LATVENERGO CONSOLIDATED AND LATVENERGO AS UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE 9-MONTH PERIOD ENDING 30 SEPTEMBER 2017

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

CONTENTS

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. 2018.

Condensed Consolidated Interim Financial Statements for the 12-month period ending 31 December 2017 (unaudited)

18. 04. 2018

Latvenergo Consolidated Annual Report 2017

31. 05. 2018

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

31. 08. 2018

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

30. 11. 2018

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

CONTACT DETAILS FOR INVESTOR RELATIONS

E-mail: investor.relations@latvenergo.lv

Website: http://www.latvenergo.lv

DISCLAIMER

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

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

Summary

- **Electricity price convergence in the Baltics**

  In the 9-month period of 2017, there was an increase in average electricity spot prices in the Nordics and Estonia, while in Latvia and Lithuania there was no significant change in prices. This is mainly attributable to the operation of the *NordBalt* interconnection, which has decreased the electricity price difference between the Baltic and Nordic bidding areas.

- **Generation of electricity increased by 34%**

  In the 9-month period of 2017, Latvenergo Group generated 4,088 GWh of electricity at its plants. The electricity output generated at the Daugava HPPs has increased by 65% compared to last year. The amount of thermal energy generated has increased by 4%.

- **Latvenergo – the leading electricity supplier in the Baltics**

  Latvenergo Group has maintained its position as the leading electricity supplier in the Baltics. Retail electricity supply outside Latvia comprises approximately one third of the total retail electricity supply.

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

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

- **EBITDA growth of 4%**

  In the 9-month period of 2017, Latvenergo Group's revenue remained at the same level as a year ago; it amounts to EUR 679.2 million. Meanwhile, EBITDA increased by 4%, reaching EUR 299.0 million. The results were positively affected by higher electricity output at the Daugava HPPs as well as an increase in distribution service revenue. However, the financial results were negatively affected by lower electricity sales prices in the Baltics because of the downward trend of electricity prices in the market since the *NordBalt* interconnection was launched.

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

  In the 9-month period of 2017, the overall amount of investments was EUR 166.6 million, 65% of which was invested in network assets. We are continuing the reconstruction of the Daugava HPPs' hydropower units; in the reporting period, EUR 26.4 million was invested in this project.

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

  In October 2017, Latvenergo AS applied for a one-off compensation from the state, agreeing to a partial reduction of the support intensity for the Riga CHPPs in the future. The compensation will be financed by applying the rights of the state as the Shareholder to carry out a capital release of Latvenergo AS in the amount of EUR 454 million.

- **Latvenergo AS maintains its credit rating**

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

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

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

Latvenergo Group in Brief

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

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

Latvenergo Group divides its operations into three operating segments: generation and trade, distribution and lease of transmission system assets. This division into segments is made according to the needs of 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 & gas	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 830 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's 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 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.

During the strategy's preparation process, the requirements of the following were met: the OECD Guidelines on Corporate Governance of State-Owned Enterprises; the Law on Governance of Capital Shares of a Public Person and Capital Companies; and the Guidelines for Drawing Up a Medium-Term Operational Strategy for State-Owned Enterprises, approved by the Cross-Sectoral Coordination Centre.

To ensure the competitiveness of Latvenergo Group, during the strategy period 2017–2022, the Group plans to implement an efficiency programme that provides for the revision, centralization and digitalization of the Group's processes. The efficiency programme has been developed in order to maintain the Group's profitability in the long term considering the increase in costs due to inflation. The estimated efficiency potential for the Group's EBITDA is up to EUR +30 million.

The main areas for raising efficiency are digitalization of distribution system processes, development of a single dispatch control and geographic information system, reduced need for physical presence at power lines in case of power outages, reduction of the mobile equipment fleet, digitalization of customer service, consolidation of service channels, and optimization of generation processes.

Latvenergo Group Key Performance Indicators

Latvenergo Group Operational Figures

		9M 2017	9M 2016	9M 2015	9M 2014	9M 2013
Total electricity supply, incl.	GWh	7,646	7,272	7,233	7,057	7,223
*Retail***	GWh	5,189	5,702	5,868	6,565	6,026
*Wholesale****	GWh	2,457	1,570	1,366	0,492	1,198
Electricity generation	GWh	4,088	3,052	2,676	2,688	3,775
Thermal energy generation	GWh	1,791	1,725	1,584	1,658	1,806
Number of employees		4,053	4,184	4,180	4,560	4,518
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa3 (stable)	Baa3 (stable)

Latvenergo Group Financial Figures

		9M 2017	9M 2016	9M 2015	9M 2014	9M 2013
Revenue	MEUR	679.2	678.2	685.9	748.9	819.1
EBITDA*	MEUR	299.0	288.1	236.2	178.6	203.0
Profit	MEUR	125.0	94.3	68.6	30.0	32.9
Assets	MEUR	3,886.0	3,564.6	3,530.5	3,522.3	3,475.7
Equity	MEUR	2,455.1	2,110.5	2,060.3	2,020.2	2,006.5
Net debt*	MEUR	620.6	623.0	682.5	713.7	675.4
Investments	MEUR	166.6	136.5	136.7	114.6	159.9

Latvenergo Group Financial Ratios

	9M 2017	9M 2016	9M 2015	9M 2014	9M 2013
Net debt / EBITDA*	1.5	1.8	2.4	3.1	2.5
EBITDA margin*	43%	39%	31%	22%	23%
Return on equity (ROE)*	7.1%	5.3%	3.4%	2.2%	1.6%
Return on assets (ROA)*	4.3%	3.1%	1.9%	1.2%	0.9%
Return on capital employed (ROCE)*	6.5%	4.7%	3.1%	2.1%	1.7%
Net debt / equity*	25%	30%	33%	35%	34%

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

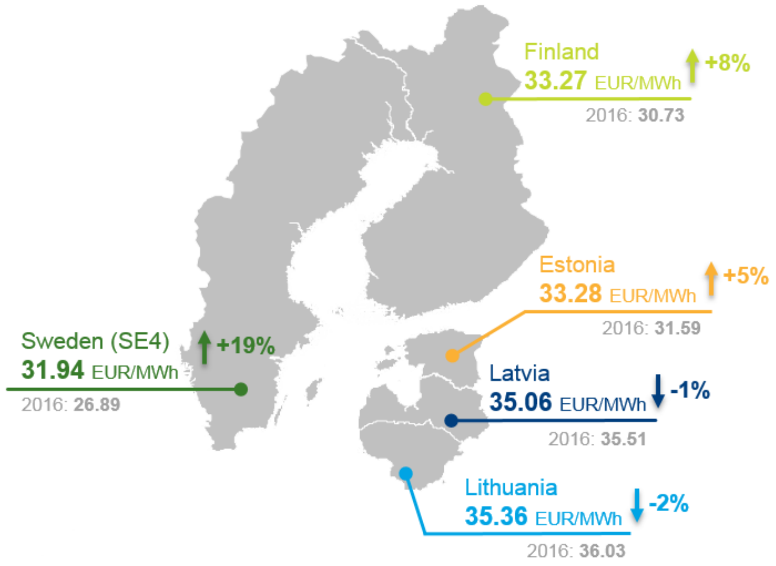
Operating Environment

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 2017:

- the average electricity spot price was higher in the Nordics and Estonia, while in Latvia and Lithuania it did not change significantly;
- the average price of natural gas at both the GASPOOL and TTF trading platforms was 26% higher than a year ago.

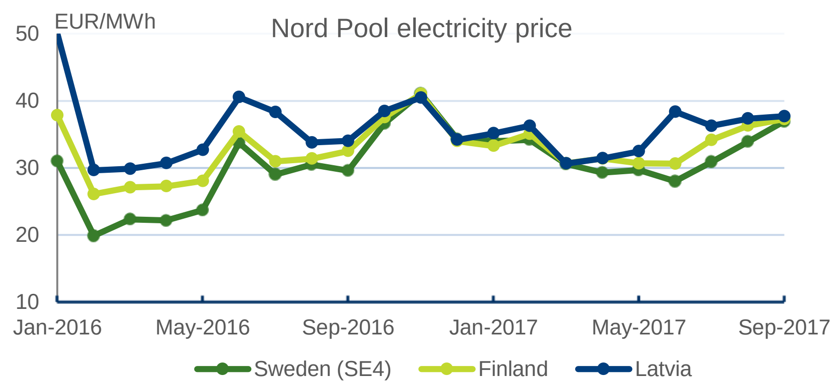
Electricity price convergence in the Baltics continues

The electricity price trend in the Baltic States in the 9-month period of 2017 indicated a close correlation with the overall price trends across Nordic bidding areas.



In the 9-month period of 2017, the average electricity spot price was higher in the Nordics and Estonia compared to the respective period a year ago. The price increase was mainly influenced by changing weather conditions and lower water levels at Scandinavian hydropower reservoirs, which resulted in a decreased amount of electricity generated from renewable energy. In addition, annual maintenance works at European nuclear power plants were performed in the summer.

In contrast, electricity prices in Latvia and Lithuania have decreased. The decrease was mainly impacted by functionality of the electricity interconnections which contribute to the convergence of spot prices in the Nord Pool region. In the 9-month period of 2017 electricity price differences between the Nordics and the Baltics have decreased by more than 50% on average or 2.71 EUR/MWh compared to the respective period a year ago. One year ago the average electricity price difference between the Latvian and Finnish bidding areas was 4.77 EUR/MWh and the price difference between the Latvian and Swedish (SE4) bidding areas was 8.62 EUR/MWh, while this year the 9-month average Nord Pool price in Latvia is only 1.79 EUR/MWh higher than in Finland and 3.12 EUR/MWh higher than in Sweden (SE4). The electricity price difference between Latvia and Estonia has decreased by 2.13 EUR/MWh. Meanwhile, the electricity price difference between Latvia and Lithuania has decreased by 44% to 0.29 EUR/MWh, which is due to more stable operation of the *NordBalt* transmission interconnection. Despite the fact that in 2017 *NordBalt* operated more effectively, there were also unplanned interruptions in the operation of the interconnections, which limited transmission operation in certain periods.



Operating Environment

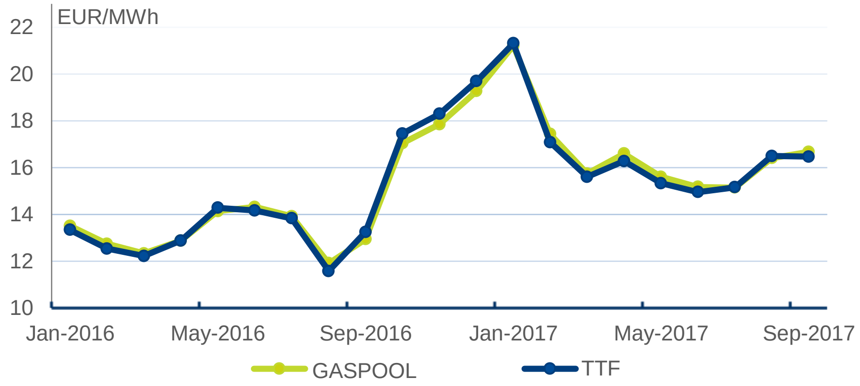
Electricity consumption in the Baltics in the 9-month period of 2017 did not change significantly compared to the respective period a year ago, amounting to 19.0 TWh. Electricity consumption in Latvia has stayed at the same level as a year ago, while in Lithuania and Estonia the amount of consumed electricity has increased slightly – by 2% and 1%, respectively. The total amount of electricity generated in the Baltics increased by 16%, amounting to 15.3 TWh. Due to the higher level of power generation in the Baltics, the amount of imported electricity from other Nord Pool bidding areas has decreased by 36%, amounting to 3.6 TWh. The largest increase in electricity generation occurred in Latvia, where the output grew to 5.2 TWh, which is 26% more than the respective period a year ago. This increase was mainly fostered by greater output at the Daugava HPPs. An increase in volume of generated electricity also occurred in Estonia, where output grew by 15%, amounting to 8.3 TWh. Meanwhile, the amount of electricity generated in Lithuania decreased by 4%, amounting to 1.8 TWh.

The natural gas market is open in Latvia

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

Until 3 April 2017, Latvian natural gas supply had been a fully regulated service and Latvijas Gāze AS was the only merchant in the territory of Latvia for natural gas supply service. On 3 April 2017, according to Energy Law stipulations, the natural gas market in Latvia was opened for all users.

The price of natural gas is influenced by oil prices. The average price of *Brent* crude oil in the 9-month period of 2017 is 51.82 USD/bbl, which is 24% higher than the respective period in 2016. Oil price trends were influenced by the effects of Hurricane Harvey and Hurricane Irma in Central America and the southern part of North America, which limited oil delivery significantly. Also, the Organization of the Petroleum Exporting Countries (OPEC) has started discussions on potential prolongation of the agreement on oil output cuts after the current effective date of 31 March 2018. Due to the increase in oil prices, there has been an increase in the price of natural gas. In the 9-month period of 2017, the average price of natural gas at the GASPOOL and TTF trading platforms was 26% higher than a year ago.



In addition to higher oil prices, the price of natural gas was also influenced by such factors as EUR/USD exchange rate fluctuations, events in the coal market, weather conditions and general demand-supply dynamics.

Latvenergo launches natural gas trade to customers in Latvia and Estonia

In Q2 2017, Latvenergo AS, under the *Elektrum* brand, commenced natural gas trade to business customers in Latvia and, in Q3 2017, Latvenergo's subsidiary in Estonia, *Elektrum Eesti*, commenced natural gas trade to business customers in Estonia as well by offering 12-month fixed-price contracts.

Operating Environment

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

On 22 September 2017, the Cabinet of Ministers of the Republic of Latvia accepted the order "On the conceptual report 'Compound Measures for the Development of the Electricity Market'". It provides for an efficient and sustainable reduction of the mandatory procurement public service obligation fee for electricity users. The report envisages the establishment of a mechanism under which the state would reduce its future commitments in cogeneration power plants with installed electrical capacity above 100 MW. Such producers are therefore given the opportunity to apply for a one-off payment, agreeing to a reduction of the support intensity in the future. On 14 October 2017, amendments to Regulation No. 221 of the Cabinet of Ministers' "Regulations Regarding Electricity Production and Price Determination upon Production of Electricity in Cogeneration" entered into force, laying down the procedure for submission and evaluation of the merchant's application, adoption of the decision, and calculation and execution of the one-off payment.

Latvenergo AS has 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. In the report, the one-off compensation to Latvenergo AS is estimated at EUR 454 million. The compensation will be financed by applying the rights of the state as the Shareholder to carry out a capital release of Latvenergo AS.

In recent years, the financial results of Latvenergo Group have improved substantially. As of 30 September 2017, the Group's asset value is EUR 3.9 billion and its equity is EUR 2.5 billion. According to an assessment carried out by independent international third parties, the capital structure ratios of Latvenergo Group are better than those of many industry benchmark companies. As of 30 September 2017, the Group's net debt to equity was 25% and its net debt to EBITDA ratio was 1.5.

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

Dividends

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

Latvenergo Group's capital structure ratios are sufficient to proceed with the dividend payout even after the capital release of EUR 454 million. Latvenergo AS dividends will be used as a source of funding for the state budget programme *Electricity User Support*, thereby decreasing the mandatory procurement public service obligation (hereinafter – PSO) fee during the following years.

Financial Results

In the 9-month period of 2017, Latvenergo Group's revenue remained at the same level as a year ago and comprises EUR 679.2 million.

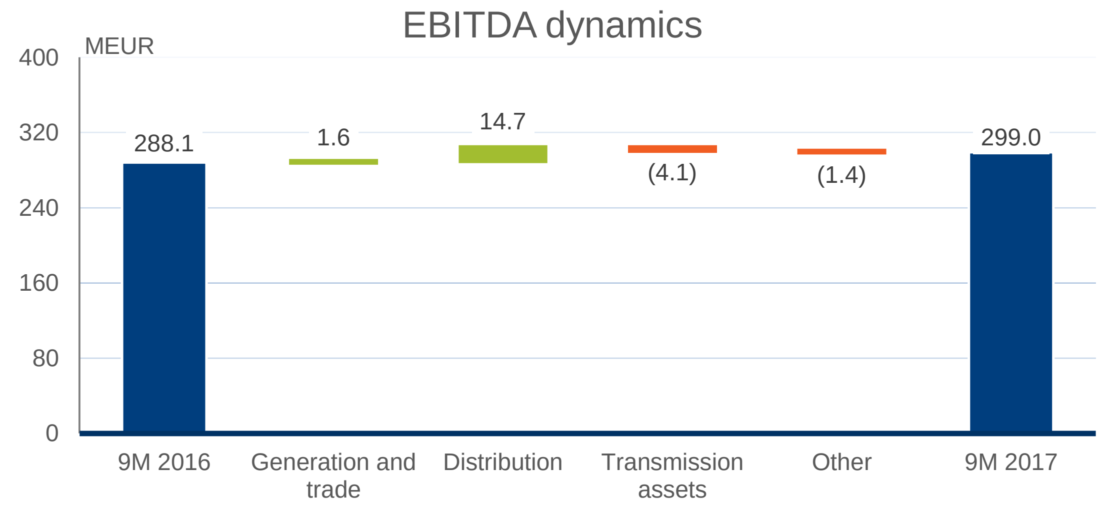
Latvenergo Group Financial figures		9M 2017	9M 2016	Δ	Δ, %
Revenue	MEUR	679.2	678.2	1.0	0.1%
EBITDA	MEUR	299.0	288.1	10.9	3.8%
Net profit	MEUR	125.0	94.3	30.7	32.6%
Assets	MEUR	3,886.0	3,564.6	321.4	9.0%

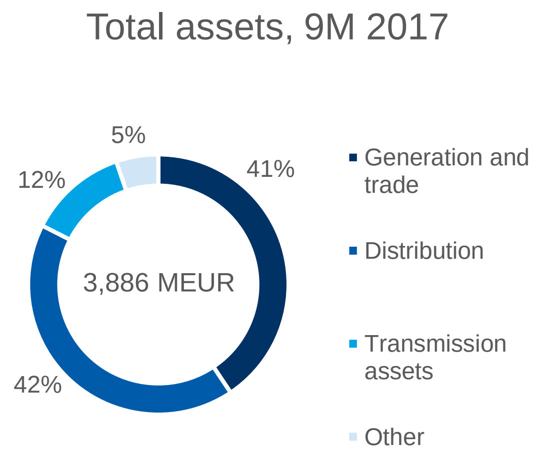
The Group's EBITDA and profit has increased

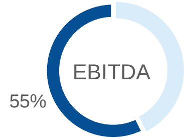
During the reporting period, Latvenergo Group's EBITDA has increased by 4%, reaching EUR 299.0 million, while the Group's net profit in the 9-month period of 2017 amounts to EUR 125.0 million.

The Group's results were positively impacted by the 65% greater electricity output at the Daugava HPPs and the EUR 12.7 million increase in distribution service revenue. The results were negatively impacted by lower electricity sales prices in the Baltics. Since 2016, the decrease in electricity prices in the Baltics has been impacted by the operation of the *NordBalt* electricity interconnection.

Furthermore, the EBITDA margin has improved, reaching 43% in the 9-month period of 2017 (in the respective period in 2016 it was 39%).







Generation and Trade

Segment weight in Latvenergo Group

Revenue	56%
EBITDA	55%
Assets	41%
Employees	24%

Generation and trade is Latvenergo Group's largest operating segment by both revenue and EBITDA value. The majority or 86% of the segment's revenue comes from electricity and related services, while 14% comes from thermal energy supply.

The segment's results were positively impacted by higher electricity output at the Daugava HPPs and negatively impacted by lower electricity sales prices in the Baltics.

In the 9-month period of 2017, Latvenergo Group generated 4,088 GWh of electricity at its plants, which corresponds to 79% of the amount of electricity sold to retail customers (in the 9-month period of 2016: 54% of the amount sold).

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

Operational figures		9M 2017	9M 2016	Δ	Δ, %
Total electricity supply	GWh	7,646	7,272	375	5%
Electricity generation	GWh	4,088	3,052	1,037	34%
Thermal energy generation	GWh	1,791	1,725	66	4%

Financial figures		9M 2017	9M 2016	Δ	Δ, %
Revenue	MEUR	406.9	421.9	(15.0)	(4%)
EBITDA	MEUR	165.5	163.9	1.6	1%
Assets	MEUR	1,576.5	1,517.1	59.4	4%
Investments	MEUR	54.1	40.3	13.9	34%
EBITDA margin		39.7%	34.7%	5.0 pp	15%

Generation

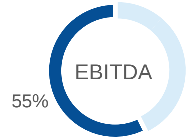
In the reporting period, the total amount generated by Latvenergo Group's power plants comprised 4,088 GWh of electricity and 1,791 GWh of thermal energy.

Overall, the amount of electricity generated has increased by 34% compared to the 9-month period of 2016.

In the first 9 months of 2017, the amount of power generated at the Daugava HPPs increased by 65% compared to the respective period a year ago, reaching 2,970 GWh (in the respective period in 2016: 1,804 GWh).

Generation of electricity has increased by 34%

The amount of power generated at the Riga CHPPs in the first 9 months of 2017 decreased by 11% compared to the respective period a year ago, amounting to 1,080 GWh. The Riga CHPPs operated in a market conjuncture by effectively planning operating modes and fuel consumption.



Generation and Trade

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

The total amount of thermal energy generated by Latvenergo Group in the 9-month period of 2017 increased by 4% compared to the respective period in 2016. The increase was influenced by the relatively cold weather and longer heating season.

Operational figures		9M 2017	9M 2016	Δ	Δ, %
Total electricity supply, incl.	GWh	7,646	7,272	375	5%
*Retail**	GWh	5,189	5,702	(513)	(9%)
*Wholesale***	GWh	2,457	1,570	887	57%
Electricity generation	GWh	4,088	3,052	1,037	34%
Daugava HPPs	GWh	2,970	1,804	1,166	65%
Riga CHPPs	GWh	1,080	1,210	(129)	(11%)
Liepaja plants and small plants	GWh	38	38	(0)	(1%)
Thermal energy generation		1,791	1,725	66	4%
Riga CHPPs	GWh	1,615	1,557	58	4%
Liepaja plants and small plants	GWh	176	168	8	5%

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

Trade

In the 9-month period of 2017, Latvenergo Group has maintained the position of leading electricity supplier in the Baltics. Latvenergo Group has approximately 27% of the market share of the Baltic electricity retail market.

The overall amount of retail electricity trade outside Latvia accounts for 1/3 of the total, reaching 1,762 GWh.

In the 9-month period of 2017, the Group supplied 5,189 GWh of electricity to Baltic retail customers (in the respective period in 2016: 5,702 GWh). The decrease in the amount of electricity supplied is primarily related to intensified competition in the business customer segment.

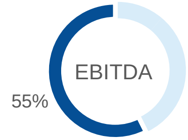
Latvenergo Group's electricity trade volume in the 9-month period of 2017 in Latvia amounts to 3,428 GWh, while in Lithuania it is 1,050 GWh and in Estonia it is 712 GWh.

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

Latvenergo Group has managed to maintain a stable client portfolio in the Baltics. Its total number of foreign clients exceeds 35 thousand.

In Q2 2017, Latvenergo AS, under the Elektrum brand, commenced natural gas trade to business customers in Latvia and, in Q3 2017, Latvenergo's subsidiary in Estonia, *Elektrum Eesti*, commenced natural gas trade to business customers in Estonia as well. The first contracts have been signed with approximately 100 business customers.

In Q3 2017, two new products were introduced for the household segment. One of them is *Elektrum Smart House*, which allows for remote control of heating and home appliances. The second product, which has received great interest in the target segment, is *Elektrum solārais*, which provides an opportunity to use independently generated electricity from sunlight.



Generation and Trade

Mandatory procurement

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

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

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

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

In November 2017, the PUC approved the PSO fee by establishing a new application procedure. The PSO fee will now be composed of a variable component proportional to the electricity consumed and a fixed component (capacity component), which will depend on the type of system service used by the consumer. Starting from 1 January 2018 the average PSO fee will be in the amount of 2.579 euro cents/kWh (including the variable component of 1.463 euro cents/kWh); thus, it will be decreased by 0.1 euro cents/kWh, compared to the current PSO fee (from 1 April 2014 to 31 December 2017 the PSO fee is 2.679 euro cents/kWh). The decrease in the PSO fee was fostered by the order "On the conceptual report 'Compound Measures for the Development of the Electricity Market'", issued by the Cabinet of Ministers of the Republic of Latvia, which provides for an efficient and sustainable reduction of the PSO fee for electricity users. Within its framework, all large cogeneration power plants with installed electrical capacity above 100 MW can apply for reduction of the support intensity in return for a one-off compensation, which is calculated as a discounted value of all support payments not received in the future.

Unsettled revenue from the mandatory procurement PSO fee recognised as assets		9M 2017	9M 2016	Δ	Δ, %
At the beginning of the period	MEUR	**142.1**	**141.1**	**1.1**	**0.8%**
Mandatory procurement PSO fee income	MEUR	131.3	131.0	0.3	0.3%
Received state grant	MEUR	66.9	59.2	7.7	13.1%
Mandatory procurement expenditures*	MEUR	197.8	177.0	20.7	11.7%
Incl. cogeneration	MEUR	106.8	105.4	1.3	1.3%
Incl. renewable energy resources	MEUR	90.5	71.0	19.5	27.5%
At the end of the period	MEUR	**141.6**	**127.9**	**13.7**	**10.7%**

* 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 purchased electricity on the Nord Pool exchange and plus the costs of balancing mandatory procurement

Latvenergo AS has 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.

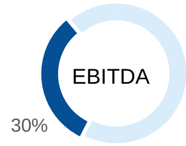
In order to foster the decrease in the PSO fee starting from 1 January 2018, a state grant in the amount of EUR 88.6 million is foreseen.

Revenue from Latvenergo AS dividends are used as a funding source for the abovementioned state budget programme.

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

In the 9-month period of 2017, MP expenditures comprise EUR 197.8 million (in the respective period of 2016: EUR 177.0 million). The expenditures increased mainly due to the greater amount and higher price of the MP from the mandatory procurement power plants where the main fuel source is renewable energy (EUR +19.5 million).

In the 9-month period of 2017, assets recognised as unearned PSO fee revenue increased by EUR 13.7 million, comprising EUR 141.6 million. In the first 9 months of 2017, a state grant in the amount of EUR 66.9 million was received.



Distribution

Revenue
33%

EBITDA
30%

Assets
42%

Employees
60%

Segment weight in Latvenergo Group

The distribution segment is Latvenergo Group's largest segment by assets and second largest by revenue. In the 9-month period of 2017, the segment's revenue increased by 6% compared to the respective period in the year 2016, reaching EUR 237.6 million, while EBITDA increased by 19%, reaching EUR 90.7 million.

> The value of distribution assets exceeds EUR 1.6 billion

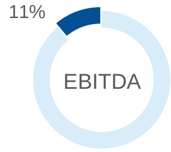
In the 9-month period of 2017, the segment's results were positively impacted by the increase in distribution service revenue of EUR 12.7 million compared to the respective period a year ago. Growth in revenue from distribution services resulted from the change in the distribution system service tariffs that came into force on 1 August 2016. The tariffs provide for implementation of a fixed distribution service component that facilitates efficient utilization of distribution grid connection capacity.

Investment in distribution assets during the reporting period increased by 4% compared to the previous year, reaching EUR 76.9 million.

Operational figures		**9M 2017**	**9M 2016**	**Δ**	**Δ, %**
Electricity distributed	GWh	4,769	4,770	(1)	(0%)
Distribution losses	GWh	219	206	13	6%
SAIFI	number	2.2	2.4	(0.2)	(9%)
SAIDI	minutes	204	222	(18)	(8%)
Financial figures		**9M 2017**	**9M 2016**	**Δ**	**Δ, %**
Revenue	MEUR	237.6	224.3	13.3	6%
EBITDA	MEUR	90.7	76.0	14.7	19%
Assets	MEUR	1,628.1	1,314.8	313.4	24%
Investments	MEUR	76.9	73.8	3.2	4%
EBITDA margin		37.4%	31.1%	6.3 pp	20%

Due to the investments and revaluation made in 2016, the value of distribution assets has increased to EUR 1,628.1 million.

Investments in modernization of network assets have increased the quality of network services by lowering SAIFI and SAIDI indicators and minimizing the risk of network disruptions caused by severe weather conditions.



Lease of Transmission System Assets

Segment weight in Latvenergo Group

Revenue	5%
EBITDA	11%
Assets	12%
Employees	0.2%

The value of transmission system assets exceeds 450 million EUR

The revenue of the transmission system asset leasing segment represents 5% of Latvenergo Group's revenue. In the 9-month period of 2017, the segment's revenue was EUR 33.2 million, while EBITDA was EUR 32.1 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 2017**	**9M 2016**	**Δ**	**Δ, %**
Revenue	MEUR	33.2	37.1	(3.9)	(11%)
EBITDA	MEUR	32.1	36.1	(4.1)	(11%)
Total assets	MEUR	477.8	415.0	62.8	15%
Investments	MEUR	38.2	16.4	21.7	132%

During the reporting period, investment in transmission system assets was in the amount of EUR 38.2 million. The amount of investments has increased more than twice compared to the respective period a year ago. The largest investment has been made in the energy infrastructure project *Kurzeme Ring*. In the 9-month period of 2017, EUR 20.1 million has been invested in this project.

Due to the investments and revaluation made in 2016, the value of transmission assets has increased to EUR 477.8 million.

The return on transmission system assets in the 9-monthperiod of 2017 was 4.1% (in the respective period in 2016: 2.6%).

Investments

In the 9-month period of 2017, the total amount of investment has increased by EUR 30 million or 22% compared to the respective period last year; it amounts to EUR 166.6 million. The increase has resulted mainly from the greater investment in the transmission segment (*Kurzeme Ring* project) and the generation segment.

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

To ensure high quality 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 network assets represented 65% of total investment.

Contributing to environmentally friendly projects and environmental development projects, in the 9-month period of 2017, EUR 26.4 million was invested in the Daugava HPPs' hydropower unit reconstruction.

Investment projects:

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

Deeming environmentally safe, sustainable and competitive operations and efficient water resource management as highly important, Latvenergo Group is proceeding with a gradual overhaul of eleven Daugava HPPs' hydropower units. The programme is scheduled for completion by 2022, with estimated total reconstruction costs exceeding EUR 200 million. Work completed within the scope of the contract reached EUR 113.1 million as of 30 September 2017. Reconstruction will ensure functionality of the hydropower units for another 40 years.

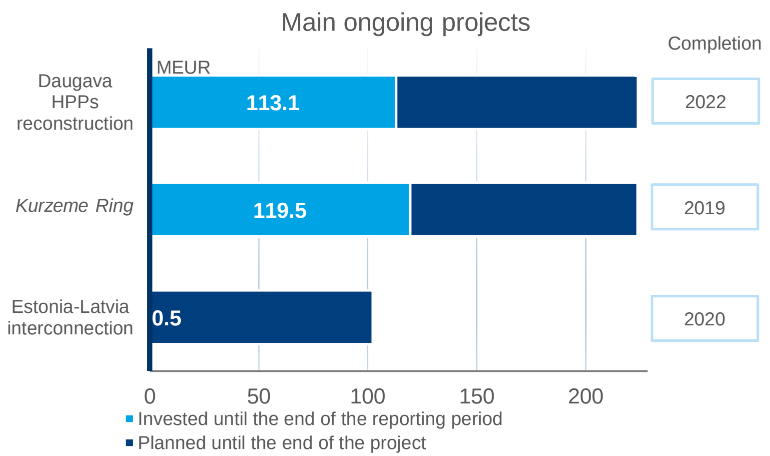
<u>The *Kurzeme Ring* project</u>

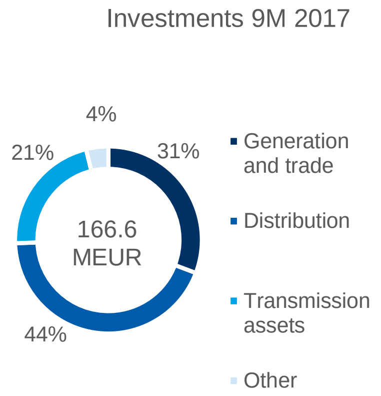
The *Kurzeme Ring* project will increase the safety level of power supply in the Kurzeme region and Latvia as a whole, providing an opportunity for more efficient use of the Lithuania-Sweden marine cable *NordBalt* and allowing further integration of the Baltics into the Nordic electricity market.

The *Kurzeme Ring* project is scheduled for completion in 2019, and the total planned project construction costs are EUR 230 million. The project consists of three stages. Investment in the first and second stage of the project comprised a total of EUR 95 million, approximately half of which was covered by the European Commission. For the final stage of the project *Ventspils–Tume–Rīga*, European Union co-funding in the amount of 45% of the construction cost was attracted. By the end of the reporting period, EUR 25 million have been invested in the last stage of this project. During the reporting period, construction projects have been developed, several 330 kV transmission lines are under construction and rebuilding works are continuing at several substations.

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

The project bears major significance for the future electricity transmission infrastructure of the whole Baltic region. The construction of the new 330 kV interconnection is scheduled for completion by the end of 2020 and planned construction costs of the project in Latvia are about EUR 100 million. EU co-funding in the amount of 65% was attracted. During the reporting period, a procurement procedure for projecting and constructing the 330 kV power line continues. Internationally recognised consultants have been involved in the evaluation of the tenders received.





Funding and Liquidity

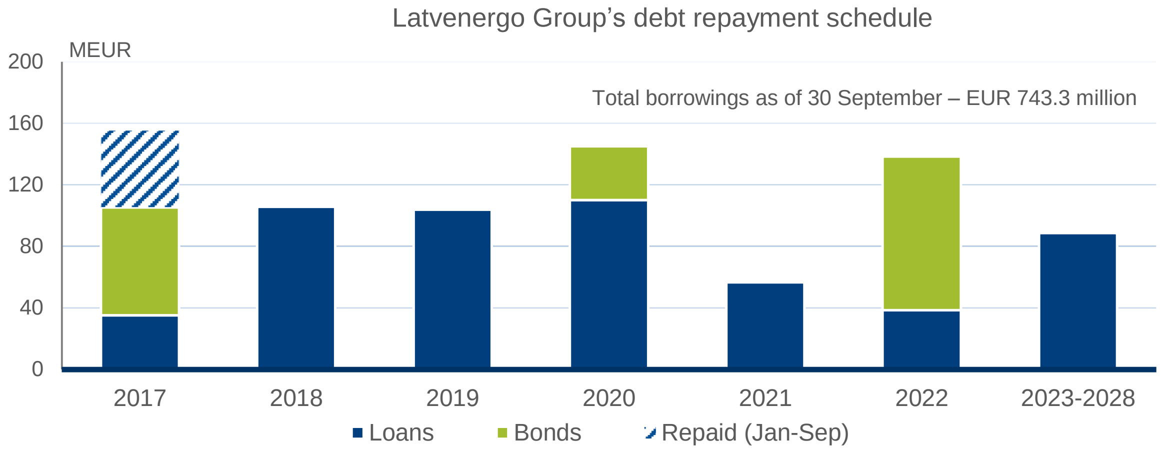
Latvenergo Group finances its investments from its own resources and external long-term borrowings, which are regularly sourced in financial and capital markets in a timely manner. Planning the sourcing of borrowings in a timely manner is also crucial in order to ensure loan refinancing risk management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

Best investor relations among Baltic bond issuers

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

As of 30 September 2017, the Group's borrowings amount to EUR 743.3 million (30 September 2016: EUR 829.3 million), comprising loans from commercial banks, international investment banks, and bonds amounting to EUR 205 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 2017, all borrowings are denominated in euro currency. The weighted average repayment period is 3.4 years (30 September 2016: 4.0 years). The effective weighted average interest rate (with interest rate swaps) was 1.8% (30 September 2016: 1.9%). Also, sufficient coverage of debt service requirements has been ensured (interest coverage ratio: 27.3).

As of 30 September 2017, the net borrowings of Latvenergo Group are EUR 620.6 million (30 September 2016: EUR 623.0 million), while the net debt / EBITDA ratio is 1.5 (30 September 2016: 1.8). In the 9-month period of 2017, all the binding financial covenants set in Latvenergo Group's loan agreements have been met.

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

Financial Risk Management

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

a) Market risks

I) Price risk

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

The main sources of Latvenergo Group's exposure to price risk are the floating market prices of electricity on the Nord Pool power exchange in Baltic bidding areas and, since the opening of the natural gas market in Latvia, 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, 68% of the borrowings had a fixed interest rate with an average period of 2.0 years as of 30 September 2017.

III) Currency risk

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

As of 30 September 2017, 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 2017, Latvenergo Group's liquid assets (cash and short-term deposits up to 3 months) reached EUR 122.7 million (2016: EUR 206.3 million), while the current ratio was 1.7 (2.3).

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 2017	9M 2016	9M 2015
Retail electricity supply in Latvia**	GWh	3,428	3,916	3,993
Electricity generation	GWh	4,054	3,017	2,640
Thermal energy generation	GWh	1,617	1,559	1,427
Number of employees		1,466	1,489	1,456
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

Latvenergo AS financial figures

		9M 2017	9M 2016	9M 2015
Revenue	MEUR	362.8	368.9	377.4
EBITDA*	MEUR	178.5	177.3	136.9
Profit	MEUR	99.6	109.5	77.3
Assets	MEUR	3,152.5	3,197.5	3,160.2
Equity	MEUR	2,189.6	2,145.2	2,097.0
Net debt*	MEUR	610.3	610.9	701.6
Investments	MEUR	62.9	52.3	53.9

Latvenergo AS financial ratios

	9M 2017	9M 2016	9M 2015
Return on equity (ROE)*	5.9%	6.0%	4.0%
Net debt / equity*	28%	28%	33%
EBITDA margin*	48%	43%	31%

* Definitions of ratios and terms are available in the List of Abbreviations and Formulas on page 21
** Including operating consumption

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS, the *Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Interim Financial Statements for the 9-Month Period Ending 30 September 2017*, including the Management Report, have been prepared in accordance with the International Financial Reporting Standards and in all material aspects present a true and fair view of the assets, liabilities, financial position and profit and loss of Latvenergo Group and Latvenergo AS. Information provided in the Management Report is accurate.

The *Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Interim Financial Statements for the 9-Month Period Ending 30 September 2017* were approved by the Management Board of Latvenergo AS on 28 November 2017 and have been signed by Chairman of the Management Board Āris Žīgurs and Member of the Management Board Guntars Baļčūns as authorized persons.

Āris Žīgurs
Chairman of the Management Board

Guntars Baļčūns
Member of the Management Board

28 November 2017

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
MEUR –	million euros
MW –	megawatt
MWh –	megawatt hour (1,000,000 MWh = 1,000 GWh = 1 TWh)
nm^3 –	normal cubic meter
OECD –	The Organisation for Economic Co-operation and Development
MP –	mandatory procurement
PSO –	public service obligation
PUC –	Public Utilities Commission
Riga CHPPs –	Riga combined heat and power plants
SAIDI –	System Average Interruption Duration Index
SAIFI –	System Average Interruption Frequency Index
SET –	Subsidised Energy Tax

Formulas

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

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

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

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

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

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

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

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

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

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

$$\text{Interest coverage ratio} = \frac{\text{net cash flow from operating activities (12-month rolling) – changes in working capital + interest expense (12-month rolling)}}{\text{interest expense (12-month rolling)}}$$

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

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

Unaudited Condensed Interim Financial Statements

Statement of Profit or Loss

	Notes	Group		Company	
		01/01–30/09/2017	**01/01–30/09/2016**	**01/01–30/09/2017**	**01/01–30/09/2016**
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue	4	679,179	678,203	362,822	368,946
Other income		5,002	4,818	3,374	2,343
Raw materials and consumables used	5	(256,600)	(274,874)	(112,229)	(126,170)
Personnel expenses		(75,993)	(72,754)	(31,686)	(29,391)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	7	(143,676)	(171,370)	(70,003)	(68,450)
Other operating expenses		(52,597)	(47,252)	(43,747)	(38,433)
Operating profit		**155,315**	**116,771**	**108,531**	**108,845**
Finance income		941	1,788	8,535	9,629
Finance costs		(8,646)	(10,935)	(9,203)	(11,378)
Received dividends from subsidiaries		–	–	9,111	17,033
Profit before tax		**147,610**	**107,624**	**116,974**	**124,129**
Income tax	6	(22,574)	(13,227)	(17,352)	(14,593)
Profit for the period		**125,036**	**94,397**	**99,622**	**109,536**
Profit attributable to:					
– Equity holder of the Parent Company		124,125	93,685	–	–
– Non–controlling interests		911	712	–	–

Unaudited Condensed Interim Financial Statements

Statement of Other Comprehensive Income

	Notes	Group		Company	
		01/01–30/09/2017	01/01–30/09/2016	01/01–30/09/2017	01/01–30/09/2016
		EUR'000	EUR'000	EUR'000	EUR'000
Profit for the period		**125,036**	**94,397**	**99,622**	**109,536**
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods (net of tax):					
– income / (losses) from change in hedge reserve	12 c	3,251	(1,797)	3,251	(1,797)
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods	**12 c**	**3,251**	**(1,797)**	**3,251**	**(1,797)**
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods (net of tax):					
– reversed deferred income tax on losses as a result of re–measurement on defined post–employment benefit plan		(638)	–	(192)	–
Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods		**(638)**	**–**	**(192)**	**–**
TOTAL other comprehensive income / (loss) for the period, net of tax		**2,613**	**(1,797)**	**3,059**	**(1,797)**
TOTAL comprehensive income for the period		**127,649**	**92,600**	**102,681**	**107,739**
Other comprehensive income attributable to:					
– Equity holder of the Parent Company		126,738	91,888	–	–
– Non–controlling interests		911	712	–	–

Statement of Financial Position

	Notes	Group		Company	
		30/09/2017	31/12/2016	30/09/2017	31/12/2016
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non–current assets					
Intangible assets and property, plant and equipment	7	3,389,896	3,370,331	1,333,958	1,341,287
Investment property		657	563	72,044	72,833
Non–current financial investments	9	41	41	817,049	817,049
Non–current loans to subsidiaries	13 e	–	–	381,953	377,380
Investments in held–to–maturity financial assets	12 a	16,997	17,034	16,997	17,034
Other non–current receivables		986	986	977	977
TOTAL non–current assets		**3,408,577**	**3,388,955**	**2,622,978**	**2,626,560**
Current assets					
Inventories	8	89,814	41,458	75,804	9,118
Prepayment for inventories	8	210	–	210	16,693
Trade receivables and other receivables	10	259,041	273,957	92,666	113,659
Deferred expenses		1,140	3,227	983	2,189
Current loans to subsidiaries	13 e	–	–	233,684	245,324
Derivative financial instruments	12 c	4,522	6,134	4,522	6,134
Investments in held–to–maturity financial assets	12 a	–	3,520	–	3,520
Cash and cash equivalents	11	122,710	183,980	121,641	181,197
TOTAL current assets		**477,437**	**512,276**	**529,510**	**577,834**
TOTAL ASSETS		**3,886,014**	**3,901,231**	**3,152,488**	**3,204,394**
EQUITY					
Share capital		1,288,715	1,288,715	1,288,715	1,288,715
Reserves		938,650	937,074	653,126	650,020
Retained earnings		221,156	185,840	247,793	238,334
Equity attributable to equity holder of the Parent Company		**2,448,521**	**2,411,629**	**2,189,634**	**2,177,069**
Non–controlling interests		6,602	7,084	–	–
TOTAL equity		**2,455,123**	**2,418,713**	**2,189,634**	**2,177,069**
LIABILITIES					
Non–current liabilities					
Borrowings	12 b	610,299	635,620	601,357	627,691
Deferred income tax liabilities		316,102	315,759	126,426	126,260
Provisions		19,416	18,643	8,281	7,924
Derivative financial instruments	12 c	5,454	7,946	5,454	7,946
Other liabilities and deferred income		200,901	195,407	1,011	1,055
Total non–current liabilities		**1,152,172**	**1,173,375**	**742,529**	**770,876**
Current liabilities					
Borrowings	12 b	133,030	155,946	130,625	150,632
Trade and other payables		119,884	117,817	81,313	85,569
Income tax payable		8,135	17,718	5,043	16,549
Deferred income		14,385	14,022	59	59
Derivative financial instruments	12 c	3,285	3,640	3,285	3,640
TOTAL current liabilities		**278,719**	**309,143**	**220,325**	**256,449**
TOTAL liabilities		**1,430,891**	**1,482,518**	**962,854**	**1,027,325**
TOTAL EQUITY AND LIABILITIES		**3,886,014**	**3,901,231**	**3,152,488**	**3,204,394**

Statement of Changes in Equity

	Group						Company			
	Attributable to equity holder of the Parent Company				Non–controlling interests	TOTAL	Attributable to equity holder of the Company			TOTAL
	Share capital	Reserves	Retained earnings	Total			Share capital	Reserves	Retained earnings	
	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**	EUR'000	EUR'000	EUR'000	**EUR'000**
As of 31 December 2015	**1,288,531**	**669,596**	**131,662**	**2,089,789**	**6,913**	**2,096,702**	**1,288,531**	**649,779**	**176,590**	**2,114,900**
Dividends for 2015	–	–	(77,413)	**(77,413)**	(1,377)	**(78,790)**	–	–	(77,413)	**(77,413)**
Disposal of property, plant and equipment revaluation reserve net of deferred income tax	–	(459)	459	**–**	–	**–**	–	–	–	**–**
TOTAL contributions and profit distributions recognised directly in equity	**–**	**(459)**	**(76,954)**	**(77,413)**	**(1,377)**	**(78,790)**	**–**	**–**	**(77,413)**	**(77,413)**
Profit for the period	–	–	93,685	**93,685**	712	**94,397**	–	–	109,536	**109,536**
Other comprehensive loss	–	(1,797)	–	**(1,797)**	–	**(1,797)**	–	(1,797)	–	**(1,797)**
TOTAL comprehensive income / (loss) for the period	**–**	**(1,797)**	**93,685**	**91,888**	**712**	**92,600**	**–**	**(1,797)**	**109,536**	**107,739**
As of 30 September 2016	**1,288,531**	**667,340**	**148,393**	**2,104,264**	**6,248**	**2,110,512**	**1,288,531**	**647,982**	**208,713**	**2,145,226**
Increase in share capital	184	–	–	**184**	–	**184**	184	–	–	**184**
Disposal of property, plant and equipment revaluation reserve net of deferred income tax	–	(4,395)	4,395	**–**	–	**–**	–	(2,606)	2,606	**–**
TOTAL contributions and profit distributions recognised directly in equity	**184**	**(4,395)**	**4,395**	**184**	**–**	**–**	**184**	**(2,606)**	**2,606**	**184**
Profit for the period	–	–	35,360	**35,360**	836	**36,196**	–	–	27,905	**27,905**
Other comprehensive income / (loss) for the period	–	274,129	(2,308)	**271,821**	–	**271,821**	–	4,644	(890)	**3,754**
TOTAL comprehensive income for the period	**–**	**274,129**	**33,052**	**307,181**	**836**	**308,017**	**–**	**4,644**	**27,015**	**31,659**
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**
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)	1,971	**296**	–	**296**	–	(145)	171	**26**
TOTAL contributions and profit distributions recognised directly in equity	**–**	**(1,675)**	**(88,171)**	**(89,846)**	**(1,393)**	**(91,239)**	**–**	**(145)**	**(89,971)**	**(90,116)**
Profit for the period	–	–	124,125	**124,125**	911	**125,036**	–	–	99,622	**99,622**
Other comprehensive income / (loss) for the period	–	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**	**221,156**	**2,448,521**	**6,602**	**2,455,123**	**1,288,715**	**653,126**	**247,793**	**2,189,634**

Statement of Cash Flows

	Notes	Group		Company	
		01/01–30/09/2017	01/01–30/09/2016	01/01–30/09/2017	01/01–30/09/2016
		EUR'000	EUR'000	EUR'000	EUR'000
Cash flows from operating activities					
Profit before tax		147,610	107,624	116,974	124,129
Adjustments:					
- Amortisation, depreciation and impairment of non–current assets		146,588	173,782	70,620	68,818
- Net financial adjustments		9,721	984	1,711	(6,371)
- Other adjustments		750	601	(8,754)	(15,379)
Operating profit before working capital adjustments		***304,669***	***282,991***	***180,551***	***171,197***
(Increase) / decrease in current assets		(21,683)	11,300	(29,087)	(8,729)
(Decrease) / increase in trade and other payables		(7,756)	(12,317)	995	(3,095)
Cash generated from operating activities		***275,230***	***281,974***	***152,459***	***159,373***
Interest paid		(7,121)	(8,609)	(6,720)	(9,069)
Interest received		1,243	2,088	9,619	10,215
Corporate income tax and real estate tax paid		(32,174)	(4,459)	(28,858)	(5,791)
Net cash flows generated from operating activities		**237,178**	**270,994**	**126,500**	**154,728**
Cash flows from investing activities					
Loans issued to subsidiaries		–	–	–	(75,000)
Repayment of loans issued to subsidiaries		–	–	7,067	92,400
Purchase of intangible assets and property, plant and equipment		(160,638)	(128,340)	(67,728)	(46,152)
Proceeds from redemption of held–to–maturity assets		3,557	7,900	3,557	7,900
Proceeds from investments in subsidiaries		–	–	9,111	15,600
Net cash flows used in investing activities		**(157,081)**	**(120,440)**	**(47,993)**	**(5,252)**
Cash flows from financing activities					
Proceeds from issued debt securities (bonds)		–	26,266	–	26,266
Proceeds on borrowings from financial institutions	12 b	349	56,055	–	55,000
Repayment of borrowings	12 b	(50,181)	(52,337)	(47,921)	(50,821)
Dividends paid to equity holder of the Parent Company		(90,142)	(77,413)	(90,142)	(77,413)
Dividends paid to non–controlling interests		(1,393)	(1,377)	–	–
Net cash flows used in financing activities		**(141,367)**	**(48,806)**	**(138,063)**	**(46,968)**
Net (decrease) / increase in cash and cash equivalents		**(61,270)**	**101,748**	**(59,556)**	**102,508**
Cash and cash equivalents at the beginning of the period	11	183,980	104,543	181,197	101,819
Cash and cash equivalents at the end of the period	**11**	**122,710**	**206,291**	**121,641**	**204,327**

Notes to the Financial Statements

1. General Information on the Group and the Company

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

Latvenergo AS is power supply utility engaged in electricity and thermal energy generation, as well as sales of electricity 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 the date of approving of these Unaudited Interim Condensed Financial Statements of the Group and the Company was comprised of the following members: Āris Žīgurs (Chairman of the Board), Uldis Bariss, Māris Kuņickis, Guntars Baļčūns and Guntis Stafeckis.

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

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

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

The Unaudited Interim Condensed Financial Statements of *Latvenergo* Group and Latvenergo AS for the 9-month period ending 30 September 2017 include the financial information in respect of the *Latvenergo* Group and Latvenergo AS for the period starting on 1 January 2017 and ending on 30 September 2017 and comparative information for the 9-month period ending 30 September 2016.

The Unaudited Interim Condensed Financial Statements of Latvenergo Group and Latvenergo AS for the 9-month period ending 30 September 2017 were authorised by the Latvenergo AS Management Board on 28 November 2017.

2. Summary of Most 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 (IFRS) as adopted for use in the European Union and principal accounting policies applied to these financial statements were identical to those used in the Consolidated Financial Statements and Latvenergo AS Financial Statements for the 2016 financial year. These policies have been consistently applied to all reporting periods presented in financial statements, unless otherwise stated. Where it is necessary, comparatives are reclassified.

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

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

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

3. Operating Segment Information

Operating segments of the Group and the Company

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

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

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

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

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

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

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

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

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

	Group							Company				
	Generation and trade	Distribution	Lease of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Company
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Period 01/01–30/09/2017												
Revenue												
External customers	405,725	236,221	31,286	5,947	679,179	–	679,179	325,881	36,941	362,822	–	362,822
Inter–segment	1,204	1,364	1,902	39,487	43,957	(43,957)	–	260	21,782	22,042	(22,042)	–
TOTAL revenue	406,929	237,585	33,188	45,434	723,136	(43,957)	679,179	326,141	58,723	384,864	(22,042)	362,822
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
Period 01/01–30/09/2016												
Revenue												
External customers	413,691	223,079	35,256	6,177	678,203	–	678,203	333,520	35,426	368,946	–	368,946
Inter–segment	8,248	1,220	1,869	34,702	46,039	(46,039)	–	430	17,386	17,816	(17,816)	–
TOTAL revenue	421,939	224,299	37,125	40,879	724,242	(46,039)	678,203	333,950	52,812	386,762	(17,816)	368,946
Results												
EBITDA	163,925	76,004	36,123	12,089	288,141	–	288,141	157,228	20,067	177,295	–	177,295
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(57,740)	(74,400)	(29,971)	(9,259)	(171,370)	–	(171,370)	(55,394)	(13,056)	(68,450)	–	(68,450)
Segment profit	106,185	1,604	6,152	2,830	116,771	(9,147)	107,624	101,834	7,011	108,845	15,284	124,129
Capital expenditure	40,258	75,002	16,439	6,066	137,765	(1,246)	136,519	38,789	13,560	52,349	–	52,349

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

	Group							Company				
	Generation and trade	Distribution	Lease of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Company
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As of 30 September 2017	1,576,493	1,628,133	477,794	85,021	3,767,441	118,573	3,886,014	1,379,301	197,341	1,576,642	1,575,846	3,152,488
As of 31 December 2016	1,557,032	1,629,107	448,707	88,431	3,723,277	177,954	3,901,231	1,372,835	183,921	1,556,756	1,647,638	3,204,394

Adjustments and eliminations

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

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

Reconciliation of profit

	Group		Company	
	01/01–30/09/2017	01/01–30/09/2016	01/01–30/09/2017	01/01–30/09/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Profit of operating segments	**155,315**	**116,771**	**108,531**	**108,845**
Finance income	941	1,788	8,535	9,629
Finance costs	(8,646)	(10,935)	(9,203)	(11,378)
Received dividends from subsidiaries	–	–	9,111	17,033
Profit before corporate income tax	**147,610**	**107,624**	**116,974**	**124,129**

Reconciliation of assets

	Group		Company	
	30/09/2017	31/12/2016	30/09/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Assets of operating segments	**3,767,441**	**3,723,277**	**1,576,642**	**1,556,756**
Connection usage rights	(25,761)	(32,791)	–	–
Non–current financial investments	41	41	817,049	817,049
Loans to subsidiaries	–	–	615,637	622,704
Held–to–maturity financial assets	16,997	20,554	16,997	20,554
Derivative financial instruments	4,522	6,134	4,522	6,134
Other assets and assets held for sale	64	36	–	–
Cash and cash equivalents	122,710	183,980	121,641	181,197
TOTAL assets	**3,886,014**	**3,901,231**	**3,152,488**	**3,204,394**

4. Revenue

	Group		Company	
	01/01–30/09/2017	01/01–30/09/2016	01/01–30/09/2017	01/01–30/09/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Trade of energy and related supply services	345,136	355,391	271,096	280,463
Distribution system services	223,553	210,839	–	–
Heat sales	57,615	54,966	49,792	47,602
Lease of transmission system assets	30,908	34,832	–	–
Lease and management of real estate	–	–	14,804	13,453
Other revenue	21,967	22,175	27,130	27,428
TOTAL revenue	**679,179**	**678,203**	**362,822**	**368,946**

5. Raw Materials and Consumables Used

	Group		Company	
	01/01–30/09/2017	01/01–30/09/2016	01/01–30/09/2017	01/01–30/09/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Electricity:				
Purchased electricity	96,595	116,597	22,665	40,788
Fair value loss / (revenue) on electricity forwards and futures (Note 12 c, II)	2,016	(7,528)	2,016	(7,528)
Electricity transmission services costs	53,097	54,033	635	764
	151,708	**163,102**	**25,316**	**34,024**
Energy resources costs	83,216	86,947	79,139	82,898
Raw materials, spare parts and maintenance costs	21,676	24,825	7,774	9,248
TOTAL raw materials and consumables used	**256,600**	**274,874**	**112,229**	**126,170**

6. Income Tax

	Group		Company	
	01/01–30/09/2017	01/01–30/09/2016	01/01–30/09/2017	01/01–30/09/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Current income tax expense	22,574	18,278	17,352	14,938
Deferred income tax expense relating to origination and reversal of temporary differences	–	(5,051)	–	(345)
TOTAL income tax	**22,574**	**13,227**	**17,352**	**14,593**

7. Intangible Assets and Property, Plant and Equipment

a) Intangible assets

	Group			Company		
	01/01–30/09/2017	01/01–30/09/2016	2016	01/01–30/09/2017	01/01–30/09/2016	2016
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Net book amount	**14,534**	**14,405**	**14,405**	**18,769**	**19,846**	**19,846**
Additions	1,733	2,189	3,703	1,683	1,576	2,692
Transfers to property, plant and equipment	–	–	–	–	(48)	(48)
Disposals	(159)	(158)	(211)	(492)	(535)	(698)
Amortisation charge	(2,595)	(2,596)	(3,363)	(2,360)	(2,342)	(3,023)
Closing net book amount	**13,513**	**13,840**	**14,534**	**17,600**	**18,497**	**18,769**

b) Property, plant and equipment

	Group			Company		
	01/01–30/09/2017	01/01–30/09/2016	2016	01/01–30/09/2017	01/01–30/09/2016	2016
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Net book amount	**3,355,797**	**3,076,256**	**3,076,256**	**1,322,518**	**1,344,670**	**1,344,670**
Additions	164,887	134,329	196,838	59,939	48,768	73,196
Invested in share capital	–	–	184	–	–	184
Increase due to property, plant and equipment revaluation	–	–	317,041	–	–	–
Impairment charge due to property, plant and equipment revaluation	–	–	(35,774)	–	–	–
Transfers from intangible assets	–	–	–	–	48	48
Reclassified to investment properties	(441)	(92)	(214)	(323)	(19)	(195)
Disposals	(2,826)	(2,816)	(5,045)	(180)	(350)	(412)
Impairment charge	(3,295)	(35,678)	(10,024)	(3,284)	24	(10,116)
Depreciation	(137,739)	(133,096)	(183,465)	(62,312)	(64,145)	(84,857)
Closing net book amount	**3,376,383**	**3,038,903**	**3,355,797**	**1,316,358**	**1,328,996**	**1,322,518**

8. Inventories

	Group		Company	
	30/09/2017	31/12/2016	30/09/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Raw materials	15,804	17,438	1,254	1,267
Natural gas	67,493	17,506	67,489	817
Technological combustibles and other inventories	8,122	8,173	8,078	8,094
Prepayments for inventories	210	–	210	16,693
Allowance for raw materials and other inventories	(1,605)	(1,659)	(1,017)	(1,060)
TOTAL inventories	**90,024**	**41,458**	**76,014**	**25,811**

Movements on allowances for inventories:

	Group			Company		
	01/01–30/09/2017	01/01–30/09/2016	2016	01/01–30/09/2017	01/01–30/09/2016	2016
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At the beginning of the period	**1,659**	**1,614**	**1,614**	**1,060**	**1,027**	**1,027**
Inventories written off	–	(39)	(87)	–	–	–
Charged to the Statement of Profit or Loss	(54)	86	132	(43)	44	33
At the end of the period	**1,605**	**1,661**	**1,659**	**1,017**	**1,071**	**1,060**

9. Non-Current Financial Investments

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

Companies	Country of incorporation	Business activity held	30/09/2017		31/12/2016	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Subsidiaries						
Latvijas elektriskie tīkli AS	Latvia	Lease of transmission system assets	100%	185,624	100%	185,624
Sadales tīkls AS	Latvia	Electricity distribution	100%	627,656	100%	627,656
Enerģijas publiskais tirgotājs AS	Latvia	Management of the mandatory procurement process	100%	40	100%	40
Elektrum Eesti OÜ	Estonia	Electricity supply	100%	35	100%	35
Elektrum Lietuva, UAB	Lithuania	Electricity supply	100%	98	100%	98
Liepājas enerģija SIA	Latvia	Thermal energy generation and supply in Liepaja city, electricity generation	51%	3,556	51%	3,556
TOTAL				**817,009**		**817,009**
Other non–current financial investments						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	46.30%	36	46.30%	36
Rīgas siltums AS	Latvia	Thermal energy generation and supply in Riga, electricity generation	0.0051%	4	0.0051%	4
TOTAL				**40**		**40**

The Company owns 46.30% of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS. However, the Company is only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the Company's employees who are members of the pension fund. Therefore, investment in Pirmais Slēgtais Pensiju Fonds AS is valued at cost and equity method is not applied.

10. Trade Receivables and Other Current Receivables

a) Trade receivables, net

	Group		Company	
	30/09/2017	**31/12/2016**	**30/09/2017**	**31/12/2016**
	EUR'000	EUR'000	EUR'000	EUR'000
Trade receivables:				
– Electricity and gas trade and related services customers	129,252	147,808	103,085	120,500
– Heating customers	3,068	11,629	2,780	9,530
– Other trade receivables	10,469	11,027	3,050	3,086
– Subsidiaries (Note 13 b, c)	–	–	23,691	22,602
	142,789	**170,464**	**132,606**	**155,718**
Allowances for impaired trade receivables:				
– Electricity and gas trade and related services customers	(45,627)	(44,801)	(44,548)	(43,674)
– Heating customers	(371)	(391)	(351)	(369)
– Other trade receivables	(2,569)	(2,440)	(133)	(134)
	(48,567)	**(47,632)**	**(45,032)**	**(44,177)**
Trade receivables, net:				
– Electricity and gas trade and related services customers	83,625	103,007	58,537	76,826
– Heating customers	2,697	11,238	2,429	9,161
– Other trade receivables	7,900	8,587	2,917	2,952
– Subsidiaries (Note 13 b, c)	–	–	23,691	22,602
	94,222	**122,832**	**87,574**	**111,541**

Movements in allowances for impaired trade receivables:

	Group			Company		
	01/01–30/09/2017	**01/01–30/09/2016**	**2016**	**01/01–30/09/2017**	**01/01–30/09/2016**	**2016**
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At the beginning of the period	**47,632**	**46,089**	**46,089**	**44,177**	**43,422**	**43,422**
Receivables written off during the period as uncollectible	(1,159)	(1,088)	(1,511)	(836)	(998)	(1,294)
Allowance for impaired receivables	2,094	3,552	3,054	1,691	(2,733)	2,049
At the end of the period	**48,567**	**48,553**	**47,632**	**45,032**	**45,157**	**44,177**

b) Other current receivables

	Group		Company	
	30/09/2017	31/12/2016	30/09/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Unsettled revenue on mandatory procurement public service obligation (PSO) fee recognised as assets*	141,756	142,132	–	–
Other accrued income	740	1,024	740	1,024
Pre–tax and overpaid taxes	9,388	4,008	3,400	17
Other current financial receivables	11,061	2,797	820	927
Other current receivables	1,874	1,164	132	150
TOTAL other current receivables	**164,819**	**151,125**	**5,092**	**2,118**

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

11. Cash and Cash Equivalents

	Group		Company	
	30/09/2017	31/12/2016	30/09/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Cash at bank	121,263	176,626	120,194	173,843
Short–term bank deposits	–	7,000	–	7,000
Restricted cash and cash equivalents*	1,447	354	1,447	354
TOTAL cash and cash equivalents	**122,710**	**183,980**	**121,641**	**181,197**

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

12. Financial Assets and Liabilities

a) Held–to–maturity financial assets

As of 30 September 2017 the entire Group's and the Company's held-to-maturity financial assets were State Treasury bonds with 5 year and 10 year maturity, which were purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield.

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

Carrying amount of held–to–maturity financial assets:

	Group		Company	
	30/09/2017	31/12/2016	30/09/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Held–to–maturity financial assets:				
– Current	–	3,520	–	3,520
– Non–current	16,997	17,034	16,997	17,034
Total held–to–maturity financial assets	**16,997**	**20,554**	**16,997**	**20,554**

b) Borrowings

	Group		Company	
	30/09/2017	31/12/2016	30/09/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Non–current borrowings from financial institutions	474,927	500,215	465,985	492,286
Issued debt securities (bonds)	135,372	135,405	135,372	135,405
Total non–current borrowings	**610,299**	**635,620**	**601,357**	**627,691**
Current portion of non–current borrowings from financial institutions	58,614	82,762	56,602	78,222
Current portion of issued debt securities (bonds)	70,016	70,075	70,016	70,075
Current borrowings from financial institutions	349	744	–	–
Accrued interest on non–current borrowings	1,530	594	1,486	564
Accrued coupon interest on issued debt securities (bonds)	2,521	1,771	2,521	1,771
Total current borrowings	**133,030**	**155,946**	**130,625**	**150,632**
TOTAL borrowings	**743,329**	**791,566**	**731,982**	**778,323**

Movement in Borrowings:

	Group			Company		
	01/01–30/09/2017	01/01–30/09/2016	2016	01/01–30/09/2017	01/01–30/09/2016	2016
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At the beginning of the period	**791,566**	**797,483**	**797,483**	**778,323**	**782,965**	**782,965**
Borrowings received	349	56,055	55,744	–	55,000	55,000
Borrowing repaid	(50,181)	(52,337)	(87,452)	(47,921)	(50,821)	(85,441)
Change in accrued interest on borrowings	1,687	2,281	15	1,672	2,265	23
Issued debt securities (bonds)	–	25,776	25,776	–	25,776	25,776
Changes in outstanding value of issued debt securities (bonds)	(92)	30	–	(92)	30	–
At the end of the period	**743,329**	**829,288**	**791,566**	**731,982**	**815,215**	**778,323**

c) Derivative financial instruments

I) Interest rate swaps

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

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

	Group						Company					
	01/01–30/09/2017		01/01–30/09/2016		2016		01/01–30/09/2017		01/01–30/09/2016		2016	
	EUR'000		EUR'000		EUR'000		EUR'000		EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the period	**–**	**11,563**	**–**	**13,016**	**–**	**13,016**	**–**	**11,563**	**–**	**13,016**	**–**	**13,016**
Included in Statement of Profit or Loss, net	–	–	–	(592)	–	(760)	–	–	–	(592)	–	(760)
Included in Statement of Other Comprehensive Income	(17)	(2,844)	–	1,797	–	(693)	(17)	(2,844)	–	1,797	–	(693)
Outstanding fair value at the end of the period	**(17)**	**8,719**	**–**	**14,221**	**–**	**11,563**	**(17)**	**8,719**	**–**	**14,221**	**–**	**11,563**

II) Electricity forwards and futures

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

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

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

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

	Group						Company					
	01/01–30/09/2017		01/01–30/09/2016		2016		01/01–30/09/2017		01/01–30/09/2016		2016	
	EUR'000		EUR'000		EUR'000		EUR'000		EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the period	**(6,134)**	**23**	**–**	**2,558**	**–**	**2,558**	**(6,134)**	**23**	**–**	**2,558**	**–**	**2,558**
Included in Statement of Profit or Loss (Note 5)	2,019	(3)	(5,123)	(2,405)	(3,980)	(2,535)	2,019	(3)	(5,123)	(2,405)	(3,980)	(2,535)
Included in Statement of Other Comprehensive Income	(390)	–	–	–	(2,154)	–	(390)	–	–	–	(2,154)	–
Outstanding fair value at the end of the period	**(4,505)**	**20**	**(5,123)**	**153**	**(6,134)**	**23**	**(4,505)**	**20**	**(5,123)**	**153**	**(6,134)**	**23**

13. Related Party Transactions

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

a) Income and expenses from transactions with subsidiaries

	Company	
	01/01–30/09/2017	01/01–30/09/2016
	EUR'000	EUR'000
Income:		
– Subsidiaries	116,299	129,415
	116,299	**129,415**
Expenses:		
– Subsidiaries	255,012	266,792
	255,012	**266,792**
Including expenses from transactions with subsidiaries recognised in net amount through revenue in profit or loss :		
– Sadales tīkls AS	*247,674*	*256,724*
– Enerģijas publiskais tirgotājs AS	*385*	*389*
	248,059	***257,113***

	Group		Company	
	30/09/2017	31/12/2016	30/09/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
b) Balances at the end of the period arising from sales / purchases of goods and services:				
Prepayments for inventories:				
– Subsidiaries*	–	–	–	16,682
	–	**–**	**–**	**16,682**
Trade receivables:				
– Subsidiaries (Note 10 a)	–	–	19,842	14,851
	–	**–**	**19,842**	**14,851**
Trade payables:				
– Subsidiaries	–	–	27,864	33,267
– Other related parties**	194	236	81	98
	194	**236**	**27,945**	**33,365**

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

	Group		Company	
c) Accrued income raised from transactions with related parties:				
– For goods sold / services received from subsidiaries (Note 10 a)	–	–	2,171	5,581
– For interest received from subsidiaries (Note 10 a)	–	–	1,678	2,170
	–	**–**	**3,849**	**7,751**
d) Accrued expenses raised from transactions with related parties:				
– For purchased goods / received services from subsidiaries	–	–	1,763	826
	–	**–**	**1,763**	**826**

In the 9-month period ended 30 September 2017 remuneration to the *Latvenergo* Group's management includes remuneration to the members of the Management Boards the Group entities, the Supervisory Board and the Supervisory body (Audit Committee) of the Parent Company, including salary, social insurance contributions and payments to pension plan and is amounted to EUR 1,803.8 thousand (9-month period of 2016: EUR 1,470.6 thousand).

In the 9-month period ended 30 September 2017 remuneration to the Company's management includes remuneration to the members of the Company's Management Board, the Supervisory Board and the Supervisory body (Audit Committee), including salary, social insurance contributions and payments to pension plan and is amounted to EUR 780.0 thousand (9-month period of 2016: EUR 599.2 thousand).

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

e) Loans to related parties

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

	Company	
	30/09/2017	**31/12/2016**
	EUR'000	EUR'000
Non–current loans to subsidiaries		
Sadales tīkls AS	325,071	313,497
Latvijas elektriskie tīkli AS	56,882	63,883
Total non–current loans	**381,953**	**377,380**
Current portion of non–current loans		
Sadales tīkls AS	55,730	48,880
Latvijas elektriskie tīkli AS	9,918	11,345
Current loans to subsidiaries		
Latvijas elektriskie tīkli AS	15,547	3,678
Sadales tīkls AS	12,468	41,651
Elektrum Eesti OÜ	4,817	5,046
Elektrum Lietuva, UAB	4,329	4,788
Enerģijas publiskais tirgotājs AS	130,875	129,936
Total current loans	**233,684**	**245,324**
TOTAL loans to subsidiaries	**615,637**	**622,704**

Movement in loans issued by the Company:

	Company		
	01/01–30/09/2017	**01/01–30/09/2016**	**2016**
	EUR'000	EUR'000	EUR'000
At the beginning of the period	**622,704**	**624,577**	**624,577**
(Repaid) / issued current loans (net)	(17,063)	75,000	78,446
Issued / (repaid) non–current loans (net)	9,996	(92,400)	(80,319)
At the end of the period	**615,637**	**607,177**	**622,704**

14. Events After the Reporting Period

On 19 October 2017 Latvenergo AS applied for a one–off compensation from the state agreeing to a partial reduction of the support intensity payments for the Riga CHPPs in the future, according to the changes in amendments to the Regulations No. 221 of the Cabinet of Ministers' "Regulations Regarding Electricity Production and Price Determination upon Production of Electricity in Cogeneration" which entered into force on 14 October 2017. By opting–out of the receipt of 75% of the currently received support, one–off compensation in the amount of EUR 454 million will be received in return and support payments will continue in the amount of 25% from the current support annually. Support will be financed through the capital release of Latvenergo AS.

On 21 November Cabinet of Ministers reviewed the application of Latvenergo AS and accepted the order No. 685 which supports the reduction of the guaranteed support payments during the remaining support period for the installed capacity of Latvenergo AS Riga CHPPs. At the same time Latvenergo AS is receiving one–off compensation in amount of EUR 454 million, which is financed by the capital release of Latvenergo AS.

On 24 November 2017 the Shareholder's Meeting of Latvenergo AS approved amendments to the both prospectuses of Latvenergo AS programmes for the issuance of notes, which foresee that noteholders waive their rights to apply for a security in case of Latvenergo AS capital release, but have a right to request a prepayment of the principal amount and the interest accrued on the notes in case capital ratio of Latvenergo Group falls below 0.3. Prior to the approval of the Shareholder's Meeting of Latvenergo AS, the respective amendments were supported at the meetings of noteholders, convened by Latvenergo AS on 16 November 2017.

On 24 November 2017 the Shareholder's Meeting of Latvenergo AS decided on capital release of Latvenergo AS in amount of EUR 454 million to finance the implementation of the one–off compensation in order to reduce state commitments on guaranteed support payments for the installed capacity of Latvenergo AS Riga CHPPs.

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 2017.