

Unaudited Interim Condensed Consolidated Financial Statements

for the 3 months period ended 31 March 2016

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

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

FINANCIAL CALENDAR

31.08.2016.

Interim Condensed Consolidated Financial Statements for the 6 months period ending 30 June 2016 (unaudited)

30.11.2016.

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

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DISCLAIMER

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

Summary

- ▶ In Q1 2016, electricity spot price in the Nordics and Baltics decreased. It was mainly determined by electricity generation increase in hydropower plants in the Nordics and lower coal price. *NordBalt* interconnection between Sweden and Lithuania was launched in the beginning of year 2016, and it has contributed to the decline in electricity spot price difference between the bidding areas of the Baltic and Nordic countries. Due to a downtrend in the price of crude oil, in Q1 2016, the average price of the natural gas declined by 24% compared to Q1 2015.
- ▶ Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics and ensured 1/3 of the market share in the region. The number of business customers in Lithuania and Estonia was increased by more than 1,700 clients compared to Q1 2015. Retail electricity supply outside Latvia comprises approximately one third of the total retail electricity supply.
- ▶ Amount generated by the power plants of Latvenergo Group in Q1 2016 was 1,236 GWh of electricity and 1,173 GWh of thermal energy. Electricity output generated at Riga CHPPs has increased by more than two times in comparison to the respective period last year. Riga CHPPs managed to provide for effective and operative electricity generation thus precluding electricity price increase risk. Meanwhile, the electricity output at Daugava HPPs decreased by 19% due to the relatively low water inflow in the Daugava River during the first months of the year. The amount of generated thermal energy increased by 15% compared to respective period in 2015. This was mainly attributed to considerably lower average air temperature in January 2016.
- ▶ Compared to the first three months of 2015, revenue of Latvenergo Group has increased by 2% reaching EUR 263.5 million. At the same time, EBITDA has increased by 6% reaching EUR 100.1 million. Revenue and EBITDA have grown in all of the operating segments. Results were positively impacted by lower natural gas price and negatively – by lower electricity output at Daugava HPPs.
- ▶ In Q1 2016, the overall amount of investment was EUR 34.7 million. Nearly 70% of the total investment was made into network assets. A substantial part of investment invested in environmentally friendly and environmental development projects – in the first three months of 2016, EUR 8.4 million were invested in the reconstruction of Daugava HPPs hydropower units.
- ▶ After the end of the reporting period, on 14 April 2016 Latvenergo AS issued *green* bonds in the amount of EUR 25 million, the issue was carried out under the second bond offering programme. The total amount of bonds represents more than 1/5 of the total amount of borrowings.
- ▶ On 12 February 2016, the international rating agency *Moody's Investors Service* reconfirmed the rating of Latvenergo AS at Baa2 with a stable outlook.
- ▶ After the end of the reporting period, on 5 May 2016, the Public Utilities Commission approved the rebalancing project of electricity distribution system service tariff submitted by Sadales tīkls AS. It is expected that the balanced tariffs would come into force as of 1 August 2016.

Latvenergo Group in Brief

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

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

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

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

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

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

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

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

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

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

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

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

Key Performance Indicators

Operational Figures

		Q1 2016	Q1 2015	Q1 2014	Q1 2013	Q1 2012
Retail electricity supply	GWh	2,144	2,132	2,487	2,402	2,355
Electricity generation	GWh	1,236	1,027	1,192	1,385	1,387
Thermal energy supply	GWh	1,131	990	1,077	1,225	1,232
Number of employees		4,181	4,142	4,567	4,466	4,440
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)

Financial Figures

		Q1 2016	Q1 2015	Q1 2014	Q1 2013	Q1 2012
Revenue	MEUR	263.5	259.5	324.5	312.7	312.7
EBITDA ¹⁾	MEUR	100.1	94.8	82.5	60.5	78.7
Net profit	MEUR	38.6	39.3	30.8	7.1	27.0
Assets	MEUR	3,607.5	3,526.8	3,598.0	3,511.3	3,333.2
Equity	MEUR	2,133.4	2,059.4	2,050.1	2,016.7	1,981.7
Net debt ²⁾	MEUR	657.7	688.6	679.7	641.3	568.7
Investments	MEUR	34.7	24.8	27.5	36.1	92.1

Financial Ratios

	Q1 2016	Q1 2015	Q1 2014	Q1 2013	Q1 2012
Net debt / EBITDA ³⁾	2.1	2.8	2.5	2.8	2.2
EBITDA margin ⁴⁾	33%	26%	24%	21%	26%
Capital ratio ⁵⁾	59%	58%	57%	57%	59%

1) EBITDA: earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortisation, and impairment of intangible and fixed assets

2) Net debt: borrowings at the end of the period minus cash and cash equivalents at the end of the period

3) Net debt / EBITDA: net debt to EBITDA ratio (12-months rolling)

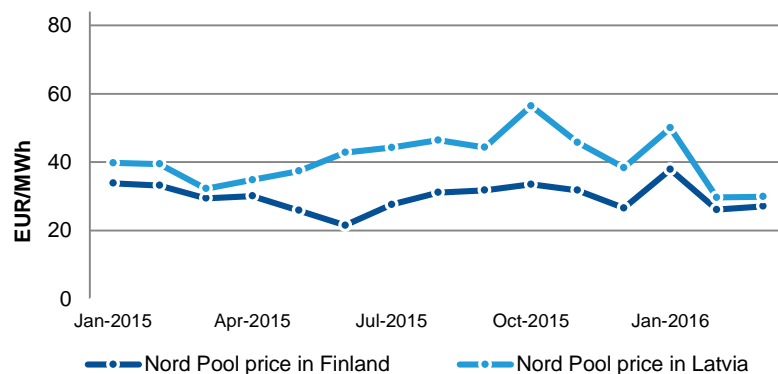
4) EBITDA margin: EBITDA / revenue (12-months rolling)

5) Capital ratio: total equity / total assets

Operating Environment

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

Compared to the previous year, in Q1 2016, electricity prices were lower in the Baltic and Nordic countries. The average electricity spot price in Latvian and Estonian bidding areas shrunk by 2% and reached 36.5 EUR/MWh in Latvian and 31.8 EUR/MWh in Estonian, while the average spot price in Lithuanian bidding area decreased by 1% to 36.9 EUR/MWh. The electricity price in Finnish bidding area diminished by 6% reaching 30.3 EUR/MWh.



During the reporting period, electricity price decrease in the Nordic and Baltic region was mainly affected by higher fill of the Nordic hydroelectric reservoirs, which in turn fostered a larger Nordic hydroelectric power generation. Similarly, lower coal prices contributed to the reduction in electricity price, which in Q1 2016 decreased by 25% on average compared to the respective period in 2015 and reached 44.9 USD/t (Q1 2015: 59.9 USD/t). The decline in electricity price in Latvia and Lithuania was also driven by 24% natural gas price decline in Latvia facilitating a more competitive electricity output of the Riga CHPPs that were able to successfully limit price fluctuations during peak hours.

At the beginning of 2016 new international electricity interconnections *NordBalt* (700 MW) and *LitPol* (500 MW) were launched, fostering energetic independence and price competition in the Baltic countries. Ever since the new interconnections were launched, the total power capacity of the Baltic region interconnections with Europe is 2,200 MW, reaching 50% of the Baltic electricity consumption peak during the reporting period. The new interconnections have contributed to electricity spot price convergence between Finland and the Baltic countries.

From the energy balance position, Latvia and Lithuania are deficit region countries. Prior to the launch of the new interconnections, the shortage of transmission capacity between power systems in Latvia and Estonia was an important factor affecting the market price, which determined higher electricity prices in Latvian and Lithuanian bidding areas. The average electricity price in Latvian and Lithuanian bidding areas in Q1 2016 was on average by 4.74 EUR/MWh higher than in Estonia (in Q1 2015: 4.62 EUR/MWh). However, since February 2016 the electricity prices depict a tendency of convergence.

In Q1 2016, total amount of electricity generated in the Baltics remained on the same level as in Q1 2015, and it was 4.8 TWh. Meanwhile, the consumption of electricity in the Baltics, due to colder weather, increased by 6% reaching 7.0 TWh. Thus the net import volume of electricity in the Baltics increased by 21% reaching 2.2 TWh.

Operating Environment

Natural gas price in Latvia continues to decrease

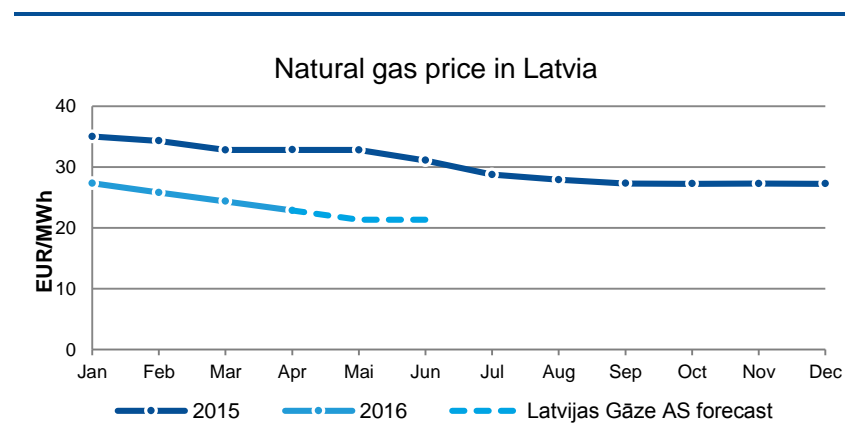
The natural gas price in Latvia is linked to the crude oil product price (to the previous 9-month average heavy fuel oil and diesel quotations index). Due to its change, in Q1 2016, the average natural gas price (incl. the excise tax and transmission costs) in Latvia for the user group with consumption above 100,000 thousand nm³ was 25.8 EUR/MWh, which is by 24% lower than in Q1 last year when it was 34.1 EUR/MWh. The average price of *Brent* oil in Q1 2016 decreased by 37.5% compared to the same period in 2015 reaching 33.7 USD/bbl (Q1 2015: 53.9 USD/bbl). Whereas fluctuations in EUR/USD exchange rate had an opposite effect. According to the European Central Bank the exchange rate in Q1 2016 was 1.10, while in Q1 2015 it was 1.13.

According to the gas tariff forecast of Latvijas Gāze AS¹, it is expected that the natural gas price will continue to decline after the end of the reporting period (see graph).

Slowdown in economic growth in Latvia

In Q1 2016, the Baltic States experienced an economic growth, which was mainly driven by an increase in private consumption. According to the statistical office of the European Union (*Eurostat*) the gross domestic product growth rate in Q1 of 2016 compared to the previous year in Latvia was 1.3% (Q1 2015: 2.1%), in Lithuania – 2.4% (1.5%) and in Estonia 1.8% (1.8%). Lower pace of economic growth in Latvia arose from weak results in manufacturing sector, lower volume of construction works, as well as slow investment dynamics.

According to *Eurostat* data, in March 2016, the consumer prices in Latvia have decreased by 0.6% whilst in Lithuania and Estonia there was an inflation at the rate of 0.8% and 0.5% respectively. In March 2016, compared to March 2015 the consumer price level remained unchanged in the Eurozone.



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

¹ Latvijas Gāze AS tariff forecast (02.05.2016) <http://lg.lv/index.php?id=246&lid=1847>

Operating Environment

Future events

According to the law "On the medium-term budgetary framework for 2016, 2017 and 2018" Latvenergo AS in the coming years anticipate dividend payout for the use of state capital in 2017 – EUR 102.8 million, in 2018 – EUR 111.5 million. The actual amount of Latvenergo AS dividend payout is set at the shareholders' meeting after the approval of the annual report, upon evaluation of the results of the previous year.

Latvenergo Group's capital structure ratios (capital ratio in Q1 2016 - 59%, debt to equity ratio – 0.4) are sufficient to proceed with the dividend payout.

Latvenergo AS dividends, in addition to the Subsidised Energy Tax (SET) revenue, will be used as a source of funding for the State budget programme "Electricity user support", thereby maintaining the mandatory procurement public service obligation (PSO) fee at the current level during the following years.

After the end of the reporting period, on 5 May 2016, PUC approved the rebalancing project of electricity distribution system service tariff submitted by Sadales tīkls AS. It is expected that the balanced tariff would come into force as of 1 August 2016. The price of electricity distribution will consist of two components – a fixed fee for the provision of the connection, and a variable component for delivery of electricity according to consumed kilowatt-hours. On that account, it is expected that all users of electricity distribution system will share maintenance costs of the power grid.

Financial Results

In Q1 2016, Latvenergo Group's revenue reached EUR 263.5 million, which is 2% more compared to

Revenue and EBITDA of the Group has increased

the respective period in 2015. Results were positively impacted by EUR 4.3 million increase in revenue in distribution and lease of transmission system assets segments.

Latvenergo Group's EBITDA increased by 6% reaching EUR 100.1 million, while Latvenergo Group's profit in Q1 2016 was EUR 38.6 million.

Financial figures		Q1 2016	Q1 2015	Δ	Δ, %
Revenue	MEUR	263.5	259.5	4.0	2%
EBITDA	MEUR	100.1	94.8	5.3	6%
Net profit	MEUR	38.6	39.3	(0.7)	(2%)
Assets	MEUR	3,607.5	3,526.8	80.7	2%

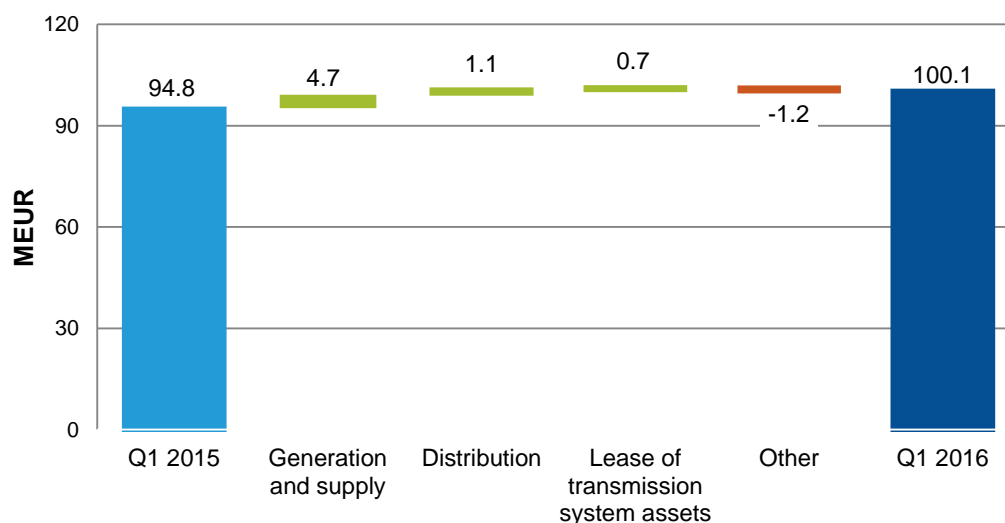
The results of the Group were positively impacted mainly by lower price of the natural gas. In Q1 2016, the natural gas price was by 24% lower than in Q1 2015.

Nonetheless, the results were negatively affected by 19% lower output from Daugava HPPs, which

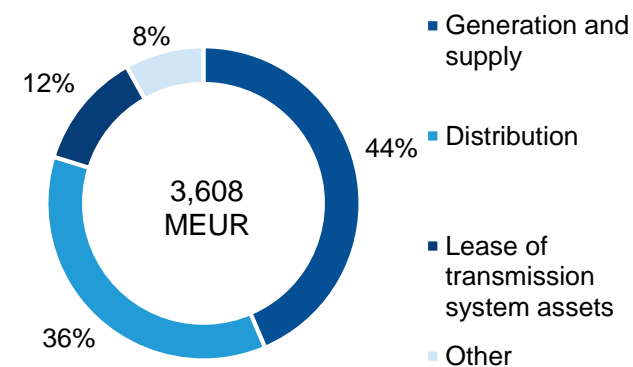
was due to a comparably lower water inflow in the Daugava River.

Revenue and EBITDA in Q1 2016 have improved in all of the operating segments. Furthermore, the EBITDA margin has improved and reached 33% (Q1 2015: 26%).

EBITDA dynamics



Total Assets, Q1 2016





Generation and Supply

Revenue	62%
EBITDA	58%
Assets	44%
Employees	24%

Segment weight in Latvenergo Group

The generation and supply is the largest operating segment of Latvenergo Group both by revenue and assets. The majority or 78% of the segment revenue consists of revenue from electricity and related services, while 22% comes from thermal energy supply.

Elektrum electricity products – the most purchased in the Baltics

The results of the segment were positively impacted by lower price of the natural gas. Contrary, the results were negatively affected by lower amount of power generated by Daugava HPPs, which was influenced by comparably lower water inflow in the Daugava River during the first months of the year.

The amount of electricity generated by Latvenergo Group is insufficient to ensure the amount supplied in retail. The generated electricity in Q1 2016 represents 58% (Q1 2015: 48%) of the total retail

Supply

In Q1 2016, Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics. Latvenergo Group has approximately 1/3 of the market share of the Baltic electricity retail market. We have supplied 2,144 GWh of electricity to the Baltic retail customers (Q1 2015: 2,132 GWh).

The total amount of retail electricity supply outside Latvia accounts for almost 1/3 of the total, reaching 646 GWh, which is by more than 1.4 times higher

Operational figures		Q1 2016	Q2 2015	Δ	Δ, %
Electricity supply	GWh	2,144	2,132	12	1%
Electricity generation	GWh	1,236	1,027	209	20%
Thermal energy generation	GWh	1,173	1,019	154	15%

Financial figures		Q1 2016	Q2 2015	Δ	Δ, %
Revenue	MEUR	175.7	172.5	3.2	2%
EBITDA	MEUR	58.2	53.4	4.7	9%
Assets	MEUR	1,572.2	1,523.0	49.3	3%
Investments	MEUR	9.6	3.3	6.4	194%

electricity supply. Latvenergo Group's electricity trading portfolio management policy provides for a balanced portfolio, aimed at minimizing the impact of electricity market price fluctuations on financial results. Latvenergo Group uses electricity financial instruments to limit the electricity purchase expenses tied with the fluctuations in the price in

power exchange. Along with the opening of the new interconnections at the beginning of 2016 the electricity prices in the Baltics depict a tendency to converge with prices in the Nordic countries. Thus the hedging of electricity price fluctuation risk will become more efficient applying the Nordic financial instruments.

than the amount provided by competing electricity suppliers in Latvia.

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

As a result of focused trade activities, Latvenergo Group has managed to increase the client portfolio by more than 1,700 business segment clients outside Latvia. Sales activities in Lithuania and Estonia were mainly focused on small and medium sized enterprises. The total number of foreign clients reached 34.6 thousand.

Latvenergo Group's electricity supply volume in Latvia was 1,498 GWh; in Lithuania – 398 GWh and in Estonia – 248 GWh.



Generation and Supply

Generation

In Q1 2016, the total amount generated by the power plants of Latvenergo Group comprised 1,236 GWh of electricity and 1,173 GWh of thermal energy.

Overall, the amount of electricity generated compared to the corresponding period last year has increased by 20%.

The amount of power generated by Daugava HPPs has decreased by 19% compared to respective period last year. It was determined by considerably lower water inflow in the Daugava River.

In Q1 2016, the amount of power generated by Riga CHPPs was increased twofold, reaching 620 GWh. Favourable conditions for power generation at Riga CHPPs were fostered by the decline in average price of the natural gas by 24% compared to Q1 2015. Riga CHPPs ensured effective and operative electricity generation thus precluding electricity price increase risk. Changes made to the support mechanism in 2013 states that the cogeneration plants with an installed capacity above 4 MW are not eligible to have their variable cost reimbursed in a case where the costs exceed the market price, instead, they only receive support for the installed capacity. Consequently, Riga CHPPs operates in market conjuncture effectively planning operating modes and fuel consumption, for instance, during unfavourable electricity and natural gas market conditions power plants are operated on a smaller scale, using the opportunity to purchase cheaper electricity from the Nordic countries. At the same time, Riga CHPPs guarantee a base load capacity in Latvia.

Operational figures		Q1 2016	Q1 2015	Δ	Δ, %
Electricity supply	GWh	2,144	2,132	12	1%
Electricity generation	GWh	1,236	1,027	209	20%
<i>Daugava HPPs</i>	GWh	601	739	(137)	(19%)
<i>Riga CHPPs</i>	GWh	620	273	347	127%
<i>Liepaja plants and small plants</i>	GWh	15	15	0	(2%)
Thermal energy generation		1,173	1,019	154	15%
<i>Riga CHPPs</i>	GWh	1,061	916	144	16%
<i>Liepaja plants and small plants</i>	GWh	112	103	10	10%

In the first three months of 2016, the total amount of thermal energy generated by Latvenergo Group increased by 15%. The increase was determined by a comparatively lower average ambient air temperature, especially in January. According to the data provided by the Central Statistical Bureau of the Republic of Latvia, the average temperature during the first three months of 2016 in Riga was −1.6 °C, while during the same period in 2015 it was +1.8 °C.

Generation and Supply



Mandatory procurement

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

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

Mandatory procurement PSO fee remains at the previous level

Mandatory procurement expenditures² are covered through a mandatory procurement PSO fee charged to the end-users in Latvia. The mandatory procurement PSO fee is determined on the basis of the actual costs in the preceding year and approved by the PUC. Mandatory procurement PSO fee changes enter into force on 1 April of the following year.

		Q1 2016	Q1 2015	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	48.4	46.1	2.3	5%
Mandatory procurement expenditures ²	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%)

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

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

In Q1 2016, mandatory procurement expenditures were EUR 65.8 million (Q1 2015: EUR 74.8 million). The major part of expenditure decrease is related to a lower price of the natural gas, through which there was a reduction in mandatory procurement expenses for cogeneration, biomass and biogas power plants.

In Q1 2016, the difference between PSO fee income and expenditures was EUR 17.4 million (Q1 2015: EUR 28.7 million), which will be covered by the mandatory procurement PSO fee income and the State earmarked grant for limiting the mandatory procurement PSO fee growth in subsequent periods. Government grant in the amount of EUR 59.2 million has been received after the reporting period, in April 2016.

² 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

Distribution

Revenue	28%
EBITDA	27%
Assets	36%
Employees	61%

Segment weight in Latvenergo Group

The distribution segment is the second largest segment of Latvenergo Group both by revenue and assets. In Q1 2016, revenue of the segment increased by 6% compared to last year and reached EUR 79.6 million, EBITDA, on the other hand, increased by 4%, reaching EUR 26.6 million.

Increased investments in distribution assets

In Q1 2016, results of the segment were positively impacted by the increase of distribution service revenue by EUR 4.1 million. Nonetheless, the results were negatively impacted by higher purchasing costs of electricity losses (EUR 1.9 million). These changes were determined by electricity revenue at a regulated tariff received at the beginning of 2015 that were recognized in 2014.

Current distribution service tariffs do not cover all the distribution service costs. PUC determines the distribution service tariff calculation methodology and approves the tariffs. The current distribution system tariffs are effective as of April 2011. After the reporting period ended, on 5 May 2016, PUC approved the 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.

Operational figures		Q1 2016	Q1 2015	Δ	Δ, %
Electricity distributed	GWh	1,761	1,672 ³	89	5%
SAIFI ⁴	number	0.62	0.65	(0.03)	(5%)
SAIDI ⁵	minutes	59	85	(26)	(31%)
Financial figures		Q1 2016	Q1 2015	Δ	Δ, %
Revenue	MEUR	79.6	75.3	4.3	6%
EBITDA	MEUR	26.6	25.5	1.1	4%
Assets	MEUR	1,306.7	1,276.2	30.5	2%
Investments	MEUR	20.1	18.3	1.7	9%

Investment in distribution assets in Q1 2016 has increased by 9% compared to the Q1 last year, and is EUR 20.1 million. Large-scale investments in modernisation of the network are scheduled also during the following years in order to increase the quality of network services and improve the technical parameters, as well as minimize the risk of network disorders caused by severe weather conditions.

³ The volume of electricity distributed excludes 123 GWh; that amount corresponds to the regulated electricity tariff revenues received at the beginning of 2015 that were recognized in 2014

⁴ SAIFI – System Average Interruption Frequency Index

⁵ SAIDI – System Average Interruption Duration Index

Lease of Transmission System Assets

Revenue	4%
EBITDA	12%
Assets	12%
Employees	0.3%

Segment weight in Latvenergo Group

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

Revenue of the transmission system asset lease segment represents 4% of Latvenergo Group revenue. In Q1 2016, revenue of the segment increased by 4% reaching EUR 12.4 million, while EBITDA increased by 6% reaching EUR 12.0 million.

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

In Q1 2016, the return on transmission system assets⁶ has increased up to 4.8% (Q1 2015: 3.8%).

Investment in transmission system assets during Q1 2016 was EUR 3.8 million, which is by EUR 2.3 million more than in the respective period last year.

Financial figures		Q1 2016	Q1 2015	Δ	Δ, %
Revenue	MEUR	12.4	11.9	0.5	4%
EBITDA	MEUR	12.0	11.3	0.7	6%
Assets	MEUR	434.8	455.8	(21.1)	(5%)
Investments	MEUR	3.8	1.5	2.3	149%

⁶ 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)

Investments

In the first three months of 2016, the total amount of investment was EUR 34.7 million, which is 40% higher than in the respective period in 2015. Increase in investments was mainly determined by implementation of Daugava HPPs hydropower unit reconstruction programme thereby contributing to environmentally friendly and environmental

Daugava HPPs hydropower unit reconstruction continued

development projects. In Q1 2016, the amount invested in Daugava HPPs hydropower unit reconstruction was EUR 8.4 million.

To improve the quality of network service, technical parameters and safety of the operations, a significant amount is invested in the modernisation of power network. In Q1 2016, the amount invested in the networks represented 69% of the total investment in the reporting period.

Investment projects:

Daugava HPPs hydropower unit reconstruction programme (Daugava HPPs reconstruction)

Deeming environmentally safe, sustainable and competitive operations and effective water resource management as highly important, Latvenergo Group proceeds with gradual overhaul of eleven Daugava HPPs hydropower units that have not been overhauled yet. The programme is scheduled to be completed until 2022, with the estimated total reconstruction costs exceeding EUR 200 million. The completed workload within the contract reached EUR 59.9 million as of 31 March 2016. The reconstruction will provide for further 40-year operation of hydropower units.

Kurzeme Ring project

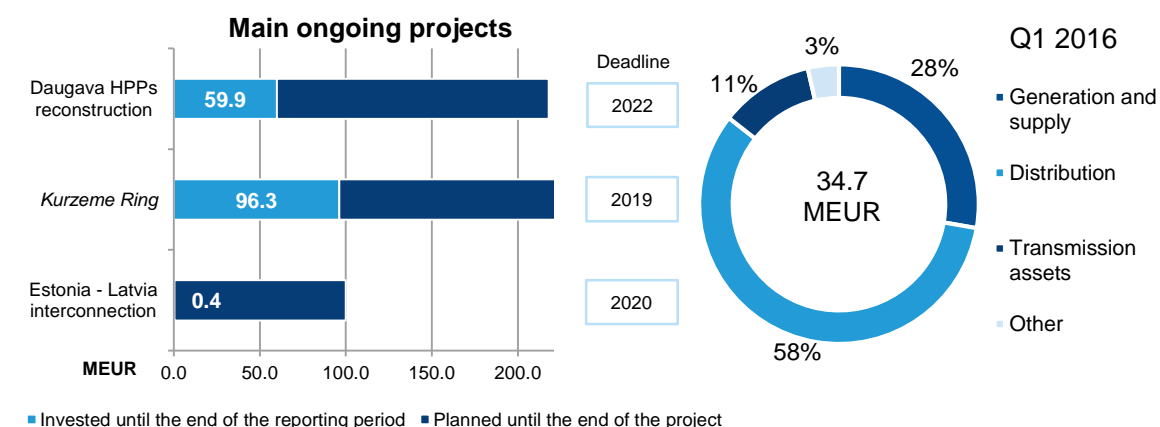
The implementation of *Kurzeme Ring* project is fostering an increase in power supply safety in Kurzeme region and Latvia as a whole, providing for an opportunity of a more effective use of the

Lithuania-Sweden marine cable *NordBalt*, allowing further integration of the Baltics into the Nordic electricity market.

The *Kurzeme Ring* project is scheduled for completion in 2019, and the total project construction costs are expected to constitute approximately EUR 220 million. The project has three stages. Investments in the first and second stage of the project comprised a total of EUR 95 million, of which approximately half was provided by the European Commission (EC). Contract with the EC Innovation and Networks Executive Agency provides 45% European Union (EU) co-funding of construction costs of the final stage *Ventspils–Tume–Rīga* of the project.

Estonia – Latvia third power transmission network interconnection

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



Funding and Liquidity

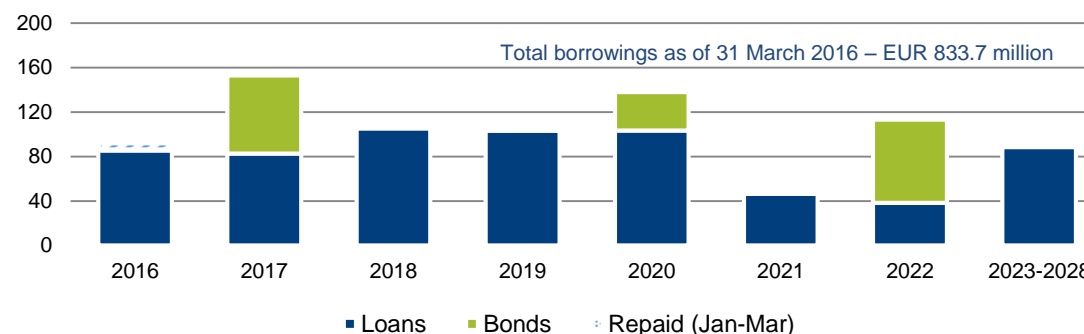
Latvenergo Group finances its investments from its own resources and external long-term borrowed funds, which are regularly and timely sourced in financial and capital markets. Timely planned sourcing of borrowings is also crucial in order to ensure loan refinancing risk management and debt repayment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

Diversified sources of fund raising

As of 31 March 2016, the Group's borrowings are EUR 833.7 million (31 March 2015: EUR 839.3 million), comprising loans from commercial banks, international investment banks, and bonds of EUR 180 million, of which EUR 75 were issued as *green* bonds.

After the end of the reporting period, on 14 April 2016 Latvenergo AS issued *green* bonds in the amount of EUR 25 million, thus completing the second bond offering programme of EUR 100 million. At the end of the placement period the overall demand for *green* bonds was record high – it exceeded the offering amount 5.8 times. *Moody's* credit rating for the *green* bonds of Latvenergo AS is Baa2 (stable).

Latvenergo Group debt repayment schedule



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

As of 31 March 2016, all borrowings are denominated in the Euro currency. The weighted average repayment period was 4.2 years, and it remained at the same level as a year ago. Nearly all borrowings from financial institutions had a variable interest rate, comprising 3, 6 to 12 month EURIBOR and a margin. Taking into account the effect of interest rate swaps and bonds with fixed interest rate, 52% of the borrowings had a fixed interest rate with an average period of 2.3 years as of 31 March 2016. The effective weighted average interest rate (with interest rate swaps) was 2.0% (31 March 2015: 2.5%). Sufficient coverage of debt service requirements – the interest coverage ratio⁷ – has been ensured, and it was 6.5.

As of 31 March 2016, the net borrowings of Latvenergo Group have not changed significantly and are EUR 657.7 million (EUR 688.6 million), while the net debt/EBITDA ratio was 2.1 (2.8).

Latvenergo Group maintains sufficient liquidity reserves in order to implement the investment programme and fulfil its commitments according to the debt repayment schedule. As of 31 March 2016, the liquid assets (cash and short term deposits up to 3 months) of Latvenergo Group reached EUR 176.0 million (EUR 150.7 million), while the current ratio⁸ was 2.3 (1.7). In Q1 2016, all the binding financial covenants set in Latvenergo Group loan agreements have been met.

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

⁷ Interest coverage ratio: (net cash flow from operating activities (12-month rolling) – changes in working capital + interest expense (12-month rolling)) / interest expense (12-month rolling)

⁸ Current ratio: current assets / current liabilities

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS the *Latvenergo Unaudited Interim Condensed Consolidated Financial Statements for the 3 months period ended 31 March 2016*, including the Management Report (have been prepared in accordance with International Financial Reporting Standards that are approved by the European Union), in all material aspects give a true and fair view of assets, liabilities, financial position and profit and loss of Latvenergo Group.

The *Latvenergo Unaudited Interim Condensed Consolidated Financial Statements for the 3 months period ended 31 March 2016* are approved by the Management Board of Latvenergo AS on 24 May 2016.

The Management Board of Latvenergo AS:

Āris Žīgurs
Chairman of the Board

Guntars Baļčūns
Member of the Board

Uldis Bariss
Member of the Board

Māris Kuņickis
Member of the Board

Guntis Stafeckis
Member of the Board

Abbreviations

Daugava HPPs -	Daugava hydropower plants
EC -	European Commission
EU -	European Union
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
SET -	Subsidised Energy Tax

Unaudited Interim Condensed Consolidated Financial Statements

Consolidated Statement of Profit or Loss

For the 3 months ended 31 March 2016

	Notes	01/01–31/03/2016	01/01–31/03/2015
		EUR'000	EUR'000
Revenue	5	263,533	259,506
Other income		1,566	1,199
Raw materials and consumables used	6	(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	7	(6,023)	(7,591)
Profit for the period		38,562	39,256

Consolidated Statement of Comprehensive Income

For the 3 months ended 31 March 2016

	01/01–31/03/2016	01/01–31/03/2015
	EUR'000	EUR'000
Profit for the period	38,562	39,256
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
– losses from change in hedge reserve	(1,941)	(648)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	(1,941)	(648)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
– gains on revaluation of property, plant and equipment	27	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	27	–
Total other comprehensive loss for the period, net of tax	(1,914)	(648)
Total comprehensive income for the period	36,648	38,608

Consolidated Statement of Financial Position

	Notes	31/03/2016	31/12/2015
		EUR'000	EUR'000
ASSETS			
<i>Non-current assets</i>			
Intangible assets and property, plant and equipment	8	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
<i>Current assets</i>			
Inventories	9	23,409	24,791
Trade receivables and other receivables	10	304,358	266,460
Investments in held-to-maturity financial assets		11,382	7,859
Cash and cash equivalents	11	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			
<i>Non-current liabilities</i>			
Borrowings	12	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
<i>Current liabilities</i>			
Trade and other payables		132,243	121,256
Borrowings	12	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

Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of the Parent Company				Non-controlling interests	TOTAL
	Share capital	Reserves	Retained earnings	Total		
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As of 31 December 2014	1,288,446	645,829	79,995	2,014,270	6,531	2,020,801
Increase in share capital	85	–	–	85	–	85
Dividends for 2014	–	–	(31,479)	(31,479)	(1,148)	(32,627)
Total contributions and profit distributions recognised directly in equity	85	–	(31,479)	(31,394)	(1,148)	(32,542)
Profit for the year	–	–	83,509	83,509	1,530	85,039
Other comprehensive income / (loss)	–	23,767	(363)	23,404	–	23,404
Total comprehensive income	–	23,767	83,146	106,913	1,530	108,443
As of 31 December 2015	1,288,531	669,596	131,662	2,089,789	6,913	2,096,702
As of 31 December 2014	1,288,446	645,829	79,995	2,014,270	6,531	2,020,801
Profit for the period	–	–	38,179	38,179	1,077	39,256
Other comprehensive loss for the period	–	(648)	–	(648)	–	(648)
Total comprehensive (loss) / income for the period	–	(648)	38,179	37,531	1,077	38,608
As of 31 March 2015	1,288,446	645,181	118,174	2,051,801	7,608	2,059,409
As of 31 December 2015	1,288,531	669,596	131,662	2,089,789	6,913	2,096,702
Profit for the period	–	–	37,505	37,505	1,057	38,562
Other comprehensive (loss) / income for the period	–	(2,092)	178	(1,914)	–	(1,914)
Total comprehensive (loss) / income for the period	–	(2,092)	37,683	35,591	1,057	36,648
As of 31 March 2016	1,288,531	667,504	169,345	2,125,380	7,970	2,133,350

Consolidated Statement of Cash Flows

For the 3 months ended 31 March 2016

	Notes	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 property, plant and equipment		(33,148)	(29,651)
Proceeds on financing from European Union 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	12	40,000	30,862
Repayment of borrowings	12	(6,411)	(21,884)
Net cash flows generated from 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	11	104,543	91,747
Cash and cash equivalents at the end of the period	11	175,979	121,392*

* received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 thousand has not be included in cash and cash equivalents as of 31 March 2015 because it was defined as restricted cash and cash equivalents (Note 11)

Notes to the Consolidated Financial Statements

1. Corporate Information

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

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

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

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

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

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

The Unaudited Interim Condensed Consolidated Financial Statements for the 3 month period ending 31 March 2016 include the financial information in respect of the Latvenergo AS and all of its subsidiaries for the 3 months period starting on 1 January 2016 and ending on 31 March 2016 and comparative information for the 3 month period ending 31 March 2015.

The Unaudited Interim Condensed Consolidated Financial Statements for the 3 month period ending 31 March 2016 were authorised by the Latvenergo AS Management Board on 24 May 2016.

2. Summary of Most Significant Accounting Policies

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

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

The Condensed Consolidated Financial Statements are prepared under the historical cost convention, except for some financial assets and liabilities (including derivative financial instruments) measured at fair value through profit

or loss and for the revaluation of property, plant and equipment carried at revalued amounts to other comprehensive income as disclosed in accounting policies presented in the Latvenergo Consolidated Annual Report 2015.

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

3. Financial Risk Management

3.1. Financial Risk Factors

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

Risk management (except for pricing risk) is carried out by the Parent Company's Treasury department (the Group Treasury) according to the Financial Risk Management Policy approved by the Parent Company's Management Board. The Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units / subsidiaries. The Parent Company's Management Board by approving the

Financial Risk Management Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, foreign exchange risk, liquidity risk, and credit risk, use of financial instruments and investment of excess liquidity. Pricing risk management is carried out by the Parent Company's Electricity Trading department according to Electricity Wholesale Regulation approved by the Parent Company's Management Board.

a) Market Risk

1) Foreign Currency Exchange Risk

The introduction of euro in Latvia as of 1 January 2014 prevented the euro currency risk, which primarily was arising from settlements in foreign currencies for borrowings, capital expenditures and imported electricity. As of 31 March 2016 the Group had borrowings denominated only in euros.

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

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

II) Cash Flow and Fair Value Interest Rate Risk

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

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

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

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

III) Price Risk

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

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

b) Credit Risk

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

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

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

c) Liquidity Risk

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

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

3.2. Capital Risk Management

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

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

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

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

4. Operating Segment Information

Operating Segments

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

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

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

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

Latvenergo AS as the owner of real estate assets related to distribution system assets.

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

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

	Generation and supply	Distribution	Lease of transmission system assets	Corporate Functions	TOTAL segments	Adjustments and eliminations	Consolidated
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Period 01/01–31/03/2016							
Revenue							
External customers	170,468	79,141	11,790	2,134	263,533	–	263,533
Inter-segment	5,247	457	623	11,376	17,703	(17,703)	–
Total revenue	175,715	79,598	12,413	13,510	281,236	(17,703)	263,533
Results							
Segment profit	39,406	2,157	5,836	288	47,687	(3,102)	44,585
Capital expenditure	9,632	20,070	3,759	1,249	34,710	–	34,710
Period 01/01–31/03/2015							
Revenue							
External customers	171,271	74,836	11,331	2,068	259,506	–	259,506
Inter-segment	1,256	448	601	11,580	13,885	(13,885)	–
Total revenue	172,527	75,284	11,932	13,648	273,391	(13,885)	259,506
Results							
Segment profit	34,445	9,945	5,187	1,535	51,112	(4,265)	46,847
Capital expenditure	3,273	18,339	1,509	1,688	24,809	–	24,809

Segment Assets

	Generation and supply	Distribution	Lease of transmission system assets	Corporate Functions	TOTAL segments	Adjustments and eliminations	Consolidated
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At 31 March 2016	1,572,235	1,306,716	434,771	87,525	3,401,247	206,286	3,607,533
At 31 December 2015	1,548,341	1,312,819	432,028	89,350	3,382,538	134,834	3,517,372

Adjustments and Eliminations

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

Taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment, intangible assets

and investment properties including assets from the acquisition of subsidiaries.

Reconciliation of Profit

	01/01–31/03/2016	01/01–31/03/2015
	EUR'000	EUR'000
Segment profit	47,687	51,112
Finance income	654	694
Finance costs	(3,756)	(4,959)
Profit before tax	44,585	46,847

Reconciliation of Assets

	31/03/2016	31/12/2015
	EUR'000	EUR'000
Segment operating assets	3,401,247	3,382,538
Non-current financial investments	41	41
Held-to-maturity financial assets	28,453	28,468
Other assets and assets held for sale	1,813	1,782
Cash and cash equivalents	175,979	104,543
Group operating assets	3,607,533	3,517,372

5. Revenue

	01/01–31/03/2016	01/01–31/03/2015
	EUR'000	EUR'000
Electricity supply and electricity services	131,639	128,828
Distribution system services	75,140	71,063
Heat sales	37,801	41,716
Lease of transmission system assets	11,618	11,188
Other revenue	7,335	6,711
Total revenue	263,533	259,506

6. Raw Materials and Consumables Used

	01/01–31/03/2016	01/01–31/03/2015
	EUR'000	EUR'000
Electricity:		
Purchased electricity	41,364	52,138
Fair value loss on electricity forwards and futures	3,543	692
Electricity transmission services costs	18,840	18,906
	63,747	71,736
Fuel expense	53,293	48,384
Raw materials, spare parts and maintenance costs	8,142	7,495
Total raw materials and consumables used	125,182	127,615

7. Income Tax

	01/01–31/03/2016	01/01–31/03/2015
	EUR'000	EUR'000
Current tax	7,407	1,734
Deferred tax	(1,384)	5,857
Total income tax	6,023	7,591

8. Intangible Assets and Property, Plant and Equipment

	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other property, plant and equipment	Assets under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At 31 March 2016						
Cost	47,418	4,473,866	2,071,905	171,559	118,752	6,883,500
Accumulated amortisation, depreciation and impairment	(33,423)	(2,481,098)	(1,167,523)	(122,527)	(6,086)	(3,810,657)
Net book amount	13,995	1,992,768	904,382	49,032	112,666	3,072,843
At 31 December 2015						
Cost	46,545	4,469,448	2,072,520	173,118	94,201	6,855,832
Accumulated amortisation, depreciation and impairment	(32,483)	(2,455,220)	(1,149,878)	(121,484)	(6,106)	(3,765,171)
Net book amount	14,062	2,014,228	922,642	51,634	88,095	3,090,661

9. Inventories

	31/03/2016	31/12/2015
	EUR'000	EUR'000
Raw materials and materials	16,722	17,983
Other inventories	8,366	8,422
Allowance for raw materials and other inventories	(1,679)	(1,614)
Total inventories	23,409	24,791

10. Trade Receivables and Other Current Receivables

Trade Receivables, net

	31/03/2016	31/12/2015
	EUR'000	EUR'000
Receivables		
– Electricity supply and electricity services customers	134,240	121,112
– Heating customers	11,217	11,735
– Other trade receivables	31,723	25,405
	177,180	158,252
Allowances for impairment of receivables		
– Electricity supply and electricity services customers	(43,221)	(43,319)
– Heating customers	(371)	(423)
– Other trade receivables	(2,592)	(2,347)
	(46,184)	(46,089)
Receivables, net		
– Electricity supply and electricity services customers	91,019	77,793
– Heating customers	10,846	11,312
– Other trade receivables	29,131	23,058
	130,996	112,163
Unsettled revenue on mandatory procurement public service obligation fee recognised as assets *	158,440	141,060
Other current receivables and accrued income	14,922	13,237
Total trade receivables and other current receivables	304,358	266,460

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

Movements in Allowances for Impairment of Trade Receivables

	01/01–31/03/2016	01/01–31/03/2015	2015
	EUR'000	EUR'000	EUR'000
At the beginning of the period	46,089	44,003	44,003
Receivables written off during the period as uncollectible	(491)	(519)	(2,143)
Allowance for impaired receivables	586	1,014	4,229
At the end of the period	46,184	44,498	46,089

11. Cash and Cash Equivalents

	31/03/2016	31/12/2015
	EUR'000	EUR'000
Cash at bank	162,746	89,391
Short-term bank deposits	6,000	10,000
Restricted cash and cash equivalents *	7,233	5,152
Total cash and cash equivalents	175,979	104,543

* restricted cash and cash equivalents as of 31 March 2016 consist of the financial security for participating in NASDAQ OMX Commodities Exchange in the amount of EUR 7,233 thousand (31 March 2015 – EUR 5,152 thousand)

12. Borrowings

	31/03/2016	31/12/2015
	EUR'000	EUR'000
Non-current borrowings from financial institutions	569,707	534,586
Issued debt securities (bonds)	179,709	179,705
Total non-current borrowings	749,416	714,291
Current portion of non-current borrowings from financial institutions	79,310	80,842
Accrued interest on non-current borrowings	2,320	848
Accrued coupon interest on issued debt securities (bonds)	2,605	1,502
Total current borrowings	84,235	83,192
Total borrowings	833,651	797,483

Movement in Borrowings

	01/01–31/03/2016	01/01–31/03/2015	2015
	EUR'000	EUR'000	EUR'000
At the beginning of the period	797,483	827,222	827,222
Borrowings received	40,000	30,862	30,000
Borrowing repaid	(6,411)	(21,884)	(134,875)
Change in accrued interest on borrowings	2,575	3,100	234
Issued debt securities (bonds)	4	–	74,902
At the end of the period	833,651	839,300	797,483

13. Related Party Transactions

The Parent Company and, indirectly, the other Group entities are controlled by the Latvian state. Related parties of the Group are associates, Shareholder of the Parent Company who controls

or who has significant influence over the Group's entities in accepting operating business decisions, key management personnel of the Group's entities including members of Supervisory body – Audit

committee and close family members of any above-mentioned persons, as well as entities over which those persons have control or significant influence.

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

	31/03/2016	31/12/2015
	EUR'000	EUR'000
Trade payables to related parties:		
– Other related parties*	225	252
Total payables	225	252

* Pirmais Slēgtais Pensiju Fonds AS

In the 3 month period ending 31 March 2016 remuneration to the Group's management includes remuneration to the members of the Management

Boards and Supervisory body of the Group entities, including salary, social insurance contributions and payments to pension plan and is amounted to EUR

480.1 thousand (Q1 2015: EUR 730.8 thousand) and are included in the Consolidated Income Statement position 'Personnel expenses'.

14. Events after the Reporting Period

On 14 April 2016, Latvenergo AS issued additional first series notes (*green* bonds) in the total amount of EUR 25 million under the second programme for the issuance of notes of Latvenergo AS. With this issue total of EUR 100 million bonds under the second programme for the issuance of notes has been issued thus covering the entire amount of the programme approved on 25 May 2015.

As of 29 April 2016, Enerģijas publiskais tirgotājs AS received part of government grant for

mandatory procurement PSO costs compensation in the amount of EUR 59.2 million.

In accordance with the Latvenergo AS Shareholders' meeting resolution, as of 12 May 2016 were paid dividends for state in the amount of EUR 77.4 million for the year 2015.

On 5 May 2016, the Public Utilities Commission (PUC) approved electricity distribution system service tariff balancing project submitted by

Sadales tīkls AS. It is expected that balanced tariff will be valid from 1 August 2016.

There have been no other significant events subsequent to the end of the reporting period that might have a material effect on the Unaudited Interim Condensed Consolidated Financial Statements for the 3 month period ending 31 March 2016.
