

LATVENERGO CONSOLIDATED UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE 6-MONTH PERIOD
ENDING 30 JUNE 2017

30.08.2017 / RIGA

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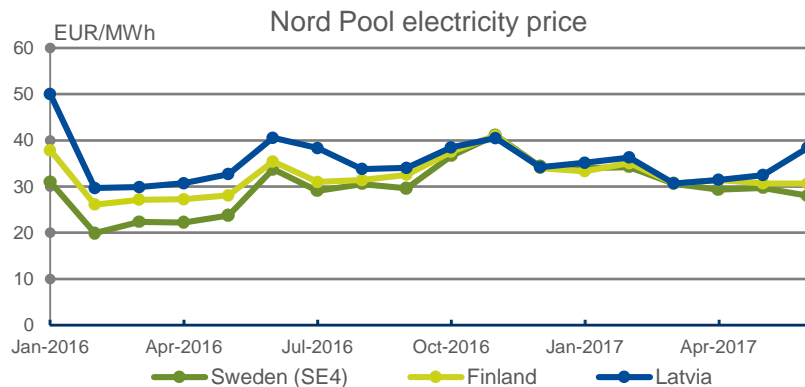
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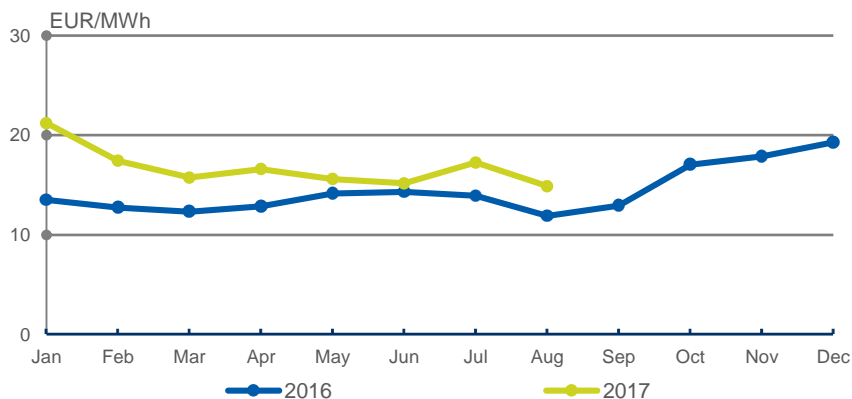
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Operation of new interconnections contributes to electricity price convergence in the Baltics

Convergence of electricity price



GASPOOL natural gas price

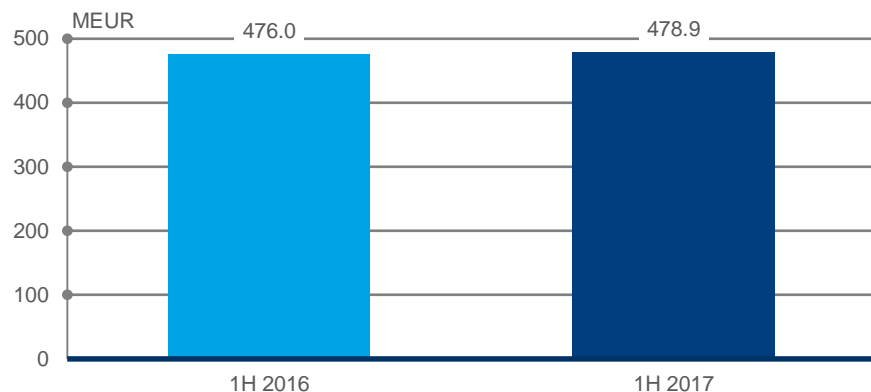


Main facts – 1H 2017

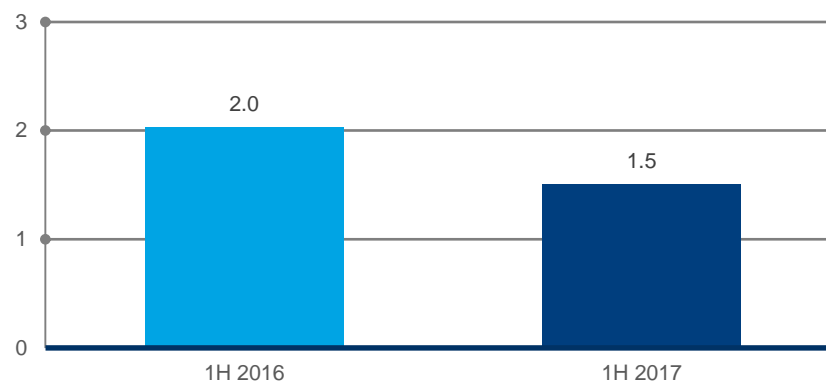
- Nord Pool price in Latvia and Lithuania decreased by 4% and 5% respectively (34.0 EUR/MWh and 34.5 EUR/MWh), while it increased in Estonia and Finland by 1% and 6% respectively (31.9 EUR/MWh and 32.0 EUR/MWh)
- Electricity price increase in the Nordic countries was determined by lower water levels in Scandinavian hydropower reservoirs
- New interconnections have contributed to convergence of electricity spot prices between the Nordic countries and the Baltics
- As of 3 April, Latvia's natural gas market is open
- GASPOOL gas price increased by 27% reaching 17.0 EUR/MWh

Key Financial Figures

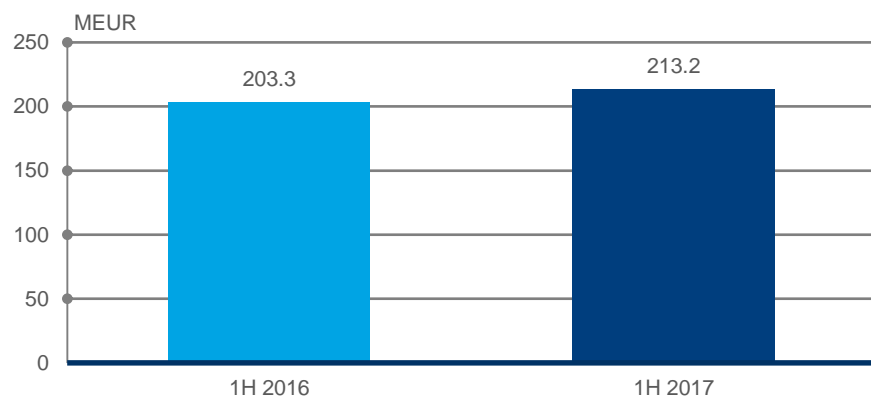
Revenue



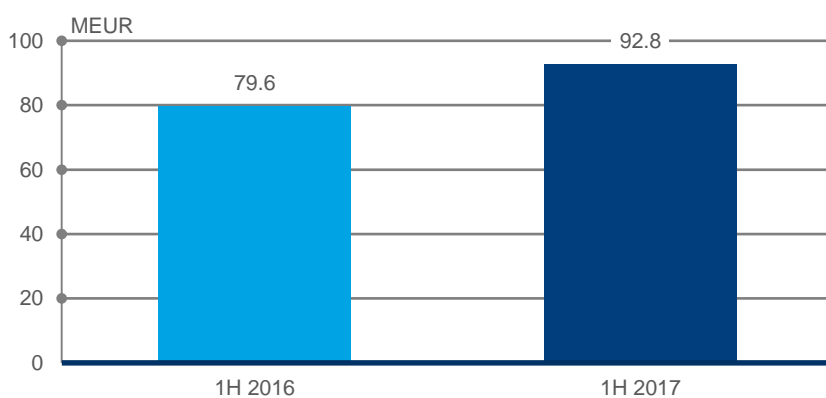
Net debt/EBITDA



EBITDA

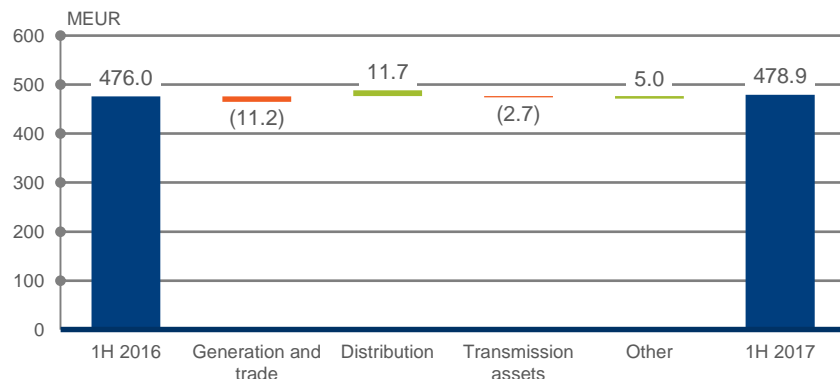


Investments

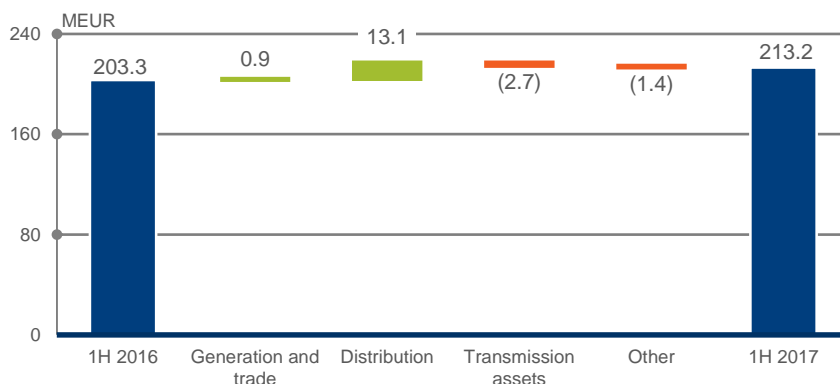


The Group's EBITDA and profit increased

Revenue dynamics by segments



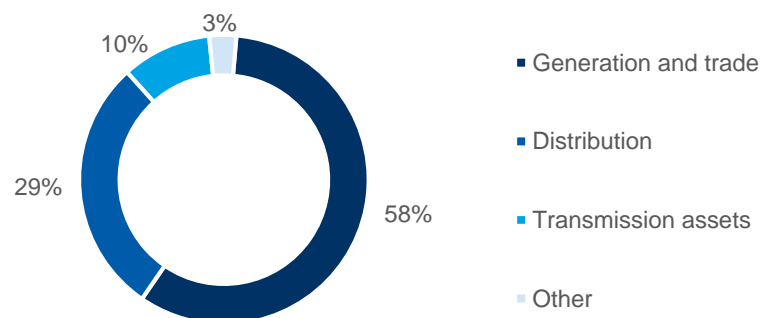
EBITDA dynamics by segments



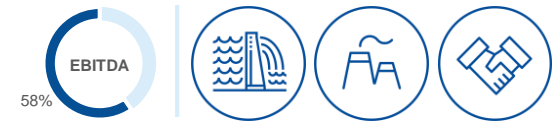
5% EBITDA growth

- The results were mainly positively impacted by:
 - 55% greater electricity output at the Daugava HPPs
 - increase in distribution service revenue
- The results were mainly negatively impacted by lower electricity trade price in the Baltics
- EBITDA margin – 43% (1H 2016: 36%)
- ROE – 6.8% (1H 2016: 4.7%)

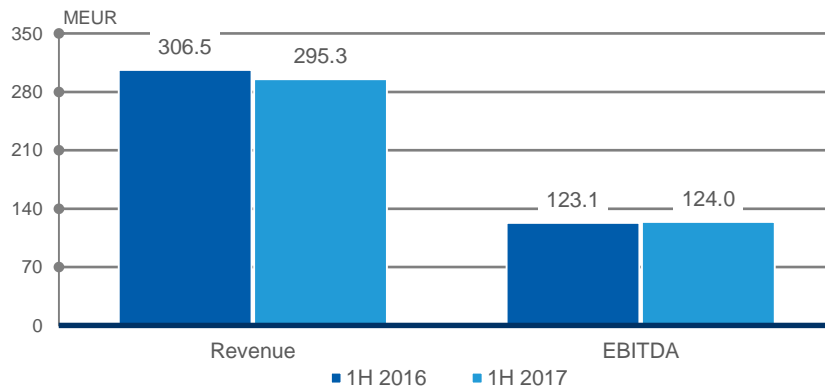
EBITDA weight by segments



Generation and trade



Segment EBITDA increased



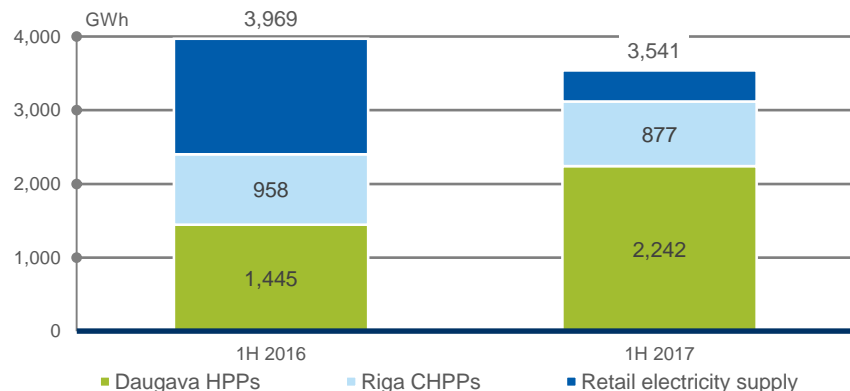
The largest segment of the Group

- Results of the segment were positively impacted by higher electricity output at the Daugava HPPs, while negatively – by lower electricity sales prices in the Baltics
- Generation of electricity increased by 29%
- Latvenergo Group has maintained the position of leading electricity supplier in the Baltics
- As of 1 April 2017, PSO fee remains at the previous level (2.679 cents/kWh)

Effective and balanced generation sources



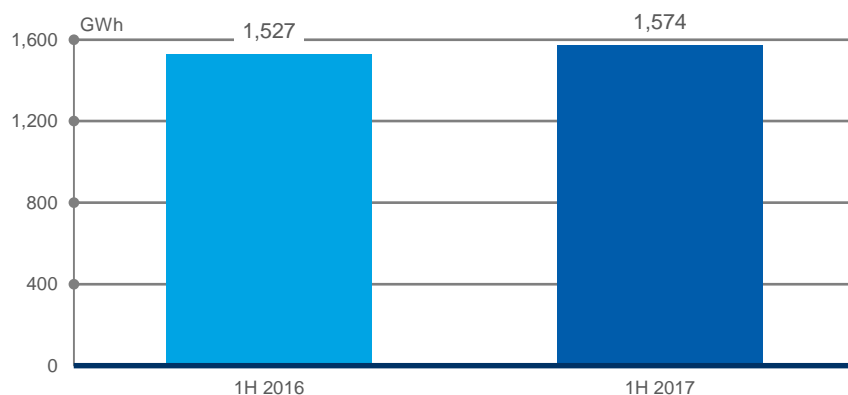
3,147 GWh of electricity generated



Generation of electricity increased by 29%

- Power generated by the Daugava HPPs increased by 55%
- Riga CHPPs operate in market conjuncture effectively planning operating modes and fuel consumption
- Total electricity generated represents 89% of retail electricity supply (1H 2016: 61%)
- Higher average temperature and longer heating season in Riga determined greater consumption of thermal energy – generation increased by 3%

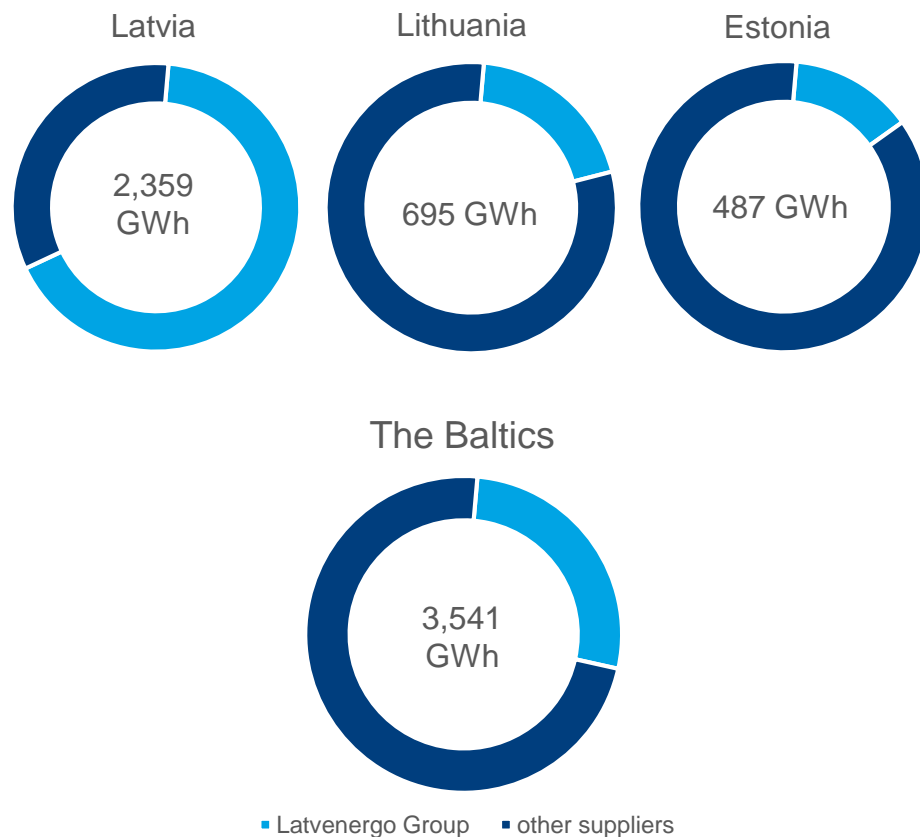
1,574 GWh of thermal energy generated



Electricity trade



Retail electricity supply*



Main facts – 1H 2017

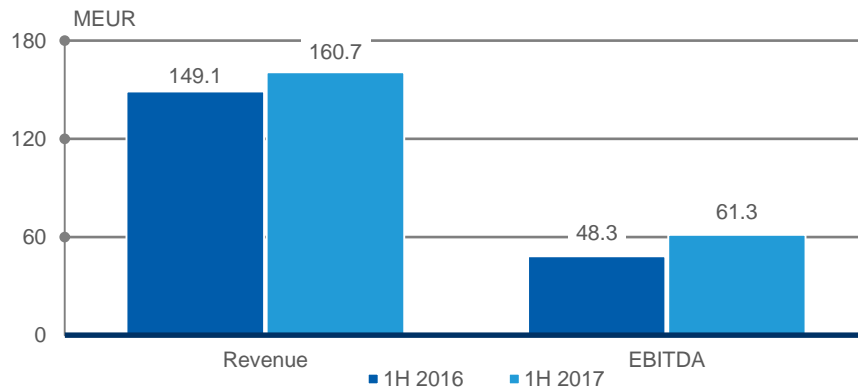
- Retail electricity supply* reached 3,541 GWh, 1/3 supplied outside Latvia
- The total number of clients outside Latvia exceeds 35 thousand
- Latvenergo Group's electricity trading brand's *Elektrum* products tailored to customer needs
- Latvenergo Group under the *Elektrum* brand commences natural gas trade to business customers in Latvia

* including operational consumption

Distribution asset value exceeds 1.6 billion EUR



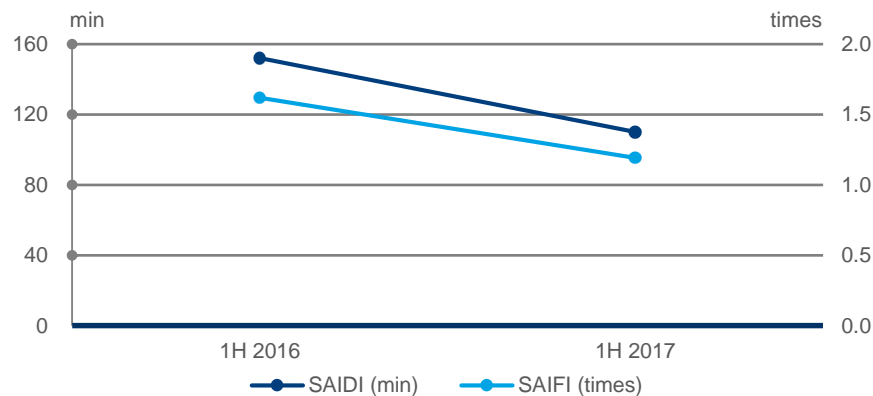
Distribution revenue and EBITDA



Segment revenue and EBITDA increased

- Electricity distributed reached 3,250 GWh (1H 2016: 3,276 GWh)
- Positive impact on the results due to increased distribution services revenue (11.5 MEUR) resulting from the rebalanced distribution system services tariff that came into force on 1 August 2016
- Investment in distribution assets reach 50.6 MEUR (1H 2016: 47.7 MEUR)
- Due to investments and revaluation of distribution assets made in 2016 the value of distribution assets reaches 1,627.0 MEUR

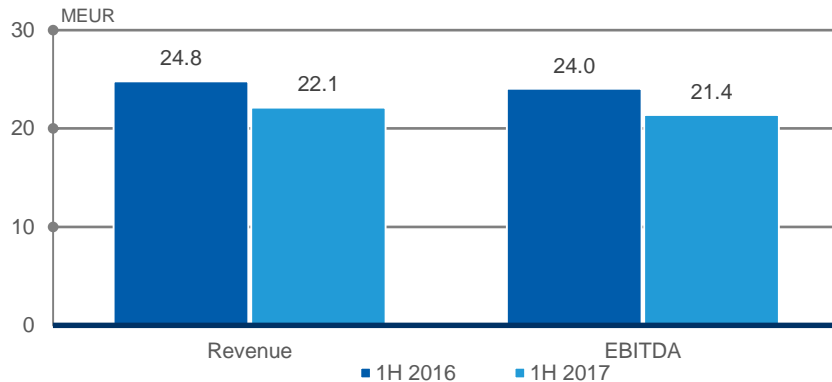
Improved SAIDI and SAIFI ratios



Transmission asset value exceeds 450 MEUR



Segment revenue and EBITDA

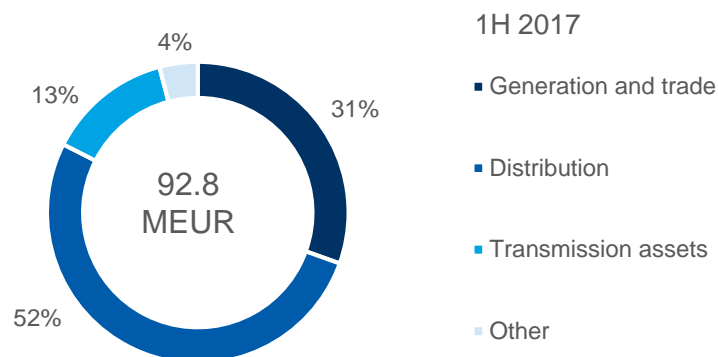


Main facts – 1H 2017

- Investment in transmission system assets 13.1 MEUR, (1H 2016: 6.9 MEUR)
- Major investment projects are *Kurzeme Ring* and the third power transmission interconnection between Estonia and Latvia
- Due to investment and revaluation of transmission assets made in 2016, the value of transmission assets reaches 450.6 MEUR

Investment in network assets – 2/3 of the total

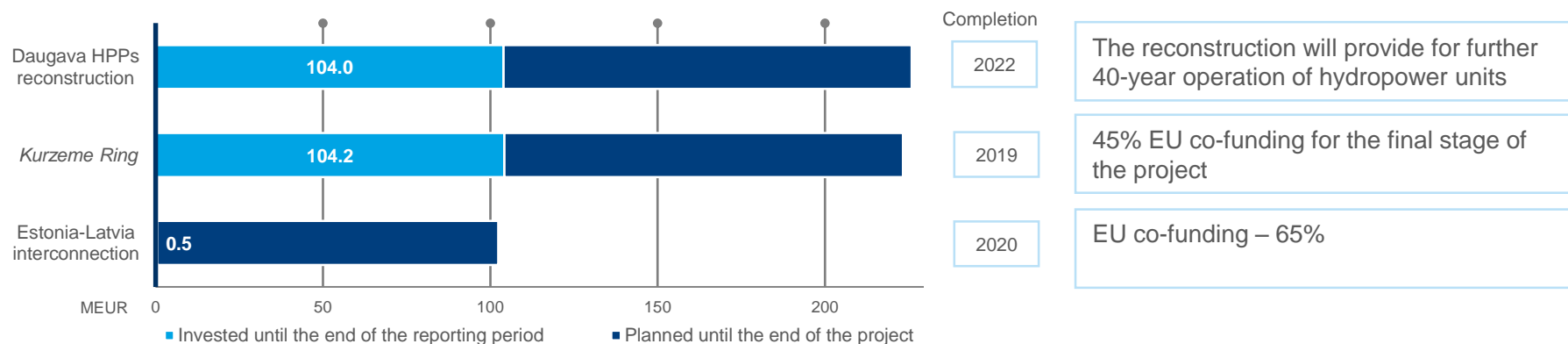
Investments increased by 17%



Investments in environmentally friendly projects

- Investments in the Daugava HPPs hydropower unit reconstruction amounted to 13.4 MEUR
- Network service quality and technical parameters gradually improved by investments in networks assets

Major investment projects

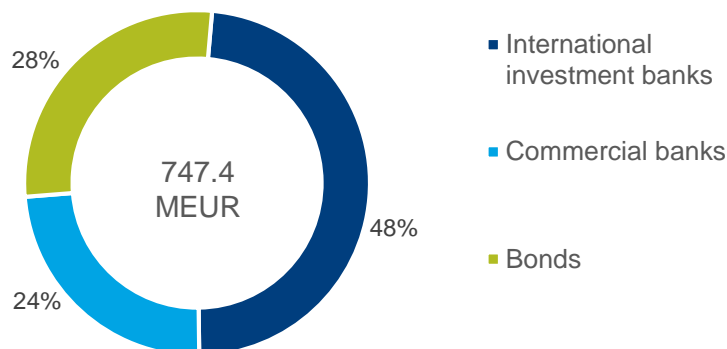


Best investor relations among bond issuers in the Baltics

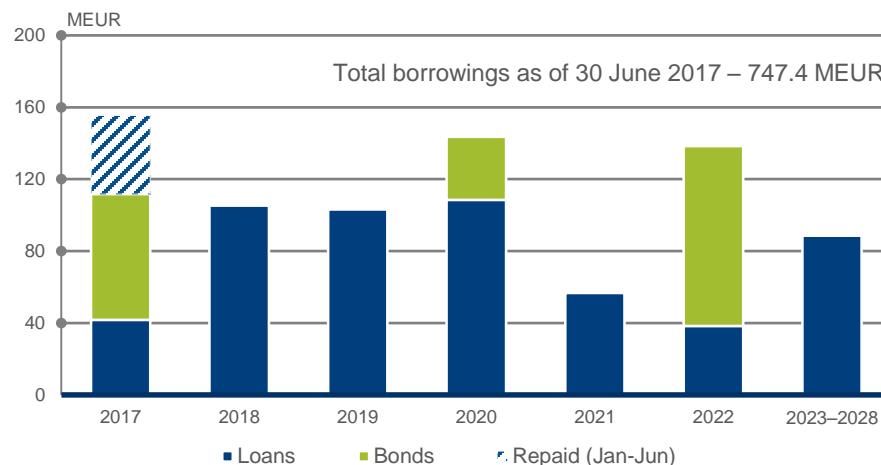
Bonds represent 28% of total borrowings

- Total amount of bonds issued reached 205 MEUR, incl. 100 MEUR *green* bonds
- Latvenergo AS is the first company in the Baltics receiving the Nasdaq Baltic market award “Best Investor Relations in Baltics among Bond Issuers”
- On 14 August, Latvenergo rang the trading session opening bell at the Nasdaq MarketSite in New York
- On 16 February 2017, Moody’s credit rating reaffirmed – Baa2 (stable)
- Capital ratio – 63%

Diversified sources of financing



Debt repayment schedule



Main figures

	30.06.2017
Share of fixed interest rate*	67%
Duration	2.1 year
Effective weighted average interest rate*	1.8%

* with interest rate swaps

Contacts

www.latvenergo.lv

Investor.relations@latvenergo.lv

Latvenergo AS

P. Brieža iela 12, Rīga, LV-1230

Phone: (+371) 67728222



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Abbreviations

Daugava HPPs – Daugava hydropower plants

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

EU – European Union

IFRS – International Financial Reporting Standards

MEUR – Million euros

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

PSO fee – Public service obligation fee

Riga CHPPs – Riga combined heat and power plants

SAIDI – System Average Interruption Duration Index

SAIFI – System Average Interruption Frequency Index

Consolidated Statement of Profit or Loss*

	01/01-30/06/2017	01/01-30/06/2016
	EUR'000	EUR'000
Revenue	478,902	475,998
Other income	3,535	3,224
Raw materials and consumables used	(182,180)	(195,800)
Personnel expenses	(51,363)	(48,731)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(94,122)	(111,542)
Other operating expenses	(35,744)	(31,438)
Operating profit	119,028	91,711
Finance income	627	1,211
Finance costs	(5,930)	(7,386)
Received dividends from subsidiaries	–	–
Profit before tax	113,725	85,536
Income tax	(15,854)	(10,856)
Profit for the period	97,871	74,680

Consolidated Statement of Financial Position*

	30/06/2017	31/12/2016
	EUR'000	EUR'000
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,367,370	3,370,331
Investment property	669	563
Non-current financial investments	41	41
Non-current loans to subsidiaries	–	–
Investments in held-to-maturity financial assets	17,009	17,034
Other non-current receivables	987	986
TOTAL non-current assets	3,386,076	3,388,955
Current assets		
Inventories	42,049	41,458
Prepayment for inventories	57	–
Trade receivables and other receivables	228,506	273,957
Deferred expenses	2,390	3,227
Current loans to subsidiaries	–	–
Derivative financial instruments	2,190	6,134
Investments in held-to-maturity financial assets	–	3,520
Cash and cash equivalents	180,600	183,980
TOTAL current assets	455,792	512,276
TOTAL ASSETS	3,841,868	3,901,231
EQUITY		
Share capital	1,288,715	1,288,715
Reserves	937,181	937,074
Retained earnings	193,083	185,840
Equity attributable to equity holder of the Parent Company	2,418,979	2,411,629
Non-controlling interests	6,934	7,084
TOTAL equity	2,425,913	2,418,713
LIABILITIES		
Non-current liabilities		
Borrowings	610,821	635,620
Deferred income tax liabilities	313,169	315,759
Provisions	19,159	18,643
Derivative financial instruments	5,670	7,946
Other liabilities and deferred income	194,254	195,407
Total non-current liabilities	1,143,073	1,173,375
Current liabilities		
Borrowings	136,561	155,946
Trade and other payables	105,537	117,817
Income tax payable	13,018	17,718
Deferred income	14,264	14,022
Derivative financial instruments	3,502	3,640
TOTAL current liabilities	272,882	309,143
TOTAL liabilities	1,415,955	1,482,518
TOTAL EQUITY AND LIABILITIES	3,841,868	3,901,231

Consolidated Statement of Cash Flows*

	01/01-30/06/2017	01/01-30/06/2016
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	113,725	85,536
Adjustments:		
- Amortisation, depreciation and impairment of non-current assets	95,402	112,746
- Net financial adjustments	7,715	1,753
- Other adjustments	498	460
Operating profit before working capital adjustments	217,340	200,495
Decrease / (increase) in current assets	48,164	18,228
Decrease in trade and other payables	(9,865)	(9,313)
Cash generated from operating activities	255,639	209,410
Interest paid	(7,022)	(8,458)
Interest received	1,177	1,530
Corporate income tax and real estate tax paid	(23,219)	(4,031)
Net cash flows from operating activities	226,575	198,451
Cash flows from investing activities		
Loans issued to subsidiaries	–	–
Repayment of loans issued to subsidiaries	–	–
Purchase of intangible assets and property, plant and equipment	(98,293)	(77,186)
Proceeds from redemption of held-to-maturity assets	3,544	30
Proceeds from investments in subsidiaries	–	–
Net cash flows (used in) / generated from investing activities	(94,749)	(77,156)
Cash flows from financing activities		
Proceeds from issued debt securities (bonds)	–	26,267
Proceeds on borrowings from financial institutions	–	55,000
Repayment of borrowings	(43,671)	(45,826)
Dividends paid to equity holder of the Parent Company	(90,142)	(77,413)
Dividends paid to non-controlling interests	(1,393)	–
Net cash flows used in financing activities	(135,206)	(41,972)
Net (decrease) / increase in cash and cash equivalents	(3,380)	79,323
Cash and cash equivalents at the beginning of the period	183,980	104,543
Cash and cash equivalents at the end of the period	180,600	183,866

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