LATVENERGO CONSOLIDATED AND LATVENERGO AS UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE 9-MONTH PERIOD ENDING 30 SEPTEMBER 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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Management Report

Unaudited Condensed Interim Financial Statements*

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

FINANCIAL CALENDAR

28. 02. 2019.

Condensed Consolidated Interim Financial Statements for the 12-Month Period Ending 31 December 2018 (unaudited)

17. 04. 2019.

Latvenergo Consolidated Annual Report 2018

31. 05. 2019.

Condensed Consolidated Interim Financial Statements for the 3-Month Period Ending 31 March 2019 (unaudited)

30. 08. 2019.

Condensed Consolidated Interim Financial Statements for the 6-Month Period Ending 30 June 2019 (unaudited)

29. 11. 2019.

Condensed Consolidated Interim Financial Statements for the 9-Month Period Ending 30 September 2019 (unaudited)

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DISCLAIMER

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

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

Summary

- **Electricity prices increased significantly in the Nordics**

  In the 9-month period of 2018, electricity spot prices increased throughout Europe. Prices increased significantly in the Nordics. The Nord Pool system price increased by 47% (in Latvia – 38%) compared to the respective period a year ago. This was mainly due to the warm, dry weather, lower water levels at Scandinavian hydropower reservoirs, lower electricity output at WPPs, an increase in the CO_2 emission allowances price and higher raw material prices. In the 9-month period of 2018, the average CO_2 emission allowances price was 171% higher compared to the respective period a year ago.

- **The electricity output generated at the Riga CHPPs increased by 71%**

  In the reporting period, Latvenergo Group generated 4,052 GWh of electricity at its plants. Electricity output at the Riga CHPPs increased by 71%. 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 27% due to lower water inflow, which was affected by the warm, dry weather. Thermal energy output in the 9-month period of 2018 was 1,545 GWh. This is 14% less than the respective period a year ago and is due to increased competition in the thermal energy market.

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

  In the 9-month period of 2018, a total of 5.0 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 300. Latvenergo Group is the second largest natural gas consumer in the Baltics.

- **The financial results were impacted by lower electricity output at the Riga CHPPs and an unfavourable market situation**

  In the 9-month period of 2018, Latvenergo Group's revenue amounted to EUR 642.0 million, which was 5% lower than in the respective period a year ago. Meanwhile, EBITDA decreased by 10%, reaching EUR 270.2 million. The results were negatively affected by the lower electricity output at the Daugava HPPs and higher electricity and CO_2 emission allowances prices. Latvenergo Group's profit in the 9-month period of 2018 was EUR 83.1 million.

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

  In the 9-month period of 2018, the total amount of investments was EUR 158.5 million, 80% of which was invested in network assets. This allowed the Group to improve the quality and security of the energy supply, reduce the frequency and duration of power supply disruptions and ensure the appropriate voltage quality.

- **Latvenergo – Latvia's most valuable company for the tenth year in a row**

  On 10 October 2018, AS Latvenergo received an award as the Most Valuable Enterprise in Latvia for the tenth consecutive year and for the eleventh time in total. The TOP 101 of Latvia's Most Valuable Enterprises ranking is organized by Prudentia and Nasdaq Riga. This award demonstrates our progress towards development, compliance with the principles of corporate governance and competitiveness in the Baltic and Nordic power market.

Latvenergo Group in Brief

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

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

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

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

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

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

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

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

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

Latvenergo Group in Brief

Latvenergo Group's Strategy

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

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

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

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

The financial targets are set to ensure:

- ambitious, yet achievable profitability, which is consistent with the average ratios of benchmark companies in the European energy sector and provides for an adequate return on the business risk;
- an optimal and industry-relevant capital structure that limits potential financial risks;
- an adequate dividend policy that is consistent with the planned investment policy and capital structure targets.

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

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

Taking into consideration the defined development directions of the Group, the Management Board of Latvenergo AS has 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 exceeds 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

		9M 2018	9M 2017	9M 2016	9M 2015	9M 2014
Total electricity supply, incl.	GWh	7,476	7,646	7,272	7,233	7,057
Retail[2]	GWh	5,029	5,189	5,702	5,868	6,565
Wholesale[3]	GWh	2,447	2,457	1,570	1,366	492
Electricity generation	GWh	4,052	4,088	3,052	2,676	2,688
Thermal energy generation	GWh	1,545	1,791	1,725	1,584	1,658
Number of employees		3,521	4,053	4,184	4,180	4,560
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa3 (stable)

Latvenergo Group Financial Figures

		9M 2018	9M 2017	9M 2016	9M 2015	9M 2014
Revenue	MEUR	642.0	679.2	678.2	685.9	748.9
EBITDA[1]	MEUR	270.2	299.0	288.1	236.2	178.6
Profit	MEUR	83.1	125.0	94.3	68.6	30.0
Assets	MEUR	3,821.1	3,887.5	3,564.6	3,530.5	3,522.3
Equity	MEUR	2,325.2	2,455.1	2,110.5	2,060.3	2,020.2
Net debt[1]	MEUR	708.8	620.6	623.0	682.5	713.7
Investments	MEUR	158.5	166.6	136.5	136.7	114.6

Latvenergo Group Financial Ratios

	9M 2018	9M 2017	9M 2016	9M 2015	9M 2014
Net debt / EBITDA[1]	1.3	1.5	1.8	2.4	3.1
EBITDA margin[1]	58%	43%	39%	31%	22%
Return on equity (ROE)[1]	11.7%	7.1%	5.3%	3.4%	2.2%
Return on assets (ROA)[1]	7.3%	4.3%	3.1%	1.9%	1.2%
Return on capital employed (ROCE)[1]	5.3%	6.5%	4.7%	3.1%	2.1%
Net debt / equity[1]	30%	25%	30%	33%	35%

1) Definitions of ratios and terms are available in the List of Abbreviations and Formulas on page 22
2) Including operating consumption
3) Including sale of energy purchased within the mandatory procurement on the Nord Pool

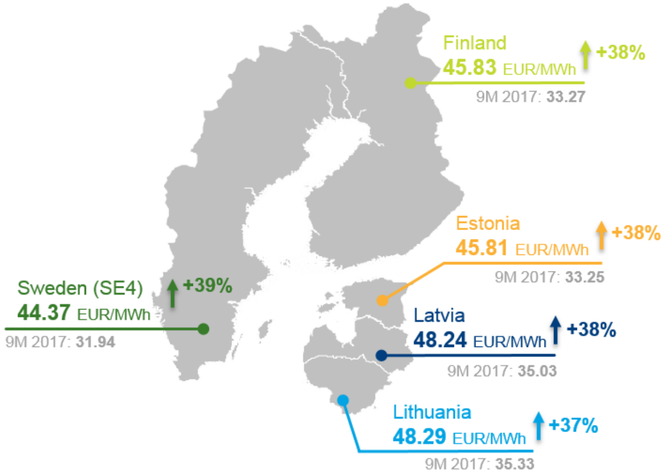
Operating Environment

Latvenergo Group's operations and performance are influenced by various global and regional factors, including prices of electricity and natural gas. In the 9-month period of 2018:

- the Nord Pool system price increased by 47% compared to the respective period a year ago. Electricity spot price in Latvia increased by 38%;
- the price of natural gas at the GASPOOL and TTF trading platforms was on average 29% higher compared to the respective period a year ago.

Electricity prices increased by almost 40% in the Baltics

In the 9-month period of 2018, electricity prices increased significantly in the Nordics and the Baltics compared to the respective period a year ago.

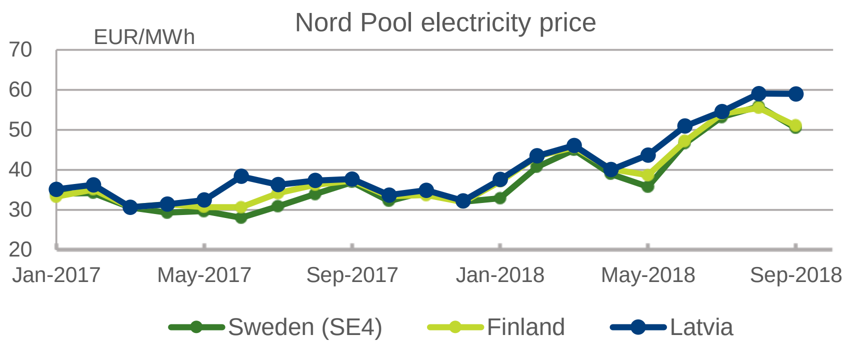


The increase in electricity prices was affected by the warm, dry weather in the region, which resulted in lower water levels at the Scandinavian hydropower reservoirs and lower output of hydroelectricity. The insufficient electricity output at hydropower plants (HPPs) and wind farms fostered the increase in electricity generation at fossil fuel power stations. The cost of electricity generated at fossil fuel power stations was affected negatively by higher raw material prices and CO_2 emission allowances prices.

Likewise, the price differences between the bidding areas increased in the reporting period due to some transmission interconnection outages in the Baltics.

For a short time in January and April and from mid-August through mid-October the *NordBalt* interconnection was not available due to planned maintenance work. The *Estlink* interconnection experienced a small decrease in capacity due to planned maintenance work as well.

In the 9-month period of 2018, the electricity spot price in Latvia was 5.53 EUR/MWh higher than the average Nord Pool system price. Price differences between Latvia and Sweden (SE4) increased by 25% or 0.78 EUR/MWh and reached 3.87 EUR/MWh. The electricity price difference between Latvia and Estonia increased by 37% and amounted to 2.43 EUR/MWh. Meanwhile, the price of electricity for 1 megawatt hour in Latvia and Lithuania does not differ significantly.



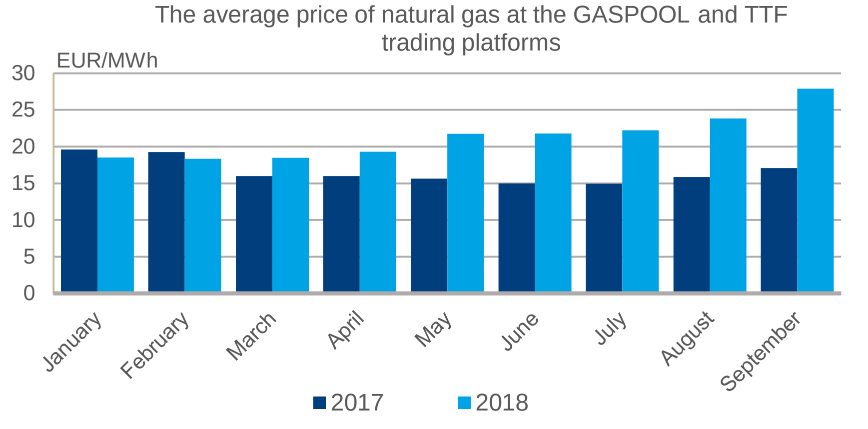
The total electricity consumption in the reporting period in the Baltics was 20.7 TWh and it increased in all Baltic States compared to last year. Electricity consumption increased by 2% in Latvia, by 4% in Lithuania and by 3% in Estonia.

The electricity output in the Baltics remained at the same level as a year ago and amounted to 15.4 TWh. Due to higher electricity consumption relative to the electricity output in the Baltic States, electricity imports from the other Nord Pool areas increased by 39% and reached 5.1 TWh.

Operating Environment

Natural gas price increases

Natural gas is the main fuel resource in the Riga CHPPs' operation. In the 9-month period of 2018, the average price of natural gas at the GASPOOL and TTF trading platforms was 29% higher than in the respective period a year ago.



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

- The average price of Brent (Front Month) crude oil in the 9-month period of 2018 was 72.6 USD/bbl, which was 38% higher than in the respective period a year ago. Oil price trends are influenced by the OPEC agreement on oil output limitation, trade tension between China and the USA and upcoming US sanctions on Iran.
- In the 9-month period of 2018, the average price of coal (API2 Front Month) increased by 15% compared to the respective period in 2017, reaching 91.6 USD/t. Coal prices increased due to higher electricity output at coal power plants in Europe and Asia.
- The average price of CO_2 emissions allowances in the 9-month period of 2018 increased by 171% compared to the respective period in 2017, reaching 14.4 EUR/t. CO_2 emission allowances prices increased along with a higher market demand and higher raw material prices. Also, the expected reform of the EU emissions trading system (ETS), which provides for a reduction in the permits available on the market starting from 2019, increased CO_2 emission allowances 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. On 26 September 2018, the Cabinet of Ministers decided to extend additional compensation in 2018 in the amount of EUR 51.7 million, by reducing the remaining part of the compensation proportionally to this amount until the end of the support period. In the 9-month period of 2018, EUR 73.7 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 September 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 September 2018, the Group's net debt to equity was 30% and its net debt to EBITDA ratio was 1.3. 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 9-month period of 2018, Latvenergo Group's revenue decreased by 5% and comprised EUR 642.0 million. Meanwhile, EBITDA decreased by 10% and reached EUR 270.2 million.

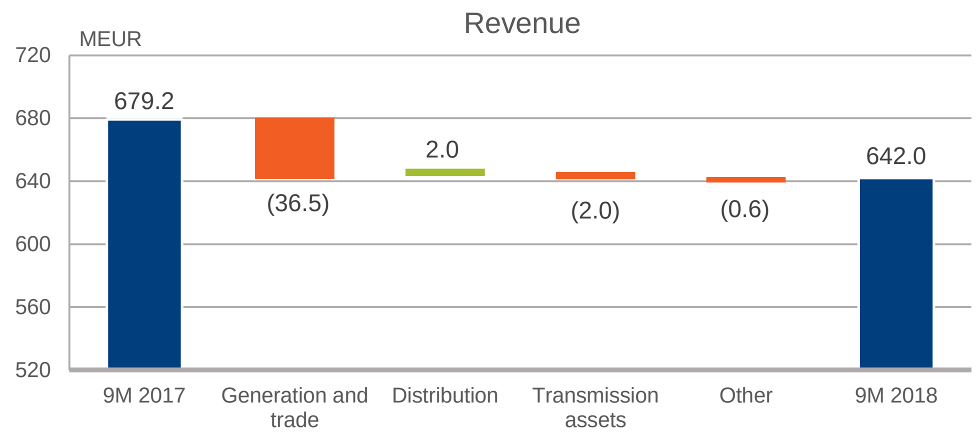
The Group's results in the reporting period were negatively impacted by 27% lower electricity output at the Daugava HPPs and higher electricity and CO_2 emission allowances prices. The electricity spot price in Latvia increased by 38%, while the average CO_2 emission allowances price was 171% higher compared to the respective period a year ago.

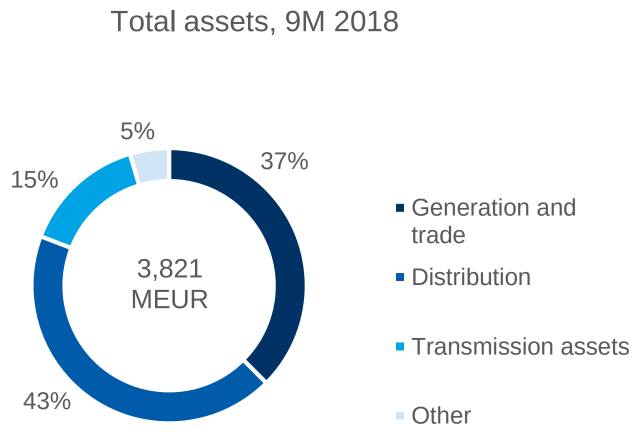
Latvenergo Group financial figures		9M 2018	9M 2017	Δ	Δ, %
Revenue	MEUR	642.0	679.2	(37.2)	(5%)
EBITDA	MEUR	270.2	299.0	(28.8)	(10%)
Net profit	MEUR	83.1	125.0	(41.9)	(34%)
Assets	MEUR	3,821.1	3,887.5	(66.4)	(2%)

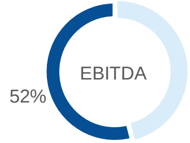
The results were also negatively impacted by 75% lower revenue from the installed electrical capacity at the Riga CHPPs, which was offset by the compensation for the Riga CHPPs' capacity payments that was recognised in the profit and loss statement of Latvenergo AS. In the 9-month period of 2018, EUR 73.7 million of the compensation were recognized as other income of Latvenergo AS.

Latvenergo Group's profit in the reporting period was EUR 83.1 million.

In the 9-month period of 2018, the EBITDA margin improved, reaching 58% (in the respective period in 2017 it was 43%).







Generation and Trade

Revenue **54%**
EBITDA **52%**
Assets **37%**
Employees **25%**

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 86% of the segment's revenue came from electricity and natural gas trade, while 14% came from thermal energy supply.

The segment's results were negatively impacted by lower electricity output at the Daugava HPPs and higher electricity and CO_2 emission allowances prices. The results were also negatively impacted by lower revenue from the installed electrical capacity at the Riga CHPPs, which was offset by the compensation for the Riga CHPPs' capacity payments that was recognised in the profit and loss statement of Latvenergo AS.

In the 9-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 4,052 GWh, which corresponds to 81% of the amount of electricity sold to retail customers (in 9M 2017: 79%).

Operational figures	9M 2018	9M 2017	Δ	Δ, %
Total electricity supply, incl.	7,476	7,646	(170)	(2%)
*Retail**	5,029	5,189	(160)	(3%)
*Wholesale***	2,447	2,457	(10)	(0%)
Natural gas supply	74	8	66	859%
Electricity generation	4,052	4,088	(37)	(1%)
Daugava HPPs	2,170	2,970	(800)	(27%)
Riga CHPPs	1,844	1,080	764	71%
Liepaja plants and small plants	38	38	(0)	(1%)
Thermal energy generation	1,545	1,791	(246)	(14%)
Riga CHPPs	1,359	1,615	(256)	(16%)
Liepaja plants and small plants	186	176	10	6%

Financial figures		9M 2018	9M 2017	Δ	Δ, %
Revenue	MEUR	370.4	406.9	(36.5)	(9%)
EBITDA	MEUR	139.6	165.5	(26.0)	(16%)
Assets	MEUR	1,433.2	1,578.0	(144.8)	(9%)
Investments	MEUR	22.5	54.1	(31.6)	(58%)
EBITDA margin		66.8	39.7	27.0pp.	68%

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

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

Generation and Trade

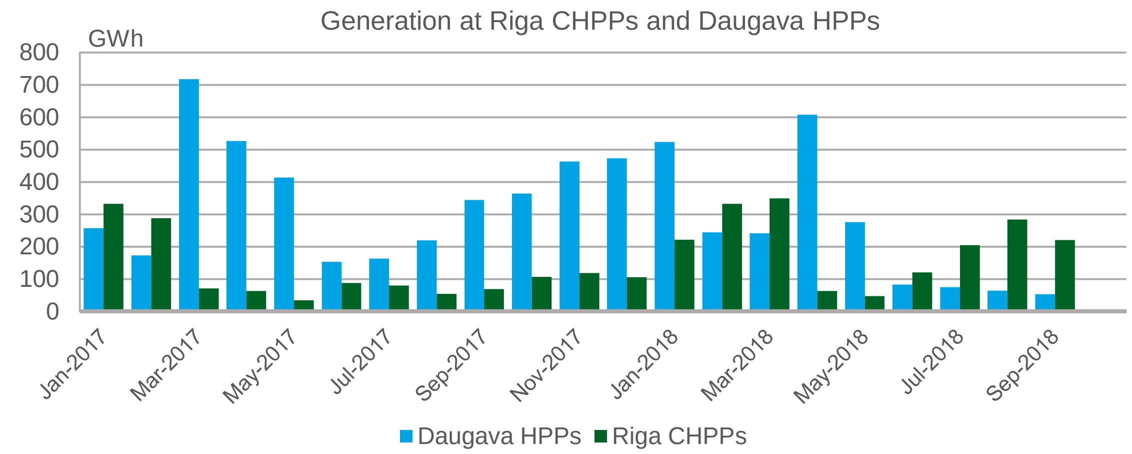
Generation

In the reporting period, the total amount generated by Latvenergo Group's power plants comprised 4,052 GWh of electricity and 1,545 GWh of thermal energy.

> Power generated at the Riga CHPPs increased by 71%

In the reporting period, the amount of power generated at the Riga CHPPs increased by 71% compared to the respective period a year ago, reaching 1,844 GWh. The increase was fostered by higher electricity prices in the region. The Riga CHPPs operated in a market conjuncture by effectively planning operating modes and fuel consumption.

Taking into account the warm, dry weather, the role of the Riga CHPPs in the market this summer was significant. If the Riga CHPPs were not available for generation in Latvia, we would have to use more expensive energy resources, for example a natural gas station in Lithuania or coal stations in Poland, to satisfy demand.



In the 9-month period of 2018, the amount of power generated at the Daugava HPPs decreased by 27% compared to the respective period a year ago and reached 2,170 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.

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 price convergence to the Nordic electricity market price level, which is historically the lowest price region in Europe.

In the reporting period, the share of electricity generated from renewable energy sources at Latvenergo Group was 54% (in the respective period in 2017 it was 73%).

In the 9-month period of 2018, the total amount of thermal energy generated by Latvenergo Group decreased by 14% 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.

Generation and Trade

Trade

In the 9-month period of 2018, Latvenergo Group was one of the largest energy trading companies in the Baltics.

> *Latvenergo* – energy company that operates in all segments of the market in Latvia, Lithuania and Estonia.

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. In October 2018, the Group also commenced natural gas trade to business customers in Lithuania. We are already operating in all segments of the market in Latvia, Lithuania and Estonia.

In the reporting period, the Group supplied 5.0 TWh of electricity and 0.07 TWh of natural gas to Baltic retail customers.

The overall amount of retail electricity trade outside Latvia accounted for 1/3 of the total, reaching 1.8 TWh. The electricity trade volume in Latvia was 3.3 TWh, while in Lithuania it was 1.1 TWh and in Estonia it was 0.7 TWh.

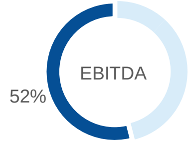
The total number of electricity customers comprises approximately 800 thousand, including more than 35 thousand foreign customers.

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 300 contracts have been signed. In the reporting period, the amount of natural gas used for both operating consumption and trade reached 4.8 TWh. Currently, Latvenergo Group is the second largest natural gas consumer in the Baltics.

In the reporting period the retail activities of other products and services in the Baltic states continued. In Q3 2018, we launched trade of *Elektrum solārais* in Estonia. In the reporting period we installed solar panels for about 50 customers in the Baltics. Also, the number of *Elektrum apdrošināts* customers continued to increase, reaching more than 36,000 at the end of the reporting period.

Completed in the 9-month period of 2018:

- 5.0 TWh of electricity sold to Baltic retail customers
- In October 2018, the Group commenced natural gas trade to business customers in Lithuania. The amount of natural gas used for both operating consumption and trade reached 4.8 TWh.
- Solar panels installed for about 50 customers in the Baltics with a total capacity of 206 kW
- At the end of the reporting period, the total number of *Elektrum apdrošināts* customers exceeded 36,000
- 228 *Smart House devices* installed in the Baltics



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		9M 2018	9M 2017	Δ	Δ, %
At the beginning of the reporting period	MEUR	**164.4**	**142.1**	**22.2**	**15.6%**
Mandatory procurement PSO fee income	MEUR	122.4	131.3	(9.0)	(6.8%)
Received state grant	MEUR	80.0	66.9	13.0	19.5%
Reduction of MP expenditures for energy-intensive manufacturing	MEUR	2.6	0.1	2.5	2,286.2%
Mandatory procurement expenditures*	MEUR	119.3	197.8	(78.4)	(39.7%)
Incl. cogeneration	MEUR	41.7	106.8	(65.0)	(60.9%)
Incl. renewable energy resources	MEUR	77.1	90.5	(13.4)	(14.9%)
At the end of the reporting period	MEUR	**84.0**	**141.8**	**(57.8)**	**(40.8%)**

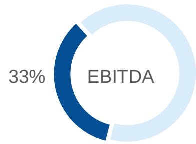
* Mandatory procurement expenditures – costs of electricity purchased within the mandatory procurement and the guaranteed fee for electrical capacity installed at power plants minus revenues from the sale of electricity purchased on the Nord Pool exchange and plus the costs of balancing mandatory procurement

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 will be used as the main funding source for the PSO fee reduction.

In the 9-month period of 2018, MP expenditures comprised EUR 119.3 million (in 9M 2017: EUR 197.8 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 (–55.3 million euros). The guaranteed support amount for the Riga CHPPs decreased to 16% of total MP expenditures.

In the 9-month period of 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 September 2018, assets recognised as unearned PSO fee revenue decreased by EUR 57.8 million, comprising EUR 84.0 million.



Distribution

Segment weight in Latvenergo Group

Revenue	35%
EBITDA	33%
Assets	43%
Employees	58%

The distribution segment is Latvenergo Group's largest segment by asset value and the second largest segment by revenue. In the reporting period, the segment's revenue remained at the same level as a year ago and comprised EUR 239.6 million, while EBITDA decreased by 3%, reaching EUR 88.2 million.

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

The segment's results were positively impacted by the increase in the distributed electricity of 2% compared to the respective period a year ago. However, higher electricity prices contributed to an increase in the cost of distribution losses. Also, the results were negatively impacted by an increase 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. Within the framework of this programme, we are planning to reduce the number of employees at Sadales tīkls AS by around 800 in total by 2022. So far, the number of employees at Sadales tīkls AS has been reduced by 20% or 500. Besides this, the efficiency programme includes digitalization, process reviews, installation of smart meters, decreasing transportation units, and optimizing the number of real estate bases.

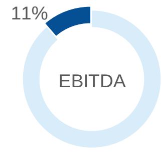
Operational figures		9M 2018	9M 2017	Δ	Δ, %
Electricity distributed	GWh	4,873	4,769	104	2%
Distribution losses	GWh	224	219	5	2%
SAIFI	number	2.0	2.2	(0.2)	(8%)
SAIDI	minutes	179	204	(25)	(12%)
Financial figures		**9M 2018**	**9M 2017**	**Δ**	**Δ, %**
Revenue	MEUR	239.6	237.6	2.0	1%
EBITDA	MEUR	88.2	90.7	(2.5)	(3%)
Assets	MEUR	1,656.6	1,628.1	28.5	2%
Investments	MEUR	65.1	76.9	(11.8)	(15%)
EBITDA margin		33.8	37.4	(3.6pp.)	(10%)

Investments in distribution assets during the reporting period decreased by 15% compared to the respective period a year ago and comprised EUR 65.1 million. The value of distribution assets increased to EUR 1,656.6 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.

Completed in the 9-month period of 2018:

- Renewed a total of 909 km of low and medium-voltage power lines
- Restored and constructed 378 transformer substations
- Installed 122,485 smart electricity meters
- Power line routes cleared from trees and shrubs at a length of 2,956 km



Lease of Transmission System Assets

Revenue
5%

EBITDA
11%

Assets
15%

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 5% of Latvenergo Group's revenue. In the 9-month period of 2018, the segment's revenue was EUR 31.2 million, while EBITDA was EUR 30.7 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		9M 2018	9M 2017	Δ	Δ, %
Revenue	MEUR	31.2	33.2	(2.0)	(6%)
EBITDA	MEUR	30.7	32.1	(1.4)	(4%)
Total assets	MEUR	555.7	477.8	(77.9)	16%
Investments	MEUR	64.2	38.2	(26.0)	68%

In the reporting period, investment in transmission system assets was in the amount of EUR 64.2 million. The amount of investments is 68% greater than the respective period a year ago. The largest investment was made in the energy infrastructure project *Kurzeme Ring*. In the reporting period, EUR 50.6 million was invested in this project (9M 2017: EUR 20.1 million).

The value of transmission assets increased to EUR 555.7 million.

The return on transmission system assets in the 9-month period of 2018 was 3.6% (in the respective period in 2017 it was 4.1%).

Investments

In the 9-month period of 2018, the total amount of investment decreased by 5% compared to the respective period a year ago; it comprised EUR 158.5 million.

> Investment in power network assets – approximately 80% of the total

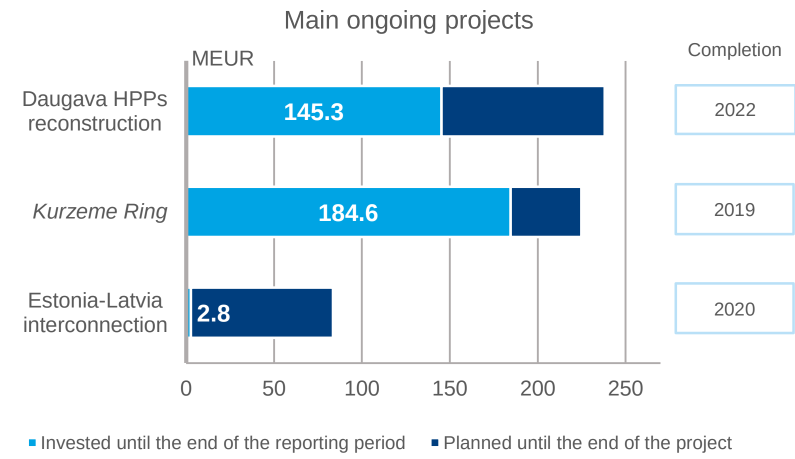
To ensure high quality power network service, technical parameters and operational safety, a significant amount is invested in the modernization of the power network. In the reporting period, the amount invested in power network assets represented 80% of total investment.

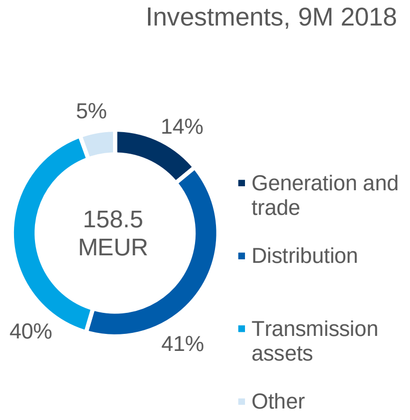
Contributing to environmentally friendly projects, in the 9-month period of 2018, EUR 16.9 million was invested in the Daugava HPPs' hydropower unit reconstruction.

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 200 million. As of 30 September 2018, work completed within the scope of the contract reached EUR 145.3 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 less than EUR 230 million. The project consists of three stages. Investment in the first and second stage of the project comprised a total of EUR 95 million, approximately half of which was covered by the European Commission. For the final stage of the project *Ventspils–Tume–Rīga*, European Union co-funding in the amount of 45% of the construction cost was attracted. As of 30 September 2018, EUR 89.8 million was invested in the last stage of this project. In the reporting period, 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 less than EUR 100 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.

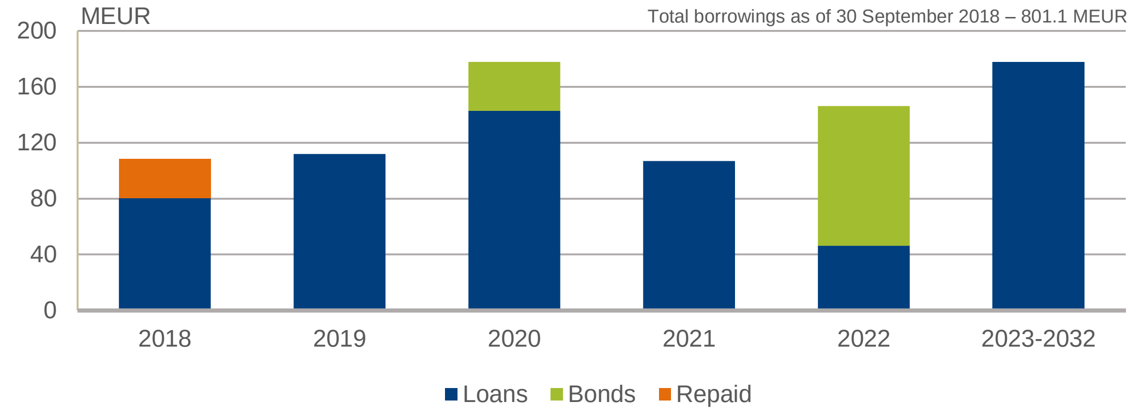
Diversified sources of funding

As of 30 September 2018, the Group's borrowings amount to EUR 801.1 million (30 September 2017: EUR 743.3 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 September 2018, all borrowings are denominated in euro currency. The weighted average repayment period is 3.7 years (30 September 2017: 3.4 years). The effective weighted average interest rate (with interest rate swaps) is 1.3% (30 September 2017: 1.8%). Also, sufficient coverage of debt service requirements has been ensured (debt service coverage ratio: 3.5).

Latvenergo Group's debt repayment schedule



As of 30 September 2018, the net borrowings of Latvenergo Group are EUR 708.8 million (30 September 2017: EUR 620.6 million), while the net debt / EBITDA ratio is 1.3 (30 September 2017: 1.5). In the 9-month period of 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 2.1 years as of 30 September 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 September 2018, all borrowings of Latvenergo Group are denominated in euros, and during the reporting period, there was no substantial exposure to foreign currency risk as regards the Group's investments.

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

b) Credit risk

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

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

c) Liquidity risk and cash flow risk

Latvenergo Group's liquidity and cash flow risk management policy is to maintain a sufficient amount of cash and cash equivalents and the availability of long and short-term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks. On 30 September 2018, Latvenergo Group's liquid assets (cash and short-term deposits up to 3 months) reached EUR 92.3 million (30 September 2017: EUR 122.7 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

		9M 2018	9M 2017	9M 2016
Total electricity supply, incl.	GWh	4,539	4,554	4,251
*Retail***	GWh	3,270	3,428	3,916
*Wholesale****	GWh	1,269	1,126	334
Electricity generation	GWh	4,017	4,054	3,017
Thermal energy generation	GWh	1,362	1,617	1,559
Number of employees		1,356	1,466	1,489
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

Latvenergo AS financial figures

		9M 2018	9M 2017	9M 2016
Revenue	MEUR	322.1	362.8	368.9
EBITDA*	MEUR	152.2	178.5	177.3
Profit	MEUR	223.6	99.6	109.5
Assets	MEUR	3,189.7	3,154.0	3,197.5
Equity	MEUR	2,003.5	2,189.6	2,145.2
Net debt*	MEUR	699.1	610.3	610.9
Investments	MEUR	31.5	62.9	52.3

Latvenergo AS financial ratios

	9M 2018	9M 2017	9M 2016
Return on equity (ROE)*	13.1%	5.9%	6.0%
Net debt / equity*	35%	28%	28%
EBITDA margin*	79%	48%	43%

* Definitions of ratios and terms are available in the List of Abbreviations and Formulas on page 22
** Including operating consumption
*** Including sale of energy purchased within the mandatory procurement on the Nord Pool

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 9-Month Period Ending 30 September 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 9-Month Period Ending 30 September 2018* were approved by the Management Board of Latvenergo AS on 27 November 2018 and have been signed by Chairman of the Management Board Āris Žīgurs and Member of the Management Board Guntars Baļčūns as authorized persons.

Āris Žīgurs
Chairman of the Management Board

Guntars Baļčūns
Member of the Management Board

27 November 2018

List of Abbreviations and Formulas

Abbreviations

bbl – barrel of oil (158.99 litres)

Daugava HPPs – Daugava hydropower plants

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

kV – kilovolt

LEGMC – Latvian Environment, Geology and Meteorology Centre

MEUR – million euros

MW – megawatt

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

MP – mandatory procurement

nm^3 – normal cubic meter

OECD – The Organisation for Economic Co-operation and Development

PSO – public service obligation

PUC – Public Utilities Commission

Riga CHPPs – Riga combined heat and power plants

SAIDI – System Average Interruption Duration Index

SAIFI – System Average Interruption Frequency Index

SET – Subsidised Energy Tax

Formulas

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

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

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

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

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

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

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

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

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

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

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

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

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

Unaudited Condensed Interim Financial Statements

Statement of Profit or Loss

EUR'000

	Notes	Group		Parent Company	
		01/01-30/09/2018	01/01-30/09/2017	01/01-30/09/2018	01/01-30/09/2017
Revenue	4	642,007	679,183	322,101	362,826
Other income		84,603	4,998	82,759	3,370
Raw materials and consumables used	5	(336,580)	(256,629)	(188,681)	(112,254)
Personnel expenses		(81,047)	(75,993)	(32,995)	(31,686)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	6	(181,406)	(143,676)	(107,453)	(70,003)
Other operating expenses		(38,823)	(52,568)	(30,978)	(43,722)
Operating profit		**88,754**	**155,315**	**44,753**	**108,531**
Finance income		884	941	8,761	8,535
Finance costs		(6,393)	(8,646)	(7,575)	(9,203)
Received dividends from subsidiaries		–	–	177,646	9,111
Profit before tax		**83,245**	**147,610**	**223,585**	**116,974**
Income tax		(134)	(22,574)	(33)	(17,352)
Profit for the period		**83,111**	**125,036**	**223,552**	**99,622**
Profit attributable to:					
– Equity holder of the Parent Company		81,737	124,125	223,552	99,622
– Non–controlling interests		1,374	911	–	–

Statement of Comprehensive Income

EUR'000

	Notes	Group		Parent Company	
		01/01-30/09/2018	01/01-30/09/2017	01/01-30/09/2018	01/01-30/09/2017
Profit for the period		**83,111**	**125,036**	**223,552**	**82,177**
Comprehensive income to be reclassified to profit or loss in subsequent periods:					
– gains from change in hedge reserve	11 c	7,666	3,251	7,666	864
Net comprehensive income to be reclassified to profit or loss in subsequent periods		**7,666**	**3,251**	**7,666**	**3,251**
Comprehensive loss not to be reclassified to profit or loss in subsequent periods:					
– reversed deferred income tax on losses as a result of re–measurement on defined post–employment benefit plan		–	(638)	–	(192)
Net comprehensive loss not to be reclassified to profit or loss in subsequent periods		**–**	**(638)**	**–**	**(192)**
Comprehensive income for the period		**7,666**	**2,613**	**7,666**	**3,059**
Total comprehensive income for the period		**90,777**	**127,649**	**231,218**	**102,681**
Comprehensive income attributable to:					
– Equity holder of the Parent Company		89,403	126,738	231,218	102,681
– Non–controlling interests		1,374	911	–	–

Statement of Financial Position

EUR'000

	Notes	Group 30/09/2018	Group 31/12/2017	Parent Company 30/09/2018	Parent Company 31/12/2017
ASSETS					
Non-current assets					
Intangible assets and property, plant and equipment	6	3,301,170	3,322,398	1,177,503	1,248,915
Investment property		477	753	64,930	64,807
Non–current financial investments	8	40	40	817,048	817,048
Non–current loans to subsidiaries	12 e	–	–	413,699	397,976
Investments in held–to–maturity financial assets	11 a	16,947	16,984	16,947	16,984
Other non-current receivables	9 b	3,229	3,229	284	284
Total non–current assets		**3,321,863**	**3,343,404**	**2,490,411**	**2,546,014**
Current assets					
Inventories	7	107,733	76,328	92,460	61,824
Receivables from contracts with customers	9 a	94,429	105,369	67,120	82,799
Other current receivables	9 b	179,677	646,761	204,958	18,079
Prepayment for income tax		11,741	–	10,146	–
Deferred expenses		3,235	3,241	1,868	2,205
Current loans to subsidiaries	12 e	–	–	222,974	700,805
Derivative financial instruments	11 c	10,142	4,619	10,142	4,619
Cash and cash equivalents	10	92,287	236,003	89,605	232,855
Total current assets		**499,244**	**1,072,321**	**699,273**	**1,103,186**
TOTAL ASSETS		**3,821,107**	**4,415,725**	**3,189,684**	**3,649,200**
EQUITY AND LIABILITIES					
Equity					
Share capital	6 b, 9 b	834,791	1,288,715	834,791	1,288,715
Reserves		1,125,294	1,126,521	793,025	791,906
Retained earnings		357,825	423,613	375,698	302,017
Equity attributable to equity holder of the Parent Company		**2,317,910**	**2,838,849**	**2,003,514**	**2,382,638**
Non–controlling interests		7,300	8,042	–	–
Total equity		**2,325,210**	**2,846,891**	**2,003,514**	**2,382,638**
Liabilities					
Non–current liabilities					
Borrowings	11 b	665,074	718,674	656,447	710,125
Provisions		23,437	21,910	9,081	8,835
Derivative financial instruments	11 c	3,079	4,914	3,079	4,914
Deferred income on contracts from customers		142,537	142,132	–	–
Other liabilities and deferred income		349,740	350,926	263,830	286,085
Total non–current liabilities		**1,183,867**	**1,238,556**	**932,437**	**1,009,959**
Current liabilities					
Borrowings	11 b	136,069	108,083	132,212	104,647
Trade and other payables		128,026	147,072	89,002	94,689
Income tax payable		–	27,725	–	24,739
Deferred income on contracts from customers		13,028	12,500	–	–
Other deferred income		31,724	31,728	29,336	29,358
Derivative financial instruments	11 c	3,183	3,170	3,183	3,170
Total current liabilities		**312,030**	**330,278**	**253,733**	**256,603**
Total liabilities		**1,495,897**	**1,568,834**	**1,186,170**	**1,266,562**
TOTAL EQUITY AND LIABILITIES		**3,821,107**	**4,415,725**	**3,189,684**	**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	–	(1,675)	1,675	**–**	–	**–**	–	(145)	145	**–**
Total contributions and profit distributions recognised directly in equity	**–**	**(1,675)**	**(88,467)**	**(90,142)**	**(1,393)**	**(91,535)**	**–**	**(145)**	**(89,997)**	**(90,142)**
Profit for the period	–	–	124,125	**124,125**	911	**125,036**	–	–	99,622	**99,622**
Other comprehensive income	–	3,251	(638)	**2,613**	–	**2,613**	–	3,251	(192)	**3,059**
Total comprehensive income for the period	**–**	**3,251**	**123,487**	**126,738**	**911**	**127,649**	**–**	**3,251**	**99,430**	**102,681**
As of 30 September 2017	**1,288,715**	**938,650**	**220,850**	**2,448,215**	**6,602**	**2,454,817**	**1,288,715**	**653,126**	**247,767**	**2,189,608**
Disposal of property, plant and equipment revaluation reserve net of deferred income tax	–	(2,702)	2,702	**–**	–	**–**	–	(1,617)	1,617	–
Total contributions and profit distributions recognised directly in equity	**–**	**(2,702)**	**2,702**	**–**	–	**–**	**–**	**(1,617)**	**1,617**	**–**
Profit for the period	–	–	195,545	**195,545**	1,440	**196,985**	–	–	51,269	**51,269**
Other comprehensive income	–	190,573	4,516	**195,089**	–	**195,089**	–	140,397	1,364	**141,761**
Total comprehensive income for the period	**–**	**190,573**	**200,061**	**390,634**	**1,440**	**392,074**	**–**	**140,397**	**52,633**	**193,030**
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	–	(8,893)	8,893	**–**	–	**–**	–	(6,547)	6,547	**–**
Total contributions and profit distributions recognised directly in equity	**(453,924)**	**(8,893)**	**(147,525)**	**(610,342)**	**(2,116)**	**(612,458)**	**(453,924)**	**(6,547)**	**(149,871)**	**(610,342)**
Profit for the period	–	–	81,737	**81,737**	1,374	**83,111**	–	–	223,552	**223,552**
Other comprehensive income	–	7,666	–	**7,666**	–	**7,666**	–	7,666	–	**7,666**
Total comprehensive income for the period	**–**	**7,666**	**81,737**	**89,403**	**1,374**	**90,777**	**–**	**7,666**	**223,552**	**231,218**
As of 30 September 2018	**834,791**	**1,125,294**	**357,825**	**2,317,910**	**7,300**	**2,325,210**	**834,791**	**793,025**	**375,698**	**2,003,514**

* 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	
		01/01-30/09/2018	01/01-30/09/2017	01/01-30/09/2018	01/01-30/09/2017
Cash flows from operating activities					
Profit before tax		83,245	147,610	223,585	116,974
Adjustments:					
– Amortisation, depreciation and impairment of non–current assets		193,705	146,588	116,506	70,620
– Net financial adjustments		5,756	9,721	(920)	1,711
– Received dividends from subsidiaries		–	–	(177,646)	(9,111)
– Other adjustments		1,528	750	246	357
Operating profit before working capital adjustments		**284,234**	**304,669**	**161,771**	**180,551**
Decrease / (increase) in current assets		453,952	(21,683)	(77,520)	(29,087)
(Decrease) / increase in trade and other payables		(484,777)	(7,756)	(24,709)	995
Cash generated from operating activities		**253,409**	**275,230**	**59,542**	**152,459**
Interest paid		(7,604)	(7,121)	(8,827)	(6,720)
Interest received		983	1,243	9,017	9,619
Corporate income tax and real estate tax paid		(39,294)	(32,174)	(34,918)	(28,858)
Net cash flows generated from operating activities		**207,494**	**237,178**	**24,814**	**126,500**
Cash flows from investing activities					
Repayment of loans issued to subsidiaries		–	–	7,695	7,067
Purchase of intangible assets and property, plant and equipment		(166,889)	(160,638)	(46,455)	(67,728)
Proceeds from redemption of held–to–maturity assets		37	3,557	37	3,557
Proceeds from investments in subsidiaries		–	–	53,378	9,111
Net cash flows (used in) / generated from investing activities		**(166,852)**	**(157,081)**	**14,655**	**(47,993)**
Cash flows from financing activities					
Proceeds on borrowings from financial institutions		2,100	349	–	–
Repayment of borrowings	11 b	(27,924)	(50,181)	(26,301)	(47,921)
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		**(184,358)**	**(141,367)**	**(182,719)**	**(138,063)**
Net decrease in cash and cash equivalents	**10**	**(143,716)**	**(61,270)**	**(143,250)**	**(59,556)**
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**	**92,287**	**122,710**	**89,605**	**121,641**

Notes to unaudited condensed interim financial statements

1. CORPORATE INFORMATION

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

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

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

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

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

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

The Management Board of Latvenergo AS since 16 November 2015 until 1 March 2018 was comprised of the following members: Āris Žīgurs (Chairman of the Board), Uldis Bariss, Māris Kuņickis, Guntars Baļčūns and Guntis Stafeckis. From 1 March 2018 Guntis Stafeckis and from 5 October 2018 Māris Kuņickis does not continue work on the Management Board. Since 25 September 2018 Kaspars Cikmačs has been acting as a member of the Management Board of Latvenergo AS and until the end of the reporting period the Management Board of Latvenergo AS was comprised of the following members: Āris Žīgurs (Chairman of the Board), Uldis Bariss, Māris Kuņickis, Guntars Baļčūns and Kaspars Cikmačs.

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 3 March 2017 was comprised of the following members: Torben Pedersen (Chairman of the Committee), Svens Dinsdorfs, Andris Ozoliņš, Andris Liepiņš and Marita Salgrāve.

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 9–month period ending 30 September 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 September 2018 and comparative information for the 9–month period ending 30 September 2017.

The Unaudited Interim Condensed Financial Statements of Latvenergo Group and Latvenergo AS for the 9–month period ending 30 September 2018 were authorised by the Latvenergo AS Management Board on 27 November 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 and natural gas trade (including 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 and natural gas trade (including wholesale), customer services and credit control.

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

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

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

The following table presents revenue, profit information and segment assets of the Latvenergo Group's and the Parent Company's operating segments. Inter–segment revenue is eliminated on disclosure of the Group's and the Company's total revenue.

EUR'000

	Group							Parent Company				
	Generation and trade	**Distribution**	**Lease of transmission system assets**	**Corporate functions**	**TOTAL segments**	**Adjustments and eliminations**	**TOTAL Group**	**Generation and trade**	**Corporate functions**	**TOTAL segments**	**Adjustments and eliminations**	**TOTAL Parent Company**
Period: 01/01-30/09/2018												
Revenue												
External customers	369,282	238,347	28,987	5,391	**642,007**	–	**642,007**	285,475	36,626	**322,101**	–	**322,101**
Inter–segment	1,104	1,267	2,167	34,680	**39,218**	(39,218)	**–**	327	17,175	**17,502**	(17,502)	**–**
Total revenue	**370,386**	**239,614**	**31,154**	**40,071**	**681,225**	**(39,218)**	**642,007**	**285,802**	**53,801**	**339,603**	**(17,502)**	**322,101**
Results												
EBITDA	**139,570**	**88,238**	**30,698**	**11,654**	**270,160**	**–**	**270,160**	**130,998**	**21,208**	**152,206**	**–**	**152,206**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(95,503)	(57,059)	(19,279)	(9,565)	**(181,406)**	–	**(181,406)**	(93,188)	(14,265)	**(107,453)**	–	**(107,453)**
Segment profit	**44,067**	**31,179**	**11,419**	**2,089**	**88,754**	**(5,509)**	**83,245**	**37,810**	**6,943**	**44,753**	**178,832**	**223,585**
Capital expenditure	22,531	65,107	64,158	8,864	**160,660**	**(2,145)**	**158,515**	21,443	10,067	**31,510**	**–**	**31,510**

	Group							Parent Company				
	Generation and trade	**Distribution**	**Lease of transmission system assets**	**Corporate functions**	**TOTAL segments**	**Adjustments and eliminations**	**TOTAL Group**	**Generation and trade**	**Corporate functions**	**TOTAL segments**	**Adjustments and eliminations**	**TOTAL Parent Company**
Period: : 01/01-30/09/2017												
Revenue												
External customers	405,729	236,221	31,286	5,947	**679,183**	–	**679,183**	325,885	36,941	**362,826**	–	**362,826**
Inter–segment	1,204	1,364	1,902	39,487	**43,957**	(43,957)	**–**	260	21,782	**22,042**	(22,042)	**–**
Total revenue	**406,933**	**237,585**	**33,188**	**45,434**	**723,140**	**(43,957)**	**679,183**	**326,145**	**58,723**	**384,868**	**(22,042)**	**362,826**
Results												
EBITDA	**165,544**	**90,737**	**32,070**	**10,640**	**298,991**	**–**	**298,991**	**158,653**	**19,881**	**178,534**	**–**	**178,534**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(58,588)	(57,625)	(18,352)	(9,111)	**(143,676)**	–	**(143,676)**	(56,217)	(13,786)	**(70,003)**	–	**(70,003)**
Segment profit	**106,956**	**33,112**	**13,718**	**1,529**	**155,315**	**(7,705)**	**147,610**	**102,436**	**6,095**	**108,531**	**8,443**	**116,974**
Capital expenditure	54,119	76,928	38,185	6,793	**176,025**	**(9,405)**	**166,620**	53,494	9,368	**62,862**	**–**	**62,862**

Segment assets

EUR'000

	Group							Parent Company				
	Generation and trade	**Distribution**	**Lease of transmission system assets**	**Corporate functions**	**TOTAL segments**	**Adjustments and eliminations**	**TOTAL Group**	**Generation and trade**	**Corporate functions**	**TOTAL segments**	**Adjustments and eliminations**	**TOTAL Parent Company**
As of 30 September 2018	1,433,156	1,656,590	555,690	84,655	**3,730,091**	91,016	**3,821,107**	1,272,411	212,444	**1,484,855**	1,704,829	**3,189,684**
As of 31 December 2017	1,956,888	1,641,318	500,863	85,584	**4,184,653**	231,072	**4,415,725**	1,286,478	192,435	**1,478,913**	2,170,287	**3,649,200**

Adjustments and eliminations

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

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

Reconciliation of profit

EUR'000

	Group		Parent Company	
	01/01-30/09/2018	01/01-30/09/2017	01/01-30/09/2018	01/01-30/09/2017
Segment profit	**88,754**	**155,315**	**44,753**	**108,531**
Finance income	884	941	8,761	8,535
Finance costs	(6,393)	(8,646)	(7,575)	(9,203)
Dividends received from subsidiaries	–	–	177,646	9,111
Profit before corporate income tax	**83,245**	**147,610**	**223,585**	**116,974**

Reconciliation of assets

EUR'000

	Group		Parent Company	
	30/09/2018	31/12/2017	30/09/2018	31/12/2017
Segment assets	**3,730,091**	**4,184,653**	**1,484,855**	**1,478,913**
Connection usage rights	(40,144)	(26,652)	–	–
Non–current financial investments	40	40	817,048	817,048
Loans to subsidiaries	–	–	636,673	1,098,781
Held–to–maturity financial assets	16,947	16,984	16,947	16,984
Derivative financial instruments	10,142	4,619	10,142	4,619
Other assets and assets held for sale	11,744	78	134,414	–
Cash and cash equivalents	92,287	236,003	89,605	232,855
Total assets	**3,821,107**	**4,415,725**	**3,189,684**	**3,649,200**

4. REVENUE

EUR'000

	IFRS or IAS applied	Group		Parent Company	
		01/01-30/09/2018	01/01-30/09/2017	01/01-30/09/2018	01/01-30/09/2017
Revenue from contracts with customers recognised over time:					
Trade of energy and related supply services	IFRS 15	313,499	345,140	237,455	271,099
Distribution system services	IFRS 15	225,043	223,553	–	–
Heat sales	IFRS 15	50,570	57,615	42,373	49,793
Other revenue	IFRS 15	22,705	20,198	30,507	38,870
Total revenue from contracts with customers		**611,817**	**646,506**	**310,335**	**359,762**
Other revenue:					
Lease of transmission system assets	IAS 17	28,609	30,908	–	–
Lease of other assets	IAS 17	1,203	1,391	11,766	3,064
Other revenue	IAS 17	378	378	–	–
Total other revenue		**30,190**	**32,677**	**11,766**	**3,064**
Total revenue		**642,007**	**679,183**	**322,101**	**362,826**

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

	Group		Parent Company	
	01/01-30/09/2018	01/01-30/09/2017	01/01-30/09/2018	01/01-30/09/2017
Mandatory procurement PSO fees	75,414	85,042	77,897	88,869
Distribution system services	7,420	7,276	155,287	162,561
Transmission system services	1,157	1,296	1,200	1,327
Total revenue recognised applying agent accounting principle	**83,991**	**93,614**	**234,384**	**252,757**

5. RAW MATERIALS AND CONSUMABLES USED

EUR'000

	Group		Parent Company	
	01/01-30/09/2018	01/01-30/09/2017	01/01-30/09/2018	01/01-30/09/2017
Electricity:				
Purchased electricity	130,451	96,621	51,687	22,688
Fair value loss on electricity forwards and futures (Note 11 c, II)	321	2,016	321	2,016
Electricity transmission services costs	53,103	53,097	711	635
	183,875	**151,734**	**52,719**	**25,339**
Energy resources costs	132,870	83,218	127,887	79,141
Raw materials, spare parts and maintenance costs	19,835	21,677	8,075	7,774
Total raw materials and consumables used	**336,580**	**256,629**	**188,681**	**112,254**

6. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

a) Intangible assets

EUR'000

	Group			Parent Company		
	01/01-30/09/2018	01/01-30/09/2017	2017	01/01-30/09/2018	01/01-30/09/2017	2017
Net book amount at the beginning of the period	**13,413**	**14,534**	**14,534**	**17,461**	**18,769**	**18,769**
Additions	16,644	1,733	2,588	16,612	1,144	2,531
Transfers to property, plant and equipment	–	–	–	–	–	(3)
Disposals	(7,951)	(159)	(212)	(8,284)	(492)	(653)
Amortisation charge	(2,707)	(2,595)	(3,497)	(2,468)	(2,360)	(3,183)
Net book amount at the end of the period	**19,399**	**13,513**	**13,413**	**23,321**	**17,061**	**17,461**

b) Property, plant and equipment

EUR'000

	Group			Parent Company		
	01/01-30/09/2018	01/01-30/09/2017	2017	01/01-30/09/2018	01/01-30/09/2017	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	156,372	164,887	241,220	28,208	59,939	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	(48)	(441)	(1,182)	(1,871)	(323)	(1,059)
Reclassified from investment property	–	–	–	–	–	8,335
Disposals	(5,328)	(2,826)	(4,900)	(1,730)	(180)	(487)
Impairment charge	(37,629)	(3,295)	(116,246)	(37,511)	(3,284)	(116,257)
Depreciation	(141,070)	(137,739)	(185,611)	(64,857)	(62,312)	(85,876)
Net book amount at the end of the period	**3,281,771**	**3,376,383**	**3,308,985**	**1,154,182**	**1,316,358**	**1,231,454**

7. INVENTORIES

EUR'000

	Group		Parent Company	
	30/09/2018	31/12/2017	30/09/2018	31/12/2017
Raw materials and materials	16,953	16,547	1,569	1,583
Natural gas	81,757	53,079	81,757	53,078
Other inventories	8,294	8,115	8,070	8,075
Prepayments for inventories	2,143	81	2,034	80
Allowance for raw materials and other inventories	(1,414)	(1,494)	(970)	(992)
Total inventories	**107,733**	**76,328**	**92,460**	**61,824**

Movement on the allowance

EUR'000

	Group			Parent Company		
	01/01-30/09/2018	01/01-30/09/2017	2017	01/01-30/09/2018	01/01-30/09/2017	2017
At the beginning of the period	**1,494**	**1,659**	**1,659**	**992**	**1,060**	**1,060**
Inventories written off	(5)	(33)	(62)	(5)	–	–
Changes included to the Statement of Profit or Loss	(75)	(21)	(103)	(17)	(43)	(68)
At the end of the period	**1,414**	**1,605**	**1,494**	**970**	**1,017**	**992**

8. NON–CURRENT FINANCIAL INVESTMENTS

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

			30/06/2018		31/12/2017	
Name of the company	Country of incorporation	Business activity held	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
Elektrum Eesti, OÜ	Estonia	Electricity and natural gas trade	100%	35	100%	35
Elektrum Lietuva, UAB	Lithuania	Electricity trade	100%	98	100%	98
Liepājas enerģija SIA	Latvia	Thermal energy generation and trade, electricity generation	51%	3,556	51%	3,556
TOTAL				**817,009**		**817,009**
Other non–current financial investments						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	46,30%	36	46,30%	36
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0,0051%	3	0,0051%	3
TOTAL				**39**		**39**

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

9. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS AND OTHER RECEIVABLES

a) Receivables from contracts with customers, net

EUR'000

	Group		Parent Company	
	30/09/2018	31/12/2017	30/09/2018	31/12/2017
Receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers	128,143	134,699	97,353	105,257
– Heating customers	1,936	10,922	1,649	8,851
– Other receivables from contracts with customers	13,046	8,610	7,789	4,155
– Subsidiaries (Note 12 b, c)	–	–	5,279	9,404
	143,125	**154,231**	**112,070**	**127,667**
Provisions for impaired receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers	(45,627)	(45,561)	(44,583)	(44,472)
– Heating customers	(353)	(329)	(333)	(310)
– Other receivables from contracts with customers	(2,716)	(2,972)	(34)	(86)
	(48,696)	**(48,862)**	**(44,950)**	**(44,868)**
Receivables from contracts with customers, net:				
– Electricity, natural gas trade and related services customers	82,516	89,138	52,770	60,785
– Heating customers	1,583	10,593	1,316	8,541
– Other receivables from contracts with customers	10,330	5,638	7,755	4,069
– Subsidiaries (Note 12 b, c)	–	–	5,279	9,404
	94,429	**105,369**	**67,120**	**82,799**

Movements in provisions for impaired receivables from contracts with customers

EUR'000

	Group			Parent Company		
	01/01-30/09/2018	01/01-30/09/2017	2017	01/01-30/09/2018	01/01-30/09/2017	2017
At the beginning of the period	**48,862**	**48,100**	**48,100**	**44,868**	**44,177**	**44,177**
Receivables written off as uncollectible	(1,290)	(1,159)	(1,710)	(1,182)	(836)	(1,343)
Provisions for impaired receivables	1,124	2,094	2,472	1,264	1,691	2,034
At the end of the period	**48,696**	**49,035**	**48,862**	**44,950**	**45,032**	**44,868**

b) Other receivables

EUR'000

	Group		Parent Company	
	30/09/2018	31/12/2017	30/09/2018	31/12/2017
Other non–current receivables	3,229	3,229	284	284
Total non–current receivables	**3,229**	**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**	83,965	164,365	–	–
Receivables for lease	7,134	3,535	44	2
Other financial receivables from related parties (Note 12 b, c)	–	–	13,249	13,105
Other accrued income	52,464	3,572	52,464	872
Dividends receivable from subsidiaries	–	–	124,268	–
Other current financial receivables	22,848	15,947	2,580	3,959
Total current financial receivables	**166,411**	**641,832**	**192,605**	**17,938**
Current non–financial receivables:				
Pre–tax and overpaid taxes	13,099	3,703	12,076	22
Other current receivables	167	1,226	277	119
Total current non–financial receivables	**13,266**	**4,929**	**12,353**	**141**
Total current receivables	**179,677**	**646,761**	**204,958**	**18,079**
Total other receivables	**182,906**	**649,990**	**205,242**	**18,363**

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

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

10. CASH AND CASH EQUIVALENTS

EUR'000

	Group		Parent Company	
	30/09/2018	31/12/2017	30/09/2018	31/12/2017
Cash at bank	91,509	233,624	88,827	230,476
Restricted cash and cash equivalents*	778	2,379	778	2,379
Total cash and cash equivalents	**92,287**	**236,003**	**89,605**	**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 September 2018 the entire Group's and the Parent Company's held–to–maturity financial assets were State Treasury bonds with 5 year and 10 year maturity, which were purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield.

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

Carrying amount of held–to–maturity financial assets

EUR'000

	Group		Parent Company	
	30/09/2018	**31/12/2017**	**30/09/2018**	**31/12/2017**
Held–to–maturity financial assets:				
– non–current	16,947	16,984	16,947	16,984
Total held–to–maturity financial assets	**16,947**	**16,984**	**16,947**	**16,984**

b) *Borrowings*

EUR'000

	Group		Parent Company	
	30/09/2018	**31/12/2017**	**30/09/2018**	**31/12/2017**
Non–current borrowings from financial institutions	529,746	583,313	521,119	574,764
Issued debt securities (bonds)	135,328	135,361	135,328	135,361
Total non–current borrowings	**665,074**	**718,674**	**656,447**	**710,125**
Current portion of non–current borrowings from financial institutions	133,674	105,931	129,866	102,522
Accrued interest on non–current borrowings	1,447	468	1,398	441
Accrued coupon interest on issued debt securities (bonds)	948	1,684	948	1,684
Total current borrowings	**136,069**	**108,083**	**132,212**	**104,647**
Total borrowings	**801,143**	**826,757**	**788,659**	**814,772**

Movement in Borrowings

EUR'000

	Group			Parent Company		
	01/01–30/09/2018	**01/01–30/09/2017**	**2017**	**01/01–30/09/2018**	**01/01–30/09/2017**	**2017**
At the beginning of the period	**826,757**	**791,566**	**791,566**	**814,772**	**778,323**	**778,323**
Borrowings received	2,100	349	186,500	–	–	185,000
Borrowing repaid	(27,924)	(50,181)	(80,976)	(26,301)	(47,921)	(78,221)
Change in accrued interest on borrowings	243	1,687	(126)	221	1,672	(123)
Repaid issued debt securities (bonds)	–	–	(70,000)	–	–	(70,000)
Changes in outstanding value of issued debt securities (bonds)	(33)	(92)	(207)	(33)	(92)	(207)
At the end of the period	**801,143**	**743,329**	**826,757**	**788,659**	**731,982**	**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					
	01/01–30/09/2018		01/01–30/09/2017		2017		01/01–30/09/2018		01/01–30/09/2017		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	(99)	(1,799)	(17)	(2,844)	(31)	(3,502)	(99)	(1,799)	(17)	(2,844)	(31)	(3,502)
Outstanding fair value at the end of the period	**(130)**	**6,262**	**(17)**	**8,719**	**(31)**	**8,061**	**(130)**	**6,262**	**(17)**	**8,719**	**(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					
	01/01–30/09/2018		01/01–30/09/2017		2017		01/01–30/09/2018		01/01–30/09/2017		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)	344	(23)	2,019	(3)	3,435	–	344	(23)	2,019	(3)	3,435	–
Included in comprehensive income	(5,768)	–	(390)	–	(1,889)	–	(5,768)	–	(390)	–	(1,889)	–
Outstanding fair value at the end of the period	**(10,012)**	**–**	**(4,505)**	**20**	**(4,588)**	**23**	**(10,012)**	**–**	**(4,505)**	**20**	**(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	
	01/01–30/09/2018	**01/01–30/09/2017**
Income:		
– Subsidiaries	59,557	116,299
	59,557	**116,299**
Expenses:		
– Subsidiaries	257,395	255,012
	257,395	**255,012**
including expenses from transactions with subsidiaries recognised in net amount through profit or loss:		
– Sadales tīkls AS	*230,231*	*247,674*
– Enerģijas publiskais tirgotājs AS	*–*	*385*
	230,231	***248,059***

EUR'000

	Group		Parent Company	
	30/09/2018	**31/12/2017**	**30/09/2018**	**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)	–	–	14,230	17,435
	–	**–**	**14,230**	**17,435**
Payables to related parties:				
– Subsidiaries	–	–	28,724	30,994
– Other related parties*	179	281	78	88
	179	**281**	**28,802**	**31,082**

* Pirmais Slēgtais Pensiju Fonds AS

	Group		Parent Company	
c) Accrued income raised from transactions with related parties				
– For goods sold / services provided for subsidiaries (Note 9 a, b)	–	–	2,580	3,199
– For interest received from subsidiaries (Note 9 a, b)	–	–	1,718	1,875
	–	**–**	**4,298**	**5,074**
d) Accrued expenses raised from transactions with related parties				
– For purchased goods / received services from subsidiaries	–	–	4,974	1,176
	–	**–**	**4,974**	**1,176**

In the 9–month period ending 30 September 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 1,999.3 thousand (9–month period of 2017: EUR 1,803.8 thousand).

In the 9–month period ending 30 September 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 779.2 thousand (9–month period of 2017: EUR 780.0 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	
	30/09/2018	**31/12/2017**
Non–current loans to subsidiaries		
Sadales tīkls AS	274,688	312,582
Latvijas elektriskie tīkli AS	139,011	85,394
Total non–current loans	**413,699**	**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	14,288	1,294
Sadales tīkls AS	52,962	28,157
Elektrum Eesti OÜ	6,606	5,134
Elektrum Lietuva, UAB	12,453	2,172
Enerģijas publiskais tirgotājs AS	77,948	604,644
Total current loans	**222,974**	**700,805**
Total loans to subsidiaries	**636,673**	**1,098,781**

Movement in loans issued by the Parent Company:

EUR'000

	Parent Company		
	01/01-30/09/2018	**01/01-30/09/2017**	**2017**
At the beginning of the period	**1,098,781**	**622,704**	**622,704**
(Repaid) / issued current loans (net)	(416,681)	32,937	536,302
Repaid non–current loans	(45,427)	(40,004)	(60,225)
At the end of the period	**636,673**	**615,637**	**1,098,781**

13. EVENTS AFTER THE REPORTING PERIOD

On 23 October 2018, at the Sadales tīkls AS Shareholders' meeting, a decision was made to conclude a long-term loan agreement with Latvenergo AS for the total amount of EUR 260 million with a repayment term of 10 years after the issue of each part of the loan. The loan is intended to finance capital investment projects, as well as for refinancing of repayable loans, including partial repayment of short-term debt.

There have been no other significant events subsequent to the end of the reporting period that might have a material effect on the Latvenergo Group and Latvenergo AS Unaudited Interim Condensed Financial Statements for the 9–month period ending 30 September 2018.