
Electricity:				
Purchased electricity	70,192	60,517	22,351	9,715
Fair value loss on electricity forwards and futures (Note 11 c, II)	152	2,394	152	2,394
Electricity transmission services costs	35,558	35,986	436	422
	105,902	98,897	22,939	12,531
Energy resources costs	82,918	69,478	78,828	66,135
Raw materials, spare parts and maintenance costs	13,171	13,810	5,224	4,825
Total raw materials and consumables used	201,991	182,185	106,991	83,491

6. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

a) Intangible assets

EUR'000

	Group			Parent Company		
	01/01-30/06/2018	01/01-30/06/2017	2017	01/01-30/06/2018	01/01-30/06/2017	2017
Net book amount at the beginning of the period	13,413	14,534	14,534	17,461	18,769	18,769
Additions	1,017	1,195	2,588	996	1,144	2,531
Transfers to property, plant and equipment	–	–	–	–	–	(3)
Disposals	(72)	(106)	(212)	(294)	(328)	(653)
Amortisation charge	(1,751)	(1,676)	(3,497)	(1,593)	(1,519)	(3,183)
Net book amount at the end of the period	12,607	13,947	13,413	16,570	18,066	17,461

b) Property, plant and equipment

EUR'000

	Group			Parent Company		
	01/01-30/06/2018	01/01-30/06/2017	2017	01/01-30/06/2018	01/01-30/06/2017	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	95,112	91,569	241,220	18,175	32,727	84,370
Invested in share capital	489	–	–	489	–	–
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	(61)	(130)	(1,182)	(428)	(13)	(1,059)
Reclassified from investment property	–	–	–	–	–	8,335
Disposals	(2,522)	(1,414)	(4,900)	(286)	(68)	(487)
Impairment charge	9,599	(139)	(116,246)	9,656	47	(116,257)
Depreciation	(93,987)	(92,260)	(185,611)	(43,403)	(41,461)	(85,876)
Net book amount at the end of the period	3,317,615	3,353,423	3,308,985	1,215,657	1,313,750	1,231,454

7. INVENTORIES

EUR'000

	Group		Parent Company	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Raw materials and materials	15,434	16,547	1,149	1,583
Natural gas	14,064	53,079	14,064	53,078
Other inventories	9,583	8,115	8,496	8,075
Prepayments for inventories	30	81	22	80
Allowance for raw materials and other inventories	(1,402)	(1,494)	(979)	(992)
Total inventories	37,709	76,328	22,752	61,824

Movement on the allowance

	Group			Parent Company		
	01/01-30/06/2018	01/01-30/06/2017	2017	01/01-30/06/2018	01/01-30/06/2017	2017
At the beginning of the period	1,494	1,659	1,659	992	1,060	1,060
Inventories written off	–	(25)	(62)	–	–	–
Changes included to the Statement of Profit or Loss	(92)	(29)	(103)	(13)	9	(68)
At the end of the period	1,402	1,605	1,494	979	1,069	992

EUR'000

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	30/06/2018		31/12/2017	
			Interest held, %	EUR'000	Interest held, %	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
<i>Elektrum Eesti, OÜ</i>	Estonia	Electricity trade & gas	100%	35	100%	35
<i>Elektrum Lietuva, UAB</i>	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

	Group		Parent Company	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers	125,451	134,699	97,823	105,257
– Heating customers	2,264	10,922	1,980	8,851
– Other receivables from contracts with customers	9,358	8,610	4,208	4,155
– Subsidiaries (Note 12 b, c)	–	–	6,778	9,404
	137,073	154,231	110,789	127,667
Provisions for impaired receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers	(45,712)	(45,561)	(44,593)	(44,472)
– Heating customers	(357)	(329)	(338)	(310)
– Other receivables from contracts with customers	(3,104)	(2,972)	(51)	(86)
	(49,173)	(48,862)	(44,982)	(44,868)
Receivables from contracts with customers, net:				
– Electricity, natural gas trade and related services customers	79,739	89,138	53,230	60,785
– Heating customers	1,907	10,593	1,642	8,541
– Other receivables from contracts with customers	6,254	5,638	4,157	4,069
– Subsidiaries (Note 12 b, c)	–	–	6,778	9,404
	87,900	105,369	65,807	82,799

Movements in provisions for impaired receivables from contracts with customers

	Group			Parent Company		
	01/01-30/06/2018	01/01-30/06/2017	2017	01/01-30/06/2018	01/01-30/06/2017	2017
At the beginning of the period	48,862	48,100	48,100	44,868	44,177	44,177
Receivables written off as uncollectible	(655)	(818)	(1,710)	(619)	(623)	(1,343)
Provisions for impaired receivables	966	1,438	2,472	733	1,498	2,034
At the end of the period	49,173	48,720	48,862	44,982	45,052	44,868

b) Other receivables

	Group		Parent Company	
	30/06/2018	31/12/2017	30/06/2018	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**	85,991	164,365	–	–
Receivables for lease	3,257	3,535	1,113	2,443
Other financial receivables from related parties (Note 12 b, c)	–	–	8,999	10,664
Other accrued income	481	3,572	481	872
Other current financial receivables	–	15,947	124,268	3,959
Dividends receivable from subsidiaries	28,602	–	2,077	–
Total current financial receivables	118,331	641,832	136,938	17,938
Current non-financial receivables:				
Pre-tax and overpaid taxes	564	3,703	23	22
Other current receivables	768	1,226	301	119
Total current non-financial receivables	1,332	4,929	324	141
Total current receivables	119,663	646,761	137,262	18,079
Total other receivables	122,890	649,990	137,546	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

	Group		Parent Company	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Cash at bank	186,909	233,624	184,157	230,476
Restricted cash and cash equivalents*	385	2,379	386	2,379
Total cash and cash equivalents	187,294	236,003	184,543	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 30 June 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

	Group	
	30/06/2018	31/12/2017
Held-to-maturity financial assets:		
– non-current	16,960	16,984
Total held-to-maturity financial assets	16,960	16,984

		EUR'000	
		Parent Company	
	30/06/2018	31/12/2017	
Held-to-maturity financial assets:			
– non-current	16,960	16,984	
Total held-to-maturity financial assets	16,960	16,984	

b) Borrowings

	Group	
	30/06/2018	31/12/2017
Non-current borrowings from financial institutions	529,123	583,313
Issued debt securities (bonds)	135,339	135,361
Total non-current borrowings	664,462	718,674
Current portion of non-current borrowings from financial institutions	133,707	105,931
Accrued interest on non-current borrowings	472	468
Accrued coupon interest on issued debt securities (bonds)	212	1,684
Total current borrowings	134,391	108,083
Total borrowings	798,853	826,757

		EUR'000	
		Parent Company	
	30/06/2018	31/12/2017	
Non-current borrowings from financial institutions	521,119	574,764	
Issued debt securities (bonds)	135,339	135,361	
Total non-current borrowings	656,458	710,125	
Current portion of non-current borrowings from financial institutions	129,866	102,522	
Accrued interest on non-current borrowings	449	441	
Accrued coupon interest on issued debt securities (bonds)	212	1,684	
Total current borrowings	130,527	104,647	
Total borrowings	786,985	814,772	

Movement in Borrowings

	Group		
	01/01-30/06/2018	01/01-30/06/2017	2017
At the beginning of the period	826,757	791,566	791,566
Borrowings received	1,000	–	186,500
Borrowing repaid	(27,413)	(43,671)	(80,976)
Change in accrued interest on borrowings	(1,469)	(452)	(126)
Repaid issued debt securities (bonds)	–	–	(70,000)
Changes in outstanding value of issued debt securities (bonds)	(22)	(61)	(207)
At the end of the period	798,853	747,382	826,757

		EUR'000		
		Parent Company		
	01/01-30/06/2018	01/01-30/06/2017	2017	
At the beginning of the period	814,772	778,323	778,323	
Borrowings received	–	–	185,000	
Borrowing repaid	(26,301)	(41,921)	(78,221)	
Change in accrued interest on borrowings	(1,464)	(447)	(123)	
Repaid issued debt securities (bonds)	–	–	(70,000)	
Changes in outstanding value of issued debt securities (bonds)	(22)	(61)	(207)	
At the end of the period	786,985	735,894	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					
	01/01-30/06/2018		01/01-30/06/2017		2017		01/01-30/06/2018		01/01-30/06/2017		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	31	(590)	-	(2,455)	(31)	(3,502)	31	(590)	-	(2,455)	(31)	(3,502)
Outstanding fair value at the end of the period	-	7,471	-	9,108	(31)	8,061	-	7,471	-	9,108	(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					
	01/01-30/06/2018		01/01-30/06/2017		2017		01/01-30/06/2018		01/01-30/06/2017		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)	174	(23)	2,353	41	3,435	-	174	(23)	2,353	41	3,435	-
Included in comprehensive income	(10,024)	-	1,591	-	(1,889)	-	(10,024)	-	1,591	-	(1,889)	-
Outstanding fair value at the end of the period	(14,438)	-	(2,190)	64	(4,588)	23	(14,438)	-	(2,190)	64	(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 related parties

EUR'000

	Parent Company	
	01/01-30/06/2018	01/01-30/06/2017
Income:		
– Subsidiaries	40,167	78,875
	40,167	78,875
Expenses:		
– Subsidiaries	171,863	173,222
	171,863	173,222
<i>including expenses from transactions with subsidiaries recognised in net amount through profit or loss:</i>		
– Sadales tīkls AS	159,129	169,595
– Enerģijas publiskais tirgotājs AS	–	277
	159,129	169,872

EUR'000

	Group		Parent Company	
	30/06/2018	31/12/2017	30/06/2018	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)	–	–	11,636	17,435
	–	–	11,636	17,435
Payables to related parties:				
– Subsidiaries	–	–	26,217	30,994
– Other related parties*	292	281	90	88
	292	281	26,307	31,082

* Pirmais Slēgtais Pensiju Fonds AS

c) Accrued income raised from transactions with related parties

– For goods sold / services received from subsidiaries (Note 9 a, b)	–	–	3,480	3,199
– For interest received from subsidiaries (Note 9 a, b)	–	–	1,728	1,875
	–	–	5,208	5,074

d) Accrued expenses raised from transactions with related parties

– For purchased goods / received services from subsidiaries	–	–	3,547	1,176
	–	–	3,547	1,176

In the 6 months period ended 30 June 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 1 382.6 thousand (6 months period of 2017: EUR 1 171.2 thousand).

In the 6 months period ended 30 June 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 540.1 thousand (6 months period of 2017: EUR 509.1 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	
	30/06/2018	31/12/2017
Non-current loans to subsidiaries		
Sadales tīkls AS	287,655	312,582
Latvijas elektriskie tīkli AS	131,768	85,394
Total non-current loans	419,423	397,976
Current portion of non-current loans		
Sadales tīkls AS	50,384	50,914
Latvijas elektriskie tīkli AS	8,333	8,490
Current loans to subsidiaries		
Latvijas elektriskie tīkli AS	21,071	1,294
Sadales tīkls AS	42,128	28,157
Elektrum Eesti OÜ	5,501	5,134
Elektrum Lietuva, UAB	7,651	2,172
Enerģijas publiskais tirgotājs AS	81,438	604,644
Total current loans	216,506	700,805
Total loans to subsidiaries	635,929	1,098,781

Movement in loans issued by the Parent Company

	EUR'000		
	Parent Company		
	01/01- 30/06/2018	01/01- 30/06/2017	2017
At the beginning of the period	1,098,781	622,704	622,704
(Repaid) / issued current loans (net)	(433,150)	–	536,302
Repaid non-current loans	(29,702)	(34,015)	(60,225)
At the end of the period	635,929	588,689	1,098,781

13. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events subsequent to the end of the reporting period that might have a material effect on the Latvenergo Group and Latvenergo AS Unaudited Interim Condensed Financial Statements for the 6-month period ending 30 June 2018.