



Unaudited Interim Condensed Consolidated Financial Statements

for the 3 month period ended
31 March 2016

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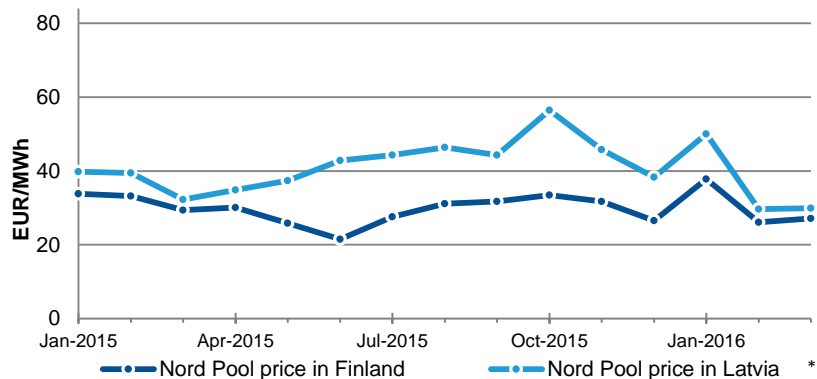
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The construction of new interconnections contribute to electricity price convergence in the Baltics

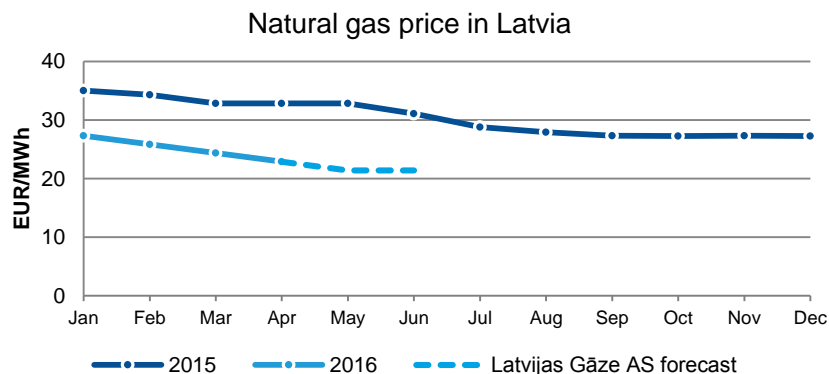
Low electricity price



Main facts – Q1 2016

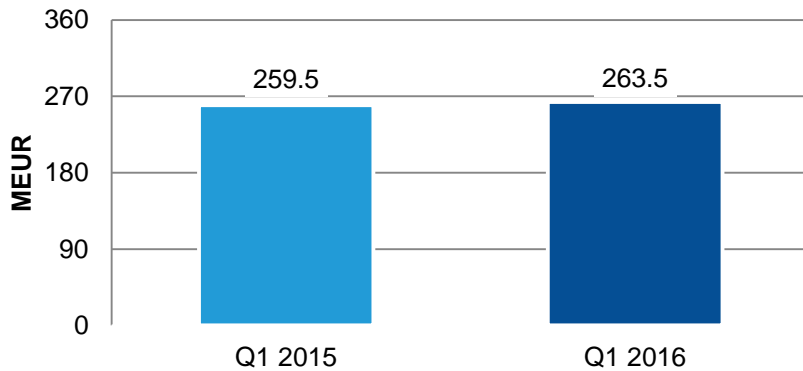
- Nord Pool price decreased by 2% in Latvia and Estonia (36.5 EUR/MWh and 31.8 EUR/MWh respectively), by 1% in Lithuania (36.9 EUR/MWh) and by 6% in Finland (30.3 EUR/MWh)
- Electricity price decrease was determined by increased generation of hydropower in the Nordics and lower coal and natural gas prices
- New interconnections have contributed to electricity spot price convergence between Finland and the Baltics
- Natural gas price in Latvia decreased by 24% reaching 25.8 EUR/MWh

Natural gas price continues to decrease

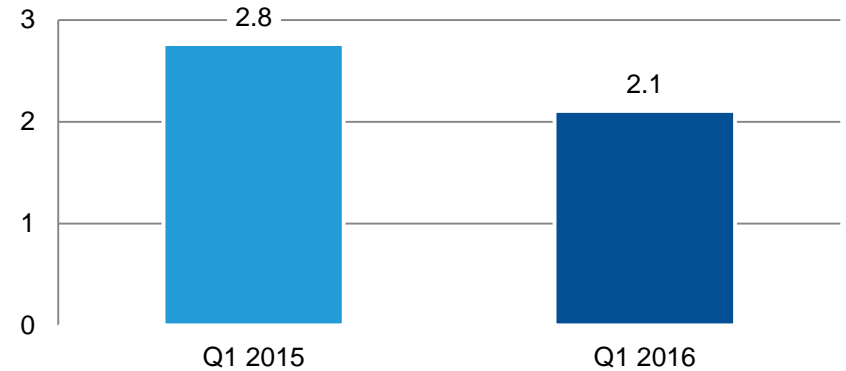


Key Financial Figures

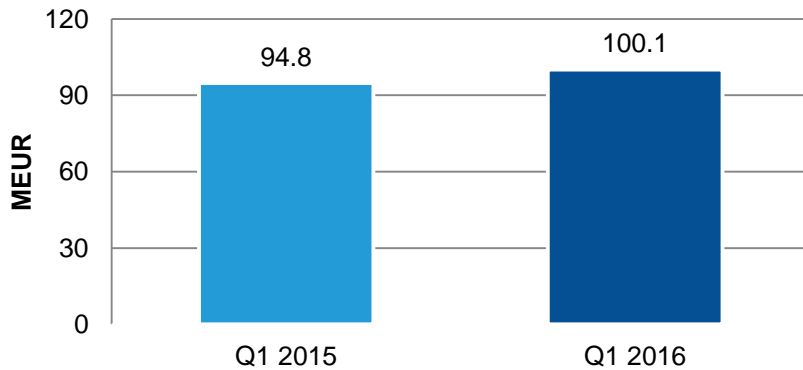
Revenue



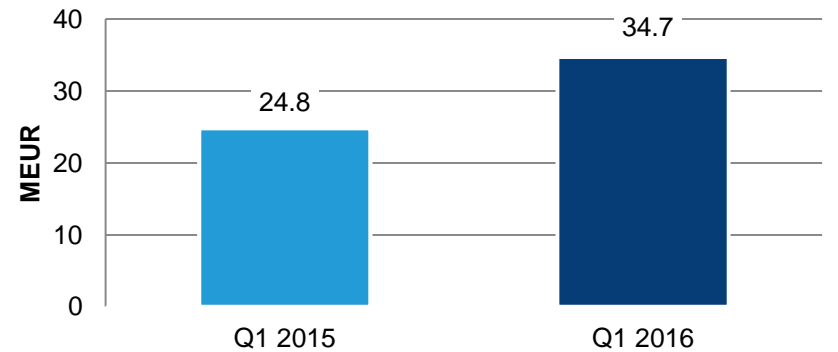
Net debt/EBITDA



EBITDA

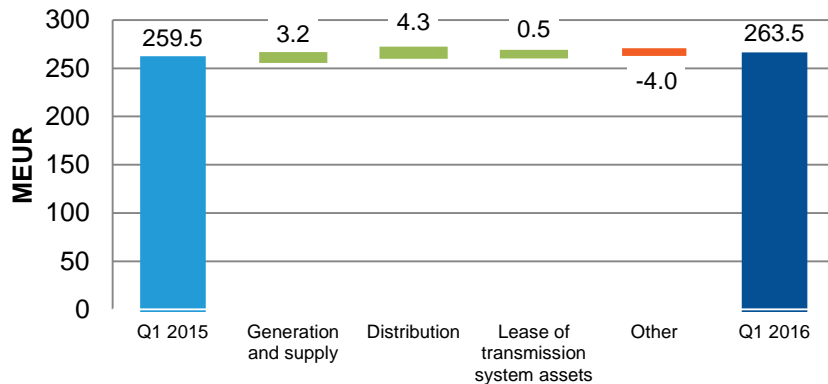


Investments



Revenue and EBITDA of the Group has increased

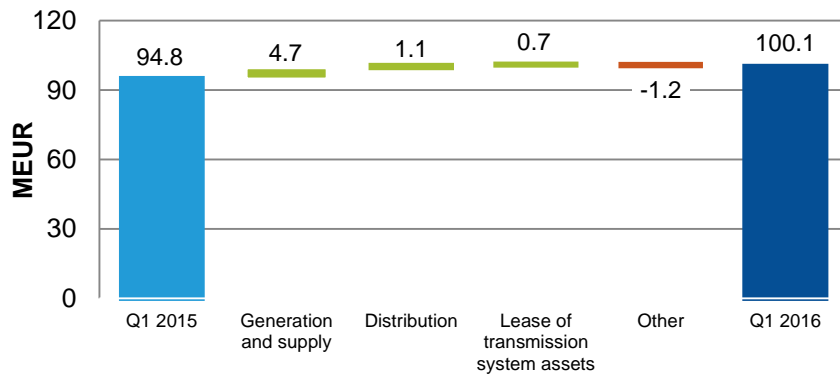
Revenue increased in all segments



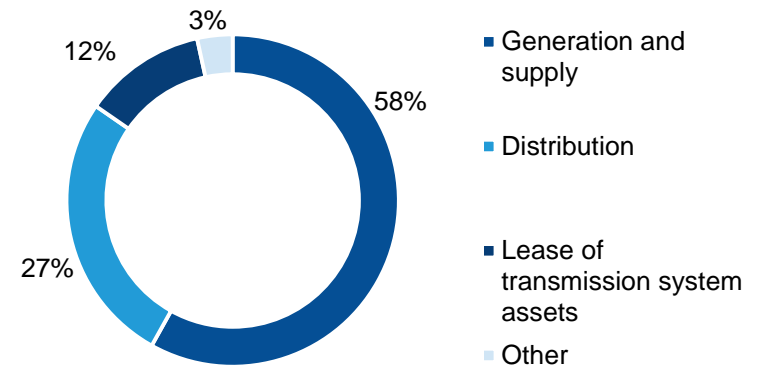
EBITDA reached 100.1 MEUR

- The results were mainly positively impacted by lower natural gas price; negatively – by 19% lower generation output at Daugava HPPs
- EBITDA margin – 33% (Q1 2015: 26%)

EBITDA increased in all segments



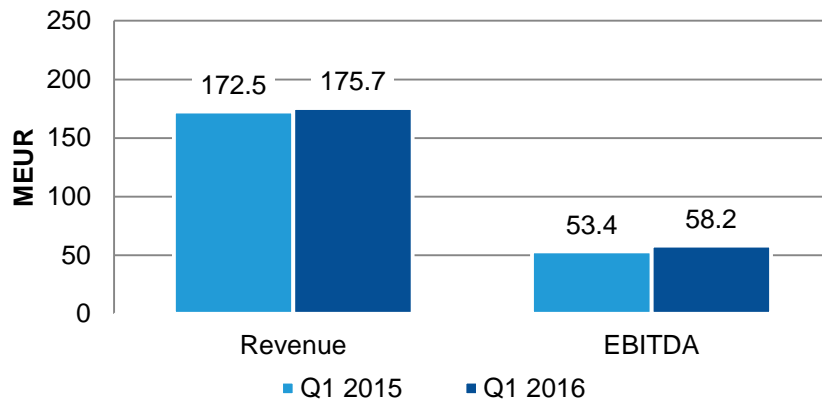
EBITDA weight by segments



Generation and supply



Growth of revenue and EBITDA



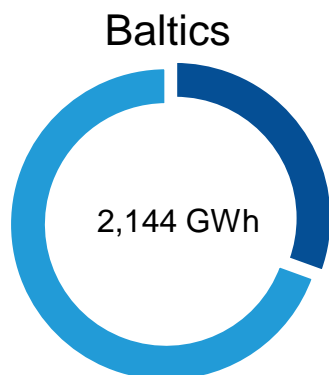
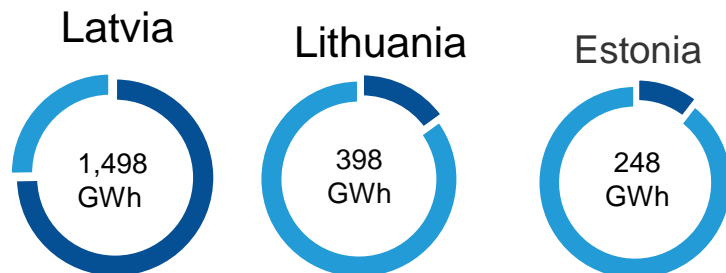
The largest segment of the Group

- The results of the segment were positively impacted by 24% lower natural gas price
- The results of the segment were negatively impacted by 19% lower generation output at Daugava HPPs, which was due to a comparably lower water inflow in the Daugava River during the first months of the year

Elektrum electricity products – the most purchased in the Baltics



Retail electricity supply



■ Latvenergo Group ■ other suppliers

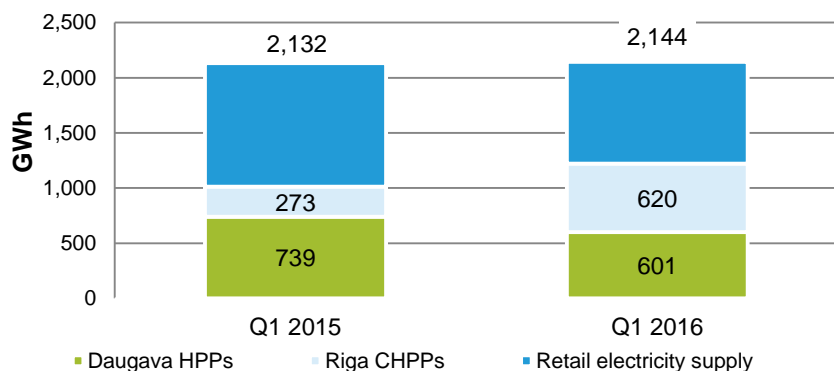
Focused and successful operations in the market

- The number of business customers in Lithuania and Estonia was increased by more than 1.7 thousand
- Retail electricity supply in neighbouring countries reached 646 GWh, which is more than 40% higher than the amount provided by competing electricity suppliers in Latvia
- Latvenergo Group's electricity trading brand's *Elektrum* products are tailored to customer needs

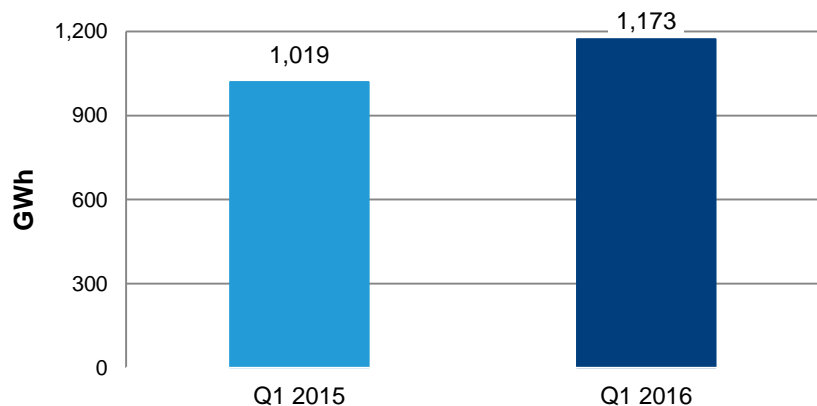
Effective and balanced generation sources



1,236 GWh of electricity generated



1,173 GWh of thermal energy generated



Riga CHPPs electricity generation increased more than twice

- Effective and operative operations of Riga CHPPs precluded the electricity price increase risk
- Unusually low water inflow in the Daugava River – the amount of power generated by Daugava HPPs decreased by 19%
- Total electricity generated represents 57% of retail electricity supply (Q1 2015: 47%)
- Lower ambient air temperature determined higher consumption of thermal energy – thermal energy generation increased by 15%

Mandatory procurement PSO fee remains at the previous level

Recognised accrued PSO fee income

		Q1 2016	Q1 2015	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	48.4	46.1	2.3	5%
Mandatory procurement expenditures*	MEUR	65.8	74.8	(9.0)	(12%)
<i>Incl. Cogeneration</i>	MEUR	39.2	44.3	(5.1)	(11%)
<i>Incl. Renewable energy resources</i>	MEUR	26.5	30.3	(3.8)	(13%)
Difference	MEUR	(17.4)	(28.7)	11.3	(39%)

Balanced mandatory procurement PSO fee income and costs

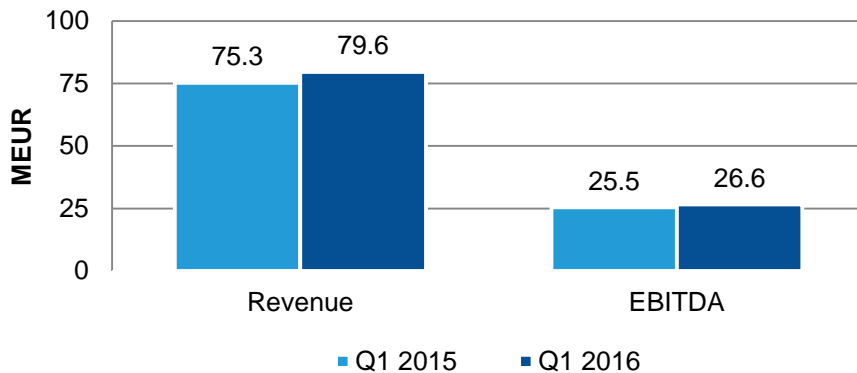
- Starting from 1 April 2016, PSO fee remains at the previous level (EUR 2.679 cents/kWh)
- The difference between PSO fee income and expenditures* was 17.4 MEUR
- In order to maintain the mandatory procurement PSO fee at the same level, a State grant in the amount of 78.9 MEUR has been taken into account upon the calculation of the fee, of which 59.2 MEUR were received in April 2016
- Dividends of Latvenergo AS are intended as one of the funding sources for the State grant

* 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

Increased investments in distribution assets



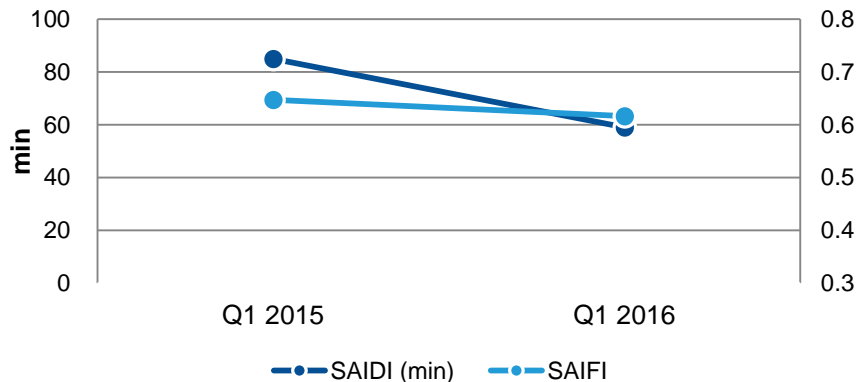
Segment revenue and EBITDA increased



Investments increased by 9%

- Investments in distribution assets reached 20.1 MEUR (Q1 2015: 18.3 MEUR)
- Positive impact on the results was due to increased distribution services revenue (+4.1 MEUR), while negative impact – higher purchasing cost of distribution losses (-1.9 MEUR)
- On 5 May 2016, PUC approved rebalancing project of electricity distribution system services tariff submitted by Sadales tīkls AS, which is expected to come into force as of 1 August 2016
- Electricity distributed reached 1,761 GWh (Q1 2015: 1,672* GWh)

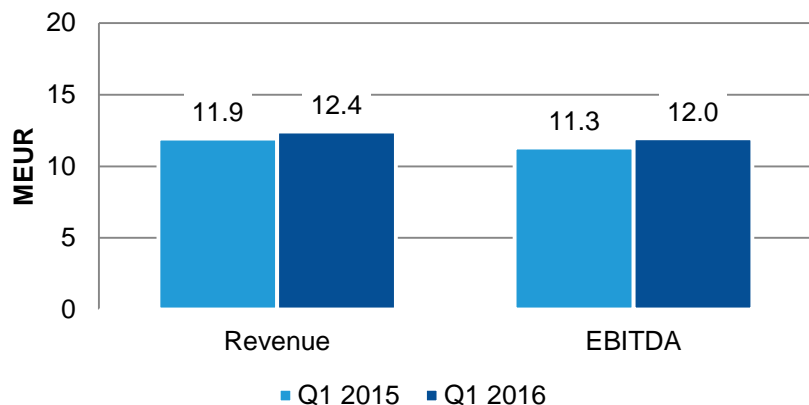
Improved SAIDI and SAIFI



* The volume of electricity distributed in 2015 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 – gradually improving returns

Segment EBITDA and revenue increased



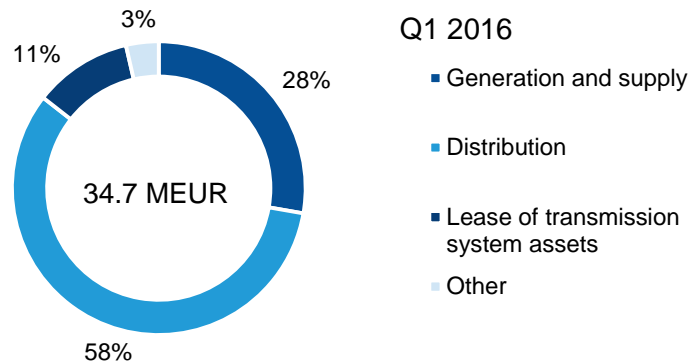
Return on transmission system assets* – 4.8%

- Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- Investment in transmission system assets was 3.8 MEUR, which is by 2.3 MEUR more than in the Q1 last year

* Return on segment assets – operating profit of the segment (12-months rolling) / average segment assets ((assets at the beginning of the 12 month period + assets at the end of the period) / 2)

Daugava HPPs hydropower unit reconstruction continued

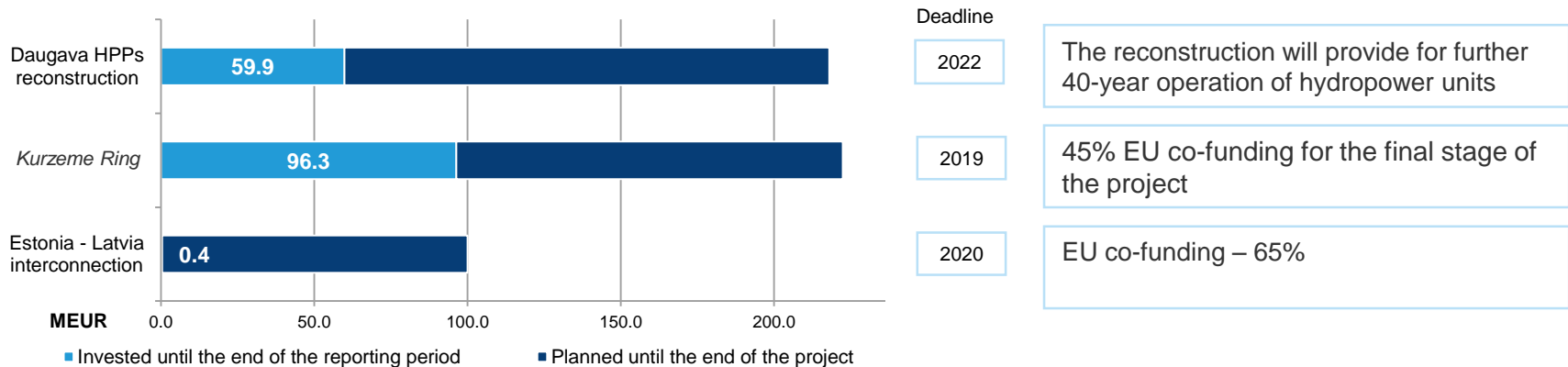
Investments in network assets reached 70%



Total amount of investment increased by 40%

- Increase in investments was determined by implementation of Daugava HPPs hydropower unit reconstruction programme, in which 8.4 MEUR were invested in Q1 2016
- Network service quality and technical parameters are improved by investments in networks assets

Investment projects

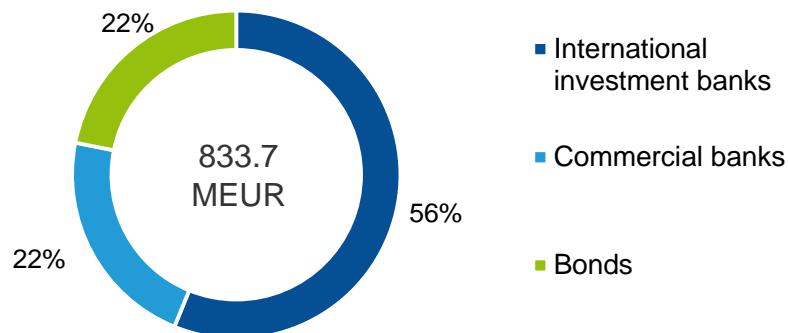


Diversified borrowing sources

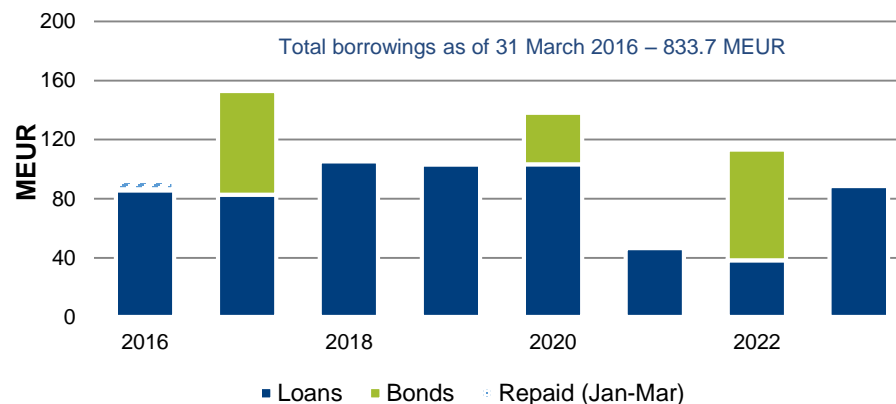
Bonds exceed 1/5 of total borrowings

- Financial needs for coming investment projects and refinancing of loans are attracted in a timely manner
- Total amount of bonds issued reached 180 MEUR
- After the reporting period green bonds in the amount of 25 MEUR were issued, thus completing the second bond offering programme of 100 MEUR
- At the beginning of 2016 *Moody's* reconfirmed credit rating – Baa2 (stable)
- Capital ratio – 59%

Lenders by category



Debt repayment schedule



Liquidity

Liquid assets (cash and short term bank deposits with maturity up to 3 months)	176.0 MEUR
Committed long-term loans	250.0 MEUR*
Investment in liquid financial assets	28.5 MEUR
Additional liquidity reserves	278.5 MEUR

* As of 31.03.2016. After the end of the reporting period long-term loans in the amount of 15.0 MEUR were withdrawn

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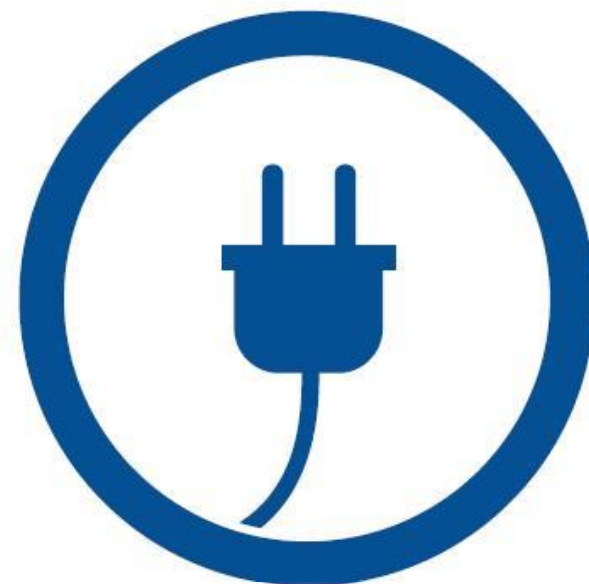
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Abbreviations

Daugava HPPs – Daugava hydropower plants

EU – European Union

IFRS – International Financial Reporting Standards

PSO fee – Public service obligation fee

PUC – Public Utilities Commission

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*

	01/01–31/03/2016	01/01–31/03/2015
	EUR'000	EUR'000
Revenue	263,533	259,506
Other income	1,566	1,199
Raw materials and consumables used	(125,182)	(127,615)
Personnel expenses	(24,456)	(22,578)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(52,459)	(43,702)
Other operating expenses	(15,315)	(15,698)
Operating profit	47,687	51,112
Finance income	654	694
Finance costs	(3,756)	(4,959)
Profit before tax	44,585	46,847
Income tax	(6,023)	(7,591)
Profit for the year	38,562	39,256

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

Consolidated Statement of Financial Position*

	31/03/2016	31/12/2015
	EUR'000	EUR'000
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,072,843	3,090,661
Investment property	739	696
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	17,071	20,609
Other non-current receivables	1,711	1,712
Total non-current assets	3,092,405	3,113,719
Current assets		
Inventories	23,409	24,791
Trade receivables and other receivables	304,358	266,460
Investments in held-to-maturity financial assets	11,382	7,859
Cash and cash equivalents	175,979	104,543
Total current assets	515,128	403,653
TOTAL ASSETS	3,607,533	3,517,372
EQUITY		
Share capital	1,288,531	1,288,531
Reserves	667,504	669,596
Retained earnings	169,345	131,662
Equity attributable to equity holders of the Parent Company	2,125,380	2,089,789
Non-controlling interests	7,970	6,913
Total equity	2,133,350	2,096,702
LIABILITIES		
Non-current liabilities		
Borrowings	749,416	714,291
Deferred income tax liabilities	272,576	273,987
Provisions	16,197	15,984
Derivative financial instruments	10,539	8,291
Other liabilities and deferred income	198,647	196,386
Total non-current liabilities	1,247,375	1,208,939
Current liabilities		
Trade and other payables	132,243	121,256
Borrowings	84,235	83,192
Derivative financial instruments	10,330	7,283
Total current liabilities	226,808	211,731
Total liabilities	1,474,183	1,420,670
TOTAL EQUITY AND LIABILITIES	3,607,533	3,517,372

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Consolidated Statement of Cash Flows*

	01/01–31/03/2016	01/01–31/03/2015
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	44,585	46,847
Adjustments:		
- Amortisation, depreciation and impairment of non-current assets	52,993	43,702
- Net financial adjustments	6,809	5,679
- Other adjustments	150	(983)
Operating profit before working capital adjustments	104,537	95,245
Increase in current assets	(37,353)	(31,267)
Increase / (decrease) in trade and other payables	4,157	(12,529)
Cash generated from operating activities	71,341	51,449
Interest paid	(850)	(606)
Interest received	1,171	415
Corporate income tax and real estate tax paid	(686)	(1,104)
Net cash flows from operating activities	70,976	50,154
Cash flows from investing activities		
Purchase of intangible assets and PPE	(33,148)	(29,651)
Proceeds on financing from EU funds and other financing	–	149
Proceeds from redemption of held-to-maturity assets	19	15
Net cash flows used in investing activities	(33,129)	(29,487)
Cash flows from financing activities		
Proceeds on borrowings from financial institutions	40,000	30,862
Repayment of borrowings	(6,411)	(21,884)
Net cash flows used in financing activities	33,589	8,978
Net increase in cash and cash equivalents	71,436	29,645
Cash and cash equivalents at the beginning of the period	104,543	91,747
Cash and cash equivalents at the end of the period ¹⁾	175,979	121,392

¹⁾ 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 31st of March 2015 because it was defined as restricted cash and cash equivalents