# LATVENERGO CONSOLIDATED AND LATVENERGO AS

# UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE 3-MONTH PERIOD

ENDING 31 MARCH 2019

Latvenergo Group is the most valuable energy company and one of the largest power supply providers in the Baltics. Latvenergo operates in all energy trade segments in Latvia, Lithuania and Estonia.

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### Management Report



### Unaudited Condensed Interim Financial Statements*



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

## FINANCIAL CALENDAR

**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)

## CONTACT DETAILS FOR INVESTOR RELATIONS

**E-mail:** investor.relations@latvenergo.lv

**Website:** http://www.latvenergo.lv

## DISCLAIMER

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

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

# Summary

**Warm, dry weather in Europe, lower water levels at Scandinavian hydropower reservoirs, lower output of hydroelectricity, higher $CO_2$ emission allowance prices and higher raw material prices significantly affected the rise in electricity prices in the region.**

Latvia
**47.99** EUR/MWh **+13%** ↑
Q1 2018: **42.38**

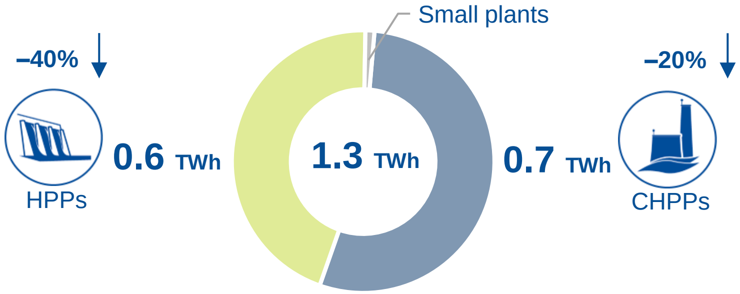
Nord Pool system price
**46.83** EUR/MWh **+21%** ↑
Q1 2018: **38.65**

**The financial results were impacted by lower electricity output at the Daugava HPPs.**

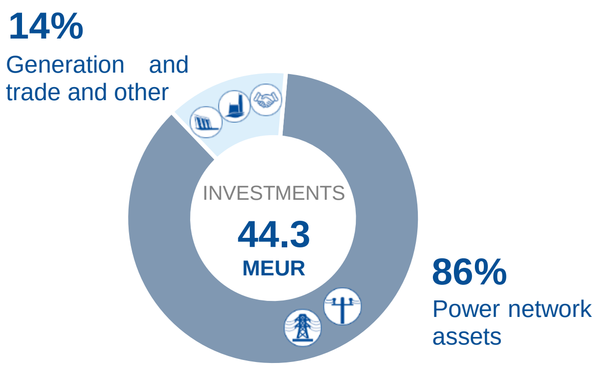
MEUR

| **251.4** | **83.2** | **38.4** | **3,825.5** |
|---|---|---|---|
| REVENUE | EBITDA | PROFIT | ASSETS |

**The amount of power generated at the Daugava HPPs decreased by 40% compared to the respective period a year ago, which was impacted by lower water inflow in the river Daugava.**




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




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

1.8 TWh of electricity sold to Baltic retail customers

800 thous.
Electricity customers

900 natural gas customers



**On March 19, the international credit rating agency Moody's reconfirmed the credit rating of Latvenergo AS at the Baa2 level with a stable future outlook.**

**Baa2**
MOODY'S

# 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 the 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

Latvenergo Group's strategy for 2017–2022 provides for.

- 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% |

Taking into consideration the development directions of the Group, Latvenergo AS approved the Strategic Development and Efficiency Programme in 2017. The strategic development section is designed with the aim to contribute to the growth of the Group by engaging in new business development directions. Meanwhile, 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

| | | 3M 2019 | 3M 2018 | 3M 2017 | 3M 2016 | 3M 2015 |
|---|---|---|---|---|---|---|
| Total electricity supply, incl. | GWh | 2,555 | 2,904 | 3,029 | 2,741 | 2,697 |
| *Retail*[2)] | GWh | 1,795 | 1,766 | 1,882 | 2,174 | 2,166 |
| *Wholesale*[3)] | GWh | 760 | 1,138 | 1,147 | 567 | 531 |
| Electricity generation | GWh | 1,347 | 1,929 | 1,855 | 1,236 | 1,027 |
| Thermal energy generation | GWh | 939 | 1,204 | 1,137 | 1,173 | 1,019 |
| Number of employees | | 3,490 | 3,736 | 4,133 | 4,181 | 4,142 |
| Moody's credit rating | | Baa2 (stable) | Baa2 (stable) | Baa2 (stable) | Baa2 (stable) | Baa2 (stable) |

## Latvenergo Group Financial Figures

| | | 3M 2019 | 3M 2018 | 3M 2017 | 3M 2016 | 3M 2015 |
|---|---|---|---|---|---|---|
| Revenue | MEUR | 251.4 | 259.7 | 265.8 | 263.5 | 259.5 |
| EBITDA[1)] | MEUR | 83.2 | 109.8 | 113.8 | 100.1 | 94.8 |
| Profit | MEUR | 38.4 | 64.9 | 55.1 | 38.6 | 39.3 |
| Assets | MEUR | 3,825.5 | 4,001.2 | 3,956.2 | 3,607.5 | 3,526.8 |
| Equity | MEUR | 2,342.0 | 2,459.9 | 2,471.6 | 2,133.4 | 2,059.4 |
| Net debt[1)] | MEUR | 627.1 | 515.0 | 530.6 | 657.7 | 688.6 |
| Investments | MEUR | 44.3 | 33.0 | 32.1 | 34.7 | 24.8 |

## Latvenergo Group Financial Ratios

| | 3M 2019 | 3M 2018 | 3M 2017 | 3M 2016 | 3M 2015 |
|---|---|---|---|---|---|
| Net debt / EBITDA[1)] | 1.9 | 1.0 | 1.5 | 2.2 | 2.7 |
| EBITDA margin[1)] | 34% | 58% | 44% | 33% | 26% |
| Return on equity (ROE)[1)] | 2.1% | 13.5% | 6.4% | 4.0% | 1.9% |
| Return on assets (ROA)[1)] | 1.3% | 8.3% | 3.9% | 2.4% | 1.1% |
| Return on capital employed (ROCE)[1)] | 2.2% | 7.2% | 5.8% | 3.6% | 2.1% |
| Net debt / equity[1)] | 27% | 21% | 21% | 31% | 33% |

1) Formulas are available on page 22
2) Including operating consumption
3) Including sale of energy purchased within the mandatory procurement on the Nord Pool

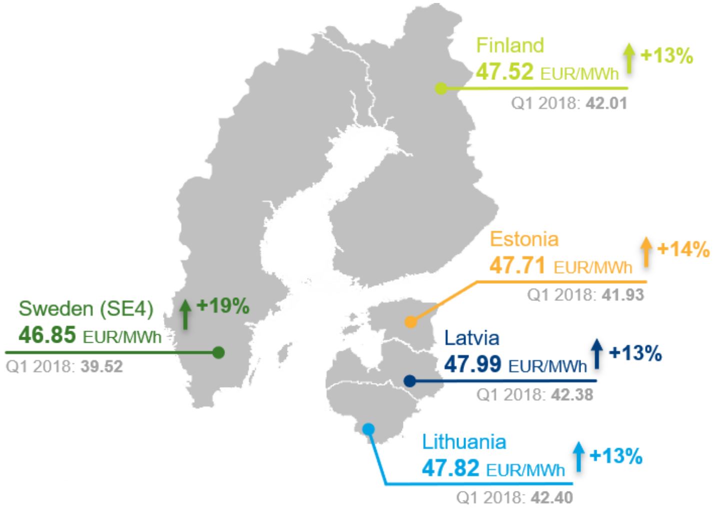
# Operating Environment

Latvenergo Group's operations and performance are influenced by various global and regional factors, including electricity and natural gas prices. In Q1 2019:

- the Nord Pool system price increased by 21% compared to the respective period a year ago. The electricity spot price in Latvia increased by 13%;
- the price of natural gas at the GASPOOL and TTF trading platforms was on average 21% higher compared to the respective period a year ago.

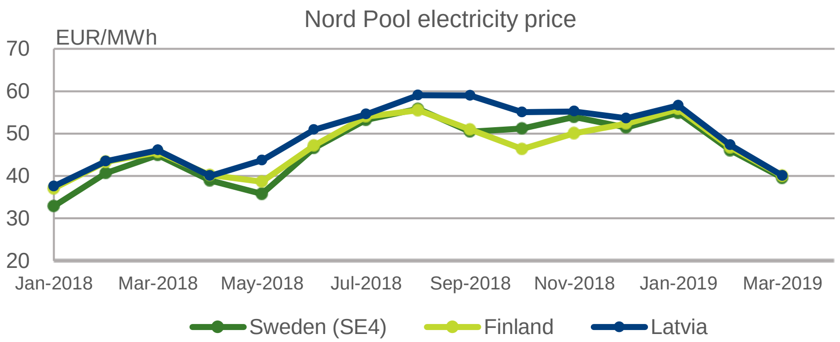
## Higher electricity prices

In Q1 2019, electricity prices in the Nordics and the Baltics were higher compared to the respective period a year ago.




Just like last year, warm, dry weather in Europe led to lower water levels at Scandinavian hydropower reservoirs which resulted in lower output of hydroelectricity and an increase in electricity generation at fossil fuel power stations. Also, higher $CO_2$ emission allowance prices and raw material prices increased electricity prices. Meanwhile, fluctuating electricity output at wind stations led to fluctuating dynamics in spot prices.

In Q1 2019, the average Nord Pool system price was 46.83 EUR/MWh, which is 21% higher than in the respective period a year ago. The electricity spot price in Latvia was 13% higher than in the respective period a year ago. Price differences between Latvia and Sweden (SE4) decreased by 60% or 1.72 EUR/MWh, reaching 1.14 EUR/MWh. The electricity price difference between Latvia and Estonia reached 0.28 EUR/MWh, while between Latvia and Lithuania it was 0.17 EUR/MWh.

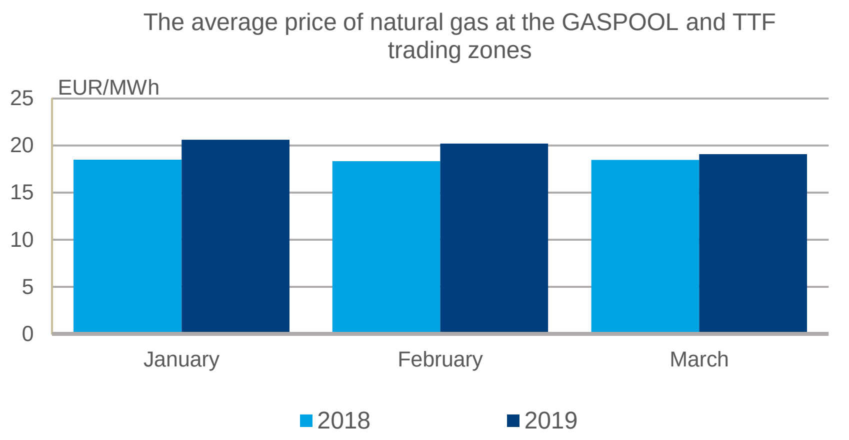



In Q1 2019, total electricity consumption in the Baltics decreased by 3% to 7.6 TWh. Electricity consumption decreased by 2% in Latvia, by 1% in Lithuania and by 5% in Estonia. Electricity output in the Baltics decreased by 19% and amounted to 5.0 TWh. Due to lower electricity generation, electricity imports from the other Nord Pool areas increased by 69%, reaching 2.5 TWh,

# Operating Environment

## Natural gas price increases

Natural gas is the main fuel resource in the Latvenergo AS CHPPs' operation. In Q1 2019, the average price of natural gas at the GASPOOL (Cal 20) and TTF (Cal 20) trading platforms was 21% higher than a year earlier, reaching 20.0 EUR/MWh. Dry weather led to a higher hydrobalance deficit in Scandinavia, which contributed to the increase in electricity generation at the fossil fuel power plants. Higher demand for natural gas and liquefied natural gas fostered the increase in natural gas prices.




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 Q1 2019 was 63.8 USD/bbl, which was 5% lower than in the respective period a year ago. Starting from 2019 oil output in OPEC and Russia decreased due to the aim to stabilize oil market prices. Oil price trends were influenced by high oil output in the USA and US trade sanctions on Iran and Venezuela.
- In Q1 2019, the average price of coal (API2 Cal 20) increased by 3% compared to the respective period a year ago, reaching 79.4 USD/t. Coal prices increased due to increased coal storage in Europe and fluctuations in supply on the Asian market.
- The average price of $CO_2$ emission allowances in Q1 2019 reached 22.7 EUR/t, which is more than twice as high as in the respective period a year ago. $CO_2$ emission allowance prices increased along with a higher electricity output at fossil fuel power plants. Starting from 2019, the reform of the EU emissions trading system (ETS) came into force, reducing the permits available on the market. The main factor that influenced $CO_2$ emission allowance prices in the reporting period was the United Kingdom's indecision about Brexit.

# Operating Environment

## Dividends

Latvenergo AS dividend payout is regulated by the Law on the Budget of the Republic of Latvia and the law "On the medium-term budgetary framework for 2018, 2019 and 2020". After the end of the reporting period, on 8 May 2019, the Shareholders' Meeting of Latvenergo AS approved the Latvenergo Consolidated and Latvenergo AS Annual Report 2018 and passed a decision on paying EUR 132.9 million in dividends to the state. According to the regulations, the dividend payout in the year 2020 (for the reporting year 2019) amounts to EUR 127.1 million (incl. corporate income tax). The actual amount of the dividend payout is set at the Shareholder's Meeting of Latvenergo AS after the approval of the annual report, upon evaluation of the results of the previous year.

Latvenergo Group's capital structure ratios are sufficient to proceed with the dividend payout. As of 31 March 2019, the Group's asset value exceeds EUR 3.8 billion and its equity reaches almost EUR 2.4 billion.

On 19 March 2019, the credit rating agency Moody's reconfirmed the credit rating of Latvenergo AS at the Baa2 level with a stable future outlook. The credit rating has been stable for five years in a row.

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.

## Ownership unbundling of transmission system assets

According to Directive 2009/72/EC, the European Union Member States had to choose and introduce one of the three models of unbundling of the transmission system asset ownership from 3 March 2012:

1) full ownership unbundling;

2) an independent system operator; or

3) an independent transmission operator.

All these models are considered equally effective in terms of both legal framework and market development as they are in line with the fundamental regulatory goal of Directive 2009/72/EC: removing any conflict of interests between transmission system operators and producers and traders.

An independent system operator model was introduced in Latvia, which, in assessing the impact on the state budget, market development, end consumers and other stakeholders, was chosen as the most optimum to manage in 2011. The existing transmission operator unbundling model was certified by the Public Utilities Commission (PUC).

As a result of the selection of the model, the transmission system assets are invested in Latvijas elektriskie tīkli AS (LET), while LET leases assets to the transmission system operator (Augstsprieguma tīkls AS). The lease payment is calculated according to the methodology set by PUC and the ownership of the transmission system assets, or the implemented asset unbundling model, does not affect the amount of transmission tariffs paid by the end user of electricity. Latvijas elektriskie tīkli AS is a subsidiary of Latvenergo AS, which provides monitoring and management of Latvian power transmission network assets, as well as fund raising for the maintenance of existing transmission networks and the construction of new ones. In 2018, the revenue of Latvijas elektriskie tīkli AS was EUR 43.3 million, the profit was EUR 13.4 million and the assets at the end of 2018 were EUR 551 million.

The choice of the most optimum model of unbundling of the transmission system asset ownership is within the competence of the Ministry of Economics and the Cabinet of Ministers. The Ministry of Economics has expressed the view that it is necessary to move towards the introduction of a full ownership unbundling model and to consider the most appropriate way of unbundling. Latvenergo AS will implement, in the most effective way, the necessary steps regarding changes in the unbundling model, if accepted by relevant institutions.

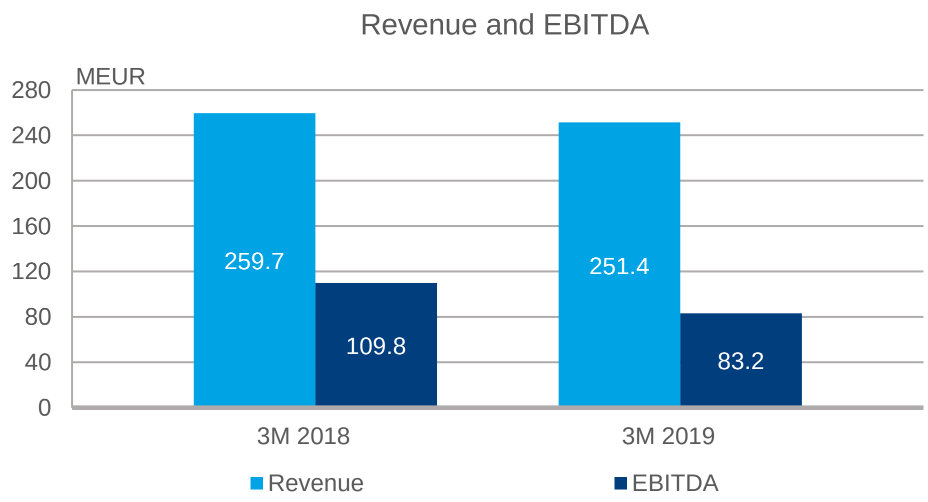
# Financial Results

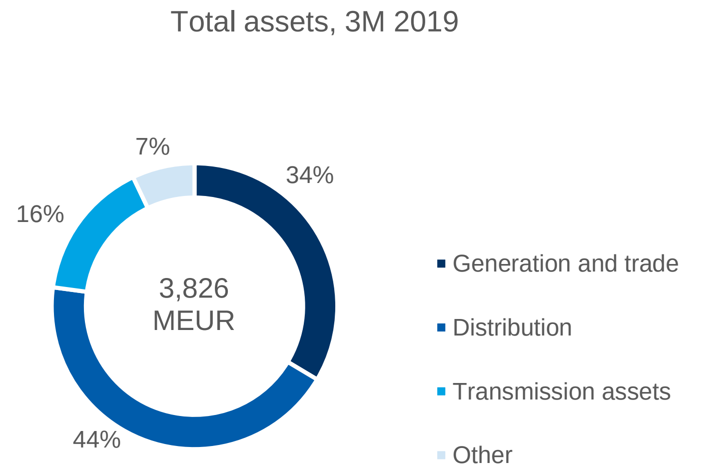
In the 3-month period of 2019, Latvenergo Group's revenue decreased by 3% and comprised EUR 251.4 million. Meanwhile, EBITDA decreased by 24%, reaching EUR 83.2 million.

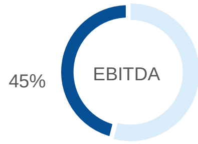
The Group's results in the reporting year were negatively impacted by 40% lower electricity output at the Daugava HPPs.

At the end of the reporting period, the Group's net debt to equity was 27% (as of 31 March 2018, it was 21%) and its net debt to EBITDA ratio was 1.9 (as of 31 March 2018, it was 1.0). The capital structure ratios of Latvenergo Group are better than those of many industry benchmark companies.

| Latvenergo Group financial figures | | 3M 2019 | 3M 2018 | Δ | Δ, % |
|---|---|---|---|---|---|
| Revenue | MEUR | 251.4 | 259.7 | (8.3) | (3%) |
| EBITDA | MEUR | 83.2 | 109.8 | (26.6) | (24%) |
| Net profit | MEUR | 38.4 | 64.9 | (26.5) | (41%) |
| Assets | MEUR | 3,825.5 | 4,001.2 | (175.7) | (4%) |






# Generation and Trade

Segment weight in Latvenergo Group

**Revenue**
**59%**

**EBITDA**
**45%**

**Assets**
**34%**

**Employees**
**25%**

Generation and trade is Latvenergo Group's largest operating segment by both revenue and EBITDA value. In Q1 2019, the majority or 77% of the segment's revenue came from electricity and natural gas trade, while 23% came from thermal energy supply.

The segment's results were negatively impacted mainly by lower electricity output at the Daugava HPPs.

In the reporting period, the total volume of electricity generated at Latvenergo Group's plants amounted to 1,347 GWh, which corresponded to 75% of the amount of electricity sold to retail customers (in the respective period in 2018 it was 109%).

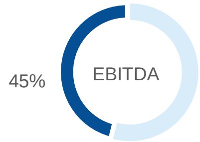
| **Operational figures** | **3M 2019** | **3M 2018** | **Δ** | **Δ, %** |
|---|---|---|---|---|
| Total electricity supply, incl. | 2,555 | 2,904 | (348) | (12%) |
| *Retail** | 1,795 | 1,766 | 29 | 2% |
| *Wholesale*** | 760 | 1,138 | (378) | (33%) |
| Natural gas supply | 104 | 40 | 64 | 160% |
| Electricity generation | 1,347 | 1,929 | (582) | (30%) |
| *Daugava HPPs* | 605 | 1,010 | (405) | (40%) |
| *CHPPs* | 727 | 904 | (178) | (20%) |
| *Liepaja plants and small plants* | 15 | 15 | 0.3 | 2% |
| Thermal energy generation | 939 | 1,204 | (265) | (22%) |
| *CHPPs* | 833 | 1,076 | (243) | (23%) |
| *Liepaja plants* | 106 | 128 | (22) | (17%) |

| **Financial figures** | | **3M 2019** | **3M 2018** | **Δ** | **Δ, %** |
|---|---|---|---|---|---|
| Revenue | MEUR | 156.5 | 162.7 | (6.2) | (4%) |
| EBITDA | MEUR | 37.3 | 64.5 | (27.2) | (42%) |
| Assets | MEUR | 1,284.0 | 1,445.7 | (161.7) | (11%) |
| Investments | MEUR | 4.6 | 1.5 | 3.1 | 209% |
| EBITDA margin | | 23.6% | 67.5% | (43.9) pp | (65%) |

** 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.

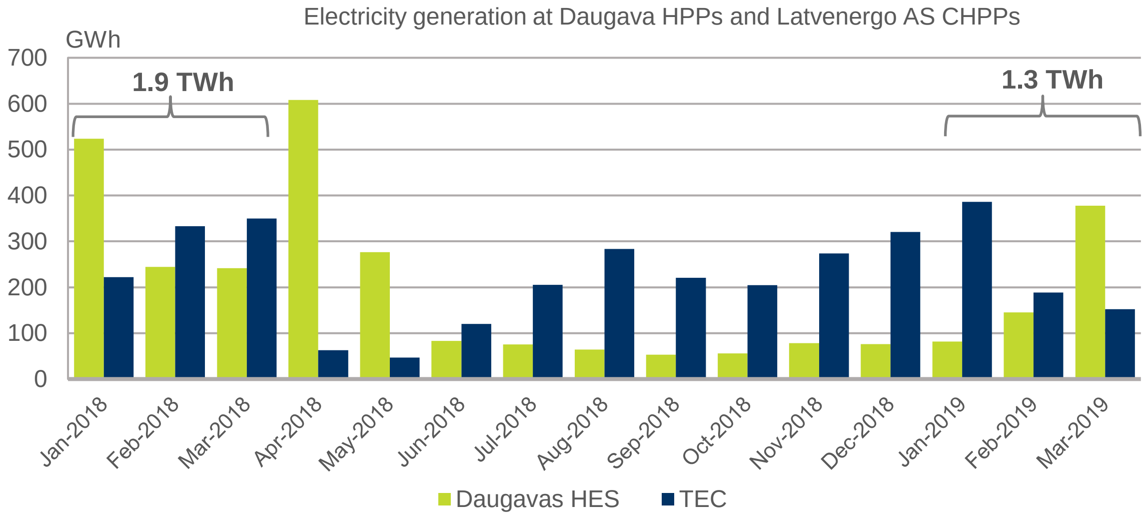



# Generation and Trade

## Generation

In the reporting period, the total amount generated by Latvenergo Group's power plants comprised 1,347 GWh of electricity and 939 GWh of thermal energy.

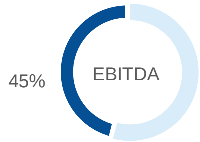
In the 3-month period of 2019, the amount of power generated at the Daugava HPPs decreased by 40% compared to the respective period a year ago, reaching 605 GWh. The amount of power generated at the Daugava HPPs was impacted by lower water inflow in the river Daugava compared to the respective period a year ago. According to data from the LEGMC, the average water inflow in the Daugava River in Q1 2019 was only 467 m3/s, while in the respective period a year ago it was 832 m3/s. In Q1 2019, the share of electricity generated from renewable energy sources at Latvenergo Group was 45% (in the respective period in 2018 it was 53%).




The Latvenergo AS CHPPs operated in a market conjuncture by effectively planning operating modes and fuel consumption. In Q1 2019, the amount generated at the CHPPs reached 727 GWh, which is 20% less than in the respective period in 2018.

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 the 3-month period of 2019, the total amount of thermal energy generated by Latvenergo Group decreased by 22% compared to the respective period a year ago. The decrease was impacted by warmer weather conditions during the heating season. Data from the Central Statistical Bureau show that the average air temperature in Riga in Q1 2019 was +0.5 C°, whereas in the respective period last year it was –2.4 C°.




# Generation and Trade

## Trade

In Q1 2019, Latvenergo Group was one of the largest energy trading companies in the Baltics.

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

In the reporting period, the Group supplied 1,795 GWh of electricity to retail customers in the Baltics. Although electricity consumption in the Baltics decreased by 2.5% in Q1 2019, the amount of electricity sold to retail customers by the Group increased by 1.7%.

The overall amount of retail electricity trade outside Latvia accounted for 1/3 of the total, reaching 656 GWh. The electricity trade volume in Latvia was 1,140 GWh, while in Lithuania it was 387 GWh and in Estonia it was 269 GWh.

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

In February 2019, the Group launched natural gas trade to households in Latvia, which increased the total natural gas customer portfolio by more than 400 by the end of the first quarter of 2019. As of 31 March 2019, the total amount of customers is approximately 900, and natural gas sales to these customers amount to 104 GWh. In the reporting period, the amount of natural gas used for both operating consumption and trade reached 2,115 GWh (in the respective period in 2018 it was 2,550 GWh). The change was impacted by lower output at the Latvenergo AS CHPPs. Currently, Latvenergo Group is the second largest natural gas consumer in the Baltics.

In the reporting period, the retail activities of other services in the Baltic states continued. The number of solar panel contracts in the first quarter of 2019 is substantially higher than in the previous year. This was due to the successful sales of solar panels in Lithuania and Estonia. In the 3-month period of 2019, we installed solar panels for 26 customers in the Baltics. Also, the number of *Elektrum Insured* customers continued to increase, reaching more than 47,000 at the end of the reporting period. As of May 2019, in addition to *Elektrum Solar* and *Smart House* products, the *Elektrum* e-shop also offers LED bulbs and electric scooters.

### Completed in the 3-month period of 2019:

- 1.8 TWh of electricity sold to retail customers
- The Group launched natural gas trade to households in Latvia
  The amount of natural gas used for both operating consumption and trade reached 2.1 TWh.
- Solar panels installed for 26 customers in the Baltics with a total capacity of 260 kW
- At the end of the reporting period, the total number of *Elektrum Insured* customers exceeded 47,000
- 163 *Smart House* devices installed in Latvia

# 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.

| **Operating figures** | | **3M 2019** | **3M 2018** | **Δ** | **Δ, %** |
|---|---|---|---|---|---|
| Mandatory procurement PSO fee income | MEUR | 39.7 | 44.4 | (4.7) | (10.5%) |
| Mandatory procurement expenditures* | MEUR | 45.4 | 44.6 | 0.8 | 1.9% |
| *Incl. cogeneration* | MEUR | 17.4 | 15.2 | 2.2 | 14.6% |
| *Incl. renewable energy resources* | MEUR | 28.0 | 29.3 | (1.3) | (4.5%) |

* 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

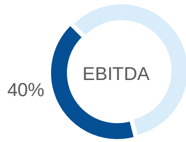
> The average PSO fee remained unchanged from 1 January 2019

On 28 November 2018, the council of the PUC approved the mandatory procurement public service obligation. Starting from 1 January 2019, the PSO fee remained unchanged: 2.268 euro cents/kWh. The average PSO fee has been at this level since 1 July 2018, when it was reduced by 12% on average. Since 2017, the average PSO fee has been reduced by 15%.

In the coming years, according to the law "On the medium-term budgetary framework for 2018, 2019 and 2020", Latvenergo AS dividends will be used as the main funding source for the PSO fee reduction.

In the 3-month period of 2019, Enerģijas publiskais tirgotājs AS made payments from the state budget to energy-intensive manufacturing companies in the amount of EUR 0.5 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.

In Q1 2019, MP expenditures remained at the same level as a year earlier and comprised EUR 45.4 million.




# Distribution

Revenue
**32%**

EBITDA
**40%**

Assets
**44%**

Employees
**58%**

Segment weight in Latvenergo Group

The distribution segment is Latvenergo Group's largest segment by asset value and the second largest segment by revenue. In the first quarter of 2019, the segment's revenue decreased by 2% and comprised EUR 84.5 million, while EBITDA increased by 4%, reaching EUR 33.6 million.

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

The segment's results in Q1 2019 were positively impacted mainly by the EUR 2.4 million decrease in personnel termination costs compared to the respective period a year ago. This decrease stems from the approved efficiency programme, which was launched in 2017. Currently, Sadales tīkls AS has several efficiency projects, including 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. 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 March 2019, the number of employees at Sadales tīkls AS has been reduced by 20% or 500. As of 31 March 2019, the amount of smart electricity meters installed by the company comprises 584.1 thousand or 1/2 of the total number of electricity meters of customers of Sadales tīkls AS. Considering the expected cost reduction from the efficiency programme, possible changes in distribution system service tariffs are analyzed.

| Operational figures | | 3M 2019 | 3M 2018 | Δ | Δ, % |
|---|---|---|---|---|---|
| Electricity distributed | GWh | 1,762 | 1,786 | (24) | (1%) |
| Distribution losses | GWh | 97 | 118 | (21) | (18%) |

| Financial figures | | 3M 2019 | 3M 2018 | Δ | Δ, % |
|---|---|---|---|---|---|
| Revenue | MEUR | 84.5 | 86.3 | (1.8) | (2%) |
| EBITDA | MEUR | 33.6 | 32.3 | 1.3 | 4% |
| Assets | MEUR | 1,666.0 | 1,636.8 | 29.2 | 2% |
| Investments | MEUR | 18.9 | 16.8 | 2.1 | 12% |
| EBITDA margin | | 37.7% | 34.2% | 3.5pp | 10% |

However, the segment's results were negatively impacted by a decrease in distributed electricity of 1.3%, which was mainly caused by the weather conditions and higher average air temperature.

In Q1 2019, investments in distribution assets increased by 12% and comprised EUR 18.9 million. The value of distribution assets is EUR 1,666.0 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. In 2018, SAIFI was 2.5 times and SAIDI was 228 minutes. During the last five years SAIFI has been improved by 34%, while SAIDI has been improved by 51%.

### Completed in the 3-month period of 2019:

- Renewed a total of 183 km of low and medium-voltage power lines
- Restored and constructed 61 transformer substations
- Installed 39,656 smart electricity meters
- Power line routes cleared from trees and shrubs at a length of 985 km

# Lease of Transmission System Assets

12%
EBITDA

Segment weight in Latvenergo Group

**Revenue**
**4%**

**EBITDA**
**12%**

**Assets**
**16%**

**Employees**
**0.2%**

The value of transmission system assets exceeds 600 million EUR

The revenue of the transmission system asset leasing segment represents 4% of Latvenergo Group's revenue. In Q1 2019, the segment's revenue remained at the same level as a year earlier and comprised EUR 10.4 million, while EBITDA was EUR 10.2 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 | | 3M 2019 | 3M 2018 | Δ | Δ, % |
|---|---|---|---|---|---|
| Revenue | MEUR | 10.4 | 10.4 | (0.0) | (0%) |
| EBITDA | MEUR | 10.2 | 10.6 | (0.4) | (4%) |
| Total assets | MEUR | 604.8 | 516.5 | 88.3 | 17% |
| Investments | MEUR | 19.6 | 12.7 | 6.9 | 54% |

In the reporting period, investment in transmission system assets was in the amount of EUR 19.6 million. The amount of investments was 54% greater than in the respective period a year ago. The largest investment was made in the energy infrastructure project *Kurzeme Ring*. In Q1 2019, EUR 14.4 million was invested in this project (in the respective period in 2018: EUR 11.0 million).

The value of transmission system assets increased to EUR 604.8 million due to the investments.

# Investments

In Q1 2019, the total amount of investment increased by 34% compared to the respective period a year ago and comprised EUR 44.3 million.

**Investment in power network assets – 86% of the total**

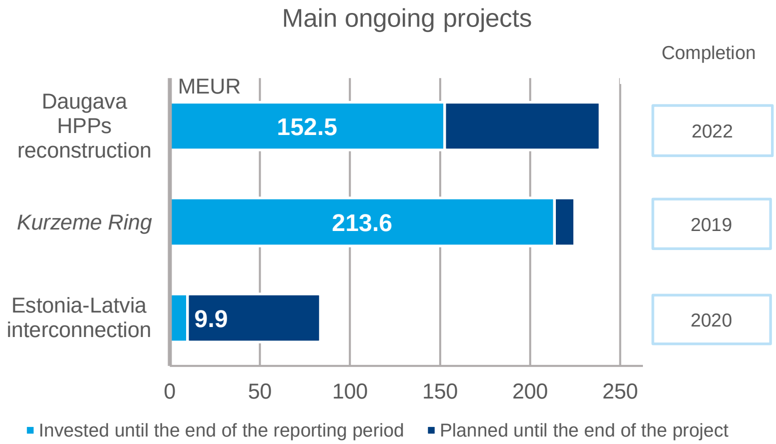
To ensure high-quality power network service, technical parameters and operational safety, a significant amount is invested in the modernization of the power network. In the reporting period, the amount invested in power network assets represented 86% of total investment.

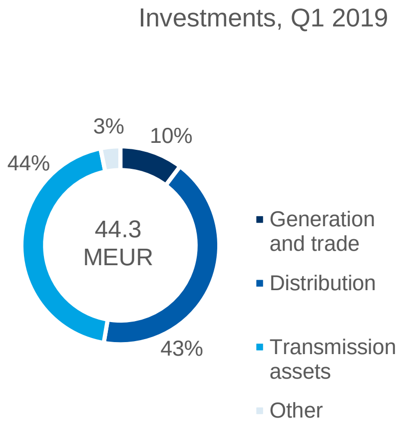
Contributing to environmentally friendly projects, in the 3-month period of 2019, EUR 3.0 million was invested in the Daugava HPPs' hydropower unit reconstruction.

**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. At the time of approval of these reports, five reconstructed hydropower units have been put into operation within the programme. Latvenergo Group is proceeding with a gradual overhaul of six Daugava HPPs' hydropower units. The programme is scheduled for completion by 2022, with estimated total reconstruction costs exceeding EUR 200 million. As of 31 March 2019, work completed within the scope of the contract reached EUR 152.5 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 March 2019, EUR 118.8 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

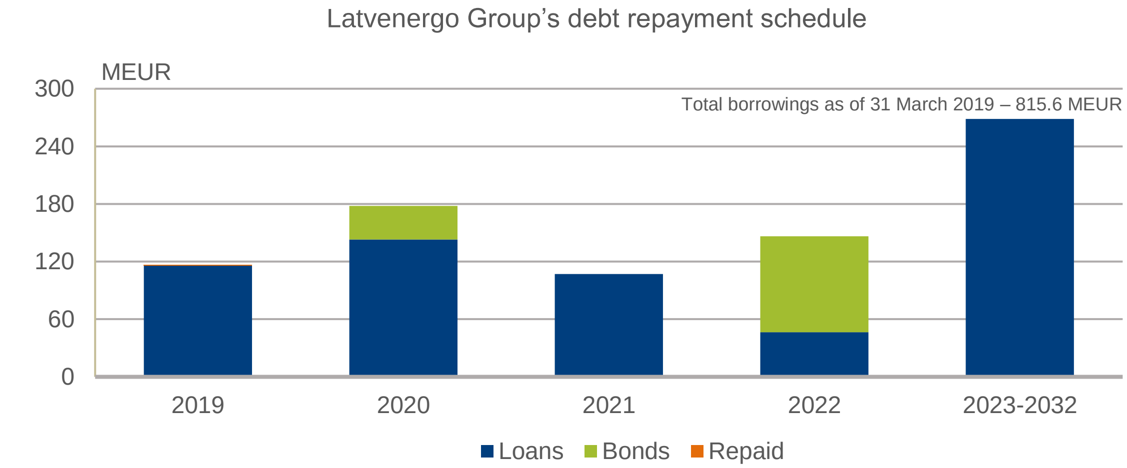
The project is of major significance for the future electricity transmission infrastructure of the whole Baltic region. The construction of the new 330 kV interconnection is scheduled for completion by the end of 2020 and planned construction costs of the project in Latvia are less than EUR 100 million. EU co-funding in the amount of 65% was attracted. In the reporting period, the construction project is under development, and preparations for reconstruction of substations have been started. After the reporting period, on 16 May 2019, the first poles were erected in Rūjiena Municipality, marking the start of the project's construction.

# 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




As of 31 March 2019, the Group's borrowings amount to EUR 815.6 million (31 March 2018: EUR 828.0 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 March 2019, all borrowings are denominated in euro currency. The weighted average repayment period is 3.9 years (31 March 2018: 4.1 years). The effective weighted average interest rate (with interest rate swaps) is 1.5% (31 March 2018: 1.4%). Also, sufficient coverage of debt service requirements has been ensured (debt service coverage ratio: 2.5).

As of 31 March 2019, the net borrowings of Latvenergo Group are EUR 627.1 million (31 March 2018: EUR 515.0 million), while the net debt / EBITDA ratio is 1.9 (31 March 2018: 1.0). In the 3-month period of 2019, all the binding financial covenants set in Latvenergo Group's loan agreements have been met.

On 19 March 2019, the international credit rating agency Moody's reconfirmed the credit rating for Latvenergo AS: Baa2 with a stable outlook. Moody's credit rating for Latvenergo AS has been stable for five years in a row, confirming the consistency of operations and financial soundness of Latvenergo Group.

# 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 2.0 years as of 31 March 2019.

#### *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 March 2019, 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 March 2019, Latvenergo Group's liquid assets (cash and short-term deposits up to 3 months) reached EUR 188.5 million (31 March 2018: EUR 313.0 million), while the current ratio was 1.5 (2.2).

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

| | | 3M 2019 | 3M 2018 | 3M 2017 |
|---|---|---|---|---|
| Total electricity supply, incl. | GWh | 1,468 | 1,915 | 1,909 |
| *Retail*** | GWh | 1,140 | 1,213 | 1,263 |
| *Wholesale**** | GWh | 329 | 702 | 646 |
| Electricity generation | GWh | 1,333 | 1,916 | 1,842 |
| Thermal energy generation | GWh | 833 | 1,078 | 1,027 |
| Number of employees | | 1,344 | 1,423 | 1,480 |
| Moody's credit rating | | Baa2 (stable) | Baa2 (stable) | Baa2 (stable) |

## Latvenergo AS financial figures

| | | 3M 2019 | 3M 2018 | 3M 2017 |
|---|---|---|---|---|
| Revenue | MEUR | 128.5 | 143.6 | 150.2 |
| EBITDA* | MEUR | 36.0 | 63.7 | 68.2 |
| Profit | MEUR | 19.0 | 97.4 | 46.1 |
| Assets | MEUR | 3,131.5 | 3,278.7 | 3,251.0 |
| Equity | MEUR | 1,996.4 | 2,027.7 | 2,221.0 |
| Net debt* | MEUR | 621.6 | 508.5 | 525.2 |
| Investments | MEUR | 6.1 | 5.3 | 7.5 |

## Latvenergo AS financial ratios

| | 3M 2019 | 3M 2018 | 3M 2017 |
|---|---|---|---|
| Return on equity (ROE)* | 6.7% | 9.5% | 7.0% |
| Net debt / equity* | 31% | 25% | 24% |
| EBITDA margin* | 32% | 78% | 49% |

* Formulas are available on page 22
** Including operating consumption
*** Including sale of energy purchased within the mandatory procurement on the Nord Pool

# Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS, the *Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Interim Financial Statements for the 3-Month Period Ending 31 March 2019* , including the Management Report, have been prepared in accordance with the International Financial Reporting Standards and in all material aspects present a true and fair view of the assets, liabilities, financial position and profit and loss of Latvenergo Group and Latvenergo AS. Information provided in the Management Report is accurate.

The *Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Interim Financial Statements for the 3-Month Period Ending 31 March 2019* were approved by the Management Board of Latvenergo AS on 28 May 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

28 May 2019

# Formulas

In order to ensure an objective and comparable presentation of the financial results, Latvenergo Group and Latvenergo AS use various financial figures and ratios that are derived from the financial statements.

Based on the most commonly used financial figures and ratios in the industry, the Latvenergo Group Strategy for 2017-2022, and the binding financial covenants set in the Group's loan agreements, Latvenergo Group has set and therefore uses the following financial figures and ratios:

- Profitability measures: EBITDA; EBITDA margin; return on assets (ROA); return on equity (ROE); return on capital employed (ROCE);
- Financial leverage measures: net debt; equity-to-asset ratio; net debt / EBITDA; net debt / equity; debt service coverage ratio
- Liquidity measure: current ratio;
- Dividend policy measure: dividend pay-out ratio.

The definitions and components of the financial figures and ratios are described below.

These financial figures and ratios have not changed over previous period.

**Formulas**

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

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

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

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

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

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

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

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

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

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

$$\text{Debt service coverage ratio} = \frac{\text{net income +/- extraordinary items} + \text{depreciation} + \text{interest expense}}{\text{principal payments} + \text{interest payments}}$$

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

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

$$\text{Equity–to–asset ratio} = \frac{\text{total equity at the end of the reporting period}}{\text{total assets at the end of the reporting period}} \times 100\%$$

$$\text{Dividend pay–out ratio} = \frac{\text{dividends paid in the reporting year}}{\text{profit of the Parent Company in the previous reporting year}} \times 100\%$$

# List of Abbreviations

**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 |
| WPP – | Wind power plant |

# Unaudited Condensed Interim Financial Statements

## Statement of Profit or Loss

EUR'000

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 01/01–31/03/2019 | 01/01–31/03/2018 | 01/01–31/03/2019 | 01/01–31/03/2018 |
| Revenue | 4 | 251,378 | 259,675 | 128,507 | 143,582 |
| Other income | | 7,833 | 13,460 | 6,649 | 12,140 |
| Raw materials and consumables used | 5 | (137,760) | (120,933) | (78,277) | (69,462) |
| Personnel expenses | | (26,964) | (28,877) | (12,074) | (11,589) |
| Other operating expenses | | (11,304) | (13,499) | (8,808) | (10,956) |
| **EBITDA** | | **83,183** | **109,826** | **35,997** | **63,715** |
| Depreciation, amortisation and impairment of intangible assets and property, plant and equipment | 7, 8 | (42,716) | (42,938) | (17,234) | (18,569) |
| **Operating profit** | | **40,467** | **66,888** | **18,763** | **45,146** |
| Finance income | 6 | 284 | 281 | 3,147 | 3,570 |
| Finance costs | 6 | (2,372) | (2,244) | (2,871) | (2,538) |
| Received dividends from subsidiaries | | – | – | – | 51,175 |
| **Profit before tax** | | **38,379** | **64,925** | **19,039** | **97,353** |
| Income tax | | (14) | (6) | – | – |
| **Profit for the period** | | **38,365** | **64,919** | **19,039** | **97,353** |
| **Profit attributable to:** | | | | | |
| - Equity holder of the Parent Company | | 36,600 | 63,166 | – | – |
| - Non–controlling interests | | 1,765 | 1,753 | – | – |

## Statement of Comprehensive Income

EUR'000

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 01/01–31/03/2019 | 01/01–31/03/2018 | 01/01–31/03/2019 | 01/01–31/03/2018 |
| **Profit for the period** | | **38,365** | **64,919** | **19,039** | **97,353** |
| *Comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods:* | | | | | |
| - (loss) / income from change in hedge reserve | 13, 14 c | (16,477) | 2,765 | (16,477) | 2,765 |
| **Net comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods** | 13, 14 c | **(16,477)** | **2,765** | **(16,477)** | **2,765** |
| **Comprehensive (loss) / income for the period** | | **(16,477)** | **2,765** | **(16,477)** | **2,765** |
| **TOTAL comprehensive income for the period** | | **21,888** | **67,684** | **2,562** | **100,118** |
| **Attributable to:** | | | | | |
| - Equity holder of the Parent Company | | 20,123 | 65,931 | – | – |
| - Non–controlling interests | | 1,765 | 1,753 | – | – |

## Statement of Financial Position

EUR'000

| | Notes | Group 31/03/2019 | Group 31/12/2018 | Parent Company 31/03/2019 | Parent Company 31/12/2018 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non–current assets** | | | | | |
| Intangible assets and property, plant and equipment | 7 | 3,315,635 | 3,316,172 | 1,144,274 | 1,156,699 |
| Right–of–use assets | 8 | 8 878 | – | 4,825 | – |
| Investment property | | 527 | 467 | 61,486 | 61,796 |
| Non–current financial investments | 10 | 40 | 40 | 830,542 | 830,542 |
| Non–current loans to subsidiaries | 16 e | – | – | 579,267 | 595,004 |
| Other financial investments | 14 a | 16,923 | 16,935 | 16,923 | 16,935 |
| Other non–current receivables | 11 b | 36,832 | 30,920 | 331 | 331 |
| **Total non–current assets** | | **3,378,835** | **3,364,534** | **2,637,648** | **2,661,307** |
| **Current assets** | | | | | |
| Inventories | 9 | 38,908 | 71,975 | 26,506 | 58,410 |
| Receivables from contracts with customers | 11 a | 108,275 | 117,955 | 83,434 | 81,025 |
| Other current receivables | 11 b, c | 94,844 | 84,830 | 16,905 | 14,445 |
| Prepayment for income tax | | 11,591 | 11,619 | 10,140 | 10,152 |
| Deferred expenses | | 1,423 | 2,598 | 1,036 | 1,552 |
| Current loans to subsidiaries | 16 e | – | – | 169,973 | 170,811 |
| Derivative financial instruments | 14 c | 3,138 | 15,853 | 3,138 | 15,853 |
| Cash and cash equivalents | 12 | 188,497 | 129,455 | 182,692 | 127,554 |
| **Total current assets** | | **446,676** | **434,285** | **493,824** | **479,802** |
| **TOTAL ASSETS** | | **3,825,511** | **3,798,819** | **3,131,472** | **3,141,109** |
| | | | | | |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Share capital | | 834,791 | 834,791 | 834,791 | 834,791 |
| Reserves | 13 | 1,105,096 | 1,125,466 | 774,684 | 794,555 |
| Retained earnings | | 391,843 | 351,350 | 386,910 | 364,477 |
| **Equity attributable to equity holder of the Parent Company** | | **2,331,730** | **2,311,607** | **1,996,385** | **1,993,823** |
| Non–controlling interests | | 10,223 | 8,458 | – | – |
| **Total equity** | | **2,341,953** | **2,320,065** | **1,996,385** | **1,993,823** |
| **Liabilities** | | | | | |
| **Non–current liabilities** | | | | | |
| Borrowings | 14 b | 697,364 | 700,028 | 690,557 | 690,568 |
| Non–current lease liabilities | 8 | 7,584 | – | 4,395 | – |
| Provisions | | 20,240 | 20,178 | 8,584 | 8,625 |
| Deferred income tax liabilities | | 12,297 | 12,297 | – | – |
| Derivative financial instruments | | 1,985 | 3,923 | 1,985 | 3,923 |
| Deferred income on contracts with customers | 15 I, a | 142,715 | 143,494 | – | – |
| Other liabilities and deferred income | 15 I, b, c | 305,850 | 303,519 | 204,099 | 210,105 |
| **Total non–current liabilities** | | **1,188,035** | **1,183,439** | **909,620** | **913,221** |
| **Current liabilities** | | | | | |
| Borrowings | 14 b | 118,250 | 114,315 | 113,699 | 111,700 |
| Current lease liabilities | 8 | 1,309 | – | 438 | – |
| Trade and other payables | | 124,091 | 135,008 | 75,301 | 92,062 |
| Income tax payable | | 1 | 2 | – | – |
| Deferred income on contracts with customers | 15 II, a | 13,374 | 13,271 | – | – |
| Other deferred income | 15 II, b, c | 26,491 | 26,438 | 24,022 | 24,022 |
| Derivative financial instruments | 14 c | 12,007 | 6,281 | 12,007 | 6,281 |
| **Total current liabilities** | | **295,523** | **295,315** | **225,467** | **234,065** |
| **Total liabilities** | | **1,483,558** | **1,478,754** | **1,135,087** | **1,147,286** |
| **TOTAL EQUITY AND LIABILITIES** | | **3,825,511** | **3,798,819** | **3,131,472** | **3,141,109** |

## 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-control-ling interests | TOTAL | Share capital | Reserves | Retained earnings | TOTAL |
| **As of 31 December 2017** | **1,288,715** | **1,125,728** | **424,406** | **2,838,849** | **8,042** | **2,846,891** | **1,288,715** | **791,681** | **302,242** | **2,382,638** |
| Implementation effect of IFRS 9 'Financial instruments' | – | – | (290) | **(290)** | – | **(290)** | – | – | (629) | **(629)** |
| **As of 1 January 2018** | **1,288,715** | **1,125,728** | **424,116** | **2,838,559** | **8,042** | **2,846,601** | **1,288,715** | **791,681** | **301,613** | **2,382,009** |
| Decrease in share capital* | (454,413) | – | – | **(454,413)** | – | **(454,413)** | (454,413) | **–** | **–** | **(454,413)** |
| Disposal of non–current assets revaluation reserve | – | (821) | 821 | **–** | – | **–** | – | (364) | 364 | **–** |
| **Total contributions and profit distributions recognised directly in equity** | **(454,413)** | **(821)** | **821** | **(454,413)** | **–** | **(454,413)** | **(454,413)** | **(364)** | **364** | **(454,413)** |
| Profit for the period | – | – | 63,166 | **63,166** | 1,753 | **64,919** | – | – | 97,353 | **97,353** |
| Other comprehensive income for the period | – | 2,765 | – | **2,765** | – | **2,765** | – | 2,765 | – | **2,765** |
| **Total comprehensive income for the period** | **–** | **2,765** | **63,166** | **65,931** | **1,753** | **67,684** | **–** | **2,765** | **97,353** | **100,118** |
| **As of 31 March 2018** | **834,302** | **1,127,672** | **488,103** | **2,450,077** | **9,795** | **2,459,872** | **834,302** | **794,082** | **399,330** | **2,027,714** |
| Increase in share capital (Note 7 b)** | 489 | – | – | **489** | – | **489** | 489 | – | – | **489** |
| Dividends for 2017 | – | – | (156,418) | **(156,418)** | (2,116) | **(158,534)** | – | – | (156,418) | **(156,418)** |
| Disposal of non–current assets revaluation reserve | – | (9,408) | 9,408 | **–** | – | **–** | – | (6,185) | 6,185 | **–** |
| **Total contributions and profit distributions recognised directly in equity** | **489** | **(9,408)** | **(147,010)** | **(155,929)** | **(2,116)** | **(158,045)** | **489** | **(6,185)** | **(150,233)** | **(155,929)** |
| Profit for the period | – | – | 10,257 | **10,257** | 779 | **11,036** | – | – | 115,380 | **115,380** |
| Other comprehensive income for the period | – | 7,202 | – | **7,202** | – | **7,202** | – | 6,658 | – | **6,658** |
| **Total comprehensive income for the period** | **–** | **7,202** | **10,257** | **17,459** | **779** | **18,238** | **–** | **6,658** | **115,380** | **122,038** |
| **As of 31 December 2018** | **834,791** | **1,125,466** | **351,350** | **2,311,607** | **8,458** | **2,320,065** | **834,791** | **794,555** | **364,477** | **1,993,823** |
| Disposal of non–current assets revaluation reserve | – | (3,893) | 3,893 | **–** | – | **–** | – | (3,394) | 3,394 | **–** |
| **Total contributions and profit distributions recognised directly in equity** | **–** | **(3,893)** | **3,893** | **–** | **–** | **–** | **–** | **(3,394)** | **3,394** | **–** |
| Profit for the period | – | – | 36,600 | **36,600** | 1,765 | **38,365** | – | – | 19,039 | **19,039** |
| Other comprehensive loss for the period | – | (16,477) | – | **(16,477)** | – | **(16,477)** | – | (16,477) | – | **(16,477)** |
| **Total comprehensive (loss) / income for the period** | **–** | **(16,477)** | **36,600** | **20,123** | **1,765** | **21,888** | **–** | **(16,477)** | **19,039** | **2,562** |
| **As of 31 March 2019** | 834,791 | 1,105,096 | 391,843 | 2,331,730 | 10,223 | 2,341,953 | 834,791 | 774,684 | 386,910 | 1,996,385 |

* 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 7 b).

## Statement of Cash Flows

EUR'000

| | Notes | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | **01/01–31/03/2019** | **01/01–31/03/2018** | **01/01–31/03/2019** | **01/01–31/03/2018** |
| **Cash flows from operating activities** | | | | | |
| Profit before tax | | 38,379 | 64,925 | 19,039 | 97,353 |
| **Adjustments:** | | | | | |
| – Amortisation, depreciation and impairment of non–current assets | | 46,764 | 43,298 | 20,520 | 18,631 |
| – Net financial adjustments | | 2,094 | 2,163 | (267) | (52,005) |
| – Other adjustments | | 62 | 213 | (42) | 164 |
| **Operating profit before working capital adjustments** | | **87,299** | **110,599** | **39,250** | **64,143** |
| Decrease / (increase) in current assets | | 69,075 | 487,455 | 29,776 | (7,021) |
| (Decrease) / increase in trade and other payables | | (44,588) | (467,027) | (19,629) | 41,567 |
| Impact of non–cash offsetting of operating receivables and liabilities from subsidiaries, net | | – | – | 99,484 | 95,458 |
| ***Cash generated from operating activities*** | | **111,786** | **131,027** | **148,881** | **194,147** |
| Interest paid | | (1,275) | (675) | (1,789) | (992) |
| Interest received | | 944 | 270 | 944 | 270 |
| Paid corporate income tax | | (6) | (5,848) | – | (5,090) |
| **Net cash flows from operating activities** | | **111,449** | **124,774** | **148,036** | **188,335** |
| | | | | | |
| **Cash flows from investing activities** | | | | | |
| Loans issued to subsidiaries, net | | – | – | (82,928) | (101,377) |
| Purchase of intangible assets and property, plant and equipment | | (51,692) | (47,263) | (9,982) | (11,842) |
| Proceeds from redemption of other financial investments | | 12 | 12 | 12 | 12 |
| **Net cash flows used in investing activities** | | **(51,680)** | **(47,251)** | **(92,898)** | **(113,207)** |
| | | | | | |
| **Cash flows from financing activities** | | | | | |
| Repayment of borrowings | 14 b | (727) | (511) | – | – |
| **Net cash flows used in financing activities** | | **(727)** | **(511)** | **–** | **–** |
| | | | | | |
| **Net increase in cash and cash equivalents** | **12** | **59,042** | **77,012** | **55,138** | **75,128** |
| Cash and cash equivalents at the beginning of the period | 12 | 129,455 | 236,003 | 127,554 | 232,855 |
| **Cash and cash equivalents at the end of the period** | **12** | **188,497** | **313,015** | **182,692** | **307,983** |

# Notes to the Unaudited Condensed Interim Financial Statements

## 1. CORPORATE INFORMATION

All shares of public limited company Latvenergo (hereinafter – Latvenergo AS or the Parent 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 Latvenergo AS 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 company 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 subsidiaries and other non–current financial investments of the Group are disclosed in Note 10 '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, 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 2018 has been approved on 8 May 2019 by the Latvenergo AS Shareholder's meeting (see on Latvenergo AS web page section "Investors" – http://www.latvenergo.lv/eng/investors/reports/).

Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Interim Financial Statements for the 3–month period ending 31 March 2019 include the financial information in respect of the Latvenergo Group and Latvenergo AS for the period starting on 1 January 2019 and ending on 31 March 2019 and comparative information for the 3–month period starting 1 January 2018 and ending 31 March 2018.

Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Interim Financial Statements for the 3–month period ending 31 March 2019 were authorised by the Latvenergo AS Management Board on 28 May 2018.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These Latvenergo Consolidated and Latvenergo AS Condensed Interim Financial Statements 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 of 2018. 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 16 *Leases* in Financial Statements for 2019 with initial application date as of 1 January 2019.

As lessees Latvenergo Group and the Parent Company adopted IFRS 16 by recognising in the Financial Statements the right–of–use assets and lease liabilities. Upon implementation of IFRS 16, Latvenergo Group and the Parent Company made an assessment on the identified right–of–use assets, non–cancellable lease terms and lease payments. Latvenergo Group and the Parent Company use a single accounting model for all lease contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration (see Note 8).

Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Interim Financial Statements 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 2018.

Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Interim Financial Statements 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 internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the operating segment decision maker – management of the Group's company operating in each of segments. The Management Board of the Parent Company reviews financial results of operating segments.

The profit measure monitored by the chief operating decision maker primarily is EBITDA, but it also monitors operating profit. In separate financial statements operating profit excludes the dividend income and interest income from subsidiaries. The subsidiaries operate independently from the Parent Company under the requirements of EU and Latvian legislation and their businesses are different from that of the Parent Company. Therefore, the Parent Company's chief operating decision maker monitors the performance of the Parent Company and makes decisions regarding allocation of resources based on the operating results of the Parent Company.

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.

***Corporate functions*** provide management services to subsidiaries as well as provides IT and telecommunication, rental services to external customers.

***Generation and trade*** comprises the Group's electricity and thermal energy generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity and natural gas trade (including electricity and natural gas 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.

The operations of the ***distribution*** operating segment relate to the provision of electricity distribution services in Latvia and is managed by the subsidiary Sadales tīkls AS (the largest distribution system operator in Latvia).

The operations of the ***lease of transmission system*** assets operating segment is managed 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.

The following table presents revenue, financial results and profit information and segment assets and liabilities of the Group's and the Parent Company's operating segments. Inter–segment revenue is eliminated on consolidation and reflected in the 'adjustments and eliminations' column. All transactions between segments are made based on the regulated tariffs, where applicable, or on an arm's length principle.

EUR'000

| | Group | | | | | | | Parent Company | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Generation and trade | Distri–bution | Lease of trans–mission system | Corporate functions | TOTAL segments | Adjust–ments and eliminations | TOTAL Group | Generation and trade | Corporate functions | TOTAL segments | Adjust–ments and eliminations | TOTAL Parent Company |
| **Period 01/01–31/03/2019** | | | | | | | | | | | | |
| **Revenue** | | | | | | | | | | | | |
| External customers | 156,080 | 84,003 | 9,522 | 1,773 | **251,378** | – | **251,378** | 117,868 | 10,639 | **128,507** | – | **128,507** |
| Inter–segment | 386 | 469 | 829 | 11,670 | **13,354** | (13,354) | **–** | 214 | 6,036 | **6,250** | (6,250) | **–** |
| **TOTAL revenue** | **156,466** | **84,472** | **10,351** | **13 443** | **264,732** | **(13,354)** | **251,378** | **118,082** | **16,675** | **134,757** | **(6,250)** | **128,507** |
| **Results** | | | | | | | | | | | | |
| **EBITDA** | **37,310** | **33,584** | **10,163** | **2,126** | **83,183** | **–** | **83,183** | **31,907** | **4,090** | **35,997** | **–** | **35,997** |
| Depreciation, amortisation and impairment of intangible assets and property, plant and equipment | (14,242) | (19,161) | (6,240) | (3,073) | **(42,716)** | – | **(42,716)** | (13,426) | (3,808) | **(17,234)** | – | **(17,234)** |
| **Segment profit / (loss) before tax** | **23,068** | **14,423** | **3,923** | **(947)** | **40,467** | **(2,088)** | **38,379** | **18,481** | **282** | **18,763** | **276** | **19,039** |
| Capital expenditure | 4,589 | 18,865 | 19,628 | 1,432 | **44,514** | **(182)** | **44,332** | 4,480 | 1,575 | **6,055** | **–** | **6,055** |
| **Period 01/01–31/03/2018** | | | | | | | | | | | | |
| **Revenue** | | | | | | | | | | | | |
| External customers | 162,341 | 85,752 | 9,742 | 1,840 | **259,675** | – | **259,675** | 131,241 | 12,341 | **143,582** | – | **143,582** |
| Inter–segment | 374 | 502 | 622 | 11,428 | **12,926** | (12,926) | **–** | 99 | 5,761 | **5,860** | (5,860) | **–** |
| **TOTAL revenue** | **162,715** | **86,254** | **10,364** | **13,268** | **272,601** | **(12,926)** | **259,675** | **131,340** | **18,102** | **149 442** | **(5,860)** | **143,582** |
| **Results** | | | | | | | | | | | | |
| **EBITDA** | **64,503** | **32,260** | **10,581** | **2,482** | **109,826** | **–** | **109,826** | **58,082** | **5,633** | **63,715** | **–** | **63,715** |
| Depreciation, amortisation and impairment of intangible assets and property, plant and equipment | (14,899) | (19,101) | (6,069) | (2,869) | **(42,938)** | – | **(42,938)** | (14,127) | (4,442) | **(18,569)** | – | **(18,569)** |
| **Segment profit / (loss) before tax** | **49,604** | **13,159** | **4,512** | **(387)** | **66,888** | **(1,963)** | **64,925** | **43,955** | **1,191** | **45,146** | **52,207** | **97,353** |
| Capital expenditure | 1,486 | 16,786 | 12,721 | 3,649 | **34,642** | **(1,675)** | **32,967** | 1,451 | 3,826 | **5,277** | **–** | **5,277** |

## Segment assets

EUR'000

| | Group | | | | | | | Parent Company | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Generation and trade | Distri–bution | Lease of trans–mission system | Corporate functions | TOTAL segments | Adjust–ments and eliminations | TOTAL Group | Generation and trade | Corporate functions | TOTAL segments | Adjust–ments and eliminations | TOTAL Parent Company |
| As of 31 March 2019 | 1,284,007 | 1,666,005 | 604,829 | 89,537 | **3,644,378** | 181,133 | **3,825,511** | 1,175,477 | 163,320 | **1,338,797** | 1,792,675 | **3,131,472** |
| As of 31 December 2018 | 1,329,274 | 1,669,710 | 579,327 | 86,350 | **3,664,661** | 134,158 | **3,798,819** | 1,212,681 | 161,577 | **1,374,258** | 1,766,851 | **3,141,109** |

### Adjustments and eliminations

Finance income and expenses, fair value gains and losses on financial assets, financial instruments and deferred taxes are not allocated to individual segments as the underlying instruments are managed on a group basis. Taxes and certain financial assets and liabilities, including loans and borrowings are not allocated to those segments as they are also managed on a group 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 before tax

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **01/01–31/03/2019** | **01/01–31/03/2018** | **01/01–31/03/2019** | **01/01–31/03/2018** |
| **EBITDA** | **83,183** | **109,826** | **35,997** | **63,715** |
| Depreciation, amortisation and impairment of intangible assets and property, plant and equipment | (42,716) | (42,938) | (17,234) | (18,569) |
| **Segment profit before tax** | **40,467** | **66,888** | **18,763** | **45,146** |
| Finance income | 284 | 281 | 3,147 | 3,570 |
| Finance costs | (2,372) | (2,244) | (2,871) | (2,538) |
| Dividends received from subsidiaries | – | – | – | 51,175 |
| **Profit before tax** | **38,379** | **64,925** | **19,039** | **97,353** |

### Reconciliation of assets

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **31/03/2019** | **31/12/2018** | **31/03/2019** | **31/12/2018** |
| **Segment operating assets** | **3,644,378** | **3,664,661** | **1,338,797** | **1,374,258** |
| Connection usage rights | (39,056) | (39,744) | – | – |
| Non–current financial investments | 40 | 40 | 830,542 | 830,542 |
| Loans to subsidiaries | – | – | 749,240 | 765,815 |
| Other financial investments | 16,923 | 16,935 | 16,923 | 16,935 |
| Derivative financial instruments | 3,138 | 15,853 | 3,138 | 15,853 |
| Prepayment for income and other taxes | 11,591 | 11,619 | 10,140 | 10,152 |
| Cash and cash equivalents | 188,497 | 129,455 | 182,692 | 127,554 |
| **TOTAL assets** | **3,825,511** | **3,798,819** | **3,131,472** | **3,141,109** |

## 4. REVENUE

EUR'000

| | IFRS or IAS applied | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | 01/01–31/03/2019 | 01/01–31/03/2018 | 01/01–31/03/2019 | 01/01–31/03/2018 |
| **Revenue from contracts with customers recognised over time:** | | | | | |
| Trade of energy and related supply services | IFRS 15 | 117,844 | 122,033 | 85,498 | 98,252 |
| Distribution system services | IFRS 15 | 79,375 | 81,397 | – | – |
| Heat sales | IFRS 15 | 36,186 | 37,619 | 30,840 | 31,479 |
| Other revenue | IFRS 15 | 8,095 | 8,448 | 9,652 | 9,866 |
| **TOTAL revenue from contracts with customers** | | **241,500** | **249,497** | **125,990** | **139,597** |
| **Other revenue:** | | | | | |
| Lease of transmission system assets | IFRS 16 / IAS 17 | 9,395 | 9,616 | – | – |
| Lease of other assets | IFRS 16 / IAS 17 | 356 | 436 | 2,517 | 3,985 |
| Other revenue | IFRS 16 / IAS 17 | 127 | 126 | – | – |
| **TOTAL other revenue** | | **9,878** | **10,178** | **2,517** | **3,985** |
| **TOTAL revenue** | | **251,378** | **259,675** | **128,507** | **143,582** |

***Gross amounts invoiced to customers by applying agent accounting principle, recognised on net basis under trade of energy and related supply services:***

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 01/01–31/03/2019 | 01/01–31/03/2018 | 01/01–31/03/2019 | 01/01–31/03/2018 |
| Mandatory procurement PSO fees | 22,981 | 28,242 | 23,741 | 29,040 |
| Distribution system services | 3,425 | 3,302 | 52,818 | 56,967 |
| Transmission system services | 368 | 414 | 372 | 418 |
| **TOTAL revenue recognised applying agent accounting principle** | **26,774** | **31,958** | **76,931** | **86,425** |

## 5. RAW MATERIALS AND CONSUMABLES USED

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 01/01–31/03/2019 | 01/01–31/03/2018 | 01/01–31/03/2019 | 01/01–31/03/2018 |
| **Electricity:** | | | | |
| Purchased electricity | 45,819 | 31,952 | 11,793 | 5,675 |
| Fair value loss on electricity forwards and futures (Note 14 c, II) | 26 | 217 | 26 | 217 |
| Electricity transmission services costs | 18,349 | 18,296 | 266 | 216 |
| | **64,194** | **50,465** | **12,085** | **6,108** |
| Energy resources costs | 66,284 | 63,780 | 63,357 | 60,817 |
| Raw materials, spare parts and maintenance costs | 7,282 | 6,688 | 2,835 | 2,537 |
| **TOTAL raw materials and consumables used** | **137,760** | **120,933** | **78,277** | **69,462** |

## 6. FINANCE INCOME AND COSTS

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 01/01–31/03/2019 | 01/01–31/03/2018 | 01/01–31/03/2019 | 01/01–31/03/2018 |
| **Finance income:** | | | | |
| Interest income on bank accounts and deposits | 8 | 5 | 8 | 5 |
| Interest income on loans to related parties | – | – | 2,863 | 3,289 |
| Interest income from other financial investments | 265 | 265 | 265 | 265 |
| Net gain on issued debt securities (bonds) | 11 | 11 | 11 | 11 |
| **TOTAL finance income** | **284** | **281** | **3,147** | **3,570** |
| **Finance costs:** | | | | |
| Interest expense on borrowings | 1,705 | 1,737 | 2,221 | 2,033 |
| Interest expense on issued debt securities (bonds) | 720 | 720 | 720 | 720 |
| Interest expense on assets lease | 33 | – | 18 | – |
| Capitalised borrowing costs | (117) | (241) | (117) | (241) |
| Net losses on redemption of other financial investments | 12 | 12 | 12 | 12 |
| Other finance costs | 19 | 16 | 17 | 14 |
| **TOTAL finance costs** | **2,372** | **2,244** | **2,871** | **2,538** |

## 7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

### *a) Intangible assets*

EUR'000

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 01/01–31/03/2019 | 01/01–31/03/2018 | 2018 | 01/01–31/03/2019 | 01/01–31/03/2018 | 2018 |
| **Net book amount at the beginning of the period** | **19,079** | **13,413** | **13,413** | **22,813** | **17,461** | **17,461** |
| Additions | 2,029 | 175 | 20,518 | 2,020 | 159 | 20,352 |
| Transfers | – | – | (80) | – | – | (551) |
| Disposals | (3,162) | (53) | (11,066) | (3,273) | (164) | (11,066) |
| Amortisation charge | (885) | (870) | (3,706) | (798) | (791) | (3,383) |
| **Closing net book amount at the end of the period** | **17,061** | **12,665** | **19,079** | **20,762** | **16,665** | **22,813** |

### *b) Property, plant and equipment*

EUR'000

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 01/01–31/03/2019 | 01/01–31/03/2018 | 2018 | 01/01–31/03/2019 | 01/01–31/03/2018 | 2018 |
| **Net book amount at the beginning of the period** | **3,297,093** | **3,308,985** | **3,308,985** | **1,133,886** | **1,231,454** | **1,231,454** |
| Additions | 44,044 | 32,791 | 217,389 | 5,774 | 4,832 | 38,300 |
| Invested in share capital | – | – | 489 | – | – | 489 |
| Reclassified to investment property | (69) | (9) | (44) | (296) | (21) | (2,374) |
| Disposals | (1,003) | (1,148) | (7,032) | (108) | (34) | (14,010) |
| Impairment charge | 4,959 | 4,829 | (34,020) | 4,860 | 4,875 | (33,254) |
| Depreciation | (46,450) | (46,897) | (188,674) | (20,604) | (22,119) | (86,719) |
| **Closing net book amount at the end of the period** | **3,298,574** | **3,298,551** | **3,297,093** | **1,123,512** | **1,218,987** | **1,133,886** |

## 8. LEASES

EUR'000

| | Group | Parent Company |
|---|---|---|
| | 01/01–31/03/2019 | 01/01–31/03/2019 |
| ***Right–of–use assets*** | | |
| **Net book amount at the beginning of the period** | **–** | **–** |
| Initial recognition value as of 1 January 2019 | 9,219 | 4,942 |
| Depreciation recognised in the Statement of Profit or Loss | (341) | (117) |
| **Closing net book amount at the end of the period** | **8,878** | **4,825** |
| ***Lease liabilities*** | | |
| **Net book amount at the beginning of the period** | **–** | **–** |
| Initial recognition value as of 1 January 2019 | 9,219 | 4,942 |
| Decrease of lease liabilities | (359) | (127) |
| Recognised interest liabilities (Note 6) | 33 | 18 |
| **Closing net book amount at the end of the period** | **8,893** | **4,833** |
| Including: | | |
| – current lease liabilities | *7,584* | *4,395* |
| – non–current lease liabilities | *1,309* | *438* |

## 9. INVENTORIES

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31/03/2019 | 31/12/2018 | 31/03/2019 | 31/12/2018 |
| Raw materials and materials | 14,081 | 14,865 | 1,285 | 1,286 |
| Natural gas | 17,831 | 49,757 | 17,831 | 49,757 |
| Other inventories | 8,196 | 8,292 | 8,069 | 8,070 |
| Prepayments for inventories | 124 | 198 | 57 | 33 |
| Allowance for raw materials and other inventories | (1,324) | (1,137) | (736) | (736) |
| **TOTAL inventories** | **38,908** | **71,975** | **26,506** | **58,410** |

### *Movement on the allowance for inventories:*

EUR'000

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 01/01–31/03/2019 | 01/01–31/03/2018 | 2018 | 01/01–31/03/2019 | 01/01–31/03/2018 | 2018 |
| **At the beginning of the period** | **1,137** | **1,494** | **1,494** | **736** | **992** | **992** |
| Inventories written off | – | – | (287) | – | – | (260) |
| Charged to the Statement of Profit or Loss | 187 | (5) | (70) | – | (11) | 4 |
| **At the end of the period** | **1,324** | **1,489** | **1,137** | **736** | **981** | **736** |

## 10. 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 | 31/03/2019 Interest held, % | 31/03/2019 EUR'000 | 31/12/2018 Interest held, % | 31/12/2018 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% | 641,150 |
| 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** | | **830,503** |
| **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 Group's non–current financial investments:***

| Name of the company | Country of incorporation | Business activity held | 31/03/2019 Interest held, % | 31/03/2019 EUR'000 | 31/12/2018 Interest held, % | 31/12/2018 EUR'000 |
|---|---|---|---|---|---|---|
| **Other non–current financial investments (Group):** | | | | | | |
| Pirmais Slēgtais Pensiju Fonds AS | Latvia | Management of pension plans | 48.15% | 37 | 48.15% | 37 |
| Rīgas siltums AS | Latvia | Thermal energy generation and trade, electricity generation | 0.0051% | 3 | 0.0051% | 3 |
| **TOTAL** | | | | **40** | | **40** |

The Group owns 48.15% of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS – 46.30%). However, the Group and the Parent Company are only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the employees who are members of the pension plan.

# 11. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS AND OTHER RECEIVABLES

## a) Receivables from contracts with customers, net

***Receivables from contracts with customers grouped by the expected credit loss (ECL) assessment model, net:***

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31/03/2019 | 31/12/2018 | 31/03/2019 | 31/12/2018 |
| Individually assessed receivables with lifetime ECL assessment (counterparty model) | 4,337 | 7,051 | 13,670 | 7,915 |
| Receivables with lifetime ECL assessment by simplified approach (portfolio model) | 103,938 | 110,904 | 69,764 | 73,110 |
| **TOTAL receivables from contracts with customers** | **108,275** | **117,955** | **83,434** | **81,025** |

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31/03/2019 | 31/12/2018 | 31/03/2019 | 31/12/2018 |
| **Receivables from contracts with customers:** | | | | |
| – Electricity, natural gas trade and related services customers | 134,944 | 138,308 | 102,720 | 102,154 |
| – Heating customers | 11,393 | 14,715 | 8,979 | 11,955 |
| – Other receivables from contracts with customers (portfolio model) | 4,437 | 5,675 | 1,673 | 3,331 |
| – Other receivables from contracts with customers (counterparty model) | 4,343 | 7,060 | 2,440 | 3,203 |
| – Subsidiaries | – | – | 11,239 | 4,719 |
| | **155,117** | **165 758** | **127,051** | **125,362** |
| **Provisions for impaired receivables from contracts with customers:** | | | | |
| – Electricity, natural gas trade and related services customers | (44,157) | (44,953) | (43,257) | (43,968) |
| – Heating customers | (338) | (342) | (327) | (334) |
| – Other receivables from contracts with customers (portfolio model) | (2,341) | (2,499) | (24) | (28) |
| – Other receivables from contracts with customers (counterparty model) | (6) | (9) | (3) | (4) |
| – Subsidiaries | – | – | (6) | (3) |
| | **(46,842)** | **(47,803)** | **(43,617)** | **(44,337)** |
| **Receivables from contracts with customers, net:** | | | | |
| – Electricity, natural gas trade and related services customers | 90,787 | 93,355 | 59,463 | 58,186 |
| – Heating customers | 11,055 | 14,373 | 8,652 | 11,621 |
| – Other receivables from contracts with customers (portfolio model) | 2,096 | 3,176 | 1,649 | 3,303 |
| – Other receivables from contracts with customers (counterparty model) | 4,337 | 7,051 | 2,437 | 3,199 |
| – Subsidiaries | – | – | 11,233 | 4,716 |
| | **108,275** | **117,955** | **83,434** | **81,025** |

***Movements in loss allowances for impaired receivables from contracts with customers:***

EUR'000

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 01/01–31/03/2019 | 01/01–31/03/2018 | 2018 | 01/01–31/03/2019 | 01/01–31/03/2018 | 2018 |
| **At the beginning of the period** | **47,803** | **48,862** | **48,862** | **44,337** | **44,868** | **44,868** |
| Effect of IFRS 9 'Financial instruments' adoption | – | 122 | 122 | – | 115 | 115 |
| Receivables written off during the period as uncollectible | (778) | (354) | (2,549) | (772) | (374) | (2,074) |
| Allowance for impaired receivables | (183) | 214 | 1,368 | 52 | 239 | 1,428 |
| **At the end of the period** | **46,842** | **48,844** | **47,803** | **43,617** | **44,848** | **44,337** |

### b) Other financial receivables

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31/03/2019 | 31/12/2018 | 31/03/2019 | 31/12/2018 |
| Other non–current receivables | 36,883 | 30,960 | 331 | 331 |
| Loss allowances for expected credit loss | (51) | (40) | – | – |
| **TOTAL non–current financial receivables** | **36,832** | **30,920** | **331** | **331** |
| **Current financial receivables:** | | | | |
| Unsettled revenue on mandatory procurement PSO fee recognised as assets* | 80,703 | 74,497 | – | – |
| Receivables for lease | 289 | 7,646 | 51 | 49 |
| Receivables for lease from subsidiaries (Note 16 b) | – | – | 275 | 1,061 |
| Other financial receivables from subsidiaries (Note 16 b) | – | – | 10,483 | 6,745 |
| Other accrued income from subsidiaries (Note 16 c) | – | – | 4,800 | 4,358 |
| Other accrued income | 10,070 | 872 | 322 | 883 |
| Other current financial receivables | 5,668 | 4,146 | 2,843 | 2,930 |
| Loss allowances for expected credit loss on subsidiaries receivables (Note 16 b) | – | – | (7) | (6) |
| Loss allowances for expected credit loss | (1,954) | (2,548) | (2,135) | (1,787) |
| **TOTAL current financial receivables** | **94,776** | **84,613** | **16,632** | **14,233** |
| **TOTAL other financial receivables** | **131,608** | **115,533** | **16,963** | **14,564** |

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

### c) Other non–financial receivables

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31/03/2019 | 31/12/2018 | 31/03/2019 | 31/12/2018 |
| **Current non–financial receivables:** | | | | |
| Pre–tax and overpaid taxes | 49 | 108 | 15 | 105 |
| Other current receivables | 19 | 109 | 258 | 107 |
| **TOTAL current non–financial receivables** | **68** | **217** | **273** | **212** |

## 12. CASH AND CASH EQUIVALENTS

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31/03/2019 | 31/12/2018 | 31/03/2019 | 31/12/2018 |
| Cash at bank | 185,183 | 95,094 | 179,378 | 93,193 |
| Short–term bank deposits | – | 30,000 | – | 30,000 |
| Restricted cash and cash equivalents* | 3,314 | 4,361 | 3,314 | 4,361 |
| **TOTAL cash and cash equivalents** | **188,497** | **129,455** | **182,692** | **127,554** |

* Restricted cash and cash equivalents consist of the financial security for participating in NASDAQ OMX Commodities Exchange. Financial security is fully recoverable after termination of participation without any penalties, therefore restricted cash is considered as cash equivalent.

## 13. RESERVES

EUR'000

| | Group | | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non–current assets revaluation reserve | Hedge reserve | Post–employment benefit plan revaluation reserve | Other reserves | TOTAL | Non–current assets revaluation reserve | Hedge reserve | Post–employment benefit plan revaluation reserve | TOTAL |
| **As of 31 December 2017** | **1,130,398** | **(3,987)** | **(793)** | **110** | **1,125,728** | **795,893** | **(3,987)** | **(225)** | **791,681** |
| Disposal of non–current assets revaluation reserve | (821) | – | – | – | **(821)** | (364) | – | – | **(364)** |
| Gains from fair value changes of derivative financial instruments | – | 2,765 | – | – | **2,765** | – | 2,765 | – | **2,765** |
| **As of 31 March 2018** | **1,129,577** | **(1,222)** | **(793)** | **110** | **1,127,672** | **795,529** | **(1,222)** | **(225)** | **794,082** |
| Disposal of non–current assets revaluation reserve | (9,408) | – | – | – | **(9,408)** | (6,185) | – | – | **(6,185)** |
| Gains/(losses) on re–measurement of defined post–employment benefit plan | – | – | 436 | – | **436** | – | – | (108) | **(108)** |
| Gains from fair value changes of derivative financial instruments | – | 6,766 | – | – | **6,766** | – | 6,766 | – | **6,766** |
| **As of 31 December 2018** | **1,120,169** | **5,544** | **(357)** | **110** | **1,125,466** | **789,344** | **5,544** | **(333)** | **794,555** |
| Disposal of non–current assets revaluation reserve | (3,893) | – | – | – | **(3,893)** | (3,394) | – | – | **(3,394)** |
| Losses from fair value changes of derivative financial instruments | – | (16,477) | – | – | **(16,477)** | – | (16,477) | – | **(16,477)** |
| **As of 31 March 2019** | **1,116,276** | **(10,933)** | **(357)** | **110** | **1,105,096** | **785,950** | **(10,933)** | **(333)** | **774,684** |

## 14. FINANCIAL ASSETS AND LIABILITIES

### *a) Other financial investments*

As of 31 March 2019 the entire Group's and the Parent Company's other financial investments till the adoption of IFRS 9 "Financial instruments" classified as held–to–maturity financial assets were non–current Latvian 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 other financial investments are denominated in euros. The maximum exposure to credit risk at the reporting date is the carrying amount of other financial investments.

## Carrying (amortised) amount of other financial investments:

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31/03/2019 | 31/12/2018 | 31/03/2019 | 31/12/2018 |
| Financial investments in Latvian State Treasury bonds – non–current | 16,923 | 16,935 | 16,923 | 16,935 |
| **TOTAL other financial investments** | **16,923** | **16,935** | **16,923** | **16,935** |

## *b) Borrowings*

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31/03/2019 | 31/12/2018 | 31/03/2019 | 31/12/2018 |
| Non–current borrowings from financial institutions | 562,059 | 564,711 | 555,252 | 555,251 |
| Issued debt securities (bonds) | 135,305 | 135,317 | 135,305 | 135,317 |
| **TOTAL non–current borrowings** | **697,364** | **700,028** | **690,557** | **690,568** |
| Current portion of non–current borrowings from financial institutions | 114,027 | 112,102 | 109,512 | 109,512 |
| Accrued interest on non–current borrowings | 1,819 | 529 | 1,783 | 504 |
| Accrued coupon interest on issued debt securities (bonds) | 2,404 | 1,684 | 2,404 | 1,684 |
| **TOTAL current borrowings** | **118,250** | **114,315** | **113,699** | **111,700** |
| **TOTAL borrowings** | **815,614** | **814,343** | **804,256** | **802,268** |

### *Movement in borrowings*

EUR'000

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 01/01–31/03/2019 | 01/01–31/03/2018 | 2018 | 01/01–31/03/2019 | 01/01–31/03/2018 | 2018 |
| **At the beginning of the period** | **814,343** | **826,757** | **826,757** | **802,268** | **814,772** | **814,772** |
| Borrowings received | – | – | 93,500 | – | – | 90,000 |
| Borrowing repaid | (727) | (511) | (105,931) | – | – | (102,522) |
| Change in accrued interest on borrowings | 2,009 | 1,782 | 61 | 1,999 | 1,761 | 62 |
| Changes in outstanding value of issued debt securities (bonds) | (11) | (11) | (44) | (11) | (11) | (44) |
| **At the end of the period** | **815,614** | **828,017** | **814,343** | **804,256** | **816,522** | **802,268** |

## *c) Derivative financial instruments*

### *I) Interest rate swaps*

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

Fair value changes of interest rate swaps:

EUR'000

| | Group | | | | | | Parent Company | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 01/01–31/03/2019 | | 01/01–31/03/2018 | | 2018 | | 01/01–31/03/2019 | | 01/01–31/03/2018 | | 2018 | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **Outstanding fair value at the beginning of the period** | **–** | **(7,375)** | **31** | **(8,061)** | **31** | **(8,061)** | **–** | **(7,375)** | **31** | **(8,061)** | **31** | **(8,061)** |
| Included in Statement of Comprehensive Income (Note 13) | – | 1,933 | 35 | 639 | (31) | 686 | – | 1,933 | 35 | 639 | (31) | 686 |
| **Outstanding fair value at the end of the period** | **–** | **(5,442)** | **66** | **(7,422)** | **–** | **(7,375)** | **–** | **(5,442)** | **66** | **(7,422)** | **–** | **(7,375)** |

### *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 fully effective contracts fair value gains or losses are included in other comprehensive income (Note 13).

Fair value changes of electricity forward and future contracts:

EUR'000

| | Group | | | | | | Parent Company | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 01/01–31/03/2019 | | 01/01–31/03/2018 | | 2018 | | 01/01–31/03/2019 | | 01/01–31/03/2018 | | 2018 | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **Outstanding fair value at the beginning of the period** | **15,853** | **–** | **4,588** | **(23)** | **4,588** | **(23)** | **15,853** | **–** | **4,588** | **(23)** | **4,588** | **(23)** |
| Included in Statement of Profit or Loss (Note 5) | (26) | – | (240) | 23 | (440) | 23 | (26) | – | (240) | 23 | (440) | 23 |
| Included in Statement of Comprehensive Income (Note 13) | (12,689) | – | 2,091 | – | 11,705 | – | (12,689) | – | 2,091 | – | 11,705 | – |
| **Outstanding fair value at the end of the period** | **3,138** | **–** | **6,439** | **–** | **15,853** | **–** | **3,138** | **–** | **6,439** | **–** | **15,853** | **–** |

### *III) Natural gas forwards*

Fair value changes of natural gas forward contracts:

EUR'000

| | Group | | | | | | Parent Company | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 01/01–31/03/2019 | | 01/01–31/03/2018 | | 2018 | | 01/01–31/03/2019 | | 01/01–31/03/2018 | | 2018 | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **Outstanding fair value at the beginning of the period** | **–** | **(2,829)** | **–** | **–** | **–** | **–** | **–** | **(2,829)** | **–** | **–** | **–** | **–** |
| Included in Statement of Comprehensive Income (Note 13) | – | (5,721) | – | – | – | (2,829) | – | (5,721) | – | – | – | (2,829) |
| **Outstanding fair value at the end of the period** | **–** | **(8,550)** | **–** | **–** | **–** | **(2,829)** | **–** | **(8,550)** | **–** | **–** | **–** | **(2,829)** |

## 15. DEFERRED INCOME

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31/03/2019 | 31/12/2018 | 31/03/2019 | 31/12/2018 |
| **I) Non–current deferred income** | | | | |
| ***a) from contracts with customers*** | | | | |
| Deferred income from connection fees | 142,715 | 143,494 | – | – |
| | **142,715** | **143,494** | **–** | **–** |
| ***b) from lease*** | | | | |
| Deferred income from connection fees | 3,735 | 3,852 | – | – |
| Deferred income on transmission system assets reconstruction | 1,025 | 984 | – | – |
| Other deferred income | 397 | 403 | 397 | 403 |
| | **5,157** | **5,239** | **397** | **403** |

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31/03/2019 | 31/12/2018 | 31/03/2019 | 31/12/2018 |
| ***c) other*** | | | | |
| Deferred income on grant for the installed electrical capacity of CHPPs | 203,422 | 209,419 | 203,422 | 209,419 |
| Deferred income on financing from European Union funds | 57,717 | 57,851 | 15 | 18 |
| Deferred income on financing receivable from European Union funds | 39,161 | 30,617 | – | – |
| Deferred income from plant and equipment received free of charge | 393 | 393 | 265 | 265 |
| | **300,693** | **298,280** | **203,702** | **209,702** |
| **TOTAL non–current deferred income** | **448,565** | **447,013** | **204,099** | **210,105** |
| **II) Current deferred income** | | | | |
| ***a) from contracts with customers*** | | | | |
| Deferred income from connection fees | 13,115 | 12,984 | – | – |
| Deferred income from use of allowed effective electrical load (distribution system services) | 259 | 287 | – | – |
| | **13,374** | **13,271** | **–** | **–** |
| ***b) from lease*** | | | | |
| Deferred income from connection fees | 449 | 449 | – | – |
| | **449** | **449** | **–** | **–** |
| ***c) other*** | | | | |
| Deferred income on grant for the installed electrical capacity of CHPPs | 23,990 | 23,990 | 23,990 | 23,990 |
| Deferred income on financing from European Union funds | 1,991 | 1,941 | 12 | 12 |
| Other deferred income | 61 | 58 | 20 | 20 |
| | **26,042** | **25,989** | **24,022** | **24,022** |
| **TOTAL current deferred income** | **39,865** | **39,709** | **24,022** | **24,022** |
| **TOTAL deferred income** | **488,430** | **486,722** | **228,121** | **234,127** |

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

EUR'000

| | Group | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | 01/01–31/03/2019 | 01/01–31/03/2018 | 2018 | 01/01–31/03/2019 | 01/01–31/03/2018 | 2018 |
| **At the beginning of the period** | **486,722** | **537,286** | **537,286** | **234,127** | **315,443** | **315,443** |
| Received deferred non–current income (financing) | 9,111 | 5,162 | 31,537 | – | – | |
| Received connection fees | 2,619 | 4,254 | 14,726 | – | – | |
| Compensation for the installed electrical capacity of CHPPs credited to the Statement of Profit or Loss | (5,997) | (7,326) | (81,004) | (5,997) | (7,326) | (81,004) |
| Credited to the Statement of Profit or Loss (in Note 4 as "Other revenue") | (4,025) | (4,637) | (15,823) | (9) | (11) | (312) |
| **At the end of the period** | **488,430** | **534,739** | **486,722** | **228,121** | **308,106** | **234,127** |

# 16. 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 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 of the Parent Company – 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 are excluded from the scope of related party disclosures. Transactions with government related entities include sales of energy and related services and does not contain individually significant transactions and quantitative disclosure of transactions with those related parties is impossible due to broad range of the Latvenergo Group's and the Parent Company's customers, except for transactions with transmission system operator – Augstsprieguma tīkls AS.

### a) Income and expenses from transactions with related parties

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 01/01–31/03/2019 | 01/01–31/03/2018 | 01/01–31/03/2019 | 01/01–31/03/2018 |
| ***Income:*** | | | | |
| – subsidiaries | – | – | 18,603 | 20,706 |
| – government related entities* | 11,629 | 11,898 | 1,936 | 1,751 |
| | **11,629** | **11,898** | **20,539** | **22,457** |
| ***Expenses:*** | | | | |
| – subsidiaries | – | – | 80,880 | 90,391 |
| – government related entities* | 19,672 | 19,268 | 1,515 | 1,180 |
| | **19,672** | **19,268** | **82,395** | **91,571** |
| *including gross expenses from transactions with subsidiaries recognised in net amount through profit or loss:* | | | | |
| *– Sadales tīkls AS* | – | – | *75,056* | *84,910* |
| | **–** | **–** | ***75,056*** | ***84,910*** |

* Transmission system operator – Augstsprieguma tīkls AS

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31/03/2019 | 31/12/2018 | 31/03/2019 | 31/12/2018 |
| ***b) Balances at the end of the period arising from sales/purchases of goods and services:*** | | | | |
| **Receivables from related parties:** | | | | |
| – subsidiaries (Note 11 a, b) | – | – | 19,048 | 12,204 |
| – government related and other related parties* | 41,304 | 42,273 | 1,124 | 3,365 |
| – loss allowances for expected credit loss from receivables of subsidiaries (Note 11 a, b) | – | – | (13) | (9) |
| – loss allowances for expected credit loss from receivables of government related and other related parties* | (54) | (55) | (2) | (4) |
| | **41,250** | **42,218** | **20,157** | **15,556** |
| **Payables to related parties:** | | | | |
| – subsidiaries | – | – | 27,040 | 30,865 |
| – government related and other related parties* | 12,611 | 12,262 | 298 | 1,044 |
| | **12,611** | **12,262** | **27,338** | **31,909** |

* Transmission system operator – Augstsprieguma tīkls AS and Pirmais Slēgtais Pensiju Fonds AS

| | | | | |
|---|---|---|---|---|
| ***c) Accrued income raised from transactions with related parties:*** | | | | |
| – for goods sold/services provided for subsidiaries (Note 11 a, b) | – | – | 5,166 | 2,859 |
| – for interest received from subsidiaries (Note 11 a, b) | – | – | 2,583 | 1,820 |
| – for goods sold/services provided for government related entities* | 9,869 | 474 | 797 | – |
| | **9,869** | **474** | **8,546** | **4,679** |

EUR'000

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 31/03/2019 | 31/12/2018 | 31/03/2019 | 31/12/2018 |
| ***d) Accrued expenses raised from transactions with related parties:*** | | | | |
| – for purchased goods/received services from subsidiaries | – | – | 587 | 5,657 |
| – for purchased goods/received services from government related entities* | 156 | – | 156 | – |
| | **156** | **–** | **743** | **5,657** |

* Transmission system operator – Augstsprieguma tīkls AS

In the 3–month period ending 31 March 2019 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 713.6 thousand (3–month period of 2018: EUR 595.8 thousand).

In the 3–month period ending 31 March 2019 remuneration to the Parent Company's management includes remuneration to the members of the Parent Company's Management Board, the Supervisory Board and the Supervisory body (Audit Committee), including salary, social insurance contributions and payments to pension plan and is amounted to EUR 264.8 thousand (3–month period of 2018: EUR 293.9 thousand).

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

### *e) Loans to related parties (Parent Company)*

***Non–current and current loans to related parties:***

EUR'000

| | Parent Company | |
|---|---|---|
| | 31/03/2019 | 31/12/2018 |
| **Non–current loans to subsidiaries** | | |
| Sadales tīkls AS | 429,761 | 442,728 |
| Latvijas elektriskie tīkli AS | 149,923 | 152,681 |
| Impairment for expected credit loss | (417) | (405) |
| **TOTAL non–current loans** | **579,267** | **595,004** |
| **Current portion of non–current loans** | | |
| Sadales tīkls AS | 49,854 | 49,854 |
| Latvijas elektriskie tīkli AS | 8,175 | 8,175 |
| Impairment for expected credit loss | (42) | (39) |
| **Current loans to subsidiaries** | | |
| Latvijas elektriskie tīkli AS | 28,006 | 18,541 |
| Sadales tīkls AS | 3,889 | 6,502 |
| Elektrum Eesti OÜ | 6,752 | 7,882 |
| Elektrum Lietuva, UAB | 4,560 | 11,740 |
| Enerģijas publiskais tirgotājs AS | 68,859 | 68,233 |
| Impairment for expected credit loss | (80) | (77) |
| **TOTAL current loans** | **169,973** | **170,811** |
| **TOTAL loans to subsidiaries** | **749,240** | **765,815** |

***Movement in loans:*** EUR'000

| | Parent Company | | |
|---|---|---|---|
| | **01/01–31/03/2019** | **01/01–31/03/2018** | **2018** |
| **At the beginning of the period** | **765,815** | **1,098,781** | **1,098,781** |
| Change in current loans in cash (net) | 82,928 | 101,377 | 323,539 |
| Change in current loans by non–cash offsetting of operating receivables and payables (net) | (86,516) | (536,903) | (720,848) |
| Issued non–current loans by non–cash offset with dividends | – | – | 124,268 |
| Reduction of non–current loans by non–cash offsetting of operating receivables and payables | (12,968) | (12,968) | (59,404) |
| Effect of IFRS 9 'Financial instruments' adoption | – | (515) | (515) |
| Impairment for expected credit loss | (19) | 73 | (6) |
| **At the end of the period** | **749,240** | **649,845** | **765,815** |

## 17. EVENTS AFTER THE REPORTING YEAR

On 22 May 2019, according to the decision of the Latvenergo AS Shareholder's meeting, dated 8 May 2019, Latvenergo AS paid out dividends to the State in the amount of EUR 132.9 million. There have been no other significant events subsequent to the end of the reporting period that might have a material effect on the Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Interim Financial Statements for the 3-month period ending 31 March 2019.