LATVENERGO CONSOLIDATED AND LATVENERGO AS UNAUDITED CONDENSED ANNUAL FINANCIAL STATEMENTS FOR 2018

Latvenergo Group is the most valuable energy company in the Baltics. Latvenergo Group's asset value reaches more than EUR 3.5 billion.

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Management Report

Unaudited Condensed 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

17. 04. 2019.

Latvenergo Consolidated Annual Report 2018

31. 05. 2019.

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

30. 08. 2019.

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

29. 11. 2019.

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

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DISCLAIMER

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

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

Summary

The region experienced a significant increase in electricity prices due to warm, dry weather in Europe, lower water levels at Scandinavian hydropower reservoirs, lower output of hydroelectricity and wind energy, higher CO_2 emission allowance prices and higher raw material prices.

Latvia
49.89 EUR/MWh **+44%**
2017: **34.68**

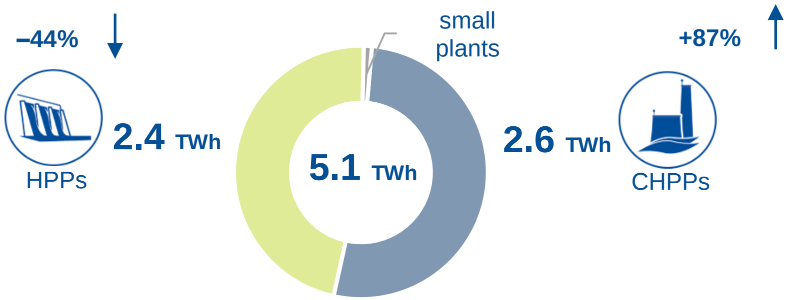
Nord Pool system price
43.99 EUR/MWh **+50%**
2017: **29.41**

The financial results were impacted by lower electricity output at the Daugava HPPs, higher prices of energy resources, 75% lower revenue from the installed electrical capacity at the Latvenergo AS CHPPs and also changes in tax legislation.

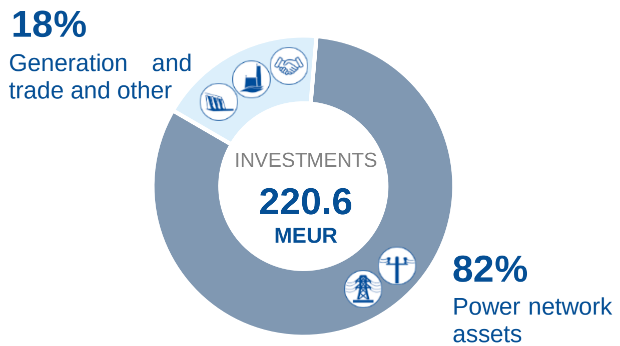
MEUR

878.0	**321.6**	**76.0**	**3,798.8**
REVENUE	EBITDA	PROFIT	ASSETS

Latvenergo took advantage of increased electricity prices in the region and used its diversified generation portfolio to generate the largest electricity output at its CHPPs in recent years.



Latvenergo Group's investments contribute to high-quality and secure energy supply to customers.



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

7 TWh of electricity sold to Baltic retail customers

800 thous. Electricity customers

More than 400 natural gas business customers

In 2018, for the tenth year in a row Latvenergo AS maintained first place in the annual *Latvia's Most Valuable Enterprises* ranking, created by *Prudentia* and *Nasdaq Riga*, and also received the *Dienas Bizness TOP 500* project's main prize in four out of twelve categories: TOP 500 EBITDA Maker, TOP 500 Profitability, TOP 500 State-Owned Company and TOP 500 Most Valuable Company.

top 2018 101.lv

TOP 500 LATVIJAS LIELĀKIE UZŅĒMUMI

Latvenergo Group in Brief

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

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

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

The generation and trade segment

- comprises electricity and thermal energy generation operations, electricity and natural gas trade in the Baltics and administration of mandatory procurement in Latvia.

The distribution segment

- provides electricity distribution services in Latvia. Sadales tīkls AS is the largest state distribution system operator, covering approximately 99% of the territory of Latvia. Distribution system tariffs are approved by the Public Utilities Commission (PUC).

The transmission system asset leasing segment

- conducts lease of transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points) to the transmission system operator. Payments for the lease of transmission system assets are calculated in accordance with the methodology approved by the PUC.

Latvenergo Group in Brief

Latvenergo Group's Strategy

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

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

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

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

The financial targets are set to ensure:

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

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

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

Taking into consideration the defined development directions of the Group, Latvenergo AS approved the Strategic Development and Efficiency Programme. While the strategic development section includes major strategic projects, the efficiency section provides for the revision, centralization and digitalization of the Group's processes in order to maintain the Group's profitability in the long term considering the increase in costs due to inflation. The estimated efficiency potential for the Group's EBITDA exceeds EUR 30 million. This is the Group's largest optimization plan in the last decade, and it will allow the Group to increase its value in the long run and to remain competitive in an open market and a changing energy industry.

Latvenergo Group Key Performance Indicators

Latvenergo Group Operational Figures

		2018	2017	2016	2015	2014
Total electricity supply, incl.	GWh	9,984	10,371	10,140	9,868	9,427
Retail[2)]	GWh	6,954	6,923	7,665	7,961	8,800
Wholesale[3)]	GWh	3,030	3,448	2,474	1,907	627
Electricity generation	GWh	5,076	5,734	4,707	3,882	3,625
Thermal energy generation	GWh	2,274	2,612	2,675	2,408	2,560
Number of employees		3,508	3,908	4,131	4,177	4,563
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa3 (stable)

Latvenergo Group Financial Figures

		2018	2017	2016	2015	2014
Revenue	MEUR	878.0	925.6	931.6	929.1	1,010.8
EBITDA[1)]	MEUR	321.6	541.7	393.4	307.0	236.8
Profit	MEUR	76.0	322.0*	130.6	85.0	29.8
Assets	MEUR	3,798.8	4,415.7	3,901.2	3,517.4	3,486.6
Equity	MEUR	2,320.1	2,846.9	2,418.7	2,096.7	2,020.8
Net debt[1)]	MEUR	684.9	590.8	607.6	692.9	706.2
Investments	MEUR	220.6	243.8	200.7	190.5	177.6

Latvenergo Group Financial Ratios

	2018	2017	2016	2015	2014
Net debt / EBITDA[1)]	2.0	1.1	1.7	2.3	2.9
EBITDA margin[1)]	37%	59%	42%	33%	23%
Return on equity (ROE)[1)]	2.9%	12.2%*	5.8%	4.1%	1.5%
Return on assets (ROA)[1)]	1.8%	7.7%*	3.5%	2.4%	0.8%
Return on capital employed (ROCE)[1)]	2.8%	6.8%	5.3%	3.8%	1.7%
Net debt / equity[1)]	30%	21%	25%	33%	35%

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

**In 2017, the net profit includes a deferred tax reversal in the amount of EUR 149.1 million as a result of the corporate income tax reform. Operating profit: EUR 173.1 million.*

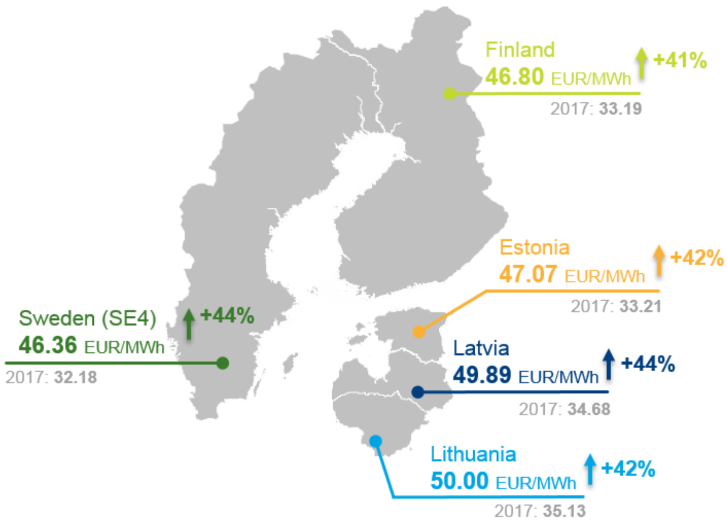
Operating Environment

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

- the Nord Pool system price increased by 50% compared to the previous year. The electricity spot price in Latvia increased by 44%;
- the price of natural gas at the GASPOOL and TTF trading platforms was on average 30% higher compared to the previous year.

Electricity prices increased by more than 40% in the Baltics

In 2018, electricity prices increased significantly in the Nordics and the Baltics compared to the previous year.

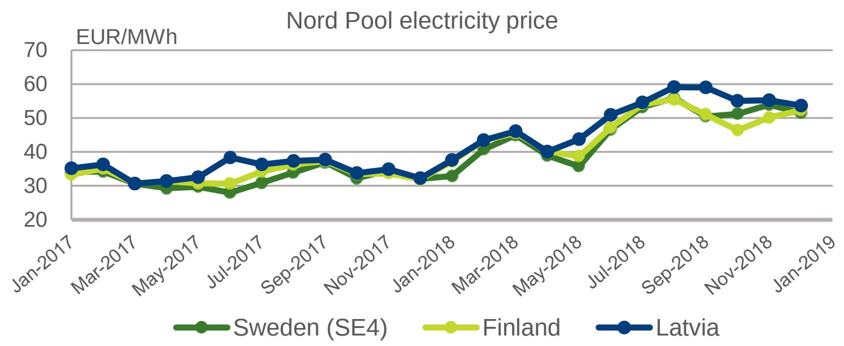


The increase in electricity prices was affected by the warm, dry weather in Europe, which resulted in lower water levels at the Scandinavian hydropower reservoirs and lower output of hydroelectricity. The insufficient electricity output at hydropower plants (HPPs) and wind farms fostered the increase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

Likewise, the price convergence between the bidding areas was delayed in 2018 due to some transmission interconnection outages in the Baltics.

In 2018, from mid-August to mid-October the *NordBalt* interconnection was not available due to planned maintenance work, which affected prices not only in the Baltics, but also in Poland, Finland and Sweden.

In 2018, the average Nord Pool system price was 43.99 EUR/MWh, which is 50% higher than in 2017. The electricity spot price in Latvia was 5.91 EUR/MWh higher than the average Nord Pool system price. Price differences between Latvia and Sweden (SE4) increased by 41% or 1.03 EUR/MWh and reached 3.53 EUR/MWh. The electricity price difference between Latvia and Estonia increased by 92% and amounted to 2.83 EUR/MWh. Meanwhile, the price of electricity for 1 megawatt hour in Latvia and Lithuania does not differ significantly.

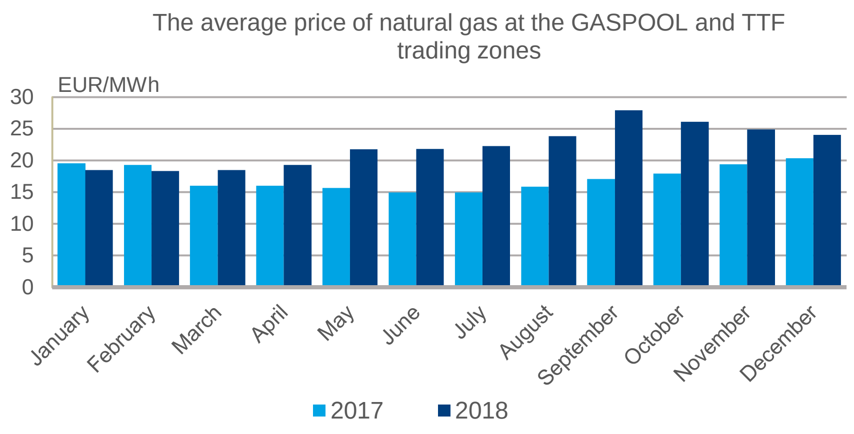


In 2018, the total electricity consumption in the Baltics was 28.2 TWh and it increased in all three Baltic states compared to the previous year. Electricity consumption increased by 2% in Latvia, by 3% in Lithuania and by 2% in Estonia. The electricity output in the Baltics decreased slightly and amounted to 20.0 TWh. Due to higher electricity consumption relative to the electricity output in the Baltic states, electricity imports from the other Nord Pool areas increased by 56% and reached 7.9 TWh.

Operating Environment

Natural gas price increases

Natural gas is the main fuel resource in the Latvenergo AS CHPPs' operation. In 2018, the average price of natural gas at the GASPOOL and TTF trading platforms was 30% higher than a year earlier. Higher electricity consumption and dry weather contributed to the increase in electricity generation at the fossil fuel power plants. Lower natural gas storage in Europe and higher demand in Europe and China fostered the increase in natural gas prices in 2018.



The price of natural gas in Latvia is affected by other raw material and CO_2 emission allowance prices:

- The average price of Brent (Front Month) crude oil in 2018 was 71.8 USD/bbl, which was 31% higher than in 2017. Oil price trends were influenced by the USA's withdrawal from the Irian nuclear contract, trade tension between China and the USA, the OPEC and Russia agreement on oil output limitation, and USA trade sanctions on Iran.
- In 2018, the average price of coal (API2 Front Month) increased by 11% compared to a year earlier, reaching 91.8 USD/t. Coal prices increased due to increased generation at coal power plants in Europe and fluctuations in supply on the Asian market.
- The average price of CO_2 emission allowances in 2018 increased by 168% compared to 2017, reaching 15.6 EUR/t. CO_2 emission allowance prices increased along with a higher electricity output at fossil fuel power plants. Also, CO_2 emission allowance prices were affected by the reform of the EU emissions trading system (ETS), which provides for a 24% reduction in the permits available on the market starting from January 2019.

Operating Environment

75% lower revenue from the installed electrical capacity at the Latvenergo AS CHPPs

In October 2017, Latvenergo AS applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the annual electrical capacity payments for cogeneration power plants CHPP-1 and CHPP-2. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order which supports the reduction of the guaranteed support payments during the remaining support period for the installed capacity of Latvenergo AS CHPPs by paying out a one-off compensation in the amount of EUR 454.4 million, financed by the capital release of Latvenergo AS. The compensation was divided into two parts: EUR 140 million were to be recognized as other income in the profit and loss statement of Latvenergo AS in 2017, while EUR 314.4 million were to be recognized as income spread evenly over the following reporting periods until fulfilment of liabilities at the end of the support period on 23 September 2028. On 26 September 2018, the Cabinet of Ministers decided to extend additional compensation in 2018 in the amount of EUR 51.7 million, by reducing the remaining part of the compensation proportionally to this amount until the end of the support period. In 2018, EUR 81.0 million were recognized as other income of Latvenergo AS (in 2017: EUR 140 million).

Corporate income tax

As of 1 January 2018 the application procedure for corporate income tax (CIT) in Latvia has changed. New CIT regulation eliminated all temporary differences between the financial accounting basis and tax basis of assets and liabilities as of 1 January 2018. As of 1 January 2018 distributed profits and conditionally distributed profits are taxed at a rate of 20% of the gross amount or 20/80 of the net amount. The Group recognises deferred tax liabilities in the balance sheet for the expected dividend payments of subsidiaries.

Dividends

Latvenergo AS dividend payout is regulated by the Law on the Budget of the Republic of Latvia. At the time of this report's signing, the law "On the state budget 2019" has not yet been approved in the Saeima. The actual amount of the dividend payout is set at the Shareholder’s Meeting of Latvenergo AS after the approval of the annual report, upon evaluation of the results of the previous year.

Latvenergo Group's capital structure ratios are sufficient to proceed with the dividend payout. As of 31 December 2018, the Group’s asset value reaches almost EUR 3.8 billion and its equity exceeds EUR 2.3 billion. According to an assessment carried out by independent international third parties, the capital structure ratios of Latvenergo Group are better than those of many industry benchmark companies. As of 31 December 2018, the Group’s net debt to equity was 30% and its net debt to EBITDA ratio was 2.0. On 14 March 2018, the credit rating agency Moody’s approved the credit rating of Latvenergo AS at the Baa2 level with a stable future outlook.

Latvenergo AS dividends will be used as a source of funding for the state budget programme *Electricity User Support*, thereby decreasing the mandatory procurement public service obligation fee as of 2018.

Financial Results

In 2018, Latvenergo Group's revenue decreased by 5% and comprised EUR 878.0 million. Meanwhile, EBITDA decreased by 41% and reached EUR 321.6 million.

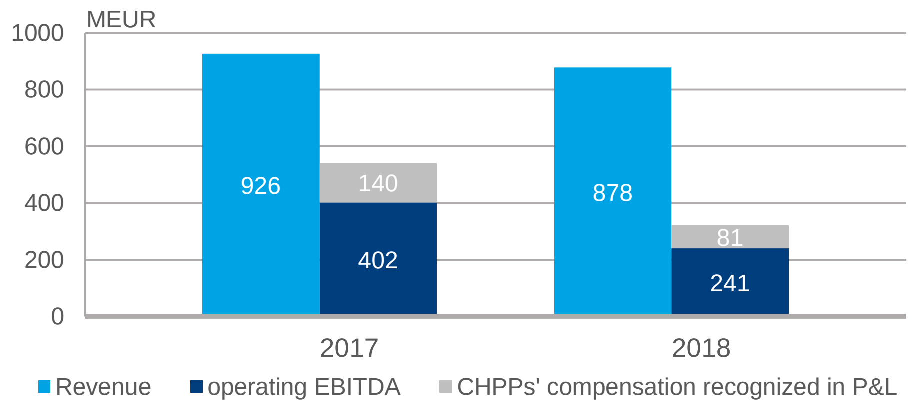
The Group's results in the reporting year were negatively impacted by 44% lower electricity output at the Daugava HPPs, 75% lower revenue from the installed electrical capacity at the Latvenergo AS CHPPs, and higher electricity, natural gas and CO_2 emission allowance prices. The electricity spot price in Latvia increased by 44%, while the average CO_2 emission allowance price was 168% higher compared to a year earlier.

Latvenergo Group financial figures		2018	2017	Δ	Δ, %
Revenue	MEUR	878.0	925.6	(47.6)	(5%)
EBITDA	MEUR	321.6	541.7	(220.1)	(41%)
Net profit	MEUR	76.0	322.0	(246.1)	(76%)
Assets	MEUR	3,798.8	4,415.7	(616.9)	(14%)

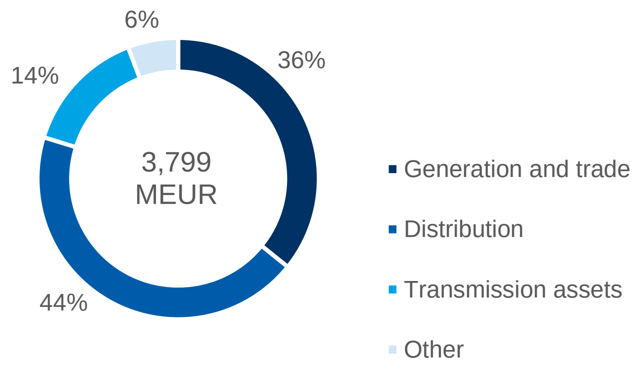
The results were also negatively impacted by EUR 59.0 million lower compensation for the CHPPs' capacity payments. In 2018, EUR 81.0 million of the compensation were recognized as other income of Latvenergo AS (in 2017: EUR 140 million).

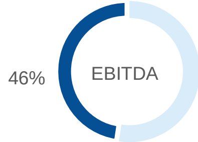
In 2018, Group's profit amounted to EUR 76.0 million. In addition to the above mentioned factors, the Group's profit was negatively affected by changes in the application procedure for corporate income tax. In 2017, the Group's profit consisted of the annual operating result in the amount of EUR 173.1 million and a deferred tax reversal in the amount of EUR 149.1 million as a result of the corporate income tax reform.

Revenue and EBITDA



Total assets, 2018





Generation and Trade

Segment weight in Latvenergo Group

Revenue	55%
EBITDA	46%
Assets	36%
Employees	25%

Generation and trade is Latvenergo Group's largest operating segment by both revenue and EBITDA value. In 2018, the majority or 85% of the segment's revenue came from electricity and natural gas trade, while 15% came from thermal energy supply.

The segment's results were negatively impacted by lower electricity output at the Daugava HPPs, 75% lower revenue from the installed electrical capacity at the Latvenergo AS CHPPs and higher electricity, natural gas and CO_2 emission allowance prices. The results were also negatively impacted by EUR 59.0 million lower compensation for the CHPPs' capacity payments.

In 2018, due to lower output of hydroelectricity, the total volume of electricity generated at Latvenergo Group's plants decreased by 11% and amounted to 5,076 GWh, which corresponded to 73% of the amount of electricity sold to retail customers (in 2017: 83%).

Operational figures	2018	2017	Δ	Δ, %
Total electricity supply, incl.	9,984	10,371	(387)	(4%)
*Retail**	6,954	6,923	32	0%
*Wholesale***	3,030	3,448	(418)	(12%)
Natural gas supply*	147	33	113	340%
Electricity generation	5,076	5,734	(659)	(11%)
Daugava HPPs	2,380	4,270	(1,890)	(44%)
CHPPs	2,644	1,411	1 232	87%
Liepaja plants and small plants	52	53	(1)	(1%)
Thermal energy generation	2,274	2,612	(338)	(13%)
CHPPs	2,004	2,349	(345)	(15%)
Liepaja plants and small plants	270	263	7	3%

Financial figures		2018	2017	Δ	Δ, %
Revenue	MEUR	511.8	556.1	(44.3)	(8%)
EBITDA	MEUR	146.6	372.8	(226.3)	(61%)
Assets	MEUR	1,359.9	1,956.9	(597.0)	(31%)
Investments	MEUR	28.9	74.0	(45.1)	(61%)
EBITDA margin		28.6	67.0	(38.4)	(57%)

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

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

Generation and Trade

Generation

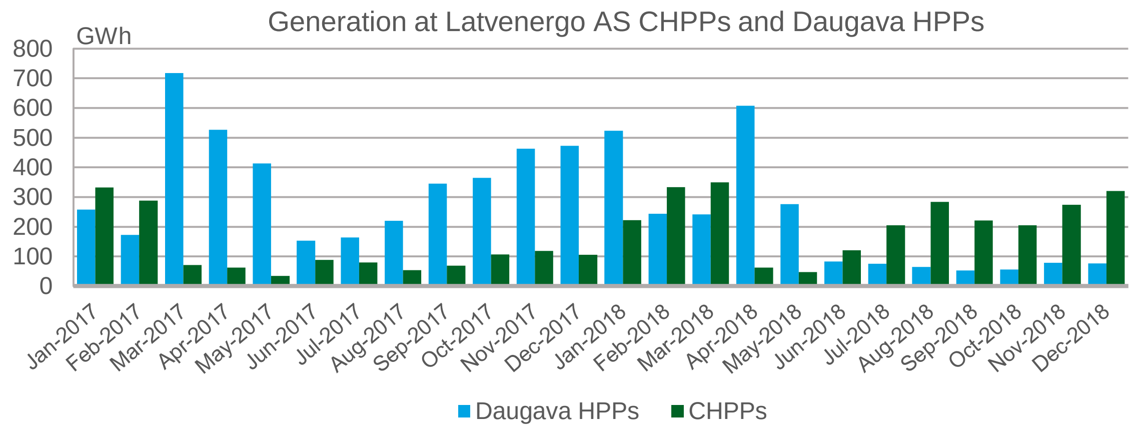
In 2018, the total amount generated by Latvenergo Group's power plants comprised 5,076 GWh of electricity and 2,274 GWh of thermal energy.

> Power generated at the Latvenergo AS CHPPs increased by 87%

Latvenergo AS CHPPs played a significant role in ensuring electricity demand this year. Dry weather significantly decreased output of hydroelectricity in Latvia and entire Nord Pool region and this led to a rapid rise in electricity prices throughout region.

In 2018, the amount of power generated at the Daugava HPPs decreased by 44% compared to a year earlier and reached 2,380 GWh. The amount of power generated at the Daugava HPPs was impacted by almost twice lower water inflow in the river Daugava compared to the previous year. According to data from the LEGMC, the average water inflow in the Daugava River in 2018 was 485 m3/s, which is 81% of the average long-term inflow. In 2018, the share of electricity generated from renewable energy sources at Latvenergo Group was 47% (in 2017 it was 75%).

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

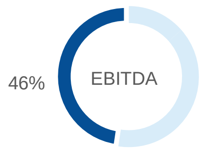


The dry weather and higher electricity prices throughout the Nord Pool region contributed to an increase in electricity generation at Latvenergo AS CHPPs. In 2018, the amount increased by 87% compared to a year earlier, reaching 2,644 GWh.

If the Latvenergo AS CHPPs were not available for generation in Latvia, we would have to use more expensive energy resources, for example a natural gas station in Lithuania or coal stations in Poland, to satisfy demand.

Due to the optimal combination of Latvenergo Group's generation at the CHPPs and Daugava HPPs and the import opportunities from other Nord Pool bidding areas, consumers in the Baltic states benefit from price convergence to the Nordic electricity market price level, which is historically the lowest price region in Europe.

In 2018, the total amount of thermal energy generated by Latvenergo Group decreased by 13% compared to the previous year. The decrease was impacted by increasing competition in the thermal energy market. At the end of 2017 and at the beginning of 2018 four new competitors entered the territory of the Latvenergo AS CHPPs.



Generation and Trade

Trade

Latvenergo Group was one of the largest energy trading companies in the Baltics.

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

With the launch of natural gas trade to business customers in Lithuania in October 2018, the Group now operates in all segments of the market in Latvia, Lithuania and Estonia.

In the reporting year, the Group supplied 7.0 TWh of electricity to retail customers, which is approximately the same as the previous year.

The overall amount of retail electricity trade outside Latvia accounted for 1/3 of the total, reaching 2.5 TWh. The electricity trade volume in Latvia was 4.4 TWh, while in Lithuania it was 1.6 TWh and in Estonia it was 0.9 TWh.

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

The amount of natural gas supplied to business customers continued to increase in the reporting year. As of 31 December 2018, the total amount of customers exceeds 400, and natural gas sales to these customers amount to 0.15 TWh. In the reporting year, the amount of natural gas used for both operating consumption and trade reached 6.9 TWh. Currently, Latvenergo Group is the second largest natural gas consumer in the Baltics.

After the reporting year, in February 2019, *Latvenergo* expanded the range of services it provides to customers, thus implementing the goal set in the Latvenergo AS strategy, which is to develop new business directions. Under the *Elektrum* brand, it launched natural gas trade to households in Latvia.

In 2018 the retail activities of other products and services in the Baltic states continued. In the reporting year, we launched trade of *Elektrum Solārais* in Estonia. In 2018 we installed solar panels for about 70 customers in the Baltics. Also, the number of *Elektrum Apdrošināts* customers continued to increase, reaching more than 41,000 at the end of 2018.

Completed in 2018:

- 7 TWh of electricity sold to Baltic retail customers
- The Group commenced natural gas trade to business customers in Lithuania. The amount of natural gas used for both operating consumption and trade reached 6.9 TWh.
- Solar panels installed for about 70 customers in the Baltics with a total capacity of 370 kW
- At the end of the reporting period, the total number of *Elektrum Apdrošināts* customers exceeded 41,000
- 378 *Smart House devices* installed in the Baltics

Generation and Trade

Mandatory procurement

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

Mandatory procurement expenditures* are covered through a public service obligation fee (hereinafter – PSO fee) charged to end users in Latvia. The PSO fee is determined on the basis of the actual costs in the preceding year and approved by the PUC.

Unsettled revenue from the mandatory procurement PSO fee recognised as assets		2018	2017	Δ	Δ, %
At the beginning of the reporting year	MEUR	**164.4**	**142.1**	**22.2**	**15.6 %**
Mandatory procurement PSO fee income	MEUR	161.5	177.9	(16.4)	(9.2%)
Received state grant	MEUR	92.7	69.9	22.8	32.6%
Reduction of MP expenditures for energy-intensive manufacturing	MEUR	4.8	3.0	1.8	58.1%
Mandatory procurement expenditures*	MEUR	159.5	267.0	(107.5)	(40.3%)
Incl. cogeneration	MEUR	57.5	141.8	(84.3)	(59.4%)
Incl. renewable energy resources	MEUR	101.4	124.5	(23.1)	(18.6%)
At the end of the reporting year	MEUR	**74.5**	**164.4**	**(89.9)**	**(54.7%)**

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

> The average PSO fee decreased starting from 1 July 2018

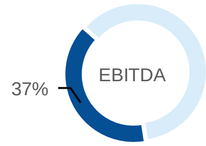
On 7 May 2018 the Cabinet of Ministers of the Republic of Latvia issued Order No. 202 "On reduction of the total mandatory procurement public service obligation". According to the order additional Latvenergo AS dividends in the amount of EUR 62.2 million were paid into the state's budget and therefore the average PSO fee decreased from 2.579 euro cents/kWh to 2.268 euro cents/kWh starting from 1 July 2018. On 28 November the council of the PUC approved the mandatory procurement public service obligation, which came into force starting from 1 January 2019. According to the calculations of the mandatory procurement public service obligation, the PSO fee remained unchanged: 2.268 euro cents/kWh

In order to foster the decrease in the PSO fee Enerģijas publiskais tirgotājs AS receives a state grant. In 2018, a state grant in the amount of EUR 92.7 million was received. Revenue from Latvenergo AS dividends is used as a funding source for reduction of the PSO fee. Also, in the coming years, according to the law "On the medium-term budgetary framework for 2018, 2019 and 2020", Latvenergo AS dividends will be used as the main funding source for the PSO fee reduction.

In 2018, MP expenditures comprised EUR 159.5 million (in 2017: EUR 267.0 million). The expenditures decreased mainly due to the 75% lower revenue from the installed electrical capacity at the Latvenergo AS CHPPs starting from 1 January 2018 (–74.2 million euros). The guaranteed support amount for the CHPPs decreased to 15% of total MP expenditures. An additional decrease in the MP expenditures was determined by the higher trade price of imported electricity at the Nord Pool exchange and by 12% lower electricity imports. In 2018, 1,385 GWh of electricity was purchased within the framework of the mandatory procurement (in 2017: 1,567 GWh).

In 2018, Enerģijas publiskais tirgotājs AS made payments from the state budget to energy-intensive manufacturing companies in the amount of EUR 4.8 million, thus reducing their MP payments. The decision on reduction of MP expenditures for energy-intensive manufacturing companies was made by the Ministry of Economics of the Republic of Latvia.

As of 31 December 2018, assets recognised as unearned PSO fee revenue decreased by EUR 89.9 million, comprising EUR 74.5 million.



Distribution

Segment weight in Latvenergo Group

Revenue 35%

EBITDA 37%

Assets 44%

Employees 58%

The distribution segment is Latvenergo Group's largest segment by asset value and the second largest segment by revenue. In 2018, the segment's revenue remained at the same level as a year earlier and comprised EUR 323.0 million, while EBITDA increased by 7%, reaching EUR 119.8 million.

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

The segment's results were positively impacted mainly by the EUR 7.2 million decrease in personnel termination costs compared to a year earlier. This decrease stems from the approved efficiency programme, which was launched in 2017. Within the framework of this programme, we are planning to reduce the number of employees at Sadales tīkls AS by around 800 in total by 2022. As of 31 December 2018, the number of employees at Sadales tīkls AS has been reduced by 20% or 500.

The efficiency programme also includes process reviews and digitalization, installation of smart meters, changes in customer relationship management processes, decreasing transportation units, and optimizing the number of real estate bases. As of 31 December 2018, the amount of smart electricity meters installed by the company comprises 544.3 thousand or 1/2 of the total number of electricity meters of customers of Sadales tīkls AS.

Operational figures		**2018**	**2017**	**Δ**	**Δ, %**
Electricity distributed	GWh	6,600	6,463	137	2%
Distribution losses	GWh	327	337	(10)	(3%)
SAIFI	number	2.5	2.8	(0.3)	(11%)
SAIDI	minutes	228	261	(33)	(13%)
Financial figures		**2018**	**2017**	**Δ**	**Δ, %**
Revenue	MEUR	323.0	320.7	2.3	1%
EBITDA	MEUR	119.8	111.6	8.2	7%
Assets	MEUR	1,669.7	1,641.3	28.4	2%
Investments	MEUR	95.1	107.7	(12.6)	(12%)
EBITDA margin		37.1	34.8	2.3	7%

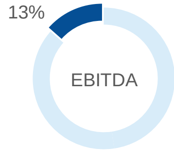
The segment's results were also positively impacted by the increase in the distributed electricity of 2%. However, higher electricity prices contributed to an increase in the cost of distribution losses.

Investments in distribution assets during the reporting year decreased by 12% compared to the previous year and comprised EUR 95.1 million. The value of distribution assets is EUR 1,669.7 million.

The purpose of investments in the distribution segment is to promote the quality and security of the energy supply, reduce the frequency and duration of power supply disruptions caused by planned and unplanned maintenance, and ensure the appropriate voltage quality. Investments in modernization of distribution assets have increased the quality of distribution services by lowering SAIFI and SAIDI indicators.

Completed in 2018:

- Renewed a total of 1,884 km of low and medium-voltage power lines
- Restored and constructed 816 transformer substations
- Installed 138,314 smart electricity meters
- Power line routes cleared from trees and shrubs at a length of 4,591 km
- SAIFI reduced by 11%
- SAIDI reduced by 13%



Lease of Transmission System Assets

Revenue
5%

EBITDA
13%

Assets
14%

Employees
0.2%

Segment weight in Latvenergo Group

The value of transmission system assets exceeds 500 million EUR

The revenue of the transmission system asset leasing segment represents 5% of Latvenergo Group's revenue. In 2018, the segment's revenue was EUR 42.2 million, while EBITDA was EUR 41.5 million. Leasing of transmission system assets is a regulated segment. Revenue in this segment is calculated in accordance with the methodology approved by the PUC.

Financial figures		**2018**	**2017**	**Δ**	**Δ, %**
Revenue	MEUR	42.2	47.0	(4.8)	(10%)
EBITDA	MEUR	41.5	45.3	(3.8)	(8%)
Total assets	MEUR	548.8	500.9	(47.9)	10%
Investments	MEUR	87.1	63.1	(24.1)	38%

In the reporting year, investment in transmission system assets was in the amount of EUR 87.1 million. The amount of investments was 38% greater than in 2017. The largest investment was made in the energy infrastructure project *Kurzeme Ring*. In 2018, EUR 65.2 million was invested in this project (2017: EUR 34.7 million).

The value of transmission system assets increased to EUR 548.8 million due to the investments.

Investments

In 2018, the total amount of investment decreased by 10% compared to the previous year; it comprised EUR 220.6 million.

Investment in power network assets – 82% of the total

To ensure high quality power network service, technical parameters and operational safety, a significant amount is invested in the modernization of the power network. In 2018, the amount invested in power network assets represented 82% of total investment.

Contributing to environmentally friendly projects, in the reporting year, EUR 21.1 million was invested in the Daugava HPPs' hydropower unit reconstruction.

Investment projects:

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

The programme provides for the reconstruction of 11 hydropower units in order to provide environmentally safe, sustainable and competitive operations and efficient water resource management. As of 31 December 2018, four reconstructed hydropower units have been put into operation within the programme. Latvenergo Group is proceeding with a gradual overhaul of seven Daugava HPPs' hydropower units. The programme is scheduled for completion by 2022, with estimated total reconstruction costs exceeding EUR 200 million. As of 31 December 2018, work completed within the scope of the contract reached EUR 149.5 million. Reconstruction will ensure functionality of the hydropower units for another 40 years.

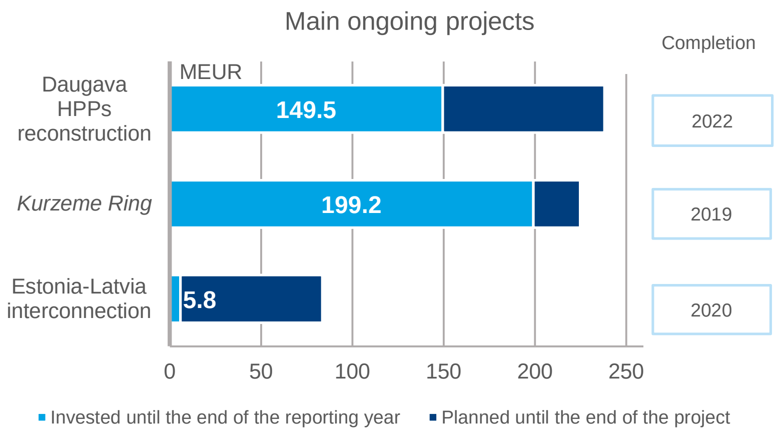
The *Kurzeme Ring* project

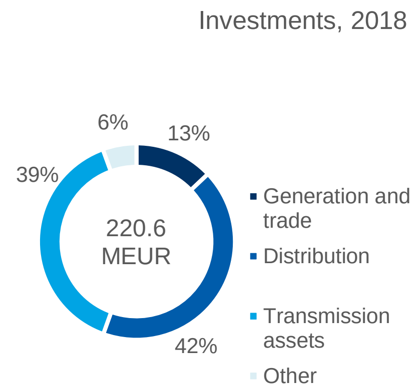
The *Kurzeme Ring* project will increase the safety level of power supply in the Kurzeme region and Latvia as a whole, providing an opportunity for more efficient use of the Lithuania-Sweden marine cable *NordBalt* and allowing further integration of the Baltics into the Nordic electricity market.

The *Kurzeme Ring* project is scheduled for completion in 2019, and the total planned project construction costs are less than EUR 230 million. The project consists of three stages. Investment in the first and second stage of the project comprised a total of EUR 95 million, approximately half of which was covered by the European Commission. For the final stage of the project *Ventspils–Tume–Rīga*, European Union co-funding in the amount of 45% of the construction cost was attracted. As of 31 December 2018, EUR 104.4 million was invested in the last stage of this project. In the reporting year, research was completed for all the projects, several 330 kV transmission lines were under construction and rebuilding work was continuing at several substations.

The third Estonia–Latvia power transmission network interconnection

The project is of major significance for the future electricity transmission infrastructure of the whole Baltic region. The construction of the new 330 kV interconnection is scheduled for completion by the end of 2020 and planned construction costs of the project in Latvia are less than EUR 100 million. EU co-funding in the amount of 65% was attracted. In the reporting year, an agreement was signed with the general contractor, and design and construction work has started.



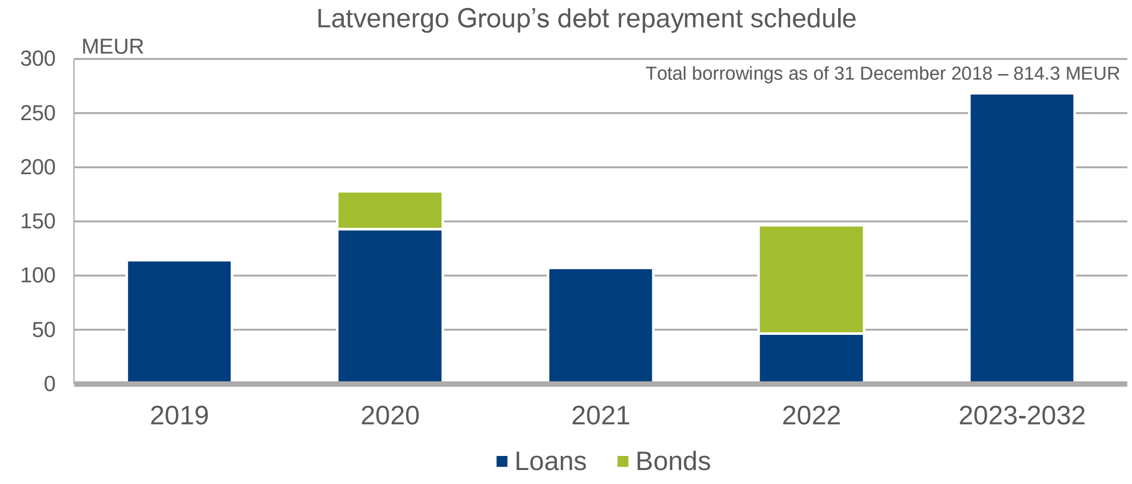


Funding and Liquidity

Latvenergo Group finances its investments from its own resources and external long-term borrowings, which are regularly sourced in financial and capital markets in a timely manner.

Planning the sourcing of borrowings in a timely manner is also crucial in order to ensure loan refinancing risk management and debt repayment in due time.

Diversified sources of funding



Latvenergo AS has attracted loans from several banks for implementation of investment projects and in order to ensure loan refinancing risk management for a total amount of EUR 240 million with a repayment term of 7 and 10 years.

As of 31 December 2018, the Group's borrowings amount to EUR 814.3 million (31 December 2017: EUR 826.8 million), comprising loans from commercial banks, international investment banks, and bonds amounting to EUR 135 million, of which EUR 100 million are *green* bonds.

External funding sources are purposefully diversified in the long run, thus creating a balance between lender categories in the total loan portfolio.

As of 31 December 2018, all borrowings are denominated in euro currency. The weighted average repayment period is 4.2 years (31 December 2017: 4.4 years). The effective weighted average interest rate (with interest rate swaps) is 1.3% (31 December 2017: 1.7%). Also, sufficient coverage of debt service requirements has been ensured (debt service coverage ratio: 2.7).

As of 31 December 2018, the net borrowings of Latvenergo Group are EUR 684.9 million (31 December 2017: EUR 590.8 million), while the net debt / EBITDA ratio is 2.0 (31 December 2017: 1.1). In 2018, all the binding financial covenants set in Latvenergo Group's loan agreements have been met.

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

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

Financial Risk Management

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

a) Market risks

I) Price risk

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

The main sources of Latvenergo Group's exposure to price risk are the floating market prices of electricity on the Nord Pool power exchange in Baltic bidding areas and the fuel price for CHPPs. The financial results of the Group may be negatively affected by the volatility of the electricity market price, which depends on the weather conditions in the Nordic countries, global prices of resources, and the influence of local factors (water availability and ambient air temperature) on electricity generation opportunities. Due to supply-demand factors and seasonal fluctuations, natural gas price volatility may have a negative effect on the difference between fixed retail electricity prices in contracts with customers and variable generation costs at CHPPs.

In order to hedge the price risk, the Group enters into long-term fixed price customer contracts, uses electricity financial derivatives and enters into fixed price contracts for natural gas supply. The impact of price risk on generation is hedged gradually – 80%–90% of projected electricity output is sold prior to the upcoming year. Further hedging of risk is limited by the seasonal generation pattern of the Daugava HPPs.

II) Interest rate risk

Latvenergo Group's interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group to the risk that finance costs might increase significantly when the reference rate surges. Most of the borrowings from financial institutions have a variable interest rate, comprising 3, 6 or 12-month EURIBOR and a margin. The Group's Financial Risk Management Policy stipulates maintaining at least 35% of its borrowings as fixed interest rate borrowings (taking into account the effect of interest rate swaps and issued bonds) with a duration of 2–4 years. Taking into account the effect of interest rate swaps and bonds with a fixed interest rate, 53% of the borrowings had a fixed interest rate with an average period of 2.1 years as of 31 December 2018.

III) Currency risk

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

As of 31 December 2018, all borrowings of Latvenergo Group are denominated in euros, and during the reporting year, 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 year, and the Group's management does not expect any losses due to the occurrence of credit risk.

c) Liquidity risk and cash flow risk

Latvenergo Group's liquidity and cash flow risk management policy is to maintain a sufficient amount of cash and cash equivalents and the availability of long and short-term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks. On 31 December 2018, Latvenergo Group's liquid assets (cash and short-term deposits up to 3 months) reached EUR 129.5 million (31 December 2017: EUR 236.0 million), while the current ratio was 1.5 (3.2).

The Group continuously monitors cash flow and liquidity forecasts, evaluating the total volume of undrawn borrowing facilities and cash and cash equivalents.

Latvenergo AS Key Performance Indicators

Latvenergo AS operational figures

		2018	2017	2016
Total electricity supply, incl.	GWh	5,826	6,265	6,039
*Retail***	GWh	4,406	4,619	5,290
*Wholesale****	GWh	1,419	1,645	749
Electricity generation	GWh	5,028	5,687	4,660
Thermal energy generation	GWh	2,007	2,354	2,422
Number of employees		1,355	1,431	1,472
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

Latvenergo AS financial figures

		2018	2017	2016
Revenue	MEUR	435.2	498.6	513.6
EBITDA*	MEUR	160.9	387.1	241.6
Profit	MEUR	212.7	150.9	137.4
Assets	MEUR	3,141.1	3,649.2	3,204.4
Equity	MEUR	1,993.8	2,382.6	2,177.1
Net debt*	MEUR	674.7	581.9	597.1
Investments	MEUR	41.4	89.3	79.9

Latvenergo AS financial ratios

	2018	2017	2016
Return on equity (ROE)*	9.7%	6.6%	6.4%
Net debt / equity*	34%	24%	27%
EBITDA margin*	37%	78%	47%

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

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS, the *Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Annual Financial Statements for 2018*, including the Management Report, have been prepared in accordance with the International Financial Reporting Standards and in all material aspects present a true and fair view of the assets, liabilities, financial position and profit and loss of Latvenergo Group and Latvenergo AS. Information provided in the Management Report is accurate.

The *Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Annual Financial Statements for 2018* were approved by the Management Board of Latvenergo AS on 26 February 2019 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

26 February 2019

List of Abbreviations and Formulas

Abbreviations

bbl –	barrel of oil (158.99 litres)
Daugava HPPs –	Daugava hydropower plants
EBITDA –	earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortization, and impairment of intangible and fixed assets
kV –	kilovolt
LEGMC –	Latvian Environment, Geology and Meteorology Centre
MEUR –	million euros
MW –	megawatt
MWh –	megawatt hour (1,000,000 MWh = 1,000 GWh = 1 TWh)
MP –	mandatory procurement
nm^3 –	normal cubic meter
OECD –	The Organisation for Economic Co-operation and Development
PSO –	public service obligation
PUC –	Public Utilities Commission
CHPPs –	Latvenergo AS 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

Net debt/EBITDA =

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

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

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

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

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

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

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

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

Average value of borrowings =

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

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

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

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

Unaudited Condensed Financial Statements

Statement of Profit or Loss

EUR'000

	Notes	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Revenue	4	878,008	925,627	435,199	498,580
Other income		93,260	149,950	91,181	147,502
Raw materials and consumables used	5	(493,826)	(346,911)	(281,736)	(153,954)
Personnel expenses		(103,762)	(113,289)	(42,396)	(44,892)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	6	(225,820)	(307,614)	(127,124)	(209,684)
Changes in the value of financial assets		478	–	236	–
Other operating expenses		(52,576)	(73,681)	(41,557)	(60,136)
Operating profit		**95,762**	**234,082**	**33,803**	**177,416**
Finance income		1,157	1,243	11,446	11,433
Finance costs		(8,406)	(11,211)	(10,135)	(12,054)
Dividends received from subsidiaries		–	–	177,646	9,111
Profit before tax		**88,513**	**224,114**	**212,760**	**185,906**
Deferred income tax		(12,297)	149,106	–	10,082
Current income tax		(261)	(51,199)	(27)	(45,097)
Profit for the year		**75,955**	**322,021**	**212,733**	**150,891**
Profit attributable to:					
- Equity holder of the Parent Company		73,423	319,670	212,733	150,891
- Non-controlling interests		2,532	2,351	–	–

Statement of Comprehensive Income

EUR'000

	Notes	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Profit for the year		**75,955**	**322,021**	**212,733**	**150,891**
Comprehensive income to be reclassified to profit or loss in subsequent periods:					
- gains from change in hedge reserve	11 c	9,531	5,422	9,531	5,422
Net comprehensive income to be reclassified to profit or loss in subsequent periods		**9,531**	**5,422**	**9,531**	**5,422**
Comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods:					
- gains on revaluation of property, plant and equipment		–	18,842	–	18,842
- gains / (losses) as a result of re-measurement on defined post-employment benefit plan		436	3,460	(108)	1,053
- reversal of deferred income tax		–	169,978	–	119,503
Net comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods		**436**	**192,280**	**(108)**	**139,398**
Comprehensive income for the year		**9,967**	**197,702**	**9,423**	**144,820**
Total comprehensive income for the year		**85,922**	**519,723**	**222,156**	**295,711**
Comprehensive income attributable to:					
- Equity holder of the Parent Company		*83,390*	*517,372*	*222,156*	*295,711*
- Non-controlling interests		*2,532*	*2,351*	–	–

Statement of Financial Position

EUR'000

	Notes	Group 31/12/2018	Group 31/12/2017	Parent Company 31/12/2018	Parent Company 31/12/2017
ASSETS					
Non-current assets					
Intangible assets and property, plant and equipment	6	3,316,173	3,322,398	1,156,698	1,248,915
Investment property		467	753	61,796	64,807
Non-current financial investments	8	40	40	830,542	817,048
Non-current loans to subsidiaries	13 e	–	–	595,004	397,976
Other financial investments in debt securities (government bonds)	11 a	16,935	16,984	16,935	16,984
Other non-current receivables	9 b	30,920	3,229	331	284
Total non-current assets		**3,364,535**	**3,343,404**	**2,661,306**	**2,546,014**
Current assets					
Inventories	7	71,975	76,328	58,410	61,824
Receivables from contracts with customers	9 a	117,955	105,369	81,022	82,799
Other current receivables	9 b	84,829	646,761	14,449	18,079
Deferred expenses		2,598	3,241	1,552	2,205
Current loans to subsidiaries	13 e	–	–	170,811	700,805
Prepayment for income tax		11,619	–	10,152	–
Financial instruments	11 c	15,853	4,619	15,853	4,619
Cash and cash equivalents	10	129,455	236,003	127,554	232,855
Total current assets		**434,284**	**1,072,321**	**479,803**	**1,103,186**
TOTAL ASSETS		**3,798,819**	**4,415,725**	**3,141,109**	**3,649,200**
EQUITY AND LIABILITIES					
Equity					
Share capital	6 b, 9 b	834,791	1,288,715	834,791	1,288,715
Reserves		1,125,823	1,126,521	794,889	791,906
Retained earnings		350,993	423,613	364,143	302,017
Equity attributable to equity holder of the Parent Company		**2,311,607**	**2,838,849**	**1,993,823**	**2,382,638**
Non-controlling interests		8,458	8,042	–	–
Total equity		**2,320,065**	**2,846,891**	**1,993,823**	**2,382,638**
Liabilities					
Non-current liabilities					
Borrowings	11 b	700,028	718,674	690,568	710,125
Provisions		20,178	21,910	8,625	8,835
Deferred income tax liabilities		12,296	–	–	–
Financial instruments	11 c	3,923	4,914	3,923	4,914
Deferred income on contracts from customers	12 I, a	143,494	142,132	–	–
Other liabilities and deferred income	12 I, b, c	303,519	350,926	210,105	286,085
Total non-current liabilities		**1,183,438**	**1,238,556**	**913,221**	**1,009,959**
Current liabilities					
Borrowings	11 b	114,315	108,083	111,700	104,647
Trade and other payables		135,008	147,072	92,062	94,689
Income tax payable		2	27,725	–	24,739
Deferred income on contracts from customers	12 II, a	13,271	12,500	–	–
Other deferred income	12 II, b, c	26,439	31,728	24,022	29,358
Financial instruments	11 c	6,281	3,170	6,281	3,170
Total current liabilities		**295,316**	**330,278**	**234,065**	**256,603**
Total liabilities		**1,478,754**	**1,568,834**	**1,147,286**	**1,266,562**
TOTAL EQUITY AND LIABILITIES		**3,798,819**	**4,415,725**	**3,141,109**	**3,649,200**

Statement of Changes in Equity

EUR'000

	Group						Parent Company			
	Attributable to equity holder of the Parent Company						Attributable to equity holder of the Parent Company			
	Share capital	Reserves	Retained earnings	Total	Non-controlling interests	TOTAL	Share capital	Reserves	Retained earnings	TOTAL
As of 31 December 2016	**1,288,715**	**937,074**	**185,840**	**2,411,629**	**7,084**	**2,418,713**	**1,288,715**	**650,020**	**238,334**	**2,177,069**
Effect of adoption of IFRS 15 'Revenue from contracts with customers'	–	–	(10)	**(10)**	–	**(10)**	–	–	–	**–**
As of 1 January 2017	**1,288,715**	**937,074**	**185,830**	**2,411,619**	**7,084**	**2,418,703**	**1,288,715**	**650,020**	**238,334**	**2,177,069**
Dividends for 2016	–	–	(90,142)	**(90,142)**	(1,393)	**(91,535)**	–	–	(90,142)	**(90,142)**
Disposal of property, plant and equipment revaluation reserve net of deferred income tax	–	(4,377)	4,377	**–**	–	**–**	–	(1,762)	1,762	**–**
Total contributions and profit distributions recognised directly in equity	**–**	**(4,377)**	**(85,765)**	**(90,142)**	**(1,393)**	**(91,535)**	**–**	**(1,762)**	**(88,380)**	**(90,142)**
Profit for the year	–	–	319,670	**319,670**	2,351	**322,021**	–	–	150,891	**150,891**
Comprehensive income for the year	–	193,824	3,878	**197,702**	–	**197,702**	–	143,648	1,172	**144,820**
Total comprehensive income for the year	**–**	**193,824**	**323,548**	**517,372**	**2,351**	**519,723**	**–**	**143,648**	**152,063**	**295,711**
As of 31 December 2017	**1,288,715**	**1,126,521**	**423,613**	**2,838,849**	**8,042**	**2,846,891**	**1,288,715**	**791,906**	**302,017**	**2,382,638**
Effect of adoption of IFRS 9 'Financial instruments'	–	–	(290)	**(290)**	–	**(290)**	–	–	(629)	**(629)**
As of 1 January 2018	**1,288,715**	**1,126,521**	**423,323**	**2,838,559**	**8,042**	**2,846,601**	**1,288,715**	**791,906**	**301,388**	**2,382,009**
Decrease of share capital (Note 6 b, 9 b) *	(453,924)	–	–	**(453,924)**	–	**(453,924)**	(453,924)	–	–	**(453,924)**
Dividends for 2017	–	–	(156,418)	**(156,418)**	(2,116)	**(158,534)**	–	–	(156,418)	**(156,418)**
Disposal of property, plant and equipment revaluation reserve	–	(10,229)	10,229	**–**	–	**–**	–	(6,549)	6,549	**–**
Total contributions and profit distributions recognised directly in equity	**(453,924)**	**(10,229)**	**(146,189)**	**(610,342)**	**(2,116)**	**(612,458)**	**(453,924)**	**(6,549)**	**(149,869)**	**(610,342)**
Profit for the year	–	–	73,423	**73,423**	2,532	**75,955**	–	–	212,733	**212,733**
Comprehensive income for the year	–	9,531	436	**9,967**	–	**9,967**	–	9,531	(108)	**9,423**
Total comprehensive income for the year	**–**	**9,531**	**73,859**	**83,390**	**2,532**	**85,922**	**–**	**9,531**	**212,625**	**222,156**
As of 31 December 2018	**834,791**	**1,125,823**	**350,993**	**2,311,607**	**8,458**	**2,320,065**	**834,791**	**794,888**	**364,144**	**1,993,823**

* In March 2018 registered decrease of share capital in the amount of EUR 454,413 thousand, related to the trilateral agreement between Republic of Latvia, Latvenergo AS and Enerģijas publiskais tirgotājs AS (public trader) on the decrease of the intensity of support of the future state commitments to Latvenergo AS regarding its cogeneration power plants Riga TEC-1 and Riga TEC-2 (CHPPs) in exchange to a one-off compensation.
In June 2018, in accordance with the Directive No. 765 of the Cabinet of Ministers of the Republic of Latvia, dated 19 December 2017 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 489 thousand was invested in the share capital of Latvenergo AS (see Note 6 b).

Statement of Cash Flows

EUR'000

	Notes	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Cash flows from operating activities					
Profit before tax		88,513	224,114	212,760	185,906
Adjustments:					
– Amortisation, depreciation and impairment of non-current assets		243,458	313,090	139,444	211,285
– Net financial adjustments		7,570	12,039	(966)	2,692
– Received dividends from subsidiaries		–	–	(177,646)	(9,111)
– Other adjustments		(1,293)	6,704	(316)	1,944
Operating profit before working capital adjustments		**338,248**	**555,947**	**173,276**	**392,716**
Decrease / (increase) in current assets		102,478	(42,640)	143,875	(148,866)
(Decrease) / increase in trade and other liabilities		(90,344)	(123,783)	(79,741)	6,749
Loans issued to subsidiaries by mutual offsetting, net		–	–	201,571	246,554
Cash generated from operating activities		**350,382**	**389,524**	**438,981**	**497,153**
Interest paid		(9,066)	(11,484)	(10,781)	(12,283)
Interest received		1,113	1,390	1,113	1,390
Paid corporate income tax		(39,560)	(41,221)	(34,918)	(36,908)
Net cash flows from operating activities		**302,869**	**338,209**	**394,395**	**449,352**
Cash flows from investing activities					
Loans issued to subsidiaries, net	13 e	–	–	(323,539)	(268,218)
Purchase of intangible assets and PPE		(238,501)	(233,744)	(60,644)	(88,793)
Proceeds from investments in subsidiaries		–	–	53,378	9,111
Proceeds from redemption of other financial investments in debt securities		49	3,569	49	3,569
Net cash flows used in investing activities		**(238,452)**	**(230,175)**	**(330,756)**	**(344,331)**
Cash flows from financing activities					
Repayment of issued debt securities (bonds)	11 c	–	(70,000)	–	(70,000)
Proceeds on borrowings	11 c	93,500	186,500	90,000	185,000
Repayment of borrowings	11 c	(105,931)	(80,976)	(102,522)	(78,221)
Dividends paid to non–controlling interests		(2,116)	(1,393)	–	–
Dividends paid to equity holder of the Parent Company		(156,418)	(90,142)	(156,418)	(90,142)
Net cash flows used in financing activities		**(170,965)**	**(56,011)**	**(168,940)**	**(53,363)**
Net increase in cash and cash equivalents	**10**	**(106,548)**	**52,023**	**(105,301)**	**51,658**
Cash and cash equivalents at the beginning of the year	10	236,003	183,980	232,855	181,197
Cash and cash equivalents at the end of the year	**10**	**129,455**	**236,003**	**127,554**	**232,855**

Notes to unaudited condensed financial statements

1. CORPORATE INFORMATION

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

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

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

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

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

Latvenergo AS shareholding in its subsidiaries and other non–current financial investments of the Group are disclosed in Note 8 'Non–current Financial Investments'.

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

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

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

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

The Unaudited Condensed Annual Financial Statements of *Latvenergo* Group and Latvenergo AS for 2018 include the financial information in respect of the *Latvenergo* Group and Latvenergo AS for the period starting on 1 January 2018 and ending on 31 December 2018 and comparative information for the year 2017.

The Unaudited Condensed Annual Financial Statements of *Latvenergo* Group and Latvenergo AS for the year 2018 were authorised by the Latvenergo AS Management Board on 26 February 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

These Interim Condensed Financial Statements of the Latvenergo Group and Latvenergo AS are prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union (IFRS) and principal accounting policies applied to these financial statements were identical to those used in the Latvenergo Group Consolidated and Latvenergo AS Financial Statements 2017. These policies have been consistently applied to all reporting periods presented in financial statements, unless otherwise stated. Where it is necessary, comparatives are reclassified.

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

Latvenergo Group and Latvenergo AS has applied IFRS 9 *Financial Instruments* in Financial Statements for 2018 with initial application date as of 1 January 2018. IFRS 9 was adopted without adjusting the comparative information and without the change of classification (except for financial assets previously classified as held–to–maturity financial assets) and transition impact related to impairment and estimation of expected credit losses, recognised directly in equity in the Statement of Financial Position as of 1 January 2018. IFRS 9 adoption effect for Latvenergo Group in the amount of EUR 290 thousand (Parent Company: EUR 629 thousand) was recognised in accordance with the new impairment requirements based on the expected credit loss model. The change in the classification of financial instruments has had no impact on their measurement and recognition in the Financial Statements.

All financial figures in the Financial Statements for the year ended 31 December 2018 are disclosed in accordance with IFRS 9.

Unaudited Condensed Annual Financial Statements of the Latvenergo Group and Latvenergo AS are prepared under the historical cost convention, except for some financial assets and liabilities (including derivative financial instruments) measured at fair value through profit or loss and for the revaluation of property, plant and equipment carried at revalued amounts through other comprehensive income as disclosed in accounting policies presented in Latvenergo Group Consolidated and Latvenergo AS Annual Report 2017.

Unaudited Condensed Annual Financial Statements of the Latvenergo Group and Latvenergo AS had been prepared in euros (EUR) currency and all amounts shown in these Financial Statements are presented in thousands of EUR (EUR'000). All figures, unless stated otherwise are rounded to the nearest thousand.

3. OPERATING SEGMENT INFORMATION

Operating segments of the Group and the Parent Company

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

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

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

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

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

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

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

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

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

EUR'000

Group

	Generation and trade	Distribution	Lease of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Group
2018							
Revenue							
External customers	510,434	321,232	39,203	7,139	**878,008**	–	**878,008**
Inter–segment	1,390	1,730	2,991	45,451	**51,562**	(51,562)	**–**
Total revenue	**511,824**	**322,962**	**42,194**	**52,590**	**929,570**	**(51,562)**	**878,008**
Results							
EBITDA	**146,552**	**119,791**	**41,456**	**13,783**	**321,582**	**–**	**321,582**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(110,490)	(77,432)	(25,856)	(12,042)	**(225,820)**	–	**(225,820)**
Segment profit before tax	**36,062**	**42,359**	**15,600**	**1,741**	**95,762**	**(7,249)**	**88,513**
Capital expenditure	28,909	95,117	87,136	12,411	**223,573**	(2,966)	**220,607**
2017							
Revenue							
External customers	554,489	318,851	44,415	7,872	**925,627**	–	**925,627**
Inter–segment	1,605	1,851	2,541	52,739	**58,736**	(58,736)	**–**
Total revenue	**556,094**	**320,702**	**46,956**	**60,611**	**984,363**	**(58,736)**	**925,627**
Results							
EBITDA	**372,829**	**111,599**	**45,305**	**11,963**	**541,696**	**–**	**541,696**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(194,376)	(76,630)	(24,345)	(12,263)	**(307,614)**	–	**(307,614)**
Segment profit before tax	**178,453**	**34,969**	**20,960**	**(300)**	**234,082**	**(9,968)**	**224,114**
Capital expenditure	74,021	107,683	63,085	10,815	**255,604**	(11,793)	**243,811**

Parent Company

	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Parent Company
2018					
Revenue					
External customers	386,510	48,689	**435,199**	–	**435,199**
Inter–segment	459	22,366	**22,825**	(22,825)	**–**
Total revenue	**386,969**	**71,055**	**458,024**	**(22,825)**	**435,199**
Results					
EBITDA	**134,040**	**26,887**	**160,927**	**–**	**160,927**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(107,397)	(19,727)	**(127,124)**	–	**(127,124)**
Segment profit before tax	**26,643**	**7,160**	**33,803**	**178,957**	**212,760**
Capital expenditure	26,921	14,429	**41,350**	–	**41,350**
2017					
Revenue					
External customers	448,660	49,920	**498,580**	–	**498,580**
Inter–segment	346	29,089	**29,435**	(29,435)	**–**
Total revenue	**449,006**	**79,009**	**528,015**	**(29,435)**	**498,580**
Results					
EBITDA	**362,534**	**24,566**	**387,100**	**–**	**387,100**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(191,228)	(18,456)	**(209,684)**	–	**(209,684)**
Segment profit before tax	**171,306**	**6,110**	**177,416**	**8,490**	**185,906**
Capital expenditure	73,150	16,128	**89,278**	–	**89,278**

Segment assets

EUR'000

Group

	Generation and trade	Distribution	Lease of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Group
As of 31 December 2018	1,359,851	1,669,710	548,750	86,350	**3,664,661**	134,158	**3,798,819**
As of 31 December 2017	1,956,888	1,641,318	500,863	85,584	**4,184,653**	231,072	**4,415,725**

Parent Company

	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Parent Company
As of 31 December 2018	1,217,768	156,490	**1,374,258**	1,766,851	**3,141,109**
As of 31 December 2017	1,286,478	192,435	**1,478,913**	2,170,287	**3,649,200**

Adjustments and eliminations

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

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

Reconciliation of profit

EUR'000

	Group		Parent Company	
	2018	2017	2018	2017
Segment profit	**95,762**	**234,082**	**33,803**	**177,416**
Finance income	1,157	1,243	11,446	11,433
Finance costs	(8,406)	(11,211)	(10,135)	(12,054)
Dividends received from subsidiaries	–	–	177,646	9,111
Profit before tax	**88,513**	**224,114**	**212,760**	**185,906**

Reconciliation of assets

EUR'000

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Assets of operating segments	**3,664,661**	**4,184,653**	**1,374,258**	**1,478,913**
Connection usage rights	(39,744)	(26,652)	–	–
Non-current financial investments	40	40	830,542	817,048
Loans to subsidiaries	–	–	765,815	1,098,781
Other financial investments in debt securities (government bonds)	16,935	16,984	16,935	16,984
Derivative financial instruments	15,853	4,619	15,853	4,619
Prepayment for income tax	11,619	–	10,152	–
Other assets and assets held for sale	–	78	–	–
Cash and cash equivalents	129,455	236,003	127,554	232,855
TOTAL assets	**3,798,819**	**4,415,725**	**3,141,109**	**3,649,200**

4. REVENUE

EUR'000

	IFRS or IAS applied	Group		Parent Company	
		2018	2017	2018	2017
Revenue from contracts with customers recognised over time:					
Trade of energy and related supply services	IFRS 15	425,718	467,126	312,994	370,626
Distribution system services	IFRS 15	303,439	301,874	–	–
Heat sales	IFRS 15	78,580	83,239	66,263	71,422
Other revenue	IFRS 15	29,500	27,105	39,955	40,610
Total revenue from contracts with customers		**837,237**	**879,344**	**419,212**	**482,658**
Other revenue:					
Lease of transmission system assets	IAS 17	38,699	43,911	–	–
Lease of other assets	IAS 17	1,568	1,868	15,987	15,922
Other revenue	IAS 17	504	504	–	–
Total other revenue		**40,771**	**46,283**	**15,987**	**15,922**
Total revenue		**878,008**	**925,627**	**435,199**	**498,580**

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

EUR'000

	Group		Parent Company	
	2018	2017	2018	2017
Mandatory procurement PSO fees	98,459	114,266	101,852	119,562
Distribution system services	10,576	10,125	208,304	217,999
Transmission system services	1,562	1,750	1,613	1,783
Total revenue recognised applying agent accounting principle	**110,597**	**126,141**	**311,769**	**339,344**

5. RAW MATERIALS AND CONSUMABLES USED

EUR'000

	Group		Parent Company	
	2018	2017	2018	2017
Electricity:				
Purchased electricity	196,359	124,521	78,486	27,094
Fair value loss on electricity forwards and futures (Note 11 c, II)	417	3,435	417	3,435
Electricity transmission services costs	71,368	71,044	1,015	845
	268,144	**199,000**	**79,918**	**31,374**
Energy resources costs	197,485	118,185	190,139	112,248
Raw materials, spare parts and maintenance costs	28,197	29,726	11,679	10,332
Total raw materials and consumables used	**493,826**	**346,911**	**281,736**	**153,954**

6. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

a) Intangible assets

EUR'000

	Group		Parent Company	
	2018	2017	2018	2017
Net book amount at the beginning of the year	**13,413**	**14,534**	**17,461**	**18,769**
Additions	20,519	2,588	20,350	2,528
Disposals	(11,146)	(212)	(11,617)	(653)
Amortisation charge	(3,706)	(3,497)	(3,383)	(3,183)
Net book amount at the end of the year	**19,080**	**13,413**	**22,811**	**17,461**

b) Property, plant and equipment

EUR'000

	Group		Parent Company	
	2018	2017	2018	2017
Net book amount at the beginning of the year	**3,308,985**	**3,355,797**	**1,231,454**	**1,322,518**
Additions	217,389	241,220	36,421	84,373
Invested in share capital	489	–	489	–
Increase due PPE revaluation	–	22,167	–	22,167
Decrease due PPE revaluation	–	(2,260)	–	(2,260)
Reclassified to investment property	(44)	(1,182)	(516)	(1,059)
Reclassified from investment property	–	–	–	8,335
Disposals	(7,032)	(4,900)	(13,988)	(487)
Impairment charge	(34,020)	(116,246)	(33,253)	(116,257)
Depreciation	(188,674)	(185,611)	(86,720)	(85,876)
Net book amount at the end of the year	**3,297,093**	**3,308,985**	**1,133,887**	**1,231,454**

7. INVENTORIES

EUR'000

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Raw materials and materials	14,865	16,547	1,286	1,583
Natural gas	49,757	53,079	49,757	53,078
Other inventories	8,292	8,115	8,070	8,075
Prepayments for inventories	198	81	33	80
Allowance for raw materials and other inventories	(1,137)	(1,494)	(736)	(992)
Total inventories	**71,975**	**76,328**	**58,410**	**61,824**

Movement on the allowance

EUR'000

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
At the beginning of the year	**1,494**	**1,659**	**992**	**1,060**
Inventories written off	(287)	(62)	(260)	–
Changes included to the Statement of Profit or Loss	(70)	(103)	4	(68)
At the end of the year	**1,137**	**1,494**	**736**	**992**

8. NON–CURRENT FINANCIAL INVESTMENTS

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

Name of the company	Country of incorporation	Business activity held	31/12/2018 Interest held, %	31/12/2018 EUR'000	31/12/2017 Interest held, %	31/12/2017 EUR'000
Investments in subsidiaries:						
Latvijas elektriskie tīkli AS	Latvia	Lease of transmission system assets	100%	185,624	100%	185,624
Sadales tīkls AS	Latvia	Electricity distribution	100%	641,150	100%	627,656
Enerģijas publiskais tirgotājs AS	Latvia	Administration of mandatory electricity procurement process	100%	40	100%	40
Elektrum Eesti, OÜ	Estonia	Electricity and natural gas trade	100%	35	100%	35
Elektrum Lietuva, UAB	Lithuania	Electricity and natural gas trade	100%	98	100%	98
Liepājas enerģija SIA	Latvia	Thermal energy generation and trade, electricity generation	51%	3,556	51%	3,556
TOTAL				**830,503**		**817,009**
Other non–current financial investments						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	46,30%	36	46,30%	36
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0,0051%	3	0,0051%	3
TOTAL				**39**		**39**

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

9. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS AND OTHER RECEIVABLES

a) Receivables from contracts with customers, net

EUR'000

	Group		Parent Company	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
Receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers	138,308	134,699	102,154	105,257
– Heating customers	14,715	10,922	11,955	8,851
– Other receivables from contracts with customers	12,735	8,610	6,534	4,155
– Subsidiaries (Note 13 b, c)	–	–	4,716	9,404
	165,758	**154,231**	**125,359**	**127,667**
Loss allowance for receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers	(44,953)	(45,561)	(43,968)	(44,472)
– Heating customers	(342)	(329)	(334)	(310)
– Other receivables from contracts with customers	(2,508)	(2,972)	(32)	(86)
– Subsidiaries (Note 13 b, c)	–	–	(3)	–
	(47,803)	**(48,862)**	**(44,337)**	**(44,868)**
Receivables from contracts with customers, net:				
– Electricity, natural gas trade and related services customers	93,355	89,138	58,186	60,785
– Heating customers	14,373	10,593	11,621	8,541
– Other receivables from contracts with customers	10,227	5,638	6,502	4,069
– Subsidiaries (Note 13 b, c)	–	–	4,713	9,404
	117,955	**105,369**	**81,022**	**82,799**

Movements in loss allowance for receivables from contracts with customers

EUR'000

	Group		Parent Company	
	2018	**2017**	**2018**	**2017**
At the beginning of the year	**48,862**	**48,100**	**44,868**	**44,177**
Receivables written off as uncollectible	(2,549)	(1,710)	(2,074)	(1,343)
Recognised loss allowance for receivables	1,490	2,472	1,543	2,034
At the end of the year	**47,803**	**48,862**	**44,337**	**44,868**

b) Other current receivables

EUR'000

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Other non–current receivables	30,960	3,229	331	284
Loss allowance for other non–current receivables	(40)	–	–	–
Total non–current receivables	**30,920**	**3,229**	**331**	**284**
Current financial receivables:				
Receivable of guaranteed fee for the installed electrical capacity of cogeneration power plants CHPP-1 and CHPP-2*	–	454,413	–	–
Unsettled revenue on mandatory procurement PSO fee recognised as assets**	74,497	164,365	–	–
Receivables for lease	7,646	3,535	1,793	2,443
Financial receivables from related parties (Note 13 b, c)	–	–	10,420	10,664
Other accrued income	872	3,572	872	872
Other current financial receivables	4,145	17,529	2,943	5,214
Loss allowance for financial receivables of related parties (Note 13 b, c)	–	–	(5)	–
Loss allowance for other current financial receivables	(2,548)	(1,582)	(1,786)	(1,255)
Total current financial receivables	**84,612**	**641,832**	**14,237**	**17,938**
Current non-financial receivables:				
Pre-tax and overpaid taxes	108	3,703	105	22
Other current receivables	109	1,226	107	119
Total current non-financial receivables	**217**	**4,929**	**212**	**141**
Total current receivables	**84,829**	**646,761**	**14,449**	**18,079**
Total other receivables	**115,749**	**649,990**	**14,780**	**18,363**

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

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

10. CASH AND CASH EQUIVALENTS

EUR'000

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash at bank	95,094	233,624	93,193	230,476
Deposits	30,000	–	30,000	–
Restricted cash and cash equivalents*	4,361	2,379	4,361	2,379
Total cash and cash equivalents	**129,455**	**236,003**	**127,554**	**232,855**

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

11. FINANCIAL ASSETS AND LIABILITIES

a) *Financial assets previously classified as held–to–maturity financial assets (2017)*

As of 31 December 2018 the entire Group's and the Parent Company's financial assets prior to adoption of IFRS 9 "Financial instruments" classified as held–to–maturity financial assets were non–current 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 other financial investments in debt securities

EUR'000

	Group		Parent Company	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
Other financial investments in debt securities (government bonds) – non–current	16,935	16,984	16,935	16,984
Total other financial investments in debt securities (government bonds)	**16,935**	**16,984**	**16,935**	**16,984**

b) *Borrowings*

EUR'000

	Group		Parent Company	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
Non–current borrowings from financial institutions	564,711	583,313	555,251	574,764
Issued debt securities (bonds)	135,317	135,361	135,317	135,361
Total non–current borrowings	**700,028**	**718,674**	**690,568**	**710,125**
Current portion of non–current borrowings from financial institutions	112,102	105,931	109,512	102,522
Accrued interest on non–current borrowings	529	468	504	441
Accrued coupon interest on issued debt securities (bonds)	1,684	1,684	1,684	1,684
Total current borrowings	**114,315**	**108,083**	**111,700**	**104,647**
Total borrowings	**814,343**	**826,757**	**802,268**	**814,772**

Movement in Borrowings

EUR'000

	Group		Parent Company	
	2018	**2017**	**2018**	**2017**
At the beginning of the year	**826,757**	**791,566**	**814,772**	**778,323**
Borrowings received	93,500	186,500	90,000,	185,000
Borrowing repaid	(105,931)	(80,976)	(102,522)	(78,221)
Change in accrued interest on borrowings	61	(126)	62	(123)
Repaid issued debt securities (bonds)	–	(70,000)	–	(70,000)
Changes in outstanding value of issued debt securities (bonds)	(44)	(207)	(44)	(207)
At the end of the year	**814,343**	**826,757**	**802,268**	**814,772**

c) Financial instruments

I) Interest rate swaps

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

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

EUR'000

	Group				Parent Company			
	2018		2017		2018		2017	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**31**	**(8,061)**	**–**	**(11,563)**	**31**	**(8,061)**	**–**	**(11,563)**
Included in comprehensive income	(31)	686	31	3,502	(31)	686	31	3,502
Outstanding fair value at the end of the year	–	**(7,375)**	**31**	**(8,061)**	–	**(7,375)**	**31**	**(8,061)**

II) Electricity forwards and futures

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

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

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

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

EUR'000

	Group				Parent Company			
	2018		2017		2018		2017	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**4,588**	**(23)**	**6,134**	**(23)**	**4,588**	**(23)**	**6,134**	**(23)**
Included in Statement of Profit or Loss (Note 5)	(440)	23	(3,435)	–	(440)	23	(3,435)	–
Included in comprehensive income	11,705	–	1,889	–	11,705	–	1,889	–
Outstanding fair value at the end of the year	**15,853**	**–**	**4,588**	**(23)**	**15,853**	**–**	**4,588**	**(23)**

III) Natural gas forwards

Fair value changes of the *Latvenergo* Group's and the Company's natural gas forward contracts

EUR'000

	Group				Parent Company			
	2018		2017		2018		2017	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Included in comprehensive income	–	(2,829)	–	–	–	(2,829)	–	–
Outstanding fair value at the end of the year	**–**	**(2,829)**	**–**	**–**	**–**	**(2,829)**	**–**	**–**

12. DEFERRED INCOME

EUR'000

	Group		Parent Company	
	31/12/2018	**31/12/2017**	**31/12/2018**	**31/12/2017**
I) Non–current deferred income				
a) from contracts from customers				
Deferred income from connection fees	143,494	142,132	–	–
	143,494	**142,132**	**–**	**–**
b) from lease				
Deferred income from connection fees	3,852	4,319	–	–
Other deferred income	1,387	18,056	403	423
	5,329	**22,375**	**403**	**423**
c) other				
Deferred income on grant for the installed electrical capacity of CHPPs	209,419	285,109	209,419	285,109
Deferred income on financing from European Union funds	88,468	43,159	18	270
Deferred income from plant and equipment received free of charge	393	283	265	283
	298,280	**328,551**	**209,702**	**285,662**
Total non–current liabilities and deferred income	**447,013**	**493,058**	**210,105**	**286,085**
II) Current deferred income				
a) from contracts from customers				
Deferred income from connection fees	12,983	12,247	–	–
Deferred income from use of allowed effective electrical load (distribution system services)	288	253	–	–
	13,271	**12,500**	**–**	**–**
b) from lease				
Deferred income from connection fees	449	449	–	–
	449	**449**	**–**	**–**
c) other				
Other deferred income	59	121	20	20
Deferred income on grant for the installed electrical capacity of CHPPs	23,990	29,304	23,990	29,304
Deferred income on financing from European Union funds	1,941	1,854	12	34
	25,990	**31,279**	**24,022**	**29,358**
Total current deferred income	**39,710**	**44,228**	**24,022**	**29,358**
Total other liabilities and deferred income	**486,723**	**537,286**	**234,127**	**315,443**

Movement in deferred income (non–current and current part):

EUR'000

	Group		Parent Company	
	2018	2017	2018	2017
At the beginning of the year	**537,286**	**209,429**	**315,443**	**1,114**
Received deferred non–current income (financing)	31,537	14,707	–	–
Received connection fees	14,726	12,848	–	–
Received income from compensation for the installed electrical capacity of CHPPs	–	314,413	–	314,413
Compensation for the installed electrical capacity of CHPPs credited to the Statement of Profit or Loss	(81,004)	–	(81,004)	–
Credited to the Statement of Profit or Loss (in Note 4 as "Other revenue")	(15,822)	(14,111)	(312)	(84)
At the end of the year	**486,723**	**537,286**	**234,127**	**315,443**

13. RELATED PARTY TRANSACTIONS

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

a) Income and expenses from transactions with related parties

EUR'000

	Parent Company	
	2018	2017
Income:		
– Subsidiaries	78,698	155,338
	78,698	**155,338**
Expenses:		
– Subsidiaries	346,641	344,054
	346,641	**344,054**
including expenses from transactions with subsidiaries recognised in net amount through profit or loss:		
– Sadales tīkls AS	*305,719*	*332,172*
– Enerģijas publiskais tirgotājs AS	*–*	*520*
	305,719	***332,692***

EUR'000

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
b) Balances at the end of the year arising from sales / purchases of goods and services				
Receivables:				
– Subsidiaries (Note 9 a, b)	–	–	12,195	17,435
	–	**–**	**12,195**	**17,435**
Payables:				
– Subsidiaries	–	–	30,865	30,994
– Other related parties*	201	281	89	88
	201	**281**	**30,954**	**31,082**

* Pirmais Slēgtais Pensiju Fonds AS

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
c) Accrued income				
– For sold goods / provided services (Note 9 a, b)	–	–	2,859	3,199
– For received interest (Note 9 a, b)	–	–	1,820	1,875
	–	**–**	**4,679**	**5,074**
d) Accrued expenses				
– For purchased goods / received services	–	–	5,657	1,176
	–	**–**	**5,657**	**1,176**

In 2018 remuneration to the *Latvenergo* Group's management includes remuneration to the members of the Management Boards the Group entities, the Supervisory Board and the Supervisory body (Audit Committee) of the Parent Company, including salary, social insurance contributions and payments to pension plan and is amounted to EUR 2,621.3 thousand (2017: EUR 2,592.5 thousand).

In 2018 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 1,040.9 thousand (2017: EUR 1,077.9 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 Parent Company's non–current and current loans to related parties EUR'000

	Parent Company	
	31/12/2018	31/12/2017
Non–current loans to subsidiaries		
Sadales tīkls AS	442,728	312,582
Latvijas elektriskie tīkli AS	152,681	85,394
Loss allowance	(405)	–
Total non–current loans	**595,004**	**397,976**
Current portion of non–current loans		
Sadales tīkls AS	49,854	50,914
Latvijas elektriskie tīkli AS	8,175	8,490
Loss allowance	(39)	–
Current loans to subsidiaries		
Latvijas elektriskie tīkli AS	18,541	1,294
Sadales tīkls AS	6,502	28,157
Elektrum Eesti, OÜ	7,882	5,134
Elektrum Lietuva, UAB	11,740	2,172
Enerģijas publiskais tirgotājs AS	68,233	604,644
Loss allowance	(77)	–
Total current loans	**170,811**	**700,805**
Total loans to subsidiaries	**765,815**	**1,098,781**

Movement in loans issued by the Parent Company EUR'000

	Parent Company	
	2018	2017
At the beginning of the year	**1,098,781**	**622,704**
Changes in issued loans, net	(332,445)	476,077
Loss allowance	(521)	–
At the end of the year	**765,815**	**1,098,781**
incl. loan movement through bank account		
Issued loans	(774,052)	(710,044)
Repaid loans	450,513	441,826
Issued loans, net	**(323,539)**	**(268,218)**

14. EVENTS AFTER THE REPORTING YEAR

There have been no significant events subsequent to the end of the reporting year that might have a material effect on the *Latvenergo* Group and Latvenergo AS Unaudited Condensed Annual Financial Statements for the year ended 31 December 2018.