LATVENERGO CONSOLIDATED AND LATVENERGO AS UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE 6-MONTH PERIOD ENDING 30 JUNE 2017

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

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Management Report

Unaudited Condensed Interim Financial Statements*

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

FINANCIAL CALENDAR

07.09.2017.

Investor Conference Webinar about the financial results of the 6-month period ending 30 June 2017

30.11.2017.

Condensed Consolidated Interim Financial Statements for the 9-month period ending 30 September 2017 (unaudited)

28.02.2018.

Condensed Consolidated Interim Financial Statements for the 12-month period ending 31 December 2017 (unaudited)

CONTACT DETAILS FOR INVESTOR RELATIONS

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DISCLAIMER

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

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

Summary

- **Lower electricity prices in Latvia**
  In 1H 2017, electricity spot price in Latvia and Lithuania decreased by 4% and 5% respectively. This decrease is mainly attributable to the opening of the *NordBalt* interconnection between Sweden and Lithuania, which has led to a convergence of electricity prices between the Baltic and the Nordic bidding areas.

- **Generation of electricity increased by 29%**
  In comparison to the respective period last year, the electricity output generated at the Daugava HPPs has increased by 55%. The amount of thermal energy generated has increased by 3%.

- **Latvenergo – the leading electricity supplier in the Baltics**
  Latvenergo Group has maintained its position of leading electricity supplier in the Baltics. Retail electricity supply outside Latvia comprises approximately one third of the total retail electricity supply.

- **Latvenergo launches natural gas trade to customers in Latvia**
  In Q2 2017, Latvenergo Group under the *Elektrum* brand commenced natural gas trade to business customers in Latvia. Latvenergo is the largest consumer of natural gas in Latvia and one of the largest in the Baltics.

- **5% EBITDA growth**
  In 1H 2017, Latvenergo Group's revenue remained at the same level as a year ago; it amounts to EUR 478.9 million. At the same time, EBITDA increased by 5%, reaching EUR 213.2 million. The results were positively affected by higher electricity output at the Daugava HPPs as well as an increase in distribution service revenue. They were negatively impacted by lower electricity sales prices in the Baltics due to the downward trend of electricity prices in the market since *NordBalt* interconnection was launched.

- **Investment in network assets – approximately 65% of the total**
  In 1H 2017, the overall amount of investment was EUR 92.8 million, 65% of which was invested in network assets. We are continuing the reconstruction of Daugava HPPs hydropower units. In 1H 2017, EUR 13.4 million was invested in this.

- **Latvenergo AS maintains its credit rating unchanged**
  On 16 February 2017, Moody's reconfirmed the credit rating for Latvenergo AS: Baa2 with a stable outlook.

- **Latvenergo rings the trading session opening bell at Nasdaq MarketSite in New York**
  On 14 August, Āris Žīgurs, Chief Executive Officer of Latvenergo, rang the traditional Nasdaq MarketSite trading session opening bell at Times Square, New York.

Latvenergo Group in Brief

Latvenergo Group is the largest pan-Baltic power supply utility operating in electricity and thermal energy generation and trade, natural gas trade, electricity distribution services and lease of transmission system assets.

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

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

The generation and trade segment comprises electricity and thermal energy generation operations, conducted by Latvenergo AS and Liepājas enerģija SIA, as well as electricity trade (incl. electricity wholesale) in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB. Natural gas trade is carried out by Latvenergo AS. Mandatory procurement is administrated by Enerģijas publiskais tirgotājs AS.

	Country of operation	Type of operation	Participation share
Latvenergo AS	Latvia	Generation and trade of electricity, gas 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 mandatory electricity procurement process	100%
Elektrum Eesti OÜ*	Estonia	Electricity trade	100%
Elektrum Lietuva UAB	Lithuania	Electricity trade	100%
Liepājas enerģija SIA	Latvia	Thermal energy generation and trade in Liepaja, electricity generation	51%

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

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

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 830 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. Payments for the lease of transmission system assets are calculated in accordance with the methodology approved by the PUC.

Latvenergo Group in Brief

Latvenergo Group's Strategy

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

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

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

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

The financial targets are set to ensure:

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

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

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

During the strategy's preparation process, the requirements of the following were met: the OECD Guidelines on Corporate Governance of State-Owned Enterprises; the Law on Governance of Capital Shares of a Public Person and Capital Companies; and the Guidelines for Drawing Up a Medium-Term Operational Strategy for State-Owned Enterprises, approved by the Cross-Sectoral Coordination Centre.

Latvenergo Group Key Performance Indicators

Latvenergo Group Operational Figures

		1H 2017	1H 2016	1H 2015	1H 2014	1H 2013
Total electricity supply, incl.	GWh	5,465	5,124	4,985	5,030	5,422
*Retail electricity supply***[**]	GWh	3,541	3,969	3,989	4,636	4,353
Wholesale electricity supply[***]	GWh	1,924	1,155	997	394	1,070
Electricity generation	GWh	3,147	2,431	1,931	2,111	2,974
Thermal energy generation	GWh	1,574	1,527	1,395	1,465	1,608
Number of employees		4,112	4,187	4,163	4,548	4,518
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa3 (stable)	Baa3 (stable)

Latvenergo Group Financial Figures

		1H 2017	1H 2016	1H 2015	1H 2014	1H 2013
Revenue	MEUR	478.9	476.0	474.1	543.1	570.7
EBITDA*	MEUR	213.2	203.3	177.8	146.2	126.8
Profit	MEUR	97.9	74.7	61.7	42.3	28.7
Assets	MEUR	3,841.9	3,545.5	3,527.5	3,528.3	3,473.7
Equity	MEUR	2,425.9	2,091.5	2,054.0	2,034.5	2,001.3
Net debt*	MEUR	566.8	648.4	703.6	681.2	636.1
Investments	MEUR	92.8	79.6	79.3	64.7	90.7

Latvenergo Group Financial Ratios

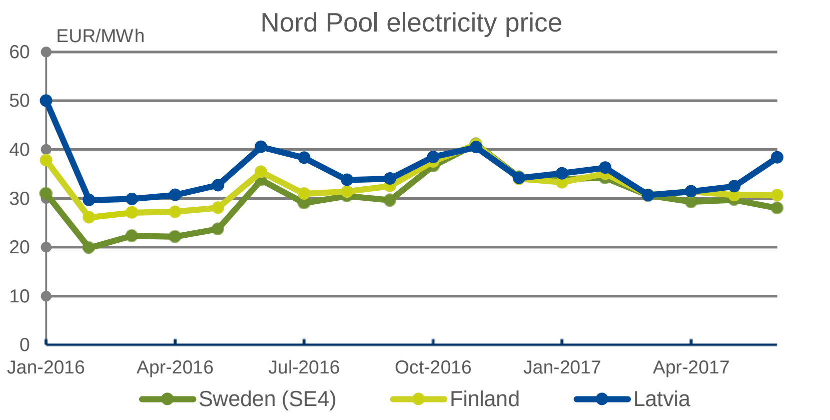
	1H 2017	1H 2016	1H 2015	1H 2014	1H 2013
Net debt / EBITDA*	1.5	2.0	2.6	2.5	2.8
EBITDA margin*	43%	36%	29%	25%	20%
Return on equity*	6.8%	4.7%	2.4%	3.0%	1.0%
Return on assets*	4.2%	2.8%	1.4%	1.7%	0.6%
Return on capital employed*	6.2%	4.1%	2.4%	2.7%	1.2%
Net debt / equity*	23%	31%	34%	33%	32%

* Definitions of ratios and terms are available in the List of Abbreviations and Formulas on page 21
** Including operating consumption
***Including sale of energy purchased within the mandatory procurement on the Nord Pool

Operating Environment

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

Compared to the respective period a year ago, in 1H 2017, the average electricity spot price was higher in the Nordics and Estonia. The price increase was influenced by lower water levels at Scandinavian hydropower reservoirs. The average electricity spot price in the Finnish bidding area increased by 6%, reaching 32.0 EUR/MWh, while in the Estonian bidding area it rose by 1%, also reaching 31.9 EUR/MWh.



Electricity prices in Latvia and Lithuania decreased in 1H 2017. Compared to 1H 2016, the average electricity spot price in the Latvian and Lithuanian bidding areas decreased by 4% and 5% respectively, reaching 34.0 EUR/MWh and 34.5 EUR/MWh respectively. The electricity prices in Latvia and Lithuania were mainly impacted by functionality and availability of the electricity interconnections *NordBalt* (700 MW) and *LitPol* (500 MW). At the beginning of the year, they fostered price reduction. Meanwhile, in Q2 2017, there were interruptions in operation of the interconnections. Also, at the beginning of June, *NordBalt* and *Estlink* interconnections were turned off due to annual maintenance works. Electricity prices in the Baltics were also influenced by trends in other Nord Pool bidding areas.

The launch of electricity interconnections contribute to convergence of electricity spot prices between the Nordic countries and the Baltics. The average electricity price in the Latvian bidding area in 1H 2017 was on average 2.12 EUR/MWh higher than in Estonia (in 1H 2016: 3.99 EUR/MWh). Meanwhile, the electricity price difference between Latvia and Lithuania decreased to 0.42 EUR/MWh in 1H 2017 (in 1H 2016: 0.63 EUR/MWh). This is due to the operation of the *NordBalt* transmission interconnection.

In 1H 2017, the total amount of electricity generated in the Baltics increased by 24% compared to the respective period last year; it amounted to 11.0 TWh. The largest increase of the amount generated was in Estonia, where the output grew to 5.9 TWh, which is 33% more than in the first six months of 2016. Meanwhile, the amount of electricity generated in Latvia was 4.0 TWh, which is by 24% more than in the same period last year. This increase was fostered by greater output at the Daugava HPPs.

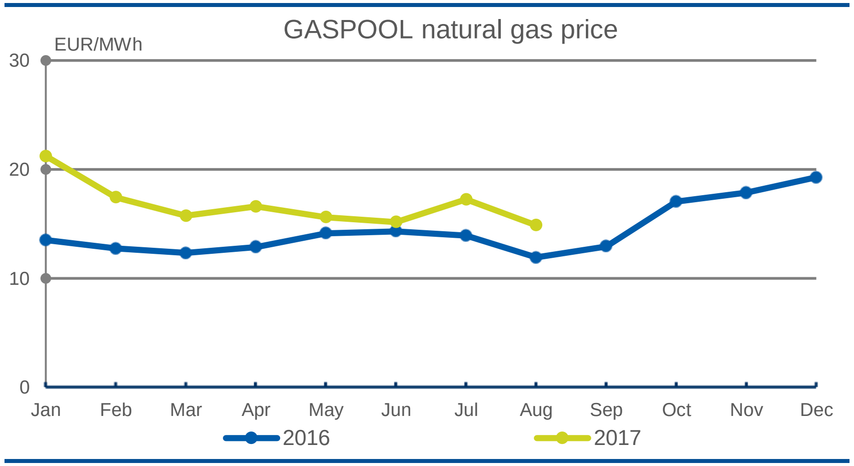
Consumption of electricity in 1H 2017 did not change significantly compared to the respective period last year; it amounted to 13.0 TWh. Due to the higher level of power generation, the need to import electricity from other Nord Pool exchange trading areas in the Baltics decreased substantially. The amount of imported electricity declined by 53% to approximately 1.9 TWh (in 1H 2016: 4.1 TWh).

Operating Environment

As of 3 April 2017, Latvia's natural gas market is open

Until 3 April 2017 Latvian natural gas supply had been a fully regulated service and Latvijas Gāze AS was the only merchant in the territory of Latvia for natural gas supply service. On 3 April 2017, according to Energy Law stipulations, the natural gas market in Latvia was opened for all users.

In 1H 2017, the average price of *Brent* crude oil increased by 30% compared to the respective period in 2016 reaching 51.7 USD/bbl (in 1H 2016: 39.6 USD/bbl). The trends of oil price movements were due to, on the one hand, the output cuts by OPEC and other major oil-exporting countries in an attempt to reduce overproduction on the global market, and, on the other hand, increased oil production by the major U.S. oil companies. Higher oil prices have also led to the increase in the price of natural gas. In 1H 2017, the average price of GASPOOL natural gas was by 27% higher than a year ago.



We launch natural gas trade to customers in Latvia

In Q2 2017, Latvenergo Group under the *Elektrum* brand commenced natural gas trade to business customers in Latvia, offering a 12-month fixed-price contract. By 30 June, more than 60 contracts have been signed.

Operating Environment

Project of the conceptual report “Complex Measures for the Development of the Electricity Market” prepared by the Ministry of Economics of the Republic of Latvia

In May 2017, the Ministry of Economics of the Republic of Latvia has prepared a conceptual report project "Complex Measures for the Development of the Electricity Market". The conceptual report project contains several options to maintain the mandatory procurement components at the current amount.

According to an international independent third-party assessment, the Group's capital structure is better than in other companies in the industry in the region, and the Group’s financial situation is stable enough to consider the implementation of any measures included in the solutions proposed. The implementation of the proposed solution will depend on further decisions made by the Cabinet of Ministers of the Republic of Latvia.

Dividends

According to the law "On the medium-term budgetary framework for 2017, 2018 and 2019" Latvenergo AS in the coming years anticipate a dividend payout for the use of the state capital in the amount of EUR 121.7 million in 2018, and in 2019 – EUR 129.5 million. The actual amount of dividend payout is set at the Shareholder’s Meeting of Latvenergo AS after the approval of the annual report, upon evaluation of the results of the previous year.

Latvenergo Group's capital structure ratios (net debt to equity on 30 June 2017 – 23%) 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 retaining the mandatory procurement public service obligation (PSO) fee at the current level during the following years.

Financial Results

In 1H 2017, Latvenergo Group's revenue has increased by 1% and comprises EUR 478.9 million.

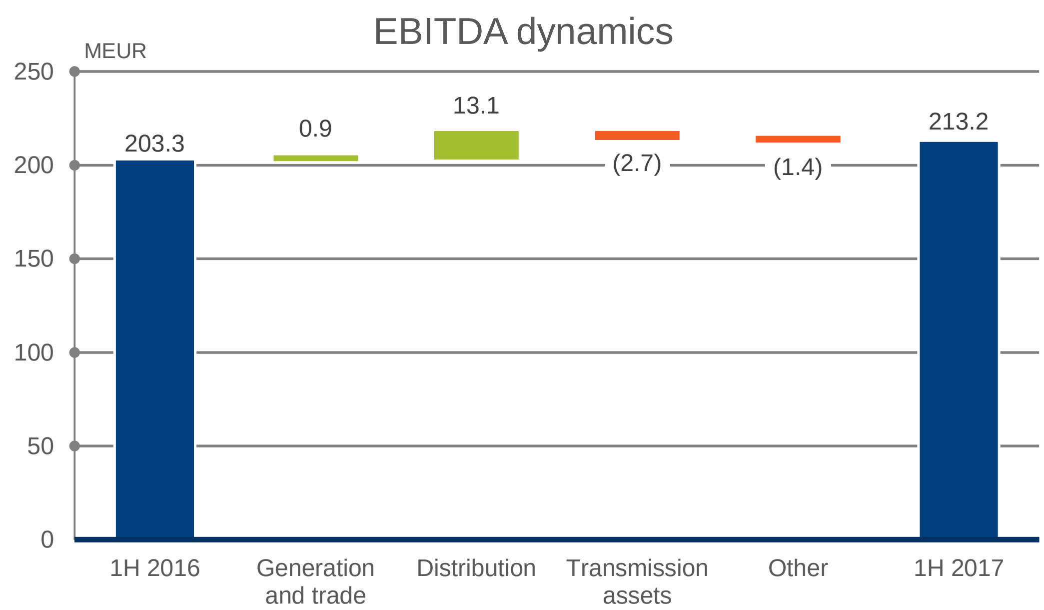
The Group's EBITDA and profit increased

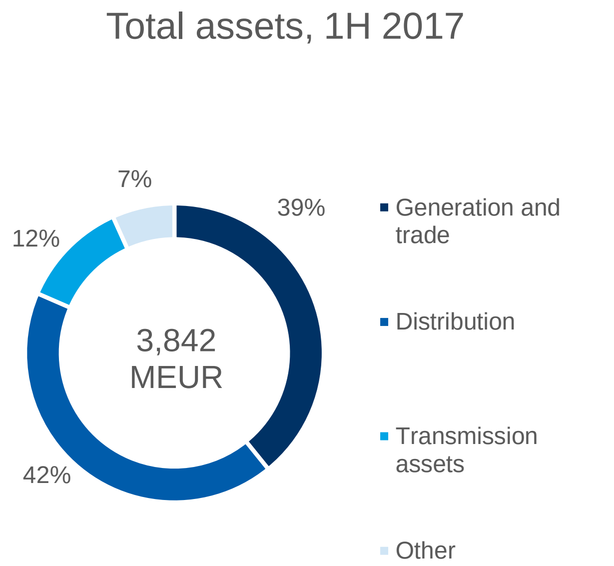
During the reporting period, Latvenergo Group's EBITDA increased by 5% reaching EUR 213.2 million, while the Group's profit in 1H 2017 was EUR 97.9 million.

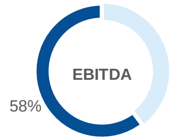
The Group's results were positively impacted by the 55% greater electricity output at the Daugava HPPs as well as by the EUR 11.5 million increase in distribution service revenue. The results were negatively impacted by lower electricity sales prices in the Baltics due the downward trend of electricity prices in the market. In 1H 2017, electricity prices in Latvia were by 4% lower compared to 1H 2016. Since 2016, electricity price has been declining in the Baltics is due to the operation of the *NordBalt* electricity interconnection.

Furthermore, the EBITDA margin has improved, reaching 43% (in 1H 2016: 36%).

Latvenergo Group Financial figures		1H 2017	1H 2016	Δ	Δ, %
Revenue	MEUR	478.9	476.0	2.9	1%
EBITDA	MEUR	213.2	203.3	9.9	5%
Net profit	MEUR	97.9	74.7	23.2	31%
Assets	MEUR	3,841.9	3,545.5	296.4	8%







Generation and Trade

Revenue **58%**

EBITDA **58%**

Assets **39%**

Employees **25%**

Segment weight in Latvenergo Group

Generation and trade is Latvenergo Group's largest operating segment by both revenue and EBITDA value. The majority or 83% of the segment's revenue comes from electricity and related services, while 17% comes from thermal energy supply.

The segment's results were positively impacted by higher electricity output at the Daugava HPPs due to greater water inflow in the Daugava River, and negatively impacted by lower electricity sales prices in the Baltics.

In 1H 2017, Latvenergo Group generated 3,147 GWh of electricity at its plants. This corresponds to 89% of the amount of electricity sold to retail customers (in 1H 2016: 61% of the amount sold).

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

Operational figures		**1H 2017**	**1H 2016**	**Δ**	**Δ, %**
Total electricity supply	GWh	5,465	5,124	341	7%
Electricity generation	GWh	3,147	2,431	716	29%
Thermal energy generation	GWh	1,574	1,527	47	3%

Financial figures		**1H 2017**	**1H 2016**	**Δ**	**Δ, %**
Revenue	MEUR	295.3	306.5	(11,2)	(4%)
EBITDA	MEUR	124.0	123.1	0.9	1%
Assets	MEUR	1,504.9	1,510.6	(5.7)	(0%)
Investments	MEUR	29.7	22.9	6.8	30%
EBITDA margin		39.3	30.4	8.9	29%

Generation

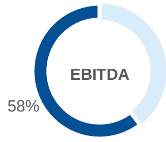
In 1H 2017, the total amount generated by Latvenergo Group's power plants comprised 3,147 GWh of electricity and 1,574 GWh of thermal energy.

Overall, the amount of electricity generated compared to 1H 2016 has increased by 29%.

In the first six months of 2017, the amount of power generated by the Daugava HPPs increased by 55% compared to the respective period a year ago, reaching 2,242 GWh (in 1H 2016: 1,445 GWh).

> Generation of electricity increased by 29%

The amount of power generated by the Riga CHPPs in 1H 2017 decreased by 8%, reaching 877 GWh. The decreased amount of power generation at the Riga CHPPs was determined by the higher price of natural gas. Riga CHPPs operate in market conjuncture effectively planning operating modes and fuel consumption.



Generation and Trade

Due to the optimal mix of Latvenergo Group's generation at the Riga CHPPs and Daugava HPPs and the opportunities to import, consumers in the Baltic States benefit from both price convergence to the Nordic price level and price stability in the long-term.

In 1H 2017, the total amount of thermal energy generated by Latvenergo Group increased by 3%. The increase was influenced by the relatively cold weather and longer heating season.

Operational figures		1H 2017	1H 2016	Δ	Δ, %
Total electricity supply, incl.	GWh	5,465	5,124	341	7%
Retail electricity supply[*]	GWh	3,541	3,969	(429)	(11%)
Wholesale electricity supply	GWh	1,924	1,155	769	67%
Electricity generation	GWh	3,147	2,431	716	29%
Daugava HPPs	GWh	2,242	1,445	796	55%
Riga CHPPs	GWh	877	958	(81)	(8%)
Liepaja plants and small plants	GWh	28	27	1	2%
Thermal energy generation		1,574	1,527	47	3%
Riga CHPPs	GWh	1,420	1,380	40	3%
Liepaja plants and small plants	GWh	154	147	7	5%

[*] Including operating consumption

Trade

In 1H 2017, Latvenergo Group has maintained the position of leading electricity supplier in the Baltics. Latvenergo Group has approximately 27% of the market share of the Baltic electricity retail market.

The overall amount of retail electricity trade outside Latvia accounts for 1/3 of the total, reaching 1,182 GWh.

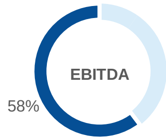
In 1H 2017, the Group supplied 3,541 GWh of electricity to Baltic retail customers (in 1H 2016: 3,969 GWh). The decrease in the amount of electricity supplied is primarily related to intensified price competition in the business customers segment.

Latvenergo Group's electricity trade volume in Latvia was 2,359 GWh, while it was 695 GWh in Lithuania and 487 GWh in Estonia.

Latvenergo Group supplies electricity to the Baltic countries through the 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.

Latvenergo Group has managed to maintain stable client portfolio in the Baltics. Its total number of foreign clients exceeds 35 thousand.

In Q2 2017, Latvenergo Group under the *Elektrum* brand commenced natural gas trade to business customers in Latvia.



Generation and Trade

Mandatory procurement

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

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

> The mandatory procurement PSO fee remains at the previous level

Mandatory procurement expenditures* are covered through a mandatory procurement PSO fee charged to 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.

On 16 February 2017, the PUC approved the mandatory procurement PSO fee as of 1 April 2017 in the amount of 2.679 euro cents / kWh, which has remained at the same level since 1 April 2014. According to the mandatory procurement component calculation, the division between cogeneration and renewable energy components has changed. Since 1 April 2017 the PSO cogeneration component has decreased to 1.185 euro cents / kWh (previously it was 1.625 euro cents / kWh), while the renewable energy component rose to 1.494 euro cents / kWh (previously it was 1.054 euro cents / kWh). To prevent the mandatory procurement PSO fee from increasing, a state grant in the amount of EUR 62.9 million is expected in 2017.

Revenues from SET, which was introduced on 1 January 2014, as well as dividends of Latvenergo AS are used as a funding source for the above mentioned State Budget programme.

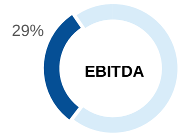
In the coming years, according to the law "On the medium-term budgetary framework for 2017, 2018 and 2019" Latvenergo AS dividends for the use of state capital are expected to be used as additional funding.

Unsettled revenue from the mandatory procurement PSO fee recognized as assets		1H 2017	1H 2016	Δ	Δ, %
At the beginning of the period	MEUR	**142.1**	**141.1**	**1.1**	**1%**
Mandatory procurement PSO fee income	MEUR	89.6	90.1	(0.5)	(1%)
Received state grant	MEUR	66.9	59.2	7.7	13%
Mandatory procurement expenditures*	MEUR	135.8	122.3	13.5	11%
Incl. cogeneration	MEUR	74.7	72.8	1.9	3%
Incl. renewable energy resources	MEUR	60.8	49.2	11.6	24%
At the end of the period	MEUR	**121.4**	**114.0**	**7.4**	**6%**

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

In 1H 2017, mandatory procurement expenditures comprise EUR 135.8 million (in 1H 2016: EUR 122.3 million). The expenditures increased due to the greater amount and the higher price of the mandatory procurement.

In 1H 2017, assets recognized as unearned PSO fee revenue increased by EUR 7.4 million, comprising EUR 121.4 million. In 1H 2017, a state grant in the amount of EUR 66.9 million was received.



Distribution

Revenue
32%
EBITDA
29%
Assets
42%
Employees
60%

Segment weight in Latvenergo Group

The distribution segment is Latvenergo Group's largest segment by assets and second largest by revenue. In 1H 2017, segment's revenue increased by 8% compared to last year, reaching EUR 160.7 million, while EBITDA increased by 27% reaching EUR 61.3 million.

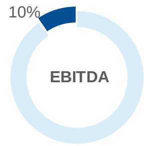
> The value of distribution assets exceeds EUR 1.6 billion

In 1H 2017, segment's results were positively impacted by the increase in distribution service revenue (EUR 11.5 million) compared to the respective period a year ago. Growth resulted from the change in the distribution system services tariff that came into force on 1 August 2016. The tariff provides for implementation of a fixed distribution service part that facilitates efficient utilisation of distribution grid connection capacity.

Investment in distribution assets during the reporting period increased by 6% compared to 1H 2016, reaching EUR 50.6 million.

Operational figures		**1H 2017**	**1H 2016**	**Δ**	**Δ, %**
Electricity distributed	GWh	3,250	3,276	(26)	(1%)
Distribution losses		165	150	15	10%
SAIFI	number	1.2	1.6	(0.4)	(26%)
SAIDI	minutes	110	152	(42)	(28%)
Financial figures		**1H 2017**	**1H 2016**	**Δ**	**Δ, %**
Revenue	MEUR	160.7	149.1	11.7	8%
EBITDA	MEUR	61.3	48.3	13.1	27%
Assets	MEUR	1,627.0	1,312.6	314.4	24%
Investments	MEUR	50.6	47.7	2.9	6%
EBITDA margin		37.0	29.5	7.6	26%

Due to the revaluation made in 2016 and investments, the value of distribution assets has increased to EUR 1,627.0 million. Large-scale investments in modernisation of the network are also scheduled for the coming years in order to increase the safety and quality of network services, lower SAIFI and SAIDI indicators, and minimize the risk of network disruptions caused by severe weather conditions.



Lease of Transmission System Assets

Segment weight in Latvenergo Group

Revenue **4%**

EBITDA **10%**

Assets **12%**

Employees **0.2%**

The value of transmission system assets exceeds 450 MEUR

The revenue of the transmission system asset lease segment represents 4% of Latvenergo Group's revenue. In 1H 2017, the segment's revenue was EUR 22.1 million, while EBITDA was EUR 21.4 million.

During the reporting period, investment in transmission system assets was EUR 13.1 million, which is EUR 6.2 million more than in the respective period last year.

Financial figures		1H 2017	1H 2016	Δ	Δ, %
Revenue	MEUR	22.1	24.8	(2.7)	(11%)
EBITDA	MEUR	21.4	24.0	(2.7)	(11%)
Total assets	MEUR	450.6	422.2	28.3	7%
Investments	MEUR	13.1	6.9	6.2	91%

Due to the revaluation made in 2016 and investments, the value of transmission assets has increased to EUR 450.6 million.

The return on transmission system assets in 1H 2017 was 3.0% (in 1H 2016: 3.8%). The change in the ratio value is due to the revaluation of the transmission assets.

Investments

In 1H 2017, the total amount of investment has increased by 17% compared to the respective period last year; it amounts to EUR 92.8 million. The increase has resulted mainly from the greater investment in generation and transmission segments.

> Investment in network assets – approximately 2/3 of the total

To ensure high quality network service, technical parameters and operational safety, a significant amount is invested in the modernisation of the power network. In 1H 2017, the amount invested in the networks represented 65% of total investment.

Contributing to environmentally friendly projects and environmental development projects, in 1H 2017, EUR 13.4 million was invested in Daugava HPPs hydropower unit reconstruction.

Investment projects:

<u>Daugava HPPs hydropower unit reconstruction programme (Daugava HPPs reconstruction)</u>

Deeming environmentally safe, sustainable and competitive operations and effective water resource management as highly important, Latvenergo Group is proceeding with a gradual overhaul of eleven Daugava HPPs hydropower units. The programme is scheduled for completion by 2022, with estimated total reconstruction costs exceeding EUR 200 million. Work completed within the scope of the contract reached EUR 104.0 million as of 30 June 2017. Reconstruction will ensure hydropower units' functionality for another 40 years.

<u>*Kurzeme Ring* project</u>

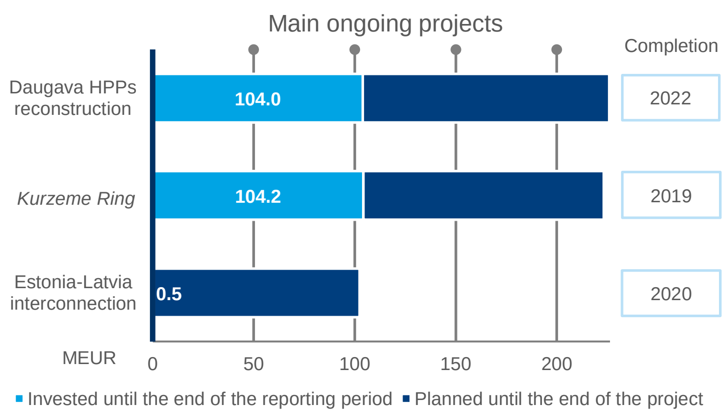
The implementation of the *Kurzeme Ring* project is fostering an increase in power supply safety in the Kurzeme region and Latvia as a whole, providing an opportunity for more effective use of the Lithuania-Sweden marine cable *NordBalt* and allowing further integration of the Baltics into the Nordic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

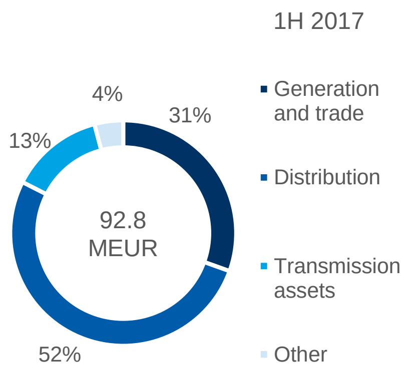
The *Kurzeme Ring* project is scheduled for completion in 2019, and the total project construction costs are expected to comprise approximately EUR 230 million. The project consists of three stages. Investment in the first and second stage of the project comprised a total of EUR 95 million, approximately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

During the reporting period, 330 kV transmission line engineering and geological exploration of line foundations location is continued. Construction permits for the reconstruction of the line have been received, and the construction of the line footing foundation has begun. Also, rebuilding works are commenced at several substations.

<u>The third Estonia–Latvia power transmission network interconnection</u>

The project bears major significance for the future electricity transmission infrastructure of the whole Baltic region. The construction of the new 330 kV interconnection is scheduled for completion by the end of 2020 and the total construction costs of the project in Latvia are estimated to be approximately EUR 100 million. During the reporting period, a procurement procedure for projecting and constructing the 330 kV power line was arranged. The project is co-funded by the EU, which covers 65% of eligible costs.





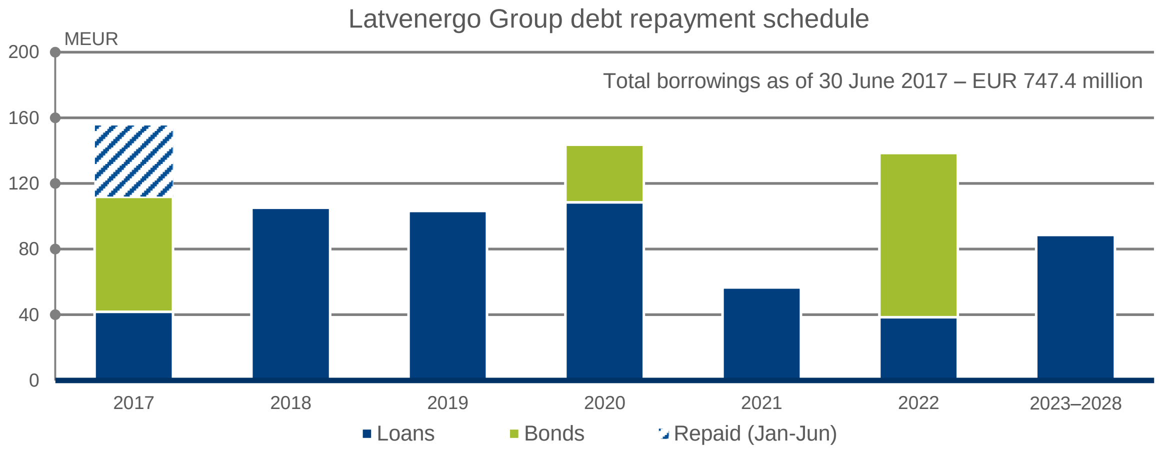
Funding and Liquidity

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

Best investor relations among bond issuers in the Baltics

Latvenergo AS is the first company in the Baltics, which has received the Nasdaq exchange award for the best investor relations among bond issuers. Along with the award Latvenergo AS was invited to the Nasdaq MarketSite studio in Times Square, New York. On 14 August, Āris Žīgurs, Chief Executive Officer of Latvenergo, rang the traditional trading session opening bell.

As of 30 June 2017, the Group's borrowings amount to EUR 747.4 million (30 June 2016: EUR 832.3 million), comprising loans from commercial banks, international investment banks, and bonds amounting to EUR 205 million of which EUR 100 million are *green* bonds.



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

As of 30 June 2017, all borrowings are denominated in euro currency. The weighted average repayment period was 3.7 years (30 June 2016: 4.3 years).

The effective weighted average interest rate (with interest rate swaps) was 1.8% (30 June 2016: 1.9%). Also, sufficient coverage of debt service requirements has been ensured (interest coverage ratio: 32.0).

As of 30 June 2017, the net borrowings of Latvenergo Group are EUR 566.8 million (30 June 2016: EUR 648.4 million), while the net debt / EBITDA ratio is 1.5 (30 June 2016: 2.0). In 1H 2017, all the binding financial covenants set in Latvenergo Group loan agreements were met.

On 16 February 2017, Moody's reconfirmed credit rating of Latvenergo AS: Baa2 with a stable outlook.

Financial Risk Management

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

a) Market risks

I) Currency risk

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

As of 30 June 2017, all borrowings of Latvenergo Group are denominated in euros, and during the reporting period, there were no substantial exposure to foreign currency risk from Group's investments.

To manage the Group's foreign currency exchange risk, the Financial Risk Management Policy envisages use of foreign exchange forward contracts.

II) Interest rate risk

Latvenergo Group's interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group to the risk that finance costs might increase significantly when the reference rate surges. Most of borrowings from financial institutions have a variable interest rate, comprising 3, 6 or 12 month EURIBOR and a margin. The Group's Financial Risk Management Policy stipulates maintaining at least 35% of its borrowings as fixed interest rate borrowings (taking into account the effect of interest rate swaps and issued bonds) with a duration of 2–4 years. Taking into account the effect of interest rate swaps and bonds with a fixed interest rate, 67% of the borrowings had a fixed interest rate with an average period of 2.1 year as of 30 June 2017.

III) Price risk

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

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

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

b) Credit risk

Credit risk is managed at the Latvenergo Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, and receivables. Credit risk exposure of receivables is limited due to large number of Group customers as there is no significant concentration of credit risk with any single counterparty or group of counterparties with similar characteristics.

Credit risk related to cash and short-term deposits with banks is managed by balancing the placement of financial assets in order to simultaneously choose the best offers and reduce the probability of incurrence of loss. No credit limits were exceeded during the reporting period, and the Group's management does not expect any losses due to the occurrence of credit risk.

c) Liquidity risk and cash flow risk

Latvenergo Group's liquidity and cash flow risk management policy is to maintain a sufficient amount of cash and cash equivalents and the availability of long and short-term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks. On 30 June 2017, Latvenergo Group's liquid assets (cash and short term deposits up to 3 months) reached EUR 180.6 million (EUR 183.9 million), while the current ratio was 1.7 (2.3).

The Group continuously monitors cash flow and liquidity forecasts, which comprise the undrawn borrowing facilities and cash and cash equivalents.

Latvenergo AS Key Performance Indicators

Latvenergo AS operational figures

		1H 2017	1H 2016	1H 2015
Retail electricity supply in Latvia**	GWh	2,359	2,751	2,738
Electricity generation	GWh	3,122	2,406	1,906
Thermal energy generation	GWh	1,423	1,383	1,257
Number of employees		1,476	1,478	1,450
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

Latvenergo AS financial figures

		1H 2017	1H 2016	1H 2015
Revenue	MEUR	262.7	267.4	263.0
EBITDA*	MEUR	130.1	130.4	109.2
Profit	MEUR	82.2	87.4	71.1
Assets	MEUR	3,129.2	3,172.2	3,151.9
Equity	MEUR	2,170.0	2,122.4	2,091.4
Net debt*	MEUR	556.9	641.3	723.7
Investments	MEUR	34.7	30.3	32.7

Latvenergo AS financial ratios

	1H 2017	1H 2016	1H 2015
Return on equity*	6.2%	5.3%	2.6%
Net debt / equity*	26%	30%	35%
EBITDA margin*	47%	38%	26%

* Definitions of ratios and terms are available in the List of Abbreviations and Formulas on page 21
** Including operating consumption

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS the *Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Interim Financial Statements for the 6-Month Period Ending 30 June 2017*, including the Management Report (have been prepared in accordance with the International Financial Reporting Standards) in all material aspects present a true and fair view of the assets, liabilities, financial position and profit and loss of Latvenergo Group and Latvenergo AS, and the Management Report provides clear and accurate information.

On 30 June 2017, the Management Board of Latvenergo AS approved the *Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Interim Financial Statements for the 6-Month Period Ending 30 June 2017*, having authorized Chairman of the Management Board Āris Žīgurs and Member of the Management Board Guntars Baļčūns as the Statement's signatories on 22 August 2017.

Āris Žīgurs
Chairman of the Board

Guntars Baļčūns
Member of the Board

22 August 2017

List of Abbreviations and Formulas

Abbreviations

bbl – barrel of oil (158.99 litres)

Daugava HPPs – Daugava hydropower plants

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

kV – kilovolt

MEUR – million euros

MW – megawatt

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

nm^3 – normal cubic meter

OECD – The Organisation for Economic Co-operation and Development

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

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

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

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

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

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

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

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

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

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

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

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

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

Unaudited Condensed Interim Financial Statements

Statement of Profit or Loss

	Notes	Group 01/01–30/06/2017	Group 01/01–30/06/2016	Company 01/01–30/06/2017	Company 01/01–30/06/2016
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue	4	478,902	475,998	262,691	267,370
Other income		3,535	3,224	2,398	1,596
Raw materials and consumables used	5	(182,180)	(195,800)	(83,486)	(93,467)
Personnel expenses		(51,363)	(48,731)	(21,550)	(19,646)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	7	(94,122)	(111,542)	(44,314)	(46,252)
Other operating expenses		(35,744)	(31,438)	(29,914)	(25,437)
Operating profit		**119,028**	**91,711**	**85,825**	**84,164**
Finance income		627	1,211	5,723	6,561
Finance costs		(5,930)	(7,386)	(6,232)	(7,652)
Received dividends from subsidiaries		–	–	9,110	15,600
Profit before tax		**113,725**	**85,536**	**94,426**	**98,673**
Income tax	6	(15,854)	(10,856)	(12,249)	(11,276)
Profit for the period		**97,871**	**74,680**	**82,177**	**87,397**
Profit attributable to:					
– Equity holder of the Parent Company		96,628	73,734	–	–
– Non–controlling interests		1,243	946	–	–

Statement of Other Comprehensive Income

	Notes	Group 01/01–30/06/2017	Group 01/01–30/06/2016	Company 01/01–30/06/2017	Company 01/01–30/06/2016
		EUR'000	EUR'000	EUR'000	EUR'000
Profit for the period		**97,871**	**74,680**	**82,177**	**87,397**
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods (net of tax):					
- gains / (losses) from change in hedge reserve	12 c	864	(2,480)	864	(2,480)
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods	**12 c**	**864**	**(2,480)**	**864**	**(2,480)**
TOTAL other comprehensive income / (loss) for the period, net of tax		**864**	**(2,480)**	**864**	**(2,480)**
TOTAL comprehensive income for the period		**98,735**	**72,200**	**83,041**	**84,917**
Other comprehensive income attributable to:					
– Equity holder of the Parent Company		97,492	71,254	–	–
– Non–controlling interests		1,243	946	–	–

Statement of Financial Position

	Notes	Group		Company	
		30/06/2017	31/12/2016	30/06/2017	31/12/2016
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non–current assets					
Intangible assets and property, plant and equipment	7	3,367,370	3,370,331	1,331,816	1,341,287
Investment property		669	563	72,267	72,833
Non–current financial investments	9	41	41	817,049	817,049
Non–current loans to subsidiaries	13 e	–	–	397,678	377,380
Investments in held–to–maturity financial assets	12 a	17,009	17,034	17,009	17,034
Other non–current receivables		987	986	977	977
TOTAL non–current assets		**3,386,076**	**3,388,955**	**2,636,796**	**2,626,560**
Current assets					
Inventories	8	42,049	41,458	25,724	9,118
Prepayment for inventories	8	57	–	55	16,693
Trade receivables and other receivables	10	228,506	273,957	92,805	113,659
Deferred expenses		2,390	3,227	1,603	2,189
Current loans to subsidiaries	13 e	–	–	191,011	245,324
Derivative financial instruments	12 c	2,190	6,134	2,190	6,134
Investments in held–to–maturity financial assets	12 a	–	3,520	–	3,520
Cash and cash equivalents	11	180,600	183,980	178,975	181,197
TOTAL current assets		**455,792**	**512,276**	**492,363**	**577,834**
TOTAL ASSETS		**3,841,868**	**3,901,231**	**3,129,159**	**3,204,394**
EQUITY					
Share capital		1,288,715	1,288,715	1,288,715	1,288,715
Reserves		937,181	937,074	650,884	650,020
Retained earnings		193,083	185,840	230,369	238,334
Equity attributable to equity holder of the Parent Company		**2,418,979**	**2,411,629**	**2,169,968**	**2,177,069**
Non–controlling interests		6,934	7,084	–	–
TOTAL equity		**2,425,913**	**2,418,713**	**2,169,968**	**2,177,069**
LIABILITIES					
Non–current liabilities					
Borrowings	12 b	610,821	635,620	601,368	627,691
Deferred income tax liabilities		313,169	315,759	124,226	126,260
Provisions		19,159	18,643	8,162	7,924
Derivative financial instruments	12 c	5,670	7,946	5,670	7,946
Other liabilities and deferred income		194,254	195,407	1,025	1,055
Total non–current liabilities		**1,143,073**	**1,173,375**	**740,451**	**770,876**
Current liabilities					
Borrowings	12 b	136,561	155,946	134,526	150,632
Trade and other payables		105,537	117,817	70,629	85,569
Income tax payable		13,018	17,718	10,024	16,549
Deferred income		14 264	14,022	59	59
Derivative financial instruments	12 c	3,502	3,640	3,502	3,640
TOTAL current liabilities		**272,882**	**309,143**	**218,740**	**256,449**
TOTAL liabilities		**1,415,955**	**1,482,518**	**959,191**	**1,027,325**
TOTAL EQUITY AND LIABILITIES		**3,841,868**	**3,901,231**	**3,129,159**	**3,204,394**

Statement of Changes in Equity

	Group						Company			
	Attributable to equity holder of the Parent Company				Non–control–ling interests	TOTAL	Attributable to equity holder of the Company			TOTAL
	Share capital	Reserves	Retained earnings	Total			Share capital	Reserves	Retained earnings	
	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**	EUR'000	EUR'000	EUR'000	**EUR'000**
As of 31 December 2015	**1,288,531**	**669,596**	**131,662**	**2,089,789**	**6,913**	**2,096,702**	**1,288,531**	**649,779**	**176,590**	**2,114,900**
Increase in share capital	184	–	–	**184**	–	**184**	184	–	–	**184**
Dividends for 2015	–	–	(77,413)	**(77,413)**	(1,377)	**(78,790)**	–	–	(77,413)	**(77,413)**
Disposal of property, plant and equipment revaluation reserve net of deferred income tax	–	(4,854)	4,854	**–**	–	**–**	–	(2,606)	2,606	**–**
TOTAL contributions and profit distributions recognised directly in equity	**184**	**(4,854)**	**(72,559)**	**(77,229)**	**(1,377)**	**(78,606)**	**184**	**(2,606)**	**(74,807)**	**(77,229)**
Profit for the year	–	–	129,045	**129,045**	1,548	**130,593**	–	–	137,441	**137,441**
Other comprehensive income / (loss)	–	272,332	(2,308)	**270,024**	–	**270,024**	–	2,847	(890)	**1,957**
TOTAL comprehensive income	**–**	**272,332**	**126,737**	**399,069**	**1,548**	**400,617**	**–**	**2,847**	**136,551**	**139,398**
As of 31 December 2016	**1,288,715**	**937,074**	**185,840**	**2,411,629**	**7,084**	**2,418,713**	**1,288,715**	**650,020**	**238,334**	**2,177,069**
As of 31 December 2015	**1,288,531**	**669,596**	**131,662**	**2,089,789**	**6,913**	**2,096,702**	**1,288,531**	**649,779**	**176,590**	**2,114,900**
Dividends for 2015	–	–	(77,413)	**(77,413)**	–	**(77,413)**	–	–	(77,413)	**(77,413)**
Disposal of property, plant and equipment revaluation reserve net of deferred income tax	–	(277)	277	**–**	–	**–**	**–**	**–**	–	**–**
TOTAL contributions and profit distributions recognised directly in equity	**–**	**(277)**	**(77,136)**	**(77,413)**	**–**	**(77,413)**	**–**	**–**	**(77,413)**	**(77,413)**
Profit for the period	–	–	73,734	**73,734**	946	**74,680**	–	–	87,397	**87,397**
Other comprehensive loss for the period (Note 12 c)	–	(2,480)	–	**(2,480)**	–	**(2,480)**	–	(2,480)	–	**(2,480)**
TOTAL comprehensive income / (loss) for the period	**–**	**(2,480)**	**73,734**	**71,254**	**946**	**72,200**	**–**	**(2,480)**	**87,397**	**84,917**
As of 30 June 2016	**1,288,531**	**666,839**	**128,260**	**2,083,630**	**7,859**	**2,091,489**	**1,288,531**	**647,299**	**186,574**	**2,122,404**
As of 31 December 2016	**1,288,715**	**937,074**	**185,840**	**2,411,629**	**7,084**	**2,418,713**	**1,288,715**	**650,020**	**238,334**	**2,177,069**
Dividends for 2016	–	–	(90,142)	**(90,142)**	(1,393)	**(91,535)**	–	–	(90,142)	**(90,142)**
Disposal of property, plant and equipment revaluation reserve net of deferred income tax	–	(757)	757	**–**	–	**–**	**–**	**–**	–	**–**
TOTAL contributions and profit distributions recognised directly in equity	**–**	**(757)**	**(89,385)**	**(90,142)**	**(1,393)**	**(91,535)**	**–**	**–**	**(90,142)**	**(90,142)**
Profit for the period	–	–	96,628	**96,628**	1,243	**97,871**	–	–	82,177	**82,177**
Other comprehensive income for the period (Note 12 c)	–	864	–	**864**	–	**864**	–	864	–	**864**
TOTAL comprehensive income for the period	**–**	**864**	**96,628**	**97,492**	**1,243**	**98,735**	**–**	**864**	**82,177**	**83,041**
As of 30 June 2017	**1,288,715**	**937,181**	**193,083**	**2,418,979**	**6,934**	**2,425,913**	**1,288,715**	**650,884**	**230,369**	**2,169,968**

Statement of Cash Flows

	Notes	Group		Company	
		01/01–30/06/2017	**01/01–30/06/2016**	**01/01–30/06/2017**	**01/01–30/06/2016**
		EUR'000	EUR'000	EUR'000	EUR'000
Cash flows from operating activities					
Profit before tax		113,725	85,536	94,426	98,673
Adjustments:					
- Amortisation, depreciation and impairment of non–current assets		95,402	112,746	44,484	46,252
- Net financial adjustments		7,715	1,753	2,921	(3,296)
- Other adjustments		498	460	(8,889)	(15,313)
Operating profit before working capital adjustments		**217,340**	**200,495**	**132,942**	**126,316**
Decrease / (increase) in current assets		48,164	18,228	20,801	(3,474)
Decrease in trade and other payables		(9,865)	(9,313)	(8,796)	(4,219)
Cash generated from operating activities		**255,639**	**209,410**	**144,947**	**118,623**
Interest paid		(7,022)	(8,458)	(7,319)	(8,718)
Interest received		1,177	1,530	6,395	7,239
Corporate income tax and real estate tax paid		(23,219)	(4,031)	(20,808)	(4,170)
Net cash flows from operating activities		**226,575**	**198,451**	**123,215**	**112,974**
Cash flows from investing activities					
Loans issued to subsidiaries		–	–	–	(16,111)
Repayment of loans issued to subsidiaries		–	–	34,015	32,047
Purchase of intangible assets and property, plant and equipment		(98,293)	(77,186)	(40,043)	(27,978)
Proceeds from redemption of held–to–maturity assets		3,544	30	3,544	30
Proceeds from investments in subsidiaries		–	–	9,110	15,600
Net cash flows (used in) / generated from investing activities		**(94,749)**	**(77,156)**	**6,626**	**3,588**
Cash flows from financing activities					
Proceeds from issued debt securities (bonds)		–	26,267	–	26,267
Proceeds on borrowings from financial institutions	12 b	–	55,000	–	55,000
Repayment of borrowings	12 b	(43,671)	(45,826)	(41,921)	(44,821)
Dividends paid to equity holder of the Parent Company		(90,142)	(77,413)	(90,142)	(77,413)
Dividends paid to non–controlling interests		(1,393)	–	–	–
Net cash flows used in financing activities		**(135,206)**	**(41,972)**	**(132,063)**	**(40,967)**
Net (decrease) / increase in cash and cash equivalents	**11**	**(3,380)**	**79,323**	**(2,222)**	**75,595**
Cash and cash equivalents at the beginning of the period	11	183,980	104,543	181,197	101,819
Cash and cash equivalents at the end of the period	**11**	**180,600**	**183,866**	**178,975**	**177,414**

Notes to the Financial Statements

1. General Information on the Group and the Company

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

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

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

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

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

Latvenergo AS shareholding in its subsidiaries and other non–current financial investments of the Group are disclosed in Note 9 'Non–current Financial Investments'.

The Management Board of Latvenergo AS since 16 November 2015 until the date of approving of these Unaudited Interim Condensed Financial Statements of the Group and the Company was comprised of the following members: Āris Žīgurs (Chairman of the Board), Uldis Bariss, Māris Kuņickis, Guntars Baļčūns and Guntis Stafeckis.

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

The Supervisory body – Audit Committee since 4 December 2015 was comprised of the following members: Torben Pedersen (Chairman of the Committee), Svens Dinsdorfs and Marita Salgrāve and since 3 March 2017 as well Andris Ozoliņš and Andris Liepiņš.

Latvenergo Consolidated Annual Report 2016 and Latvenergo AS Annual Report 2016 had been approved on 10 May 2017 by the Latvenergo AS Shareholder's meeting (see on Latvenergo AS web page section "Investors" – http://www.latvenergo.lv/eng/investors/reports/).

The Unaudited Interim Condensed Financial Statements of *Latvenergo* Group and Latvenergo AS for the 6-month period ending 30 June 2017 include the financial information in respect of the *Latvenergo* Group and Latvenergo AS for the period starting on 1 January 2017 and ending on 30 June 2017 and comparative information for the 6-month period ending 30 June 2016.

The Unaudited Interim Condensed Financial Statements of Latvenergo Group and Latvenergo AS for the 6-month period ending 30 June 2017 were authorised by the Latvenergo AS Management Board on 22 August 2017.

2. Summary of Most Significant Accounting Policies

These Interim Condensed Financial Statements of the *Latvenergo* Group and Latvenergo AS are prepared in accordance with the International Financial Reporting Standards (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 and Latvenergo AS Financial Statements for the 2016 financial year. These policies have been consistently applied to all reporting periods presented in financial statements, unless otherwise stated. Where it is necessary, comparatives are reclassified.

New or revised IFRS and amendments to standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became mandatory for the Group and the Company from 1 January 2017 did not have any impact to the significant Group's and Company's accounting policies and these Interim Condensed Financial Statements.

Interim Condensed Financial Statements of the *Latvenergo* Group and Latvenergo AS are prepared under the historical cost convention, except for some financial assets and liabilities (including derivative financial instruments) measured at fair value through profit or loss and for the revaluation of property, plant and equipment carried at revalued amounts through other comprehensive income as disclosed in accounting policies presented in *Latvenergo* Consolidated Annual Report 2016 and Latvenergo AS Annual Report 2016.

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

3. Operating Segment Information

Operating segments of the Group and the Company

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

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

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

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

In the *Latvenergo* Group ***generation and trade*** operating segment comprises the Group's electricity and thermal energy generation operations, which are organised into the two legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity trade (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. In the Company generation and trade segment comprises the Company's electricity and thermal energy generation operations, electricity sales (including electricity wholesale), customer services and credit control.

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

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

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

The following table presents revenue, profit information and segment assets of the Group's and the Company's operating segments.

Inter–segment revenue is eliminated on disclosure of the Group's and the Company's total revenue.

	Group							Company				
	Generation and trade	Distribution	Lease of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Company
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
Period 01/01–30/06/2017												
Revenue												
External customers	294,224	159,786	20,857	4,035	**478,902**	–	**478,902**	238,013	24,678	**262,691**	–	**262,691**
Inter–segment	1,109	945	1,268	26,004	**29,326**	(29,326)	**–**	167	14,330	**14,497**	(14,497)	–
TOTAL revenue	**295,333**	**160,731**	**22,125**	**30,039**	**508,228**	**(29,326)**	**478,902**	**238,180**	**39,008**	**277,188**	**(14,497)**	**262,691**
Results												
EBITDA	**123,994**	**61,332**	**21,375**	**6,449**	**213,150**	**–**	**213,150**	**117,573**	**12,566**	**130,139**	**–**	**130,139**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(36,725)	(38,974)	(12,367)	(6,056)	**(94,122)**	–	**(94,122)**	(35,142)	(9,172)	**(44,314)**	–	**(44,314)**
Segment profit / (loss)	**87,269**	**22,358**	**9,008**	**393**	**119,028**	**(5,303)**	**113,725**	**82,431**	**3,394**	**85,825**	**8,601**	**94,426**
Capital expenditure	29,679	50,643	13,070	3,994	**97,386**	**(4,622)**	**92,764**	29,432	5,222	**34,654**	–	**34,654**
Period 01/01–30/06/2016												
Revenue												
External customers	300,073	148,237	23,534	4,154	**475,998**	–	**475,998**	243,723	23,647	**267,370**	–	**267,370**
Inter–segment	6,413	829	1,245	23,036	**31,523**	(31,523)	**–**	168	11,610	**11,778**	(11,778)	–
TOTAL revenue	**306,486**	**149,066**	**24,779**	**27,190**	**507,521**	**(31,523)**	**475,998**	**243,891**	**35,257**	**279,148**	**(11,778)**	**267,370**
Results												
EBITDA	**123,127**	**48,273**	**24,038**	**7,815**	**203,253**	**–**	**203,253**	**117,349**	**13,067**	**130,416**	**–**	**130,416**
Depreciation, amortisation and impairment of intangible assets anc property, plant and equipment	(39,124)	(48,824)	(17,275)	(6,319)	**(111,542)**	–	**(111,542)**	(37,563)	(8,689)	**(46,252)**	–	**(46,252)**
Segment profit	**84,003**	**(551)**	**6,763**	**1,496**	**91,711**	**(6,175)**	**85,536**	**79,786**	**4,378**	**84,164**	**14,509**	**98,673**
Capital expenditure	22,882	47,730	6,859	2,658	**80,129**	**(537)**	**79,592**	22,421	7,844	**30,265**	–	**30,265**

Assets of the Group's and the Company's operating segments

	Group							Company				
	Generation and trade	Distribution	Lease of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Company
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
As of 30 June 2017	1,504,911	1,626,955	450,561	85,807	**3,668,234**	173,634	**3,841,868**	1,336,874	188,679	**1,525,553**	1,603,606	**3,129,159**
As of 31 December 2016	1,557,032	1,629,107	448,707	88,431	**3,723,277**	177,954	**3,901,231**	1,372,835	183,921	**1,556,756**	1,647,638	**3,204,394**

Adjustments and eliminations

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

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

Reconciliation of profit

	Group		Company	
	01/01–30/06/2017	**01/01–30/06/2016**	**01/01–30/06/2017**	**01/01–30/06/2016**
	EUR'000	EUR'000	EUR'000	EUR'000
Profit of operating segments	**119,028**	**91,711**	**85,825**	**84,164**
Finance income	627	1,211	5,723	6,561
Finance costs	(5,930)	(7,386)	(6,232)	(7,652)
Received dividends from subsidiaries	–	–	9,110	15,600
Profit before corporate income tax	**113,725**	**85,536**	**94,426**	**98,673**

Reconciliation of assets

	Group		Company	
	30/06/2017	**31/12/2016**	**30/06/2017**	**31/12/2016**
	EUR'000	EUR'000	EUR'000	EUR'000
Assets of operating segments	**3,668,540**	**3,723,277**	**1,525,553**	**1,556,756**
Connection usage rights	(26,234)	(32,791)	–	–
Non–current financial investments	41	41	817,049	817,049
Loans to subsidiaries	–	–	588,689	622,704
Held–to–maturity financial assets	17,009	20,554	17,009	20,554
Derivative financial instruments	1,884	6,134	1,884	6,134
Other assets and assets held for sale	28	36	–	–
Cash and cash equivalents	180,600	183,980	178,975	181,197
TOTAL assets	**3,841,868**	**3,901,231**	**3,129,159**	**3,204,394**

4. Revenue

	Group		Company	
	01/01–30/06/2017	01/01–30/06/2016	01/01–30/06/2017	01/01–30/06/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Electricity trade and electricity supply services	241,902	249,224	191,332	198,396
Distribution system services	151,437	140,127	–	–
Heat sales	50,239	48,559	43,096	41,852
Lease of transmission system assets	20,605	23,236	–	–
Lease and management of real estate	–	–	9,865	8,917
Other revenue	14,719	14,852	18,398	18,205
TOTAL revenue	**478,902**	**475,998**	**262,691**	**267,370**

5. Raw Materials and Consumables Used

	Group		Company	
	01/01–30/06/2017	01/01–30/06/2016	01/01–30/06/2017	01/01–30/06/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Electricity:				
Purchased electricity	60,472	73,056	9,669	20,847
Fair value loss / (income) on electricity forwards and futures (Note 12 c, II)	2,394	(4,001)	2,394	(4,001)
Electricity transmission services costs	35,986	36,418	422	525
	98,852	**105,473**	**12,485**	**17,371**
Energy resources costs	69,518	73,479	66,176	70,075
Raw materials, spare parts and maintenance costs	13,810	16,848	4,825	6,021
TOTAL raw materials and consumables used	**182,180**	**195,800**	**83,486**	**93,467**

6. Income Tax

	Group		Company	
	01/01–30/06/2017	01/01–30/06/2016	01/01–30/06/2017	01/01–30/06/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Current income tax expense	18,445	14,299	14,284	12,257
Deferred income tax expense relating to origination and reversal of temporary differences	(2,591)	(3,443)	(2,035)	(981)
TOTAL income tax	**15,854**	**10,856**	**12,249**	**11,276**

7. Intangible Assets and Property, Plant and Equipment

a) Intangible assets

	Group			Company		
	01/01–30/06/2017	01/01–30/06/2016	2016	01/01–30/06/2017	01/01–30/06/2016	2016
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Net book amount	**14,534**	**14,405**	**14,405**	**18,769**	**19,846**	**19,846**
Additions	1,195	1,228	3,703	1,144	618	2,692
Transfers to property, plant and equipment	–	–	–	–	(48)	(48)
Disposals	(106)	(105)	(211)	(328)	(370)	(698)
Amortisation charge	(1,676)	(1,751)	(3,363)	(1,519)	(1,582)	(3,023)
Closing net book amount	**13,947**	**13,777**	**14,534**	**18,066**	**18,464**	**18,769**

b) Property, plant and equipment

	Group			Company		
	01/01–30/06/2017	01/01–30/06/2016	2016	01/01–30/06/2017	01/01–30/06/2016	2016
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Net book amount	**3,355,797**	**3,076,256**	**3,076,256**	**1,322,518**	**1,344,670**	**1,344,670**
Additions	91,569	78,364	196,838	32,727	28,751	73,196
Invested in share capital	–	–	184	–	–	184
Increase due to property, plant and equipment revaluation	–	–	317,041	–	–	–
Impairment charge due to property, plant and equipment revaluation	–	–	(35,774)	–	–	–
Transfers from intangible assets	–	–	–	–	48	48
Reclassified to from investment properties	(130)	(92)	(214)	(13)	33	(195)
Disposals	(1,414)	(1,464)	(5,045)	(68)	(120)	(412)
Impairment charge	(139)	(20,262)	(10,024)	47	24	(10,116)
Depreciation	(92,260)	(89,530)	(183,465)	(41,461)	(43,437)	(84,857)
Closing net book amount	**3,353,423**	**3,043,272**	**3,355,797**	**1,313,750**	**1,329,969**	**1,322,518**

8. Inventories

	Group		Company	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Raw materials	18,028	17,438	1,216	1,267
Natural gas	17,502	17,506	17,499	817
Technological combustibles and other inventories	8,124	8,173	8,078	8,094
Prepayments for inventories (Note 13 b)	57	–	55	16,693
Allowance for raw materials and other inventories	(1,605)	(1,659)	(1,069)	(1,060)
TOTAL inventories	**42,106**	**41,458**	**25,779**	**25,811**

Movements on allowances for inventories:

	Group			Company		
	01/01–30/06/2017	01/01–30/06/2016	2016	01/01–30/06/2017	01/01–30/06/2016	2016
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At the beginning of the period	**1,659**	**1,614**	**1,614**	**1,060**	**1,027**	**1,027**
Inventories written off	(25)	(10)	(87)	–	–	–
Charged to the Statement of Profit or Loss	(29)	131	132	9	14	33
At the end of the period	**1,605**	**1,735**	**1,659**	**1,069**	**1,041**	**1,060**

9. Non-Current Financial Investments

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

Companies	Country of incorporation	Business activity held	30/06/2017		31/12/2016	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Subsidiaries						
Latvijas elektriskie tīkli AS	Latvia	Lease of transmission system assets	100%	185,624	100%	185,624
Sadales tīkls AS	Latvia	Electricity distribution	100%	627,656	100%	627,656
Enerģijas publiskais tirgotājs AS	Latvia	Management of the mandatory procurement process	100%	40	100%	40
Elektrum Eesti OÜ	Estonia	Electricity supply	100%	35	100%	35
Elektrum Lietuva, UAB	Lithuania	Electricity supply	100%	98	100%	98
Liepājas enerģija SIA	Latvia	Thermal energy generation and supply in Liepaja city, electricity generation	51%	3,556	51%	3,556
TOTAL					**817,009**	**817,009**
Other non–current financial investments						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	46.30%	36	46.30%	36
Rīgas siltums AS	Latvia	Thermal energy generation and supply in Riga, electricity generation	0.0051%	4	0.0051%	4
TOTAL				**40**		**40**

The Company owns 46.30% of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS. However, the Company is only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the Company's employees who are members of the pension fund. Therefore, investment in Pirmais Slēgtais Pensiju Fonds AS is valued at cost and equity method is not applied.

10. Trade Receivables and Other Current Receivables

a) Trade receivables, net

	Group		Company	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Trade receivables:				
– Electricity trade and electricity services customers	132,490	147,808	107,933	120,500
– Heating customers	2,998	11,629	2,617	9,530
– Other trade receivables	9,827	11,027	2,583	3,086
– Subsidiaries (Note 13 b, c)	–	–	23,782	22,602
	145,315	**170,464**	**136,915**	**155,718**
Allowances for impaired trade receivables:				
– Electricity trade and electricity services customers	(45,839)	(44,801)	(44,571)	(43,674)
– Heating customers	(369)	(391)	(349)	(369)
– Other trade receivables	(2,512)	(2,440)	(132)	(134)
	(48,720)	**(47,632)**	**(45,052)**	**(44,177)**
Trade receivables, net:				
– Electricity trade and electricity services customers	86,651	103,007	63,362	76,826
– Heating customers	2,629	11,238	2,268	9,161
– Other trade receivables	7,315	8,587	2,451	2,952
– Subsidiaries (Note 13 b, c)	–	–	23,782	22,602
	96,595	**122,832**	**91,863**	**111,541**

Movements in allowances for impaired trade receivables:

	Group			Company		
	01/01–30/06/2017	01/01–30/06/2016	2016	01/01–30/06/2017	01/01–30/06/2016	2016
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At the beginning of the period	**47,632**	**46,089**	**46,089**	**44,177**	**43,422**	**43,422**
Receivables written off during the period as uncollectible	(818)	(800)	(1,511)	(623)	(748)	(1,294)
Allowance for impaired receivables	1,906	2,191	3,054	1,498	1,523	2,049
At the end of the period	**48,720**	**47,480**	**47,632**	**45,052**	**44,197**	**44,177**

b) Other current receivables

	Group		Company	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Unsettled revenue on mandatory procurement public service obligation (PSO) fee recognised as assets*	121,419	142,132	–	–
Other accrued income	469	1,024	469	1,024
Pre–tax and overpaid taxes	5,389	4,008	13	17
Other current financial receivables	3,519	2,797	295	927
Other current receivables	1,115	1,164	165	150
TOTAL other current receivables	**131,911**	**151,125**	**942**	**2,118**

* 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)

11. Cash and Cash Equivalents

	Group		Company	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Cash at bank	177,443	176,626	175,818	173,843
Short–term bank deposits	–	7,000	–	7,000
Restricted cash and cash equivalents*	3,157	354	3,157	354
TOTAL cash and cash equivalents	**180,600**	**183,980**	**178,975**	**181,197**

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

12. Financial Assets and Liabilities

a) Held–to–maturity financial assets

As of 30 June 2017 the entire Group's and the Company's held-to-maturity financial assets were State Treasury bonds with 5 year and 10 year maturity, which were purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield.

All held-to-maturity financial assets are denominated in euros. The maximum exposure to credit risk at the reporting date is the carrying amount of held-to-maturity financial assets.

Carrying amount of held–to–maturity financial assets:

	Group		Company	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Held–to–maturity financial assets:				
– current	–	3,520	–	3,520
– non–current	17,009	17,034	17,009	17,034
Total held–to–maturity financial assets	**17,009**	**20,554**	**17,009**	**20,554**

b) Borrowings

	Group		Company	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
Non–current borrowings from financial institutions	475,438	500,215	465,985	492,286
Issued debt securities (bonds)	135,383	135,405	135,383	135,405
Total non–current borrowings	**610,821**	**635,620**	**601,368**	**627,691**
Current portion of non–current borrowings from financial institutions	64,612	82,762	62,602	78,222
Current portion of issued debt securities (bonds)	70,036	70,075	70,036	70,075
Current borrowings from financial institutions	–	744	–	–
Accrued interest on non–current borrowings	629	594	604	564
Accrued coupon interest on issued debt securities (bonds)	1,284	1,771	1,284	1,771
Total current borrowings	**136,561**	**155,946**	**134,526**	**150,632**
TOTAL borrowings	**747,382**	**791,566**	**735,894**	**778,323**

Movement in Borrowings:

	Group			Company		
	01/01–30/06/2017	01/01–30/06/2016	2016	01/01–30/06/2017	01/01–30/06/2016	2016
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At the beginning of the period	**791,566**	**797,483**	**797,483**	**778,323**	**782,965**	**782,965**
Borrowings received	–	55,000	55,744	–	55,000	55,000
Borrowing repaid	(43,671)	(45,826)	(87,452)	(41,921)	(44,821)	(85,441)
Change in accrued interest on borrowings	(452)	(268)	15	(447)	(262)	23
Issued debt securities (bonds)	–	25,776	25,776	–	25,776	25,776
Changes in outstanding value of issued debt securities (bonds)	(61)	61	–	(61)	61	–
At the end of the period	**747,382**	**832,226**	**791,566**	**735,894**	**818,719**	**778,323**

c) Derivative financial instruments

I) Interest rate swaps

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

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

	Group						Company					
	01/01–30/06/2017		01/01–30/06/2016		2016		01/01–30/06/2017		01/01–30/06/2016		2016	
	EUR'000		EUR'000		EUR'000		EUR'000		EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the period	**–**	**11,563**	**–**	**13,016**	**–**	**13,016**	**–**	**11,563**	**–**	**13,016**	**–**	**13,016**
Included in Statement of Profit or Loss, net	–	–	–	(385)	–	(760)	–	–	–	(385)	–	(760)
Included in other comprehensive income	–	(2,455)	–	2,480	–	(693)	–	(2,455)	–	2,480	–	(693)
Outstanding fair value at the end of the period	**–**	**9,108**	**–**	**15,111**	**–**	**11,563**	**–**	**9,108**	**–**	**15,111**	**–**	**11,563**

II) Electricity forwards and futures

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

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

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

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

	Group						Company					
	01/01–30/06/2017		01/01–30/06/2016		2016		01/01–30/06/2017		01/01–30/06/2016		2016	
	EUR'000		EUR'000		EUR'000		EUR'000		EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the period	**(6,134)**	**23**	**–**	**2,558**	**–**	**2,558**	**(6,134)**	**23**	**–**	**2,558**	**–**	**2,558**
Included in Statement of Profit or Loss (Note 5)	2,353	41	(2,190)	(1,811)	(3,980)	(2,535)	2,353	41	(2,190)	(1,811)	(3,980)	(2,535)
Included in other comprehensive income	1,591	–	–	–	(2,154)	–	1,591	–	–	–	(2,154)	–
Outstanding fair value at the end of the period	**(2,190)**	**64**	**(2,190)**	**747**	**(6,134)**	**23**	**(2,190)**	**64**	**(2,190)**	**747**	**(6,134)**	**23**

13. Related Party Transactions

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

a) Income and expenses from transactions with subsidiaries

	Company	
	01/01–30/06/2017	01/01–30/06/2016
	EUR'000	EUR'000
Income:		
– subsidiaries	78,875	87,683
	78,875	**87,683**
Expenses:		
– subsidiaries	173,222	182,862
	173,222	**182,862**
including expenses from transactions with subsidiaries recognised in net amount through profit or loss :		
– Sadales tīkls AS	*169,595*	*175,897*
– Enerģijas publiskais tirgotājs AS	*277*	*282*
	169,872	***176,179***

	Group		Company	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
	EUR'000	EUR'000	EUR'000	EUR'000
b) Balances at the end of the period arising from sales/purchases of goods and services:				
Prepayments for inventories:				
– subsidiaries (Note 8)*	–	–	–	16,682
	–	**–**	**–**	**16,682**
Trade receivables:				
– subsidiaries (Note 10 a)	–	–	19,258	14,851
	–	**–**	**19,258**	**14,851**
Trade payables:				
– subsidiaries	–	–	25,929	33,267
– other related parties**	221	236	91	98
	221	**236**	**26,020**	**33,365**

* prepayment to the subsidiary Elektrum Eesti OÜ
** Pirmais Slēgtais Pensiju fonds AS

	Group		Company	
c) Accrued income raised from transactions with related parties:				
– for goods sold / services received from subsidiaries (Note 10 a)	–	–	2,481	5,581
– for interest received from subsidiaries (Note 10 a)	–	–	2,043	2,170
	–	**–**	**4,524**	**7,751**
d) Accrued expenses raised from transactions with related parties:				
– for purchased goods / received services from subsidiaries	–	–	986	826
	–	**–**	**986**	**826**

In the 6-month period ended 30 June remuneration to the *Latvenergo* Group's management includes remuneration to the members of the Management Boards the Group entities, the Supervisory Board and the Supervisory body (Audit Committee) of the Parent Company, including salary, social insurance contributions and payments to pension plan and is amounted to EUR 1,171.2 thousand (6-month period of 2016: EUR 975.1 thousand).

In the 6-month period ended 30 June 2017 remuneration to the Company's management includes remuneration to the members of the Company's Management Board, the Supervisory Board and the Supervisory body (Audit Committee), including salary, social insurance contributions and payments to pension plan and is amounted to EUR 509.1 thousand (6-month period of 2016: EUR 378.2 thousand).

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

e) Loans to related parties

The Company's non–current and current loans to subsidiaries:

	Company	
	30/06/2017	31/12/2016
	EUR'000	EUR'000
Non–current loans to subsidiaries		
Sadales tīkls AS	338,039	313,497
Latvijas elektriskie tīkli AS	59,639	63,883
Total non–current loans	**397,678**	**377,380**
Current portion of non–current loans		
Sadales tīkls AS	49,897	48,880
Latvijas elektriskie tīkli AS	9,918	11,345
Current loans to subsidiaries		
Latvijas elektriskie tīkli AS	6,716	3,678
Sadales tīkls AS	6,673	41,651
Elektrum Eesti OÜ	3,493	5,046
Elektrum Lietuva, UAB	4,689	4,788
Enerģijas publiskais tirgotājs AS	109,625	129,936
Total current loans	**191,011**	**245,324**
TOTAL loans to subsidiaries	**588,689**	**622,704**

Movement in loans issued by the Company:

	Company		
	01/01–30/06/2017	01/01–30/06/2016	2016
	EUR'000	EUR'000	EUR'000
At the beginning of the period	**622,704**	**624,577**	**624,577**
(Repaid) / issued current loans (net)	–	16,111	78,446
Repaid non–current loans	(34,015)	(32,047)	(80,319)
At the end of the period	**588,689**	**608,641**	**622,704**

14. Events After the Reporting Period

On 28 July 2017, Saeima of the Republic of Latvia adopted amendments in tax laws related to tax policy reform which will come into force on 1 January 2018. Tax reform entails significant changes to the corporate income tax that will influence recognition of deferred income tax in the financial statements.

There have been no other significant events subsequent to the end of the reporting period that might have a material effect on the *Latvenergo* Group and Latvenergo AS Unaudited Interim Condensed Financial Statements for the 6-month period ending 30 June 2017.