

LATVENERGO CONSOLIDATED UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE 9-MONTH PERIOD
ENDING 30 SEPTEMBER 2017

30.11.2017 / RIGA

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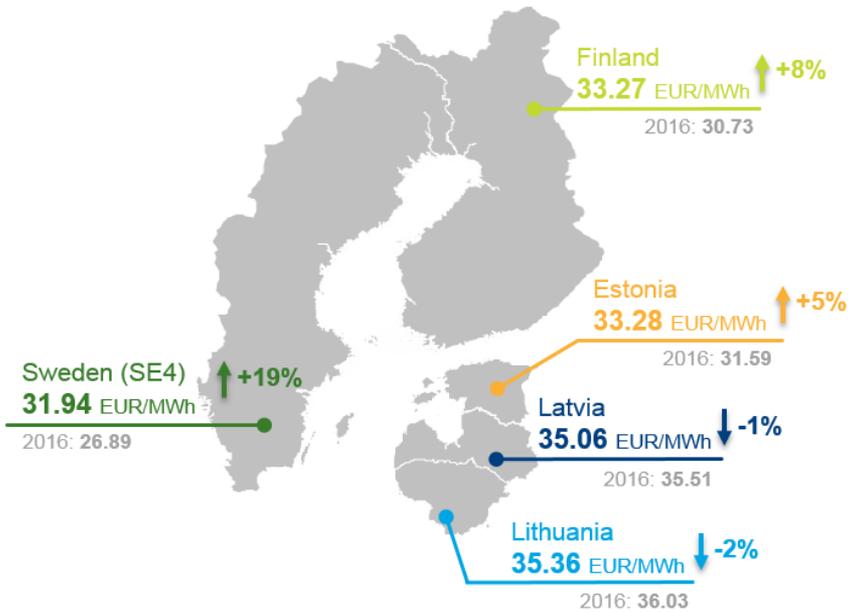
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Electricity price convergence in the Baltics continues



Main facts – 9 months of 2017

- Electricity price increase in the Nordic countries was determined by changing weather conditions and lower water levels at Scandinavian hydropower reservoirs
- *NordBalt* interconnection has contributed to convergence of electricity spot prices between the Nordic countries and the Baltics
- As of 3 April, natural gas market is open in Latvia
- Natural gas price is 26% higher than a year ago

Electricity price convergence

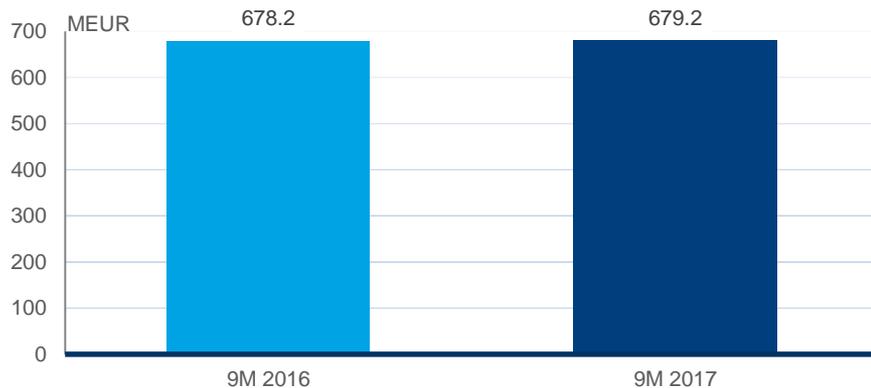


Natural gas price increases

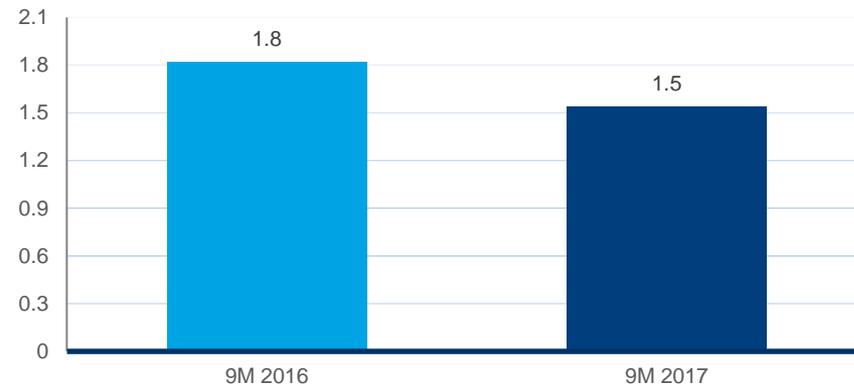


Key financial figures

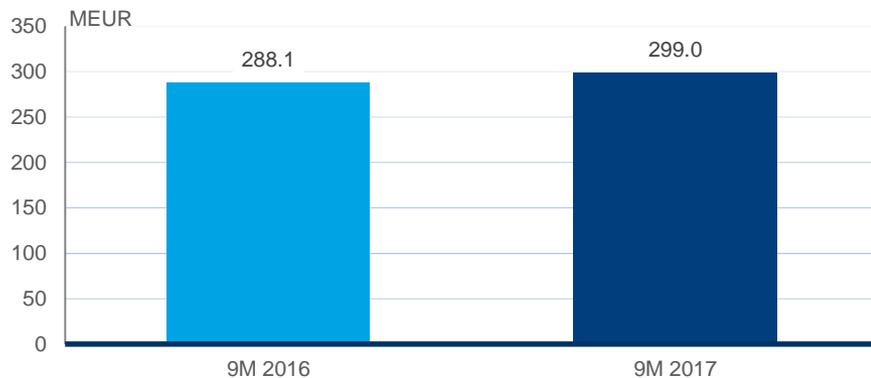
Revenue



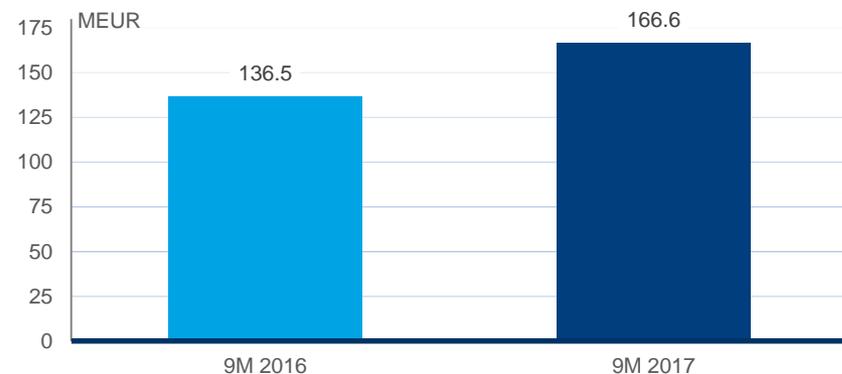
Net debt/EBITDA



EBITDA

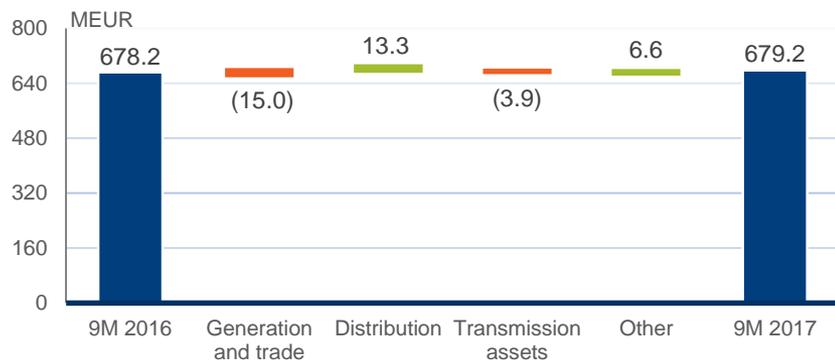


Investments



The Group's EBITDA and profit has increased

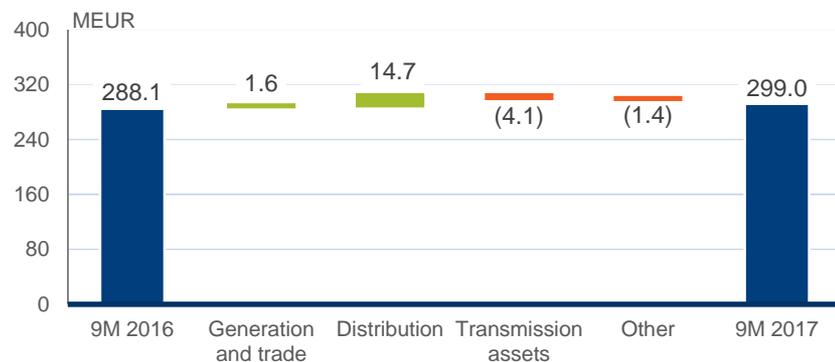
Revenue dynamics by segments



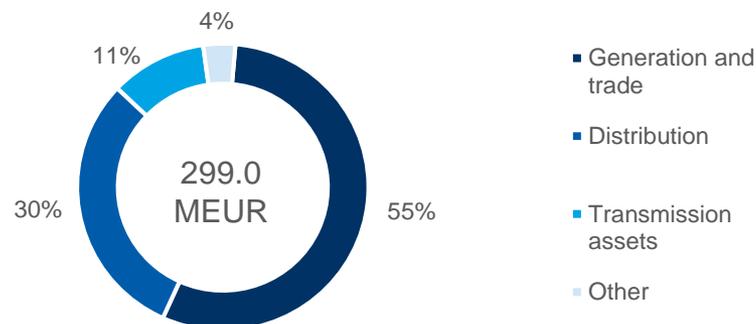
4% EBITDA growth

- The results were positively impacted mainly by:
 - 65% greater electricity output at the Daugava HPPs
 - increase in distribution service revenue
- The results were negatively impacted mainly by lower electricity sales price in the Baltics
- EBITDA margin: 43% (9M 2016: 39%)
- ROE: 7.1% (9M 2016: 5.3%)

EBITDA dynamics by segments



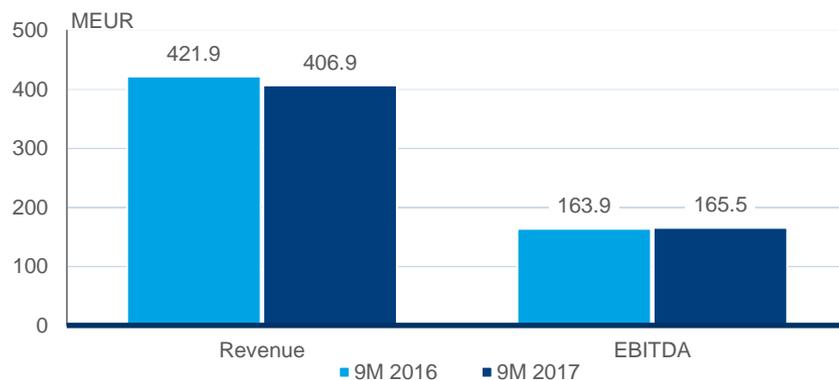
EBITDA weight by segments



Generation and trade



Segment revenue and EBITDA



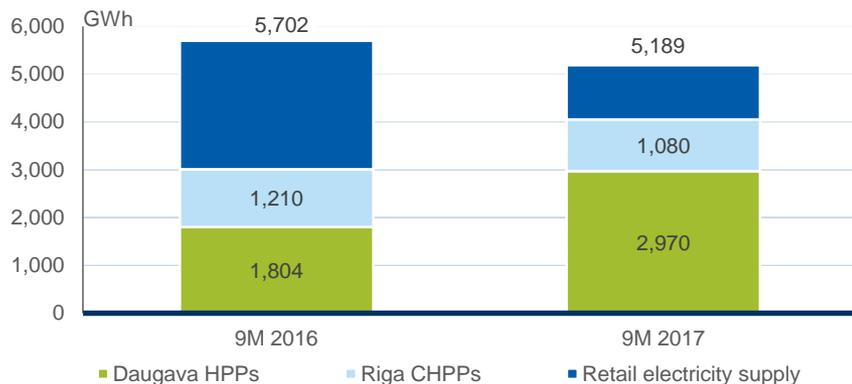
The largest segment of the Group

- Results of the segment were positively impacted by higher electricity output at the Daugava HPPs, while negatively – by lower electricity sales prices in the Baltics
- Generation of electricity increased by 34%
- Latvenergo Group has maintained the position of leading electricity supplier in the Baltics
- Latvenergo AS applies for a one-off compensation in the amount of 454 MEUR for the reduction of Riga CHPPs' capacity payments
- The average mandatory procurement PSO fee will decrease by 1 EUR/MWh starting from 1 January 2018

Effective and balanced generation sources



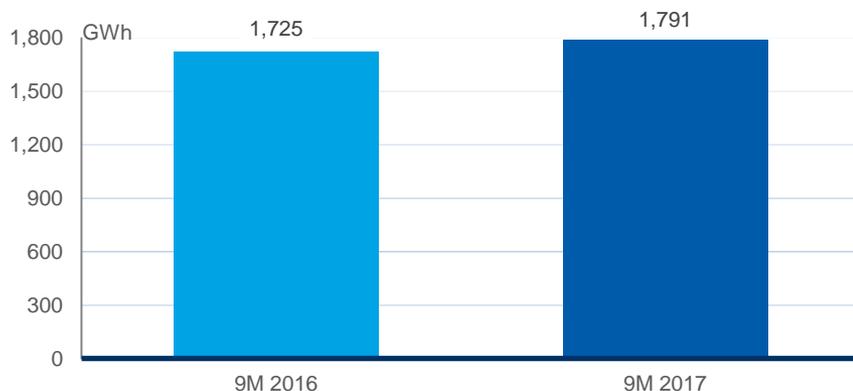
4,088 GWh of electricity generated



Generation of electricity increased by 34%

- Power generated at the Daugava HPPs increased by 65%
- Riga CHPPs operate in market conjuncture efficiently planning operating modes and fuel consumption
- Total electricity generated corresponds to 79% of retail electricity supply (9M 2016: 54%)
- Higher average temperature and longer heating season in Riga determined greater consumption of thermal energy – generation increased by 4%

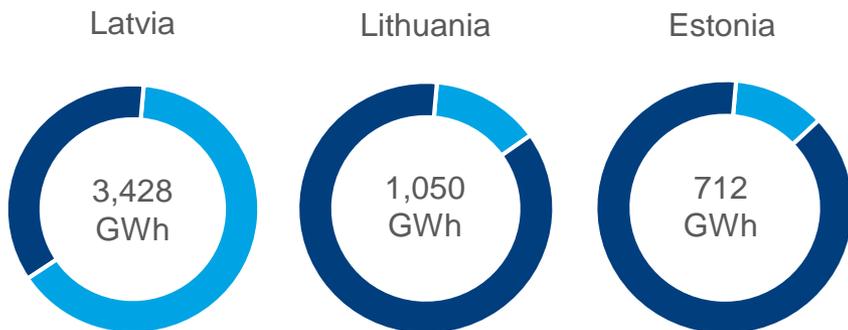
1,791 GWh of thermal energy generated



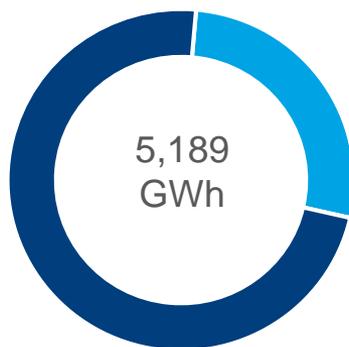


Trade of electricity and natural gas

Retail electricity supply*



The Baltics



■ Latvenergo Group ■ other suppliers

* including operational consumption

Main facts – 9 months of 2017

- Retail electricity supply* reached 5,189 GWh, 1/3 of it supplied outside Latvia
- The total number of customers outside Latvia exceeds 35 thousand
- Latvenergo launches natural gas trade to customers in Latvia and Estonia
- 2 new products were introduced for the household segment:



Elektrum Smart house

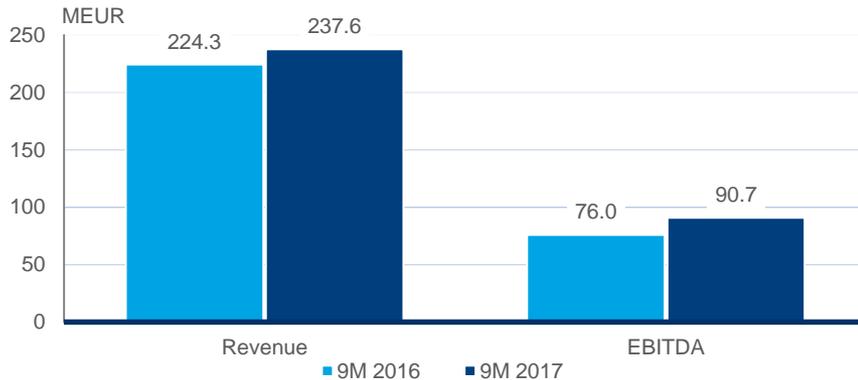


Elektrum solārais

Distribution asset value exceeds 1.6 billion EUR



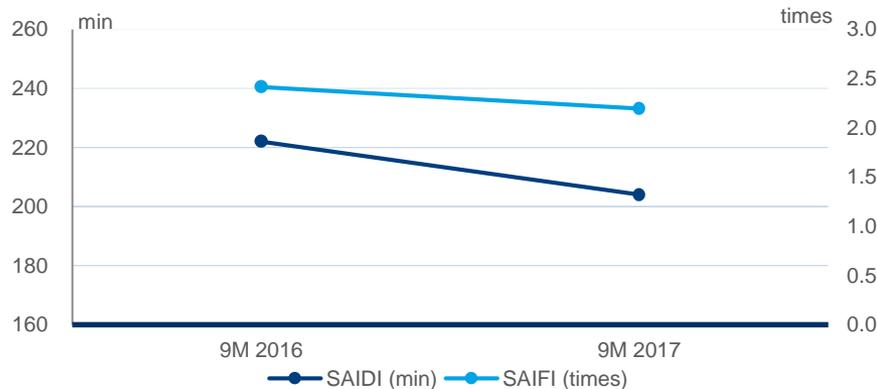
Segment revenue and EBITDA



Segment revenue and EBITDA has increased

- Electricity distributed reached 4,769 GWh (9M 2016: 4,770 GWh)
- Results positively impacted by increase in distribution services revenue (12.7 MEUR) resulting from the rebalanced distribution system services tariff that came into force on 1 August 2016
- Investments in distribution assets reach 76.9 MEUR (9M 2016: 73.8 MEUR)
- Due to investments and revaluation of distribution assets made in 2016, the value of distribution assets reaches 1,628.1 MEUR

Improved SAIDI and SAIFI ratios



Transmission asset value exceeds 450 MEUR



Segment revenue and EBITDA

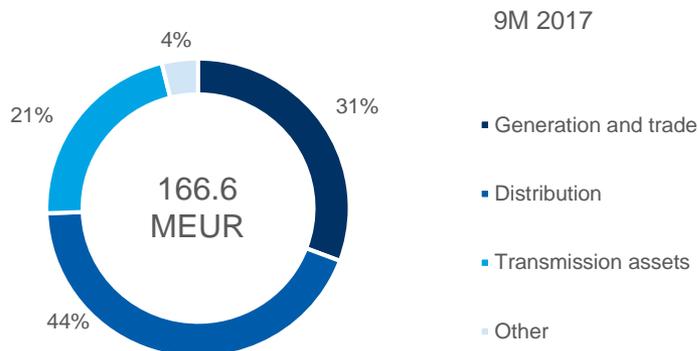


Main facts – 9M 2017

- Investments in transmission system assets reach 38.2 MEUR, (9M 2016: 16.4 MEUR)
- Major investment projects are *Kurzeme Ring* and the third power transmission interconnection between Estonia and Latvia
- Due to investment and revaluation of transmission assets made in 2016, the value of transmission assets reaches 477.8 MEUR

Investment in network assets – 2/3 of the total

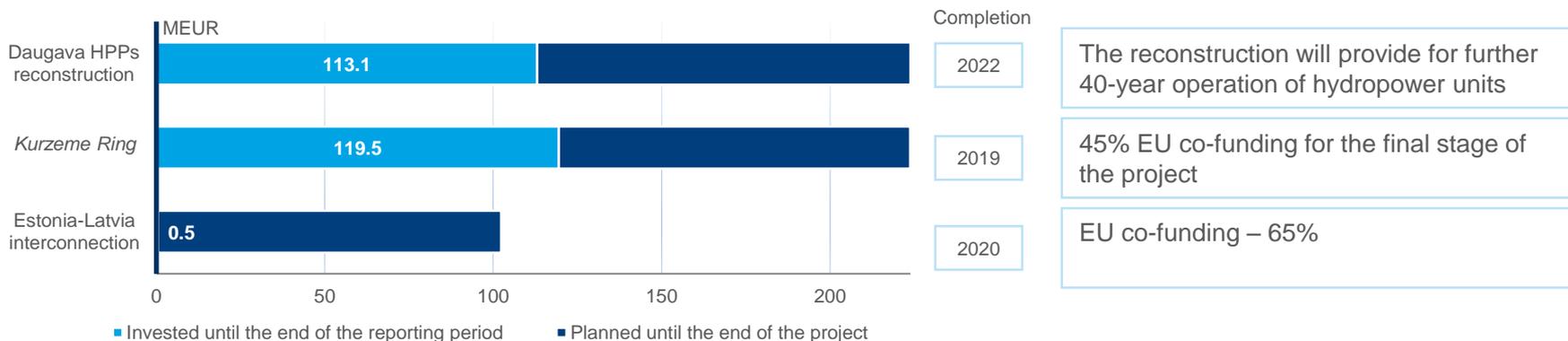
Investments increased by 22%



Investments in environmentally friendly projects

- Investments in the Daugava HPPs hydropower unit reconstruction amounted to 26.4 MEUR
- Network service quality and technical parameters gradually improved by investments in network assets

Major investment projects

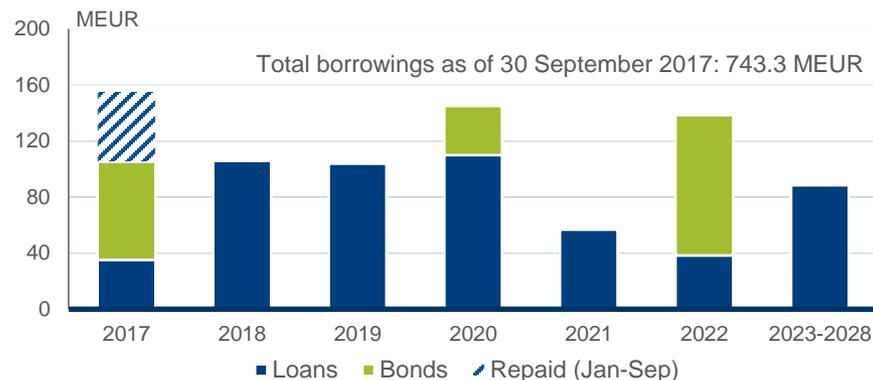


Best investor relations among bond issuers in the Baltics

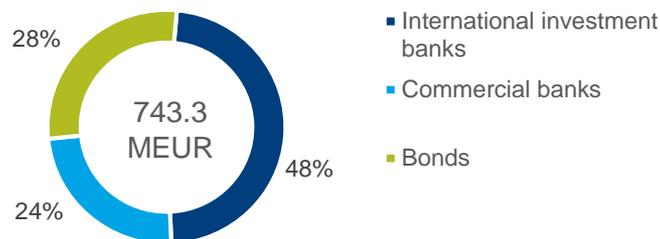
Bonds represent 28% of total borrowings

- Total amount of bonds issued reached 205 MEUR, incl. 100 MEUR *green* bonds
- Latvenergo AS is the first company in the Baltics to receive the Nasdaq exchange award “Best Investor Relations in the Baltics among Bond Issuers”
- On 14 August, Latvenergo rang the trading session opening bell at the Nasdaq MarketSite in New York
- On 7 September 2017, Moody’s credit rating remained unchanged – Baa2 (stable)
- Capital ratio: 63%

Debt repayment schedule



Diversified sources of financing



Main figures

30.09.2017

| | |
|---|-----------|
| Share of fixed interest rate* | 68% |
| Duration | 2.0 years |
| Effective weighted average interest rate* | 1.8% |

* with interest rate swaps

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Abbreviations

Daugava HPPs – Daugava hydropower plants

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

EU – European Union

IFRS – International Financial Reporting Standards

MEUR – Million euros

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

PSO fee – Public service obligation fee

Riga CHPPs – Riga combined heat and power plants

SAIDI – System Average Interruption Duration Index

SAIFI – System Average Interruption Frequency Index

Consolidated Statement of Profit or Loss*

| | 01/01– 30/09/2017 | 01/01– 30/09/2016 |
|--|----------------------|----------------------|
| | EUR'000 | EUR'000 |
| Revenue | 679,179 | 678,203 |
| Other income | 5,002 | 4,818 |
| Raw materials and consumables used | (256,600) | (274,874) |
| Personnel expenses | (75,993) | (72,754) |
| Depreciation, amortisation and impairment of intangible assets and property, plant and equipment | (143,676) | (171,370) |
| Other operating expenses | (52,597) | (47,252) |
| Operating profit | 155,315 | 116,771 |
| Finance income | 941 | 1,788 |
| Finance costs | (8,646) | (10,935) |
| Received dividends from subsidiaries | – | – |
| Profit before tax | 147,610 | 107,624 |
| Income tax | (22,574) | (13,227) |
| Profit for the period | 125,036 | 94,397 |
| Profit attributable to: | | |
| – Equity holder of the Parent Company | 124,125 | 93,685 |
| – Non–controlling interests | 911 | 712 |

Consolidated Statement of Financial Position*

| | 30/09/2017 | 31/12/2016 |
|---|------------------|------------------|
| | EUR'000 | EUR'000 |
| ASSETS | | |
| Non-current assets | | |
| Intangible assets and property, plant and equipment | 3,389,896 | 3,370,331 |
| Investment property | 657 | 563 |
| Non-current financial investments | 41 | 41 |
| Non-current loans to subsidiaries | – | – |
| Investments in held-to-maturity financial assets | 16,997 | 17,034 |
| Other non-current receivables | 986 | 986 |
| TOTAL non-current assets | 3,408,577 | 3,388,955 |
| Current assets | | |
| Inventories | 89,814 | 41,458 |
| Prepayment for inventories | 210 | – |
| Trade receivables and other receivables | 259,041 | 273,957 |
| Deferred expenses | 1,140 | 3,227 |
| Current loans to subsidiaries | – | – |
| Derivative financial instruments | 4,522 | 6,134 |
| Investments in held-to-maturity financial assets | – | 3,520 |
| Cash and cash equivalents | 122,710 | 183,980 |
| TOTAL current assets | 477,437 | 512,276 |
| TOTAL ASSETS | 3,886,014 | 3,901,231 |
| EQUITY | | |
| Share capital | 1,288,715 | 1,288,715 |
| Reserves | 938,650 | 937,074 |
| Retained earnings | 221,156 | 185,840 |
| Equity attributable to equity holder of the Parent Company | 2,448,521 | 2,411,629 |
| Non-controlling interests | 6,602 | 7,084 |
| TOTAL equity | 2,455,123 | 2,418,713 |
| LIABILITIES | | |
| Non-current liabilities | | |
| Borrowings | 610,299 | 635,620 |
| Deferred income tax liabilities | 316,102 | 315,759 |
| Provisions | 19,416 | 18,643 |
| Derivative financial instruments | 5,454 | 7,946 |
| Other liabilities and deferred income | 200,901 | 195,407 |
| Total non-current liabilities | 1,152,172 | 1,173,375 |
| Current liabilities | | |
| Borrowings | 133,030 | 155,946 |
| Trade and other payables | 119,884 | 117,817 |
| Income tax payable | 8,135 | 17,718 |
| Deferred income | 14,385 | 14,022 |
| Derivative financial instruments | 3,285 | 3,640 |
| TOTAL current liabilities | 278,719 | 309,143 |
| TOTAL liabilities | 1,430,891 | 1,482,518 |
| TOTAL EQUITY AND LIABILITIES | 3,886,014 | 3,901,231 |

*Unaudited Condensed Consolidated Interim Financial Statements.
Prepared in accordance with the IFRS as adopted by the EU.

Consolidated Statement of Cash Flows*

| | 01/01– 30/09/2017 | 01/01– 30/09/2016 |
|---|----------------------|----------------------|
| | EUR'000 | EUR'000 |
| Cash flows from operating activities | | |
| Profit before tax | 147,610 | 107,624 |
| Adjustments: | | |
| - Amortisation, depreciation and impairment of non-current assets | 146,588 | 173,782 |
| - Net financial adjustments | 9,721 | 984 |
| - Other adjustments | 750 | 601 |
| Operating profit before working capital adjustments | 304,669 | 282,991 |
| (Increase) / decrease in current assets | (21,683) | 11,300 |
| (Decrease) / increase in trade and other payables | (7,756) | (12,317) |
| Cash generated from operating activities | 275,230 | 281,974 |
| Interest paid | (7,121) | (8,609) |
| Interest received | 1,243 | 2,088 |
| Corporate income tax and real estate tax paid | (32,174) | (4,459) |
| Net cash flows generated from operating activities | 237,178 | 270,994 |
| Cash flows from investing activities | | |
| Loans issued to subsidiaries | – | – |
| Repayment of loans issued to subsidiaries | – | – |
| Purchase of intangible assets and property, plant and equipment | (160,638) | (128,340) |
| Proceeds from redemption of held-to-maturity assets | 3,557 | 7,900 |
| Proceeds from investments in subsidiaries | – | – |
| Net cash flows used in investing activities | (157,081) | (120,440) |
| Cash flows from financing activities | | |
| Proceeds from issued debt securities (bonds) | – | 26,266 |
| Proceeds on borrowings from financial institutions | 349 | 56,055 |
| Repayment of borrowings | (50,181) | (52,337) |
| Dividends paid to equity holder of the Parent Company | (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) |
| Net (decrease) / increase in cash and cash equivalents | (61,270) | 101,748 |
| Cash and cash equivalents at the beginning of the period | 183,980 | 104,543 |
| Cash and cash equivalents at the end of the period | 122,710 | 206,291 |