Unaudited Interim Condensed Consolidated Financial Statements

for the 6 months period ended 30 June 2016

Latvenergo Group is the most valuable company in Latvia and among the most valuable companies in the Baltics. The asset value of Latvenergo Group exceeds EUR 3.5 billion.

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Management Report

Unaudited Interim Condensed Consolidated Financial Statements*

** Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union*

FINANCIAL CALENDAR

05.09.2016.

Investor Conference Webinar about financial results of 6 months 2016

30.11.2016.

Interim Condensed Consolidated Financial Statements for the 9 months period ending 30 September 2016 (unaudited)

28.02.2017.

Interim Condensed Consolidated Financial Statements for the 12 months period ending 31 December 2016 (unaudited)

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DISCLAIMER

The financial report includes forward-looking statements 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

- **Lower electricity and gas prices in Latvia**
  In 1H 2016, electricity spot price in Latvia and Lithuania decreased. This decrease is mainly attributable to the opening of *NordBalt* interconnection between Sweden and Lithuania leading to convergence of electricity price between the bidding areas of the Baltic and the Nordic countries. Due to the downtrend in crude oil price in 1H 2016, the average natural gas price dropped by 28% compared to 1H 2015.

- **Latvenergo Group maintains leading electricity supplier position in the Baltics**
  Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics ensuring approximately 1/3 of the market share in the region. In comparison to 1H 2015, business customer portfolio in Lithuania and Estonia was increased by more than 1,000 clients compared to 1H 2015. Retail electricity supply outside Latvia comprises approximately one third of the total retail electricity supply.

- **Increased generation of electricity and thermal energy**
  Amount generated by the power plants of Latvenergo Group in 1H 2016 was 2,431 GWh of electricity and 1,527 GWh of thermal energy. Electricity output generated at Riga CHPPs has increased more than twofold in comparison to the respective period last year. Riga CHPPs managed to provide for effective and operative electricity generation thus precluding electricity price increase risk in the region. The amount of thermal energy generated increased by 10% compared to respective period in 2015. This was mainly due to a considerably lower average ambient air temperature in January 2016.

- **Stable revenue and 14% EBITDA growth**
  Compared to the first six months of 2015, revenue of Latvenergo Group has remained at the same level, reaching EUR 476.0 million. At the same time, EBITDA has increased by 14% reaching EUR 203.3 million. EBITDA has grown in all of the operating segments. Results were positively affected by lower natural gas and electricity prices.

- **Investment in network assets – 70% of the total**
  In 1H 2016, the overall amount of investment was EUR 79.6 million of which nearly 70% were invested in network assets. A substantial part of investment was invested in environmentally friendly and environmental development projects – in 1H 2016, EUR 14.6 million were invested in the reconstruction of Daugava HPPs hydropower units.

- ***Green* bond issue programme was successfully completed**
  On 14 April 2016, Latvenergo AS issued *green* bonds in the amount of EUR 25 million, the issue was carried out under the second bond offering programme. The overall amount of bonds represents approximately 1/4 of the total amount of borrowings.

- **Latvenergo AS maintains its credit rating unchanged**
  On 12 February 2016, the international rating agency *Moody's Investors Service* reconfirmed the rating of Latvenergo AS at Baa2 with a stable outlook.

- **The new distribution system tariffs come into force**
  After the end of the reporting period, as of 1 August 2016, the new balanced electricity distribution system service tariffs came into force.

Latvenergo Group in Brief

Latvenergo Group is the largest pan-Baltic power supply utility operating in electricity and thermal energy generation and supply, 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 they are held by the Ministry of Economics of the Republic of Latvia.

Latvenergo AS is a shareholder in an associated company – Pirmais Slēgtais Pensiju Fonds AS (46.3%; Latvenergo Group – 48.15%) along with a shareholding in Rīgas siltums AS (0.005%).

Latvenergo Group divides its operations into three operating segments: generation and supply, distribution and lease of transmission system assets. This division in segments is made according to the needs of the internal organisational structure, which forms the basis for a 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 supply segment comprises electricity and thermal energy generation operations, conducted by Latvenergo AS and Liepājas enerģija SIA, as well as electricity supply (incl. electricity wholesale) in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB. Mandatory procurement is administrated by Enerģijas publiskais tirgotājs AS.

	Country of operations	Type of operation	Participation share
Latvenergo AS	Latvia	Generation and supply of electricity and thermal energy	
Sadales tīkls AS	Latvia	Electricity distribution	100%
Latvijas elektriskie tīkli AS	Latvia	Lease of transmission system assets	100%
Enerģijas publiskais tirgotājs AS	Latvia	Administration of electricity mandatory procurement process	100%
Elektrum Eesti OÜ*	Estonia	Electricity supply	100%
Elektrum Lietuva UAB	Lithuania	Electricity supply	100%
Liepājas enerģija SIA	Latvia	Thermal energy generation and supply in Liepaja, electricity generation	51%

* Elektrum Eesti OÜ owns a subsidiary Elektrum Latvija SIA, which is not engaged in any business activities.

The distribution segment provides electricity distribution services in Latvia (approximately 99% of the territory). Services are provided by Sadales tīkls AS – the largest distribution system operator in Latvia (about 834 thousand customers). Distribution system tariffs are approved by the Public Utilities Commission (PUC).

The lease of transmission system assets segment is managed by Latvijas elektriskie tīkli AS – the company that owns the transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points) and conducts their lease to the transmission system operator Augstsprieguma tīkls AS. The payments for the lease of transmission system assets are calculated in accordance with the methodology approved by the PUC.

Latvenergo Group Strategy represents a transparent and rational vision of pan-Baltic development during the opening of the Baltic electricity market and development of new electricity interconnections. Latvenergo Group has set the following strategic objectives to be reached until 2016:

- strengthening of the market position in the Baltics;
- diversification of electricity generation sources;
- balanced development of networks.

In order to ensure a continuous strategic planning process, development of medium term strategy for the next period (2017–2022) has been commenced at the end of 2015. We plan to approve the new strategy in 2016.

Key Performance Indicators

Operational Figures

		1H 2016	1H 2015	1H 2014	1H 2013	1H 2012
Retail electricity supply	GWh	3,922	3,934	4,579	4,353	4,307
Electricity generation	GWh	2,431	1,931	2,111	2,974	3,001
Thermal energy supply	GWh	1,465	1,348	1,392	1,581	1,570
Number of employees		4,187	4,163	4,548	4,518	4,442
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)

Financial Figures

		1H 2016	1H 2015	1H 2014	1H 2013	1H 2012
Revenue	MEUR	476.0	474.1	543.1	570.7	551.7
EBITDA*	MEUR	203.3	177.8	146.2	126.8	158.8
Profit	MEUR	74.6	61.7	42.3	28.7	60.3
Assets	MEUR	3,545.5	3,527.5	3,528.3	3,473.7	3,362.5
Equity	MEUR	2,091.5	2,054.0	2,034.5	2,001.3	1,955.2
Net debt*	MEUR	648.4	703.6	681.2	636.1	569.9
Investments	MEUR	79.6	79.3	64.7	90.7	106.1

Financial Ratios

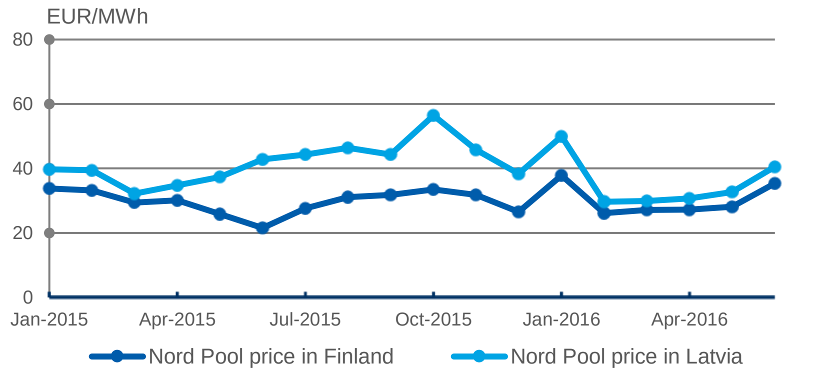
	1H 2016	1H 2015	1H 2014	1H 2013	1H 2012
Net debt/EBITDA ratio*	2.0	2.6	2.5	2.8	2.2
EBITDA margin*	36%	29%	25%	20%	24%
Return on equity*	4.7%	2.4%	3.0%	1.0%	3.4%
Return on assets*	2.8%	1.4%	1.7%	0.6%	2.0%
Net debt/equity*	31%	34%	33%	32%	29%

* Definitions of ratios and terms are available in the List of Abbreviations and Formulas on page 18

Operating Environment

Opening of new interconnections contribute to electricity price convergence in the Baltics

Compared to the previous year, in 1H 2016, electricity prices were higher in Finland and Estonia. The price increase was influenced by colder weather conditions in January and repair works in the Nordic electricity transmission interconnection networks and largest power plants in June. The average electricity spot price in Finnish bidding area increased by 5% and reached 30.3 EUR/MWh, while in Estonian bidding area it rose by 1% to 31.6 EUR/MWh.



The electricity prices in Latvia and Lithuania have decreased. Compared to 1H 2015, the average electricity spot price in Latvian and Lithuanian bidding areas decreased by 6% and 4% respectively, and reached 35.6 EUR/MWh in Latvian and 36.2 EUR/MWh in Lithuanian bidding area. The decline in electricity price in Latvia and Lithuania was mainly driven by the launch of electricity interconnection *NordBalt* (700 MW) at the beginning of 2016, consequently contributing to the convergence of electricity spot prices between the bidding areas of the Baltic and Nordic countries. In addition, the decline in electricity price in Latvia and Lithuania was influenced by a fall in natural gas price in Latvia by 28% facilitating a more competitive electricity output of the Riga CHPPs thus precluding electricity price increase risk in the region

From the energy balance position, Latvia and Lithuania are deficit region countries. Prior to the launch of the new international interconnections *NordBalt* (700 MW) and *LitPol* (500 MW) at the beginning of 2016, the shortage of transmission capacity between power systems in Latvia and Estonia was an important factor affecting the market price, which determined higher electricity prices in Latvian and Lithuanian bidding areas. Even after the opening of the new interconnections, during the summer electricity spot price remained higher than in Estonian bidding area. The average electricity price in Latvian bidding area in 1H 2016 was on average by 3.99 EUR/MWh higher than in Estonia (in 1H 2015: 6.46 EUR/MWh).

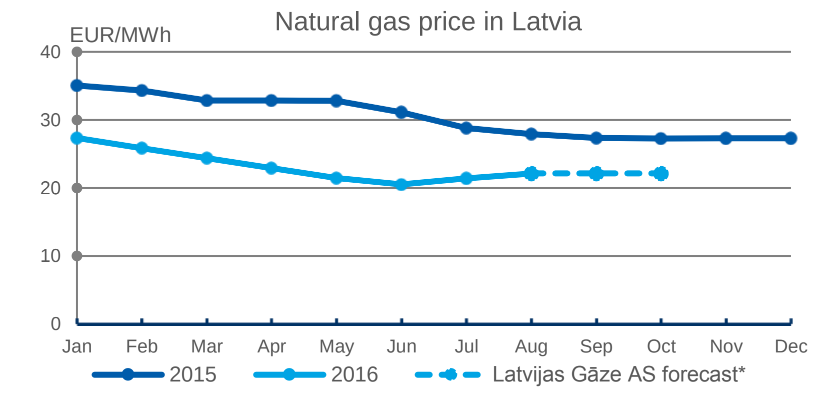
In 1H 2016, total amount of electricity generated in the Baltics remained on the same level as in 1H 2015, and it was 8.8 TWh. Meanwhile, the consumption of electricity in the Baltics has increased by 3% reaching 12.7 TWh. Thus, the net import volume of electricity in the Baltics has increased by 10% reaching 3.8 TWh.

Operating Environment

Natural gas price in Latvia continues to decrease

The natural gas price in Latvia is linked to the crude oil product price (to the previous 9-month average heavy fuel oil and diesel quotations index). Due to index change, in 1H 2016, the average price of natural gas (incl. the excise tax and transmission costs) in Latvia for the user group with consumption above 100,000 thousand nm^3 was 23.7 EUR/MWh, which is by 28% lower than in 1H last year when it was 33.2 EUR/MWh. The decline of natural gas price is related to the falling prices of crude oil – the average price of *Brent* oil in 1H 2016 decreased by 31% compared to the same period in 2015 reaching 39.6 USD/bbl (1H 2015: 57.8 USD/bbl).

According to the gas tariff forecast of Latvijas Gāze AS*, it is expected that the natural gas price will slightly rise in the second half of 2016 (by 2–4%; see graph).



* Tariff forecast of Latvijas Gāze AS (02.08.2016) http://www.lg.lv/index.php?id=246&lid=1901

Slowdown in economic growth in the Baltics

In 1H 2016, the Baltic States experienced an economic growth, which was mainly driven by an increase in private consumption. According to the statistical office of the European Union (*Eurostat*) the gross domestic product growth rate in Q2 2016 compared to the previous year in Latvia was 0.7% (Q2 2015: 2.6%), in Lithuania – 2.0% (1.3%) and in Estonia 0.5% (1.9%). The pace of economic growth in Latvia was positively influenced by the increase in value added in manufacturing and retail sectors, countered by a lower activity in the construction industry.

According to *Eurostat* data, in June 2016, the consumer prices in Latvia have decreased by 0.6%, whilst in Lithuania and Estonia there was a slight increase in price level by 0.4%. In June 2016, compared to June 2015 the consumer price level in the Eurozone increased by 0.2%.

The economic growth in the Baltics is recognised by credit rating agencies, including *Moody's*. The credit rating of Latvia and Lithuania is A3 with stable outlook. The credit rating for Estonia is A1 with stable outlook.

Operating Environment

Future events

- **Dividends**
  According to the law "On the medium-term budgetary framework for 2016, 2017 and 2018" Latvenergo AS in the coming years anticipate dividend payout for the use of state capital in 2017 is in the amount of EUR 102.8 million, in 2018 – EUR 111.5 million. The actual amount of Latvenergo AS dividend payout is set at the shareholders' meeting after the approval of the annual report, upon evaluation of the results of the previous year. Latvenergo Group's capital structure ratios (net debt to equity in 1H 2016 – 31%) are sufficient to proceed with the dividend payout. Latvenergo AS dividends, in addition to the Subsidised Energy Tax (SET) revenue, will be used as a source of funding for the State budget programme "Electricity user support", thereby maintaining the mandatory procurement public service obligation (PSO) fee at the current level during the following years.

- **Changes in distribution system service tariff**
  After the reporting period, as of 1 August 2016, the changes in Sadales tīkls AS electricity distribution system service tariff came into force. The price of electricity distribution consists of two components – a fixed fee for the provision of the connection, and a variable component for delivery of electricity according to consumed kilowatt-hours.

- **Amendment to the Cabinet Regulation No. 221 "Regulations Regarding Electricity Production and Price Determination upon Production of Electricity in Cogeneration"**
  After the reporting period, on 5 July 2016, the Cabinet of Ministers of the Republic of Latvia has approved amendment to the Regulation No. 221 "Regulations Regarding Electricity Production and Price Determination upon Production of Electricity in Cogeneration" which intends activities of precluding overcompensation risk to merchants producing electricity in cogeneration, incl. determination of the maximum value of internal rate of return. The amendment of Cabinet of Ministers will come into force after receiving the European Commission (EC) decision on the compliance of the government grant conditions with the European Union (EU) internal market rules. The current financial support from the EU Cohesion fund provides for an installed capacity of the Riga CHPPs that fosters a return that lies within the upper limit of the internal rate of return determined by the amendment.

- **Establishment of Latvenergo AS Supervisory Board**
  To comply with the requirements of the "State Administration Structure Law" and the Cabinet of Ministers of the Republic of Latvia Regulation No. 235, dated 29 March 2016 "On the Establishment of the Supervisory Boards for State-Owned Companies", the Ministry of Economics of the Republic of Latvia as the owner of Latvenergo AS shares must ensure the establishment of the Supervisory Board of Latvenergo AS until 30 September 2016.

Financial Results

In 1H 2016, Latvenergo Group's revenue was EUR 476.0 million, which corresponds to the level of revenue of the respective period last year.

Financial figures		1H 2016	1H 2015	Δ	Δ, %
Revenue	MEUR	476.0	474.1	1.9	0%
EBITDA	MEUR	203.3	177.8	25.4	14%
Net profit	MEUR	74.6	61.7	12.9	21%
Assets	MEUR	3,545.5	3,527.5	18.0	1%

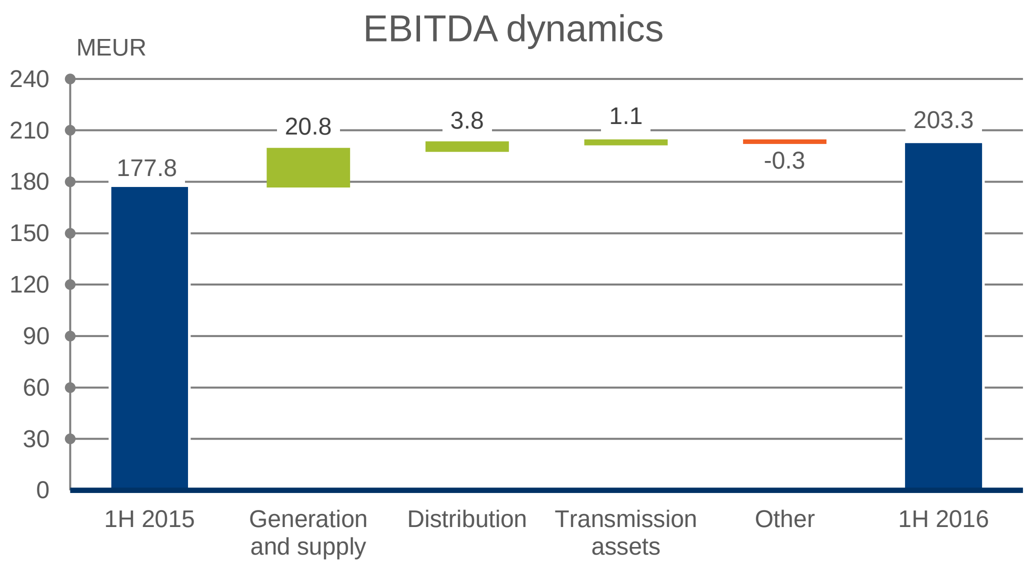
EBITDA of the Group has increased

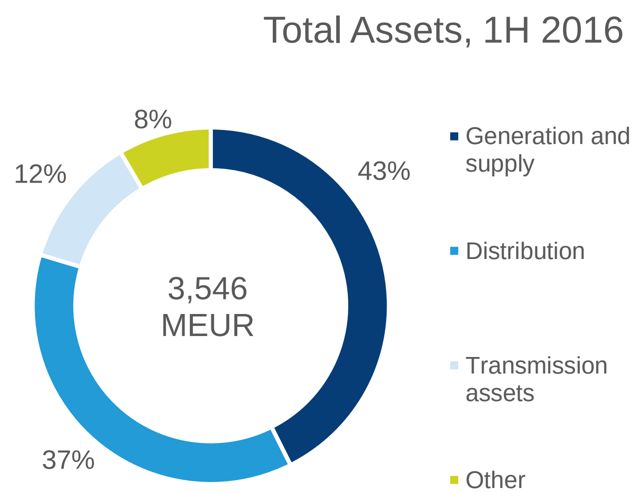
Latvenergo Group's EBITDA increased by 14% reaching EUR 203.3 million, while Latvenergo Group's profit in 1H 2016 was EUR 74.6 million.

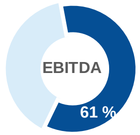
The results of the Group were positively impacted mainly by lower natural gas and electricity prices in Latvia. Compared to respective period in 2015, the natural gas price was by 28% lower, while the electricity price was by 6% lower.

EBITDA in 1H 2016 has increased in all of the operating segments. Furthermore, the EBITDA margin has improved and reached 36% (1H 2015: 29%).

Consequently, profit growth has raised the return on equity to 4.7%, while in the corresponding period last year it was 2.4%.







Generation and Supply

Segment weight in Latvenergo Group

Revenue	60%
EBITDA	61%
Assets	43%
Employees	24%

The generation and supply is the largest operating segment of Latvenergo Group both by revenue and assets. The majority or 84% of the segment revenue consists of revenue from electricity and related services, while 16% comes from thermal energy supply.

The results of the segment were positively influenced by lower prices of the natural gas and electricity.

The amount of electricity generated by Latvenergo Group is insufficient to ensure the amount supplied in retail. The electricity generated in 1H 2016 represents 62% (1H 2015: 49%) of the total retail electricity supply. Latvenergo Group's electricity trading portfolio management policy provides for a balanced portfolio, aimed at minimizing the impact of electricity market price fluctuations on financial results. Latvenergo Group uses financial instruments of electricity to limit the electricity purchase expenses tied with the price fluctuations in power exchange. Along with the opening of the new interconnections at the beginning of 2016 the electricity prices in the Baltics depict a tendency to converge with prices in the Nordic countries.

Closer correlation of electricity prices with the Nordic countries is expected after the completion of the Estonian–Latvian interconnection construction in 2020. Thereby, henceforth it will be more effective to hedge the electricity price fluctuation risk exposure using the Nordic financial instruments.

Operational figures		**1H 2016**	**1H 2015**	**Δ**	**Δ, %**
Electricity supply	GWh	3,922	3,934	(12)	0%
Electricity generation	GWh	2,431	1,931	500	26%
Thermal energy generation	GWh	1,527	1,395	133	10%

Financial figures		**1H 2016**	**1H 2015**	**Δ**	**Δ, %**
Revenue	MEUR	306.5	309.2	(2.7)	(1%)
EBITDA	MEUR	123.1	102.3	20.8	20%
Assets	MEUR	1,510.6	1,530.2	(19.6)	(1%)
Investments	MEUR	22.9	24.9	(2.0)	(8%)

Supply

In 1H 2016, Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics. Latvenergo Group has approximately 1/3 of the market share of the Baltic electricity retail market. In 1H 2016, we have supplied 3,922 GWh of electricity to the Baltic retail customers (1H 2015: 3,934 GWh).

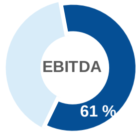
> *Elektrum* electricity products – the most purchased in the Baltics

The overall amount of retail electricity supply outside Latvia accounts for almost 1/3 of the total, reaching 1,218 GWh, which is by more than 1.3 times higher than the amount provided by competing electricity suppliers in Latvia.

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

As a result of focused sales activities, Latvenergo Group has managed to increase the client portfolio by more than 1,000 business segment clients outside of Latvia. Sales activities in Lithuania and Estonia were mainly focused on small and medium sized enterprises. The total number of foreign clients exceeds 34.5 thousand.

Latvenergo Group's electricity supply volume in Latvia was 2,704 GWh; in Lithuania – 758 GWh and in Estonia – 460 GWh.



Generation and Supply

Generation

In 1H 2016, the total amount generated by the power plants of Latvenergo Group comprised 2,431 GWh of electricity and 1,527 GWh of thermal energy.

Operational figures		1H 2016	1H 2015	Δ	Δ, %
Electricity supply	GWh	3,922	3,934	(12)	0%
Electricity generation	GWh	2,431	1,931	500	26%
Daugava HPPs	GWh	1,445	1,461	(16)	(1%)
Riga CHPPs	GWh	958	443	516	117%
Liepaja plants and small plants	GWh	27	27	0	(1%)
Thermal energy generation		1,527	1,395	133	10%
Riga CHPPs	GWh	1,380	1,254	126	10%
Liepaja plants and small plants	GWh	147	140	7	5%

Overall, the amount of electricity generated compared to the corresponding period in 2015 has increased by 26%.

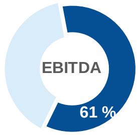
In 1H 2016, the amount of power generated by Riga CHPPs was increased more than twofold, reaching 958 GWh. Favourable conditions for power generation at Riga CHPPs were fostered by the decline in average price of the natural gas by 28% compared to 1H 2015. Riga CHPPs ensured effective and operative electricity generation thus precluding electricity price increase risk in the region.

> Electricity generation increased by 26%

Changes made to the support mechanism in 2013 state that the cogeneration plants with an installed capacity above 4 MW are not eligible to have their variable cost reimbursed in a case where the costs exceed the market price, instead, they only receive support for the installed capacity. Consequently, Riga CHPPs operate in market conjuncture effectively planning operating modes and fuel consumption, for instance, during unfavourable electricity and natural gas market conditions power plants are operated on a smaller scale, using the opportunity to purchase cheaper electricity from the Nordic countries. At the same time, Riga CHPPs guarantee a base load capacity in Latvia.

The amount of power generated by Daugava HPPs has not changed significantly compared to the respective period last year.

In the first six months of 2016, the total amount of thermal energy generated by Latvenergo Group increased by 10%. The increase was determined by a comparatively lower average ambient air temperature at the beginning of the year. According to the data provided by the Central Statistical Bureau of the Republic of Latvia, during the heating season in 2015 (January–April), the average temperature in Riga was +1.4 ºC, while during the same period in 2015 it was +3.1 ºC.



Generation and Supply

Mandatory procurement

As of 1 April 2014, according to the Electricity Market Law, the public trader functions are performed by Enerģijas publiskais tirgotājs AS (until 1 April 2014 – by Latvenergo AS).

Public trader functions comprise obligation to purchase electricity from generators, who have a granted right to supply the generated electricity for the mandatory procurement under electricity purchase tariffs set by legislation, and to pay guaranteed fee for electrical capacity installed at cogeneration power plants.

		1H 2016	1H 2015	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	90.1	87.3	2.8	3%
Received State grant	MEUR	59.2	0.0	59.2	-
Mandatory procurement expenditures *	MEUR	122.3	140.6	(18.3)	(13%)
Incl. cogeneration	MEUR	72.8	83.6	(10.8)	(13%)
Incl. renewable energy resources	MEUR	49.2	56.5	(7.4)	(13%)
Difference	MEUR	**27.0**	**(53.3)**	**80.3**	**151%**

* Mandatory procurement expenditures – costs of electricity purchased within the mandatory procurement and guaranteed fee for electrical capacity installed at power plants minus revenues from sale of purchased electricity on the Nord Pool exchange and plus the costs of mandatory procurement balancing

Mandatory procurement PSO fee remains at the previous level

Mandatory procurement expenditures* are covered through a mandatory procurement PSO fee charged to the end-users in Latvia. The mandatory procurement PSO fee is determined on the basis of the actual costs in the preceding year and approved by the PUC. Mandatory procurement PSO fee changes enter into force on 1 April of the following year.

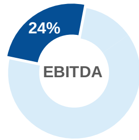
On 11 February 2016, the PUC approved the mandatory procurement PSO fee as of 1 April 2016 in the amount of EUR 2.679 cents/kWh, which remains at the same level since 1 April 2014. To limit the increase of mandatory procurement PSO fee, there is a State grant in the amount of EUR 78.9 million.

Revenues from SET, which was introduced on 1 January 2014, are used as a funding for the above mentioned State Budget programme. In the upcoming years, according to the law "On the medium-term budgetary framework for 2016, 2017 and 2018" additional funding is expected from Latvenergo AS dividends for the use of state capital.

In 1H 2016, mandatory procurement expenditures were EUR 122.3 million (1H 2015: EUR 140.6 million). The major part of expenditure decrease is related to a lower price of the natural gas, through which there was a reduction in mandatory procurement expenses for cogeneration, biomass and biogas power plants.

In 1H 2016, the difference between PSO fee income and expenditures was EUR 27.0 million, which has been recognized as a reduction of receivables residual (in 1H 2015 – increase of receivables residual by EUR 53.3 million).

In April 2016, government grant in the amount of EUR 59.2 million has been received, which corresponds to ¾ of the overall grant, while the remaining ¼ is expected to be received in 2017. Government grant for the previous year was received in July 2015 amounting to EUR 20.3 million.



Distribution

Segment weight in Latvenergo Group

Revenue	29%
EBITDA	24%
Assets	37%
Employees	61%

The distribution segment is the second largest segment of Latvenergo Group both by revenue and assets. In 1H 2016, revenue of the segment increased by 4% compared to last year and reached EUR 149.1 million, EBITDA, on the other hand, increased by 9%, reaching EUR 48.3 million.

Increased investments in distribution assets

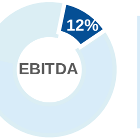
In 1H 2016, results of the segment were positively impacted by the increase of distribution service revenue by EUR 5.4 million. The results were negatively impacted by higher purchasing costs of electricity losses (EUR 1.3 million). These changes were determined by electricity revenue at a regulated tariff received at the beginning of 2015 that were recognized in 2014.

Distribution service tariffs effective from April 2011, did not cover all the distribution service costs. After the reporting period, as of 1 August 2016, the new rebalanced distribution system services tariff came into force.

Investment in distribution assets in 1H 2016 has increased by 11% compared to the 1H last year, and is EUR 47.2 million. Large-scale investments in modernisation of the network are scheduled also during the following years in order to increase the safety and quality of network services, lessen SAIFI and SAIDI indicators, as well as minimize the risk of network disorders caused by severe weather conditions.

Operational figures		**1H 2016**	**1H 2015**	**Δ**	**Δ, %**
Electricity distributed	GWh	3,276	3,158 *	118	4%
SAIFI	number	1.6	1.4	0.2	14%
SAIDI	minutes	152	167	(15)	(9%)
Financial figures		**1H 2016**	**1H 2015**	**Δ**	**Δ, %**
Revenue	MEUR	149.1	143.2	5.9	4%
EBITDA	MEUR	48.3	44.5	3.8	9%
Assets	MEUR	1,312.6	1,278.6	34.0	3%
Investments	MEUR	47.2	42.6	4.6	11%

* The volume of electricity distributed excludes 123 GWh; that amount corresponds to the regulated electricity tariff revenues received at the beginning of 2015 that were recognized in 2014



Lease of Transmission System Assets

Segment weight in Latvenergo Group

Revenue	5%
EBITDA	12%
Assets	12%
Employees	0.3%

Gradual inclusion of regulatory asset revaluation reserve into the rent ensures increase in profitability

Revenue of the transmission system asset lease segment represents 5% of Latvenergo Group revenue. In 1H 2016, revenue of the segment increased by 4% reaching EUR 24.8 million, while EBITDA increased by 5% reaching EUR 24.0 million.

The increase in revenue and EBITDA is determined by inclusion of the value of transmission system asset revaluation reserve into the lease for Augstsprieguma tīkls AS.

The return on transmission system assets has not changed significantly, and in 1H 2016 it is 3.8% (1H 2015: 4.1%).

During the reporting period, investment in transmission system assets was EUR 6.9 million, which is by EUR 0.9 million more than in the respective period last year.

Financial figures		1H 2016	1H 2015	Δ	Δ, %
Revenue	MEUR	24.8	23.9	0.9	4%
EBITDA	MEUR	24.0	22.9	1.1	5%
Assets	MEUR	422.2	450.6	(28.4)	(6%)
Investments	MEUR	6.9	6.0	0.9	14%

Investments

In 1H 2016, the total amount of investment has not changed significantly compared to the same period last year and it is EUR 79.6 million.

To improve the quality of network service, technical parameters and safety of the operations, a significant amount is invested in the modernisation of power network. In 1H 2016, the amount invested in the networks represented 68% of the total investment in the reporting period.

> Investments in transmission network assets are 2/3 of total

Contributing to environmentally friendly and environmental development investment projects in 1H 2016, the amount invested in Daugava HPPs hydropower unit reconstruction was EUR 14.6 million.

Investment projects:

Daugava HPPs hydropower unit reconstruction programme (Daugava HPPs reconstruction)

Deeming environmentally safe, sustainable and competitive operations and effective water resource management as highly important, Latvenergo Group proceeds with gradual overhaul of eleven Daugava HPPs hydropower units that have not been overhauled yet. The programme is scheduled to be completed until 2022, with the estimated total reconstruction costs exceeding EUR 200 million. The completed workload within the contract reached EUR 66.0 million as of 30 June 2016. The reconstruction will provide for further 40-year operation of hydropower units.

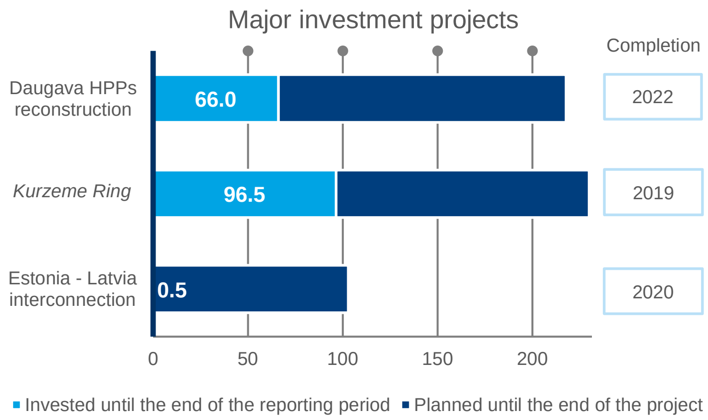
Kurzeme Ring project

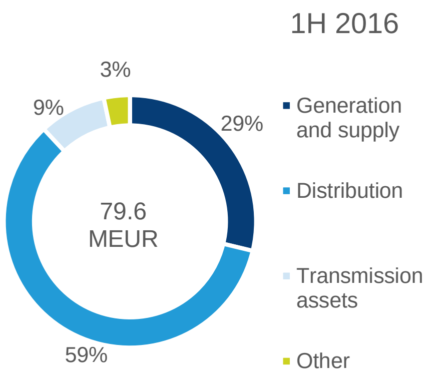
The implementation of *Kurzeme Ring* project is fostering an increase in power supply safety in Kurzeme region and Latvia as a whole, providing for an opportunity of a more effective use of the Lithuania–Sweden marine cable *NordBalt*, allowing further integration of the Baltics into the Nordic electricity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

The *Kurzeme Ring* project is scheduled for completion in 2019, and the total project construction costs are expected to constitute approximately EUR 230 million. The project has three stages. Investment in the first and second stage of the project comprised a total of EUR 95 million, of which approximately half was covered by the EC. For the construction cost of the final stage of the project *Ventspils–Tume–Rīga* a 45% EU co-funding was attracted.

Estonia – Latvia third power transmission network interconnection

The project bears a major significance to the future electricity transmission infrastructure of the whole Baltic region. The construction of the new 330 kV interconnection is scheduled for completion until the end of 2020 and the total construction costs of the project in Latvia are estimated at approximately EUR 100 million. The environmental impact assessment of the interconnection project has been completed in June 2016. The project is co-funded by the EU covering 65% of eligible costs.





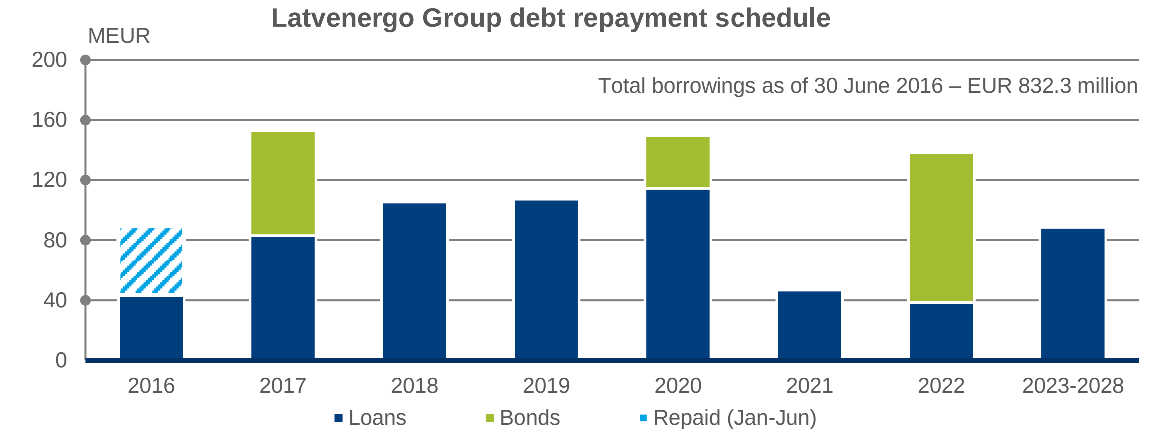
Funding and Liquidity

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

> *Green* bond offering programme of 100 MEUR successfully completed

As of 30 June 2016, the Group's borrowings are EUR 832.3 million (30 June 2015: EUR 855.8 million), comprising loans from commercial banks, international investment banks, and bonds of EUR 205 million. On 14 April 2016, Latvenergo AS issued *green* bonds in the amount of EUR 25 million, thus completing the second bond offering programme of EUR 100 million. At the end of the placement period the overall demand for *green* bonds was record high – it exceeded the offering amount 5.8 times. *Moody's* credit rating for the *green* bonds of Latvenergo AS is Baa2 (stable).

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



As of 30 June 2016, all borrowings are denominated in the euro currency. The weighted average repayment period was 4.3 years (30 June 2015: 4.5 years). Borrowings from financial institutions had a variable interest rate, comprising 3, 6 or 12 month EURIBOR and a margin. Taking into account the effect of interest rate swaps and bonds with fixed interest rate, 59% of the borrowings had a fixed interest rate with an average period of 2.4 years as of 30 June 2016. The effective weighted average interest rate (with interest rate swaps) was 1.9% (30 June 2015: 2.5%). Sufficient coverage of debt service requirements has been ensured (interest coverage ratio – 12.3).

As of 30 June 2016, the net borrowings of Latvenergo Group are EUR 648.4 million (EUR 703.6 million), while the net debt/EBITDA ratio is 2.0 (2.6).

Latvenergo Group maintains sufficient liquidity reserves in order to implement the investment programme and fulfil its commitments according to the debt repayment schedule. As of 30 June 2016, the liquid assets (cash and short term deposits up to 3 months) of Latvenergo Group reached EUR 183.9 million (EUR 152.1 million), while the current ratio was 2.3 (1.9). In 1H 2016, all the binding financial covenants set in Latvenergo Group loan agreements have been met.

On 12 February 2016 *Moody's Investors Service* reconfirmed Latvenergo AS credit rating of Baa2 with stable outlook.

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS the *Latvenergo Unaudited Interim Condensed Consolidated Financial Statements for the 6 months period ended 30 June 2016*, including the Management Report (have been prepared in accordance with International Financial Reporting Standards that are approved by the European Union), in all material aspects give a true and fair view of assets, liabilities, financial position and profit and loss of Latvenergo Group.

The *Latvenergo Unaudited Interim Condensed Consolidated Financial Statements for the 6 months period ended 30 June 2016* are approved by the Management Board of Latvenergo AS on 23 August 2016.

The Management Board of Latvenergo AS:

Āris Žīgurs
Chairman of the Board

Guntars Baļčūns
Member of the Board

Uldis Bariss
Member of the Board

Māris Kuņickis
Member of the Board

Guntis Stafeckis
Member of the Board

List of Abbreviations and Formulas

Abbreviations

bbl –	barrel of oil (158.99 litres)
Daugava HPPs –	Daugava hydropower plants
EBITDA –	earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortization, and impairment of intangible and fixed assets
EC –	European Commission
EU –	European Union
kV –	kilovolt
MW –	megawatt
MWh –	megawatt hour (1,000,000 MWh = 1,000 GWh = 1 TWh)
PSO –	public service obligation
PUC –	Public Utilities Commission
Riga CHPPs –	Riga combined heat and power plants
SAIDI –	System Average Interruption Duration Index
SAIFI –	System Average Interruption Frequency Index
SET –	Subsidised Energy Tax

Formulas

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

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

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

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

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

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

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

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

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

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

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

Unaudited Interim Condensed Consolidated Financial Statements

Consolidated Statement of Profit or Loss

For the 6 months period ended 30 June 2016

	Notes	01/01–30/06/2016	01/01–30/06/2015
		EUR'000	EUR'000
Revenue	5	475,998	474,136
Other income		3,372	2,230
Raw materials and consumables used	6	(195,800)	(219,037)
Personnel expenses		(48,731)	(47,917)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		(111,542)	(98,782)
Other operating expenses		(31,586)	(31,575)
Operating profit		**91,711**	**79,055**
Finance income		1,211	1,443
Finance costs		(7,386)	(9,853)
Profit before tax		**85,536**	**70,645**
Income tax	7	(10,905)	(8,947)
Profit for the period		**74,631**	**61,698**

Consolidated Statement of Comprehensive Income

For the 6 months period ended 30 June 2016

	01/01–30/06/2016	01/01–30/06/2015
	EUR'000	EUR'000
Profit for the period	**74,631**	**61,698**
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods (net of tax):		
– income / (losses) from change in hedge reserve	(2,480)	4,103
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods	**(2,480)**	**4,103**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):		
– gains on revaluation of property, plant and equipment	49	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**49**	**–**
Total other comprehensive income / (loss) for the period, net of tax	**(2,431)**	**4,103**
Total comprehensive income for the period	**72,200**	**65,801**

Consolidated Statement of Financial Position

	Notes	30/06/2016	31/12/2015
		EUR'000	EUR'000
ASSETS			
Non–current assets			
Intangible assets and property, plant and equipment	8	3,057,048	3,090,661
Investment property		764	696
Non–current financial investments		41	41
Investments in held–to–maturity financial assets		17,059	20,609
Other non–current receivables		1,283	1,712
Total non–current assets		**3,076,195**	**3,113,719**
Current assets			
Inventories	9	32,549	24,791
Trade receivables and other receivables	10	239,321	266,460
Investments in held-to-maturity financial assets		11,379	7,859
Derivative financial instruments		2,190	–
Cash and cash equivalents	11	183,866	104,543
Total current assets		**469,305**	**403,653**
TOTAL ASSETS		**3,545,500**	**3,517,372**
EQUITY			
Share capital		1,288,531	1,288,531
Reserves		666,839	669,596
Retained earnings		128,261	131,662
Equity attributable to equity holders of the Parent Company		**2,083,631**	**2,089,789**
Non–controlling interests		7,858	6,913
Total equity		**2,091,489**	**2,096,702**
LIABILITIES			
Non–current liabilities			
Borrowings	12	759,092	714,291
Deferred income tax liabilities		270,544	273,987
Provisions		16,409	15,984
Derivative financial instruments		10,953	8,291
Other liabilities and deferred income		194,602	196,386
Total non–current liabilities		**1,251,600**	**1,208,939**
Current liabilities			
Trade and other payables		124,373	121,256
Borrowings	12	73,134	83,192
Derivative financial instruments		4,904	7,283
Total current liabilities		**202,411**	**211,731**
Total liabilities		**1,454,011**	**1,420,670**
TOTAL EQUITY AND LIABILITIES		**3,545,500**	**3,517,372**

Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of the Parent Company				Non–controlling interests	TOTAL
	Share capital	Reserves	Retained earnings	Total		
	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
As of 31 December 2014	**1,288,446**	**645,829**	**79,995**	**2,014,270**	**6,531**	**2,020,801**
Increase in share capital	85	–	–	**85**	–	**85**
Dividends for 2014	–	–	(31,479)	**(31,479)**	(1,148)	**(32,627)**
Total contributions and profit distributions recognised directly in equity	**85**	**–**	**(31,479)**	**(31,394)**	**(1,148)**	**(32,542)**
Profit for the year	–	–	83,509	**83,509**	1,530	**85,039**
Other comprehensive income / (loss) for the year	–	23,767	(363)	**23,404**	–	**23,404**
Total comprehensive income for the year	**–**	**23,767**	**83,146**	**106,913**	**1,530**	**108,443**
As of 31 December 2015	**1,288,531**	**669,596**	**131,662**	**2,089,789**	**6,913**	**2,096,702**
As of 31 December 2014	**1,288,446**	**645,829**	**79,995**	**2,014,270**	**6,531**	**2,020,801**
Dividends for 2014	–	–	(31,479)	**(31,479)**	(1,148)	**(32,627)**
Total contributions and profit distributions recognised directly in equity	**–**	**–**	**(31,479)**	**(31,479)**	**(1,148)**	**(32,627)**
Profit for the period	–	–	60,599	**60,599**	1,099	**61,698**
Other comprehensive income for the period	–	4,090	13	**4,103**	–	**4,103**
Total comprehensive income for the period	**–**	**4,090**	**60,612**	**64,702**	**1,099**	**65,801**
As of 30 June 2015	**1,288,446**	**649,919**	**109,128**	**2,047,493**	**6,482**	**2,053,975**
As of 31 December 2015	**1,288,531**	**669,596**	**131,662**	**2,089,789**	**6,913**	**2,096,702**
Dividends for 2015	–	–	(77,413)	**(77,413)**	–	**(77,413)**
Total contributions and profit distributions recognised directly in equity	**–**	**–**	**(77,413)**	**(77,413)**	**–**	**(77,413)**
Profit for the period	–	–	73,686	**73,686**	945	**74,631**
Other comprehensive income / (loss) for the period	–	(2,757)	326	**(2,431)**	–	**(2,431)**
Total comprehensive income / (loss) for the period	**–**	**(2,757)**	**74,012**	**71,255**	**945**	**72,200**
As of 30 June 2016	**1,288,531**	**666,839**	**128,261**	**2,083,631**	**7,858**	**2,091,489**

Consolidated Statement of Cash Flows
For the 6 months period ended 30 June 2016

	Notes	01/01–30/06/2016	01/01–30/06/2015
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before tax		85,536	70,645
Adjustments :			
– Amortisation, depreciation and impairment of non-current assets		112,746	100,904
– Net financial adjustments		1,753	10,455
– Other adjustments		460	(791)
Operating profit before working capital adjustments		**200,495**	**181,213**
Decrease / (increase) in current assets		18,228	(38,295)
Decrease in trade and other payables		(9,312)	(20,070)
Cash generated from operating activities		**209,411**	**122,848**
Interest paid		(8,458)	(9,688)
Interest received		1,530	808
Corporate income tax and real estate tax repaid / (paid)		(4,031)	4,490
Net cash flows from operating activities		**198,452**	**118,458**
Cash flows from investing activities			
Purchase of intangible assets and property, plant and equipment		(77,186)	(83,070)
Proceeds on financing from European Union funds and other financing		–	149
Proceeds from redemption of held–to–maturity assets		30	30
Net cash flows used in investing activities		**(77,156)**	**(82,891)**
Cash flows from financing activities			
Proceeds from issued debt securities (bonds)	12	26,266	74,894
Proceeds on borrowings from financial institutions	12	55,000	30,862
Repayment of borrowings	12	(45,826)	(77,591)
Dividends paid to equity holders of the Parent Company		(77,413)	(31,479)
Dividends paid to non–controlling interests		–	(1,148)
Net cash flows generated from financing activities		**(41,973)**	**(4,462)**
Net increase in cash and cash equivalents		**79,323**	**31,105**
Cash and cash equivalents at the beginning of the period	11	104,543	91,747
Cash and cash equivalents at the end of the period	**11**	**183,866**	**122,852 ***

* Received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 thousand has not been included in cash and cash equivalents as of 30 June 2015 because it was defined as restricted cash and cash equivalents (Note 11)

Notes to the Consolidated Financial Statements

1. Corporate Information

All shares of public limited company Latvenergo or Latvenergo AS (hereinafter – 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 Republic 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 supply of electricity. Latvenergo AS is one of the largest corporate entities in the Baltics.

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

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

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

Latvenergo Consolidated Annual Report 2015 has been approved on 5 May 2016 by the Latvenergo AS Shareholders' meeting (see on Latvenergo AS web page section "Investors" – http://www.latvenergo.lv/eng/investors/reports/).

The Unaudited Interim Condensed Consolidated Financial Statements for the 6 months period ended 30 June 2016 include the financial information in respect of the Latvenergo AS and all of its subsidiaries for the 6 months period started on 1 January 2016 and ended on 30 June 2016 and comparative information for the 6 months period ended 30 June 2015.

The Unaudited Interim Condensed Consolidated Financial Statements for the 6 months period ending 30 June 2016 were authorised by the Latvenergo AS Management Board on 23 August 2016.

2. Summary of Most Significant Accounting Policies

These Consolidated Unaudited Interim Condensed Financial Statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union and principal accounting policies applied to these financial statements were identical to those used in the Consolidated Financial Statements for the 2015 financial year. These policies have been consistently applied to all reporting periods presented, unless otherwise stated. Where it is necessary, comparatives are reclassified.

New or revised IFRS and amendments to International Financial Reporting Interpretations Committee interpretations (IFRIC) that became mandatory for the Group from 1 January 2016 did not have any significant impact to the Group's accounting policies and these Consolidated Interim Condensed Financial Statements.

The Condensed Consolidated 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 to other comprehensive income as disclosed in accounting policies presented in the Latvenergo Consolidated Annual Report 2015.

Condensed Consolidated Financial Statements had been prepared in euro (EUR) currency and all amounts shown in these Condensed Consolidated Financial Statements are presented in thousands of EUR.

3. Financial Risk Management

3.1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risk), credit risk, pricing risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management (except for pricing risk) is carried out by the Parent Company's Treasury department (the Group Treasury) according to the Financial Risk Management Policy approved by the Parent Company's Management Board. The Group Treasury identifies, evaluates and hedges financial risks in close co–operation with the Group's operating units / subsidiaries. The Parent Company's Management Board by approving the Financial Risk Management Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, foreign exchange risk, liquidity risk, and credit risk, use of financial instruments and investment of excess liquidity. Pricing risk management is carried out by the Parent Company's Electricity Trading department according to Electricity Wholesale Regulation approved by the Parent Company's Management Board.

a) Market Risk

I) Foreign Currency Exchange Risk

The introduction of euro in Latvia as of 1 January 2014 prevented the euro currency risk, which primarily arose from settlements in foreign currencies for borrowings, capital expenditures and imported electricity. As of 30 June 2016 the Group had borrowings denominated only in euros.

In 2015, the Parent Company did not have any certain investments, which were exposed to foreign currency risks. The introduction of euro in Lithuania as of 1 January 2015 prevented the euro currency risk arising from Parent Company's investments in subsidiary in Lithuania.

Management has set up a Financial Risk Management Policy inter alia to manage the Group's foreign currencies exchange risk against functional currency. To manage the Group's foreign currencies exchange risk arising from future transactions and recognised assets and liabilities, the Financial Risk Management Policy is to use forward contracts. Foreign currencies exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functional currency.

II) Cash Flow and Fair Value Interest Rate Risk

As the Group has significant floating interest–bearing assets and liabilities exposed to interest rate risk, the Group's financial income and operating cash flows are substantially dependent on changes in market interest rates.

The Group's cash flow interest rate risk mainly arises from long–term borrowings at variable rates. They expose the Group to a risk that finance costs might increase significantly when interest rates rise. The Group's policy is to maintain at least 35% of its borrowings as fixed interest rate borrowings (taking into account the effect of interest rate swaps) with duration between 2–4 years.

The Group analyses its interest rate risk exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and hedging. Based on these scenarios, the Group calculates the impact on profit and loss as well as on cash flows of a defined interest rate shift.

The Group's borrowings with floating rates do not impose fair value interest rate risk. Derivatives such as interest rate swaps are the only source of fair value interest rate risk.

III) Price Risk

Price risk is the risk that the fair value and cash flows of financial instruments will fluctuate in the future due to reasons other than changes in the market prices resulting from interest rate risk or foreign exchange risk. The purchase and sale of goods produced and the services provided by the Group under the free market conditions, as well as the purchases of resources used in production is impacted by the price risk.

The most significant price risk is related to purchase of electricity. To hedge the risk related to changes in the price of electricity the Parent Company purchases electricity forward and future contracts.

b) Credit Risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, outstanding receivables. Credit risk exposure in connection with trade receivables is limited due to broad range of the Group's customers. The Group has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. Impairment loss has been deducted from gross accounts receivable (Note 10).

Credit risk related to cash and short–term deposits with banks is managed by balancing the placement of financial assets in order to maintain the possibility to choose the best offers and to reduce probability to incur losses.

No credit limits were exceeded during the reporting period, and the Group management does not expect any losses due to occurrence of credit risk.

c) Liquidity Risk

The Group's policy of liquidity risk management is to maintain sufficient amount of cash and cash equivalents, the availability of long and short term funding through an adequate amount of committed credit facilities to meet commitments according to the Group's strategic plans as well as to compensate the fluctuations in the cash flows due to occurrence of variety of financial risks.

The Group management is monitoring rolling forecasts of the Group's liquidity reserve, which comprises of undrawn borrowing facilities, and cash and cash equivalents.

3.2. Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern as well as to ensure necessary financing for investment program and to avoid breaches of covenants, which are linked to capital structure and are stipulated in the majority of loan agreements.

In order to maintain or adjust the capital structure, the Group may evaluate the amount and timing of raising new debt due to investment programs or initiate new investments in the share capital by shareholder. Also asset revaluation directly influences the capital structure. To comply with loan covenants, the Group monitors capital on the basis of the capital ratio.

This ratio is calculated by dividing the equity by the sum of total assets and nominal value of issued and outstanding financial guarantees.

According to the Group's strategy and defined loan covenants as per loan agreements the capital ratio shall be maintained at least at 30% level.

4. Operating Segment Information

Operating Segments

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

The Group divides its operations into three main operating segments – generation and supply, distribution and lease of transmission system assets. In addition, Corporate Functions, that cover administration and other support services, are presented separately.

Generation and supply comprises the Group's electricity and thermal energy generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity supply (including electricity wholesale), in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB, as well as administration of the mandatory procurement process provided by Enerģijas publiskais tirgotājs AS.

The operations of the distribution operating segment relates 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) and by Latvenergo AS – the owner of real estate assets related to distribution system assets.

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

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

	Generation and supply	Distribution	Lease of trans-mission system assets	Corporate Functions	TOTAL segments	Adjustments and eliminations	Consolidated
Period 01/01–30/06/2016	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
Revenue							
External customers	300,073	148,237	23,534	4,154	**475,998**	–	**475,998**
Inter–segment	6,413	829	1,245	23,036	**31,523**	(31,523)	**–**
Total revenue	**306,486**	**149,066**	**24,779**	**27,190**	**507,521**	**(31,523)**	**475,998**
Results							
Segment profit / (loss)	**84,003**	**(551)**	**6,763**	**1,496**	**91,711**	**(6,175)**	**85,536**
Capital expenditure	22,882	47,193	6,859	2,658	**79,592**	**–**	**79,592**
Period 01/01–30/06/2015							
Revenue							
External customers	304,973	142,394	22,645	4,124	**474,136**	–	**474,136**
Inter–segment	4,217	816	1,220	22,968	**29,221**	(29,221)	**–**
Total revenue	**309,190**	**143,210**	**23,865**	**27,092**	**503,357**	**(29,221)**	**474,136**
Results							
Segment profit	**64,392**	**2,060**	**10,726**	**1,877**	**79,055**	**(8,410)**	**70,645**
Capital expenditure	24,857	42,640	6,000	5,829	**79,326**	**–**	**79,326**

Segment Assets

	Generation and supply	Distribution	Lease of trans-mission system assets	Corporate Functions	TOTAL segments	Adjustments and eliminations	Consolidated
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
At 30 June 2016	1,510,588	1,312,594	422,216	85,465	**3,330,863**	214,637	**3,545,500**
At 31 December 2015	1,548,341	1,312,819	432,028	89,350	**3,382,538**	134,834	**3,517,372**

Adjustments and Eliminations

Finance income and expenses, fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis.

Taxes and certain financial assets and liabilities 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

	01/01–30/06/2016	01/01–30/06/2015
	EUR'000	EUR'000
Segment profit	**91,711**	**79,055**
Finance income	1,211	1,443
Finance costs	(7,386)	(9,853)
Profit before tax	**85,536**	**70,645**

Reconciliation of Assets

	30/06/2016	31/12/2015
	EUR'000	EUR'000
Segment operating assets	**3,330,863**	**3,382,538**
Non–current financial investments	41	41
Held–to–maturity financial assets	28,438	28,468
Derivative financial instruments	2,190	–
Other assets and assets held for sale	102	1,782
Cash and cash equivalents	183,866	104,543
Group operating assets	**3,545,500**	**3,517,372**

5. Revenue

	01/01–30/06/2016	01/01–30/06/2015
	EUR'000	EUR'000
Electricity supply and electricity services	249,224	245,535
Distribution system services	140,127	134,726
Heat sales	48,559	57,109
Lease of transmission system assets	23,236	22,375
Other revenue	14,852	14,391
Total revenue	**475,998**	**474,136**

6. Raw Materials and Consumables Used

	01/01–30/06/2016	01/01–30/06/2015
	EUR'000	EUR'000
Electricity :		
Purchased electricity	73,056	94,863
Fair value (income) / loss on electricity forwards and futures	(4,001)	2,085
Electricity transmission services costs	36,418	36,772
	105,473	**133,720**
Fuel expense	73,479	69,541
Raw materials, spare parts and maintenance costs	16,848	15,776
Total raw materials and consumables used	**195,800**	**219,037**

7. Income Tax

	01/01–30/06/2016	01/01–30/06/2015
	EUR'000	EUR'000
Current tax	14,299	4,703
Deferred tax	(3,394)	4,244
Total income tax	**10,905**	**8,947**

8. Intangible Assets and Property, Plant and Equipment

	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other property, plant and equipment	Assets under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
At 30 June 2016						
Cost	47,099	4,474,998	2,070,615	173,433	140,379	**6,906,524**
Accumulated amortisation, depreciation and impairment	(34,339)	(2,501,160)	(1,185,953)	(122,012)	(6,012)	**(3,849,476)**
Net book amount	**12,760**	**1,973,838**	**884,662**	**51,421**	**134,367**	**3,057,048**
At 31 December 2015						
Cost	46,545	4,469,448	2,072,520	173,118	94,201	**6,855,832**
Accumulated amortisation, depreciation and impairment	(32,483)	(2,455,220)	(1,149,878)	(121,484)	(6,106)	**(3,765,171)**
Net book amount	**14,062**	**2,014,228**	**922,642**	**51,634**	**88,095**	**3,090,661**

9. Inventories

	30/06/2016	31/12/2015
	EUR'000	EUR'000
Raw materials and materials	20,600	17,983
Natural gas	5,562	–
Other inventories	8,122	8,422
Allowance for raw materials and other inventories	(1,735)	(1,614)
Total inventories	**32,549**	**24,791**

10. Trade Receivables and Other Current Receivables

Trade Receivables, net

	30/06/2016	31/12/2015
	EUR'000	EUR'000
Receivables		
– Electricity supply and electricity services customers	128,347	121,112
– Heating customers	2,727	11,735
– Other trade receivables	28,244	25,405
	159,318	**158,252**
Allowances for impairment of receivables		
– Electricity supply and electricity services customers	(44,201)	(43,319)
– Heating customers	(415)	(423)
– Other trade receivables	(2,864)	(2,347)
	(47,480)	**(46,089)**
Receivables, net		
– Electricity supply and electricity services customers	84,146	77,793
– Heating customers	2,312	11,312
– Other trade receivables	25,380	23,058
	111,838	**112,163**
Unsettled revenue on mandatory procurement public service obligation fee recognised as assets *	114,042	141,060
Other current receivables and accrued income	13,441	13,237
Total trade receivables and other current receivables	**239,321**	**266,460**

* 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)

Movements in Allowances for Impairment of Trade Receivables

	01/01–30/06/2016	01/01–30/06/2015	2015
	EUR'000	EUR'000	EUR'000
At the beginning of the period	**46,089**	**44,003**	**44,003**
Receivables written off during the period as uncollectible	(800)	(1,188)	(2,143)
Allowance for impaired receivables	2,191	2,559	4,229
At the end of the period	**47,480**	**45,374**	**46,089**

11. Cash and Cash Equivalents

	30/06/2016	31/12/2015
	EUR'000	EUR'000
Cash at bank	172,846	89,391
Short–term bank deposits	6,000	10,000
Restricted cash and cash equivalents *	5,020	5,152
Total cash and cash equivalents	**183,866**	**104,543**

* Restricted cash and cash equivalents as of 30 June 2016 consist of the financial collateral for participating in NASDAQ OMX Commodities Exchange in the amount of EUR 5,020 thousand (31 December 2015 – EUR 5,152 thousand)

12. Borrowings

	30/06/2016	31/12/2015
	EUR'000	EUR'000
Non–current borrowings from financial institutions	553,549	534,586
Issued debt securities (bonds)	205,543	179,705
Total non-current borrowings	**759,092**	**714,291**
Current portion of non–current borrowings from financial institutions	71,053	80,842
Accrued interest on non–current borrowings	791	848
Accrued coupon interest on issued debt securities (bonds)	1,290	1,502
Total current borrowings	**73,134**	**83,192**
Total borrowings	**832,226**	**797,483**

Movement in Borrowings

	01/01–30/06/2016	01/01–30/06/2015	2015
	EUR'000	EUR'000	EUR'000
At the beginning of the period	**797,483**	**827,222**	**827,222**
Borrowings received	55,000	30,862	30,000
Borrowing repaid	(45,826)	(77,591)	(134,875)
Issued debt securities (bonds)	25,838	74,894	74,902
Change in accrued interest on borrowings	(269)	374	234
At the end of the period	**832,226**	**855,761**	**797,483**

13. Related Party Transactions

The Parent Company and, indirectly, the other Group entities are controlled by the Republic of Latvia. Related parties of the Group are associates, Shareholder of the Parent Company who controls or who has significant influence over the Group's entities in accepting operating business decisions, key management personnel of the Group's entities including members of Supervisory body – Audit committee and close family members of any above–mentioned persons, as well as entities over which those persons have control or significant influence.

Balances at the end of the period arising from sales / purchases of goods or services

	30/06/2016	31/12/2015
	EUR'000	EUR'000
Trade payables to related parties:		
– Other related parties *	239	252
Total payables	**239**	**252**

* Pirmais Slēgtais Pensiju Fonds AS

In the 6 months period ended 30 June 2016 remuneration to the Group's management includes remuneration to the members of the Management Boards and Supervisory body of the Group entities, including salary, social insurance contributions and payments to pension plan and is amounted to EUR 975.1 thousand (6 months of 2015: EUR 1,267.5 thousand) and are included in the Consolidated Income Statement position 'Personnel expenses'.

14. Events after the Reporting Period

As of 1 August 2016, changes in electricity distribution system service tariffs submitted by Sadales tīkls AS and approved by Public Utilities Commission (PUC) are in force.

There have been no significant events subsequent to the end of the reporting period that might have a material effect on the Unaudited Interim Condensed Consolidated Financial Statements for the 6 month period ending 30 June 2016.

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