Unaudited Interim Condensed Consolidated Financial Statements

for the 9 months period ended 30 September 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*

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Investor Conference Webinar about financial results of 9 months 2016

28.02.2017.

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Latvenergo Consolidated Annual Report 2016

31.05.2017.

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DISCLAIMER

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

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

Summary

- **Lower electricity and gas prices in Latvia**
  In 9 months of 2016, electricity spot price in Latvia and Lithuania decreased. This decrease is mainly attributable to the opening of *NordBalt* interconnection between Sweden and Lithuania leading to a convergence of electricity price between the Baltic and the Nordic bidding areas. Due to the downtrend in crude oil price during the 9 months of 2016, the average natural gas price dropped by 26% compared to the respective period last year.

- **Latvenergo Group maintains leading electricity supplier position in the Baltics**
  Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics ensuring approximately 1/3 of the market share in the region. Retail electricity supply outside Latvia comprises approximately one third of the total retail electricity supply.

- **Increased generation of electricity and thermal energy**
  Amount generated by the power plants of Latvenergo Group in 9 months of 2016 was 3,052 GWh of electricity and 1,725 GWh of thermal energy. In comparison to the respective period last year, electricity output generated at Riga CHPPs has increased by 15% and at Daugava HPPs – by 13%. Riga CHPPs managed to react effectively to the market situation in the region by offering a competitively priced electricity. The amount of thermal energy generated increased by 9% compared to the respective period in 2015. This was mainly due to a considerably lower average ambient air temperature in January 2016.

- **22% EBITDA growth**
  Compared to nine months of 2015, revenue of Latvenergo Group has remained at the same level and is EUR 678.2 million. At the same time, EBITDA has increased by 22% reaching EUR 288.1 million. EBITDA has grown in all of the operating segments. Results were positively affected by lower natural gas and electricity prices, as well as higher electricity output at Daugava HPPs.

- **The balanced distribution system tariffs come into force**
  On 1 August 2016, the new balanced electricity distribution system service tariffs came into force, which promote efficient utilization of distribution grid connection capacity.

- **Investment in network assets – 2/3 of the total**
  In 9 months of 2016, the overall amount of investment was EUR 136.5 million of which nearly 66% were invested in network assets. A substantial part of investment was invested in environmentally friendly and environmental development projects – in 9 months of 2016, EUR 23.7 million were invested in the reconstruction of Daugava HPPs hydropower units.

- **Successful completion of *green* bond offering programme**
  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. In October 2016, *Moody's* assigned the highest Green Bond Assessment grade. The overall amount of bonds represents approximately 1/4 of the total amount of borrowings.

Latvenergo Group in Brief

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

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

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

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

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

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

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

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

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

Latvenergo Group in Brief

Strategy of Latvenergo Group for 2013–2016

Current strategy of Latvenergo Group (for years 2013–2016) was elaborated and approved at the end of 2012. The strategy represents a transparent and rational development of Latvenergo Group in pan-Baltic conjuncture during the opening of the Baltic electricity market and development of new electricity interconnections.

Latvenergo Group strategy includes the following operational objectives to be reached until 2016:

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

Strategy of Latvenergo Group for 2017–2022

After the end of the reporting period, on 19 October 2016, the Shareholder's Meeting approved the strategy of Latvenergo Group 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 sustainable and economically sound market position in local markets (in the Baltics), meanwhile considering a geographic and / or product / service expansion;
- development of generation portfolio that fosters synergy with trade and that promotes value increase of the Group;
- development of a customer-driven, functional, safe and efficient network.

Along with the strategy approval, financial targets of Latvenergo Group have been set. The targets are subdivided in three groups – profitability, capital structure and dividend policy. The financial targets are set to ensure:

- ambitious, but at the same time achievable profitability, which is consistent with the average ratios of benchmark companies in European energy sector, and which provides an adequate return for the business risk;
- optimal and industry relevant capital structure that limits the potential financial risks;
- 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 comprehended detailed industry and operating environment analysis, evaluation of business opportunities, and discussions with industry experts and stakeholders.

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

Key Performance Indicators

Operational Figures

		9M 2016	9M 2015	9M 2014	9M 2013	9M 2012
Retail electricity supply	GWh	5,639	5,797	6,485	6,026	6,147
Electricity generation	GWh	3,052	2,676	2,688	3,775	3,662
Thermal energy supply	GWh	1,646	1,525	1,575	1,772	1,765
Number of employees		4,184	4,180	4,560	4,518	4,455
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)

Financial Figures

		9M 2016	9M 2015	9M 2014	9M 2013	9M 2012
Revenue	MEUR	678.2	685.9	748.9	819.1	777.8
EBITDA*	MEUR	288.1	236.2	178.6	203.0	191.8
Profit	MEUR	94.3	68.6	30.0	32.9	52.2
Assets	MEUR	3,564.6	3,530.5	3,522.3	3,475.7	3,426.5
Equity	MEUR	2,110.5	2,060.3	2,020.2	2,006.5	2,022.1
Net debt*	MEUR	623.0	682.5	713.7	675.4	587.8
Investments	MEUR	136.5	136.7	114.6	159.9	118.1

Financial Ratios

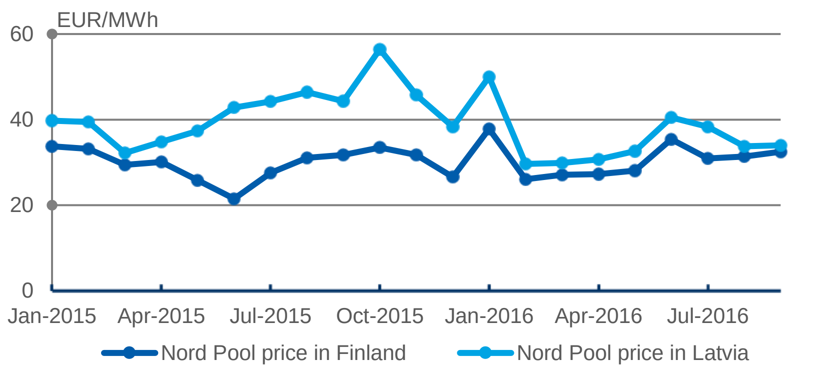
	9M 2016	9M 2015	9M 2014	9M 2013	9M 2012
Net debt/EBITDA ratio*	1.8	2.4	3.1	2.5	2.5
EBITDA margin*	39%	31%	22%	23%	23%
Return on equity*	5.3%	3.4%	2.2%	1.6%	3.5%
Return on assets*	3.1%	1.9%	1.2%	0.9%	2.0%
Net debt/equity*	30%	33%	35%	34%	29%

* Definitions of ratios and terms are available in the List of Abbreviations and Formulas on page 19

Operating Environment

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

Compared to the previous year, in 9 months of 2016, the average electricity spot price was higher in Finland and Estonia. The price increase was influenced by colder weather conditions in January and repair works in the Nordic electricity transmission interconnection networks and largest power plants in summer months. The average electricity spot price in Finnish bidding area increased by 5% and reached 30.7 EUR/MWh, while in Estonian bidding area it rose by 2% to 31.6 EUR/MWh.



The electricity prices in Latvia and Lithuania have decreased. Compared to 9 months of 2015, the average electricity spot price in Latvian and Lithuanian bidding areas decreased by 12% and 10% respectively, and reached 35.5 EUR/MWh in Latvian and 36.0 EUR/MWh in Lithuanian bidding area. The decline in electricity price in Latvia and Lithuania was mainly driven by the launch of electricity interconnection *NordBalt* at the beginning of 2016, consequently contributing to the convergence of electricity spot prices between the bidding areas of the Baltic and Nordic countries. In addition, the decline in electricity price in Latvia and Lithuania was influenced by a fall in natural gas price in Latvia by 26% facilitating a more competitive electricity output of the Riga CHPPs thus precluding electricity price increase risk in the region.

From the energy balance position, Latvia and Lithuania are deficit region countries. Prior to the launch of the new international interconnections *NordBalt* (700 MW) and *LitPol* (500 MW) at the beginning of 2016, the shortage of transmission capacity between power systems in Latvia and Estonia was an important factor affecting the market price, which determined higher electricity prices in Latvian and Lithuanian bidding areas. Even after the opening of the new interconnections electricity spot prices in Latvian and Lithuanian bidding areas remained higher than in Estonian bidding area. The average electricity price in Latvian bidding area in 9 months of 2016 was on average by 3.9 EUR/MWh higher than in Estonia (in 9 months of 2015: 9.2 EUR/MWh).

In 9 months of 2016, total amount of electricity generated in the Baltics increased by 3% compared to the respective period last year, and it was 13.2 TWh. The consumption of electricity in the Baltics had a similar trend – it has increased by 3% reaching 18.6 TWh. Thus, the net import volume of electricity in the Baltics has increased by 3% reaching 5.4 TWh.

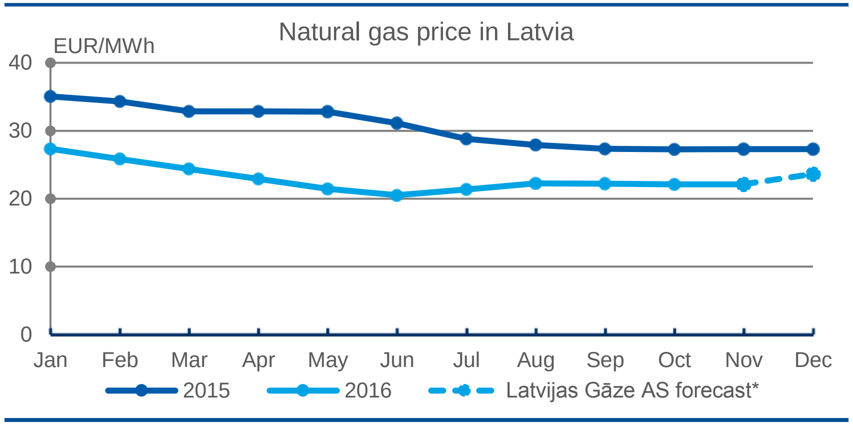
Operating Environment

Natural gas price in Latvia lower

The natural gas price in Latvia is linked to the crude oil product price (to the previous 9-month average heavy fuel oil and diesel quotations index). Due to index change, in 9 months of 2016, the average price of natural gas (incl. the excise tax and transmission costs) in Latvia for the user group with consumption above 100,000 thousand nm^3 was 23.1 EUR/MWh, which is by 26% lower than in 9 months last year when it was 31.5 EUR/MWh. The decline of natural gas price is related to the falling prices of crude oil – the average price of *Brent* oil in 9 months of 2016 decreased by 25% compared to the same period in 2015 reaching 41.7 USD/bbl (in 9 months of 2015: 55.3 USD/bbl).

According to the gas tariff forecast of Latvijas Gāze AS*, it is expected that the natural gas price will slightly rise at the end of 2016 (see graph).

* Tariff forecast of Latvijas Gāze AS in November 2016
http://www.lg.lv/uploads/filedir/File/Vestnesis/2016/2016.11._Tarifi.pdf



Slowdown in economic growth in the Baltics

In 9 months of 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 Q3 2016 compared to the previous year in Latvia was 0.7% (Q3 2015: 2.5%), in Lithuania – 1.6% (1.8%) and in Estonia 1.3% (2.7%). The pace of economic growth in Latvia was positively influenced by the increase in value added in manufacturing and service sectors, countered by a significantly lower activity in the construction industry.

According to *Eurostat* data, in September 2016, the consumer prices in all the Baltic countries have increased. In Latvia, there was a slight increase in price level by 0.5%, in Lithuania – 0.6% and in Estonia by 1.7%. In September 2016, compared to September 2015 the consumer price level in the Eurozone increased by 0.4%.

Credit rating agencies, including *Moody's*, regularly perform the economic evaluation of the Baltic States. The credit rating of Latvia and Lithuania is A3 with stable outlook. The credit rating for Estonia is A1 with stable outlook.

Operating Environment

Changes in distribution service tariff

As of 1 August 2016, the new electricity distribution system service balanced tariff came into force. The price of electricity distribution consists of two components – a fixed fee for the provision of the connection, and a variable component for delivery of electricity according to consumed kilowatt-hours.

Distribution service tariffs effective from April 2011 until 1 August 2016, did not cover all the distribution service costs.

Dividends

According to the draft 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 90.1 million in 2017, in 2018 – EUR 121.7 million 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 in 30 September 2016 – 30%) 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 9 months of 2016, Latvenergo Group's revenue has not changed significantly compared to the respective period last year, and comprise EUR 678.2 million.

EBITDA and profit of the Group increased

During the reporting period, Latvenergo Group's EBITDA increased by 22% reaching EUR 288.1 million, while Latvenergo Group's profit in 9 months of 2016 was EUR 94.3 million.

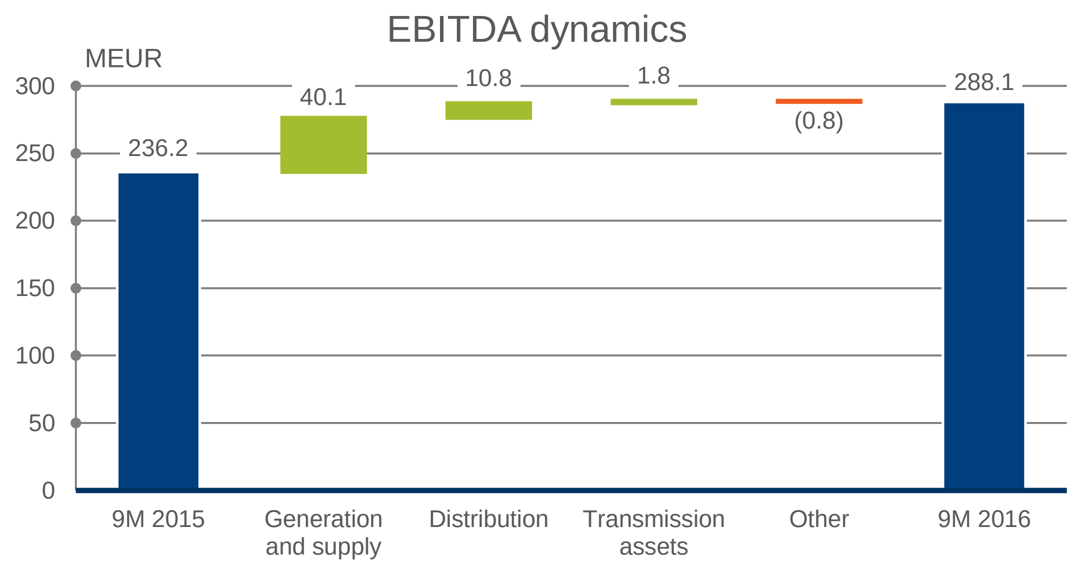
The results of the Group were positively impacted mainly by lower natural gas and electricity prices in Latvia. Compared to the respective period last year, the natural gas price was by 26% lower, while the electricity price was by 12% lower.

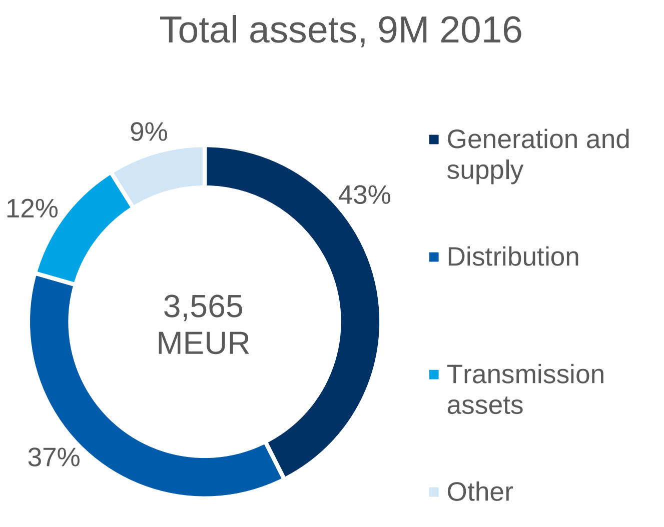
Financial figures		9M 2016	9M 2015	Δ	Δ, %
Revenue	MEUR	678.2	685.9	(7.7)	(1%)
EBITDA	MEUR	288.1	236.2	51.9	22%
Net profit	MEUR	94.3	68.6	25.7	37%
Assets	MEUR	3,564.6	3,530.5	34.0	1%

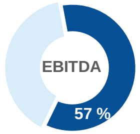
Results were also positively impacted by 13% higher electricity output at Daugava HPPs and by EUR 12.5 million increase in distribution service revenue.

EBITDA has increased in all of the operating segments. Furthermore, the EBITDA margin has improved and reached 39% (in 9 months of 2015: 31%).

Consequently, profit growth has raised the return on equity to 5.3%, while in the corresponding period last year it was 3.4%.







Generation and Supply

Revenue **58%**

EBITDA **57%**

Assets **43%**

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 87% of the segment revenue consists of revenue from electricity and related services, while 13% comes from thermal energy supply.

In 9 months of 2016, revenue of the segment decreased by 5% and comprises EUR 421.9 million. The decrease in revenue was determined by EUR 9.7 million lower thermal energy revenue, driven by lower average price of natural gas. Another factor that had a negative effect on the revenue was the reduction of electricity market price.

EBITDA for the segment increased by 32%, reaching EUR 163.9 million. The results of the segment were positively influenced by lower prices of the natural gas and electricity, as well as higher electricity output at Daugava HPPs.

The amount of electricity generated by Latvenergo Group is insufficient to ensure the amount supplied in retail. The electricity generated in 9 months of 2016 represents 54% (9 months of 2015: 46%)

Operational figures		9M 2016	9M 2015	Δ	Δ, %
Electricity supply	GWh	5,639	5,797	(158)	(3%)
Electricity generation	GWh	3,052	2,676	376	14%
Thermal energy generation	GWh	1,725	1,584	141	9%

Financial figures		9M 2016	9M 2015	Δ	Δ, %
Revenue	MEUR	421.9	444.0	(22.1)	(5%)
EBITDA	MEUR	163.9	123.8	40.1	32%
Assets	MEUR	1,517.1	1,527.8	(10.7)	(1%)
Investments	MEUR	40.3	41.9	(1.6)	(4%)

of the total retail electricity supply. Latvenergo Group's electricity trading portfolio management policy provides for a balanced portfolio, aimed at minimizing the impact of electricity market price fluctuations on financial results. The Group applies electricity financial instruments to hedge against fluctuations of electricity purchase expenses resulting from price volatility in the power exchange. Along with the opening of new interconnections at the beginning of 2016 the electricity prices in the Baltics depict a tendency to converge with prices in the Nordic countries. Closer correlation of electricity prices with the Nordic countries is expected after the completion of the Estonian–Latvian interconnection construction in 2020. Thereby, henceforth it will be more effective to hedge the electricity price fluctuation risk exposure using the Nordic financial instruments.

Supply

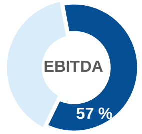
In 9 months of 2016, Latvenergo Group has successfully maintained the leading electricity

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

supplier position in the Baltics. Latvenergo Group has approximately 1/3 of the market share of the Baltic electricity retail market. The overall amount of retail electricity supply outside Latvia accounts for almost 1/3 of the total, reaching 1,786 GWh, which is approximately by more than 1.3 times higher than the amount provided by competing electricity suppliers in Latvia.

In 9 months of 2016, we have supplied 5,639 GWh of electricity to the Baltic retail customers (9 months of 2015: 5,797 GWh). The decrease in the amount of electricity supplied is primarily related to certain large customers switch to other electricity traders due to intensified price competition environment.

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



Generation and Supply

Latvenergo Group has managed to maintain stable client portfolio in the Baltics. The total number of foreign clients exceeds 34.4 thousand. Sales activities in Lithuania and Estonia were mainly focused on small and medium sized enterprises.

Latvenergo Group's electricity supply volume in Latvia was 3,853 GWh; in Lithuania – 1,115 GWh and in Estonia – 671 GWh.

Generation

In 9 months of 2016, the total amount generated by the power plants of Latvenergo Group comprised 3,052 GWh of electricity and 1,725 GWh of thermal energy.

Overall, the amount of electricity generated compared to the corresponding period in 2015 has increased by 14%.

In 9 months of 2016, the amount of power generated by Riga CHPPs was increased by 15%, reaching 1,210 GWh. Favourable conditions for power generation at Riga CHPPs were fostered by the decline in average price of the natural gas by 26% compared to 9 months of 2015. Riga CHPPs ensured effective and operative electricity generation thus precluding the risk of electricity price increase in the region. The role of Riga CHPPs was particularly significant during interruption periods in interconnection operation, as well as, at times when there were fluctuations in generation supply and demand in the neighbouring countries.

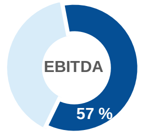
Changes made to the support mechanism in 2013 state that the cogeneration plants with an installed capacity above 4 MW are not eligible to have their variable cost reimbursed in a case where the costs exceed the market price; instead, they only receive support for the installed capacity. Consequently, Riga CHPPs operate in the 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 lower 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		**9M 2016**	**9M 2015**	**Δ**	**Δ, %**
Electricity supply	GWh	5,639	5,797	(158)	(3%)
Electricity generation	GWh	3,052	2,676	376	14%
Daugava HPPs	GWh	1,804	1,590	213	13%
Riga CHPPs	GWh	1,210	1,048	162	15%
Liepaja plants and small plants	GWh	38	38	0	0%
Thermal energy generation		1,725	1,584	141	9%
Riga CHPPs	GWh	1,557	1,425	132	9%
Liepaja plants and small plants	GWh	168	159	10	6%

In 9 months of 2016, the amount of power generated by Daugava HPPs has increased by 13%, reaching 1,804 GWh (in 9 months of 2015 – 1,590 GWh). The increase was fostered by higher water inflow in the river Daugava.

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

In 9 months of 2016, the total amount of thermal energy generated by Latvenergo Group increased by 9%. The increase was determined by a comparatively lower average ambient air temperature at the beginning of the year. According to the data provided by the Central Statistical Bureau of the Republic of Latvia, during the heating season in 2016 (January–April), the average temperature in Riga was +1.4 ºC, while during the same period in 2015 it was +3.1 ºC.



Generation and Supply

Mandatory procurement

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

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

Mandatory procurement PSO fee remains at the previous level

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

On 11 February 2016, the PUC approved the mandatory procurement PSO fee as of 1 April 2016 in the amount of EUR 2.679 cents/kWh, which remains at the same level since 1 April 2014.

Unsettled revenue on mandatory procurement PSO fee recognized as assets		9M 2016	9M 2015	Δ	Δ, %
At the beginning of the period	MEUR	**141.1**	**79.0**	**62.0**	**78%**
Mandatory procurement PSO fee income	MEUR	131.0	128.6	2.4	2%
Received State grant	MEUR	59.2	20.3	38.9	191%
Mandatory procurement expenditures *	MEUR	177.0	194.8	(17.7)	(9%)
Incl. cogeneration	MEUR	105.4	117.9	(12.5)	(11%)
Incl. renewable energy resources	MEUR	71.0	76.2	(5.2)	(7%)
At the end of the period	MEUR	**127.9**	**124.8**	**3.1**	**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

To limit the increase of mandatory procurement PSO fee, there is a State grant in the amount of EUR 78.9 million.

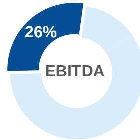
Revenues from SET, which was introduced on 1 January 2014, are used as a funding for the above mentioned State Budget programme. In the upcoming years, according to the draft law "On the medium-term budgetary framework for 2017, 2018 and 2019" additional funding is expected from Latvenergo AS dividends for the use of state capital.

In 9 months of 2016, mandatory procurement expenditures were EUR 177.0 million (in the respective period of 2015: EUR 194.8 million). The decrease in expenditure is related to a comparatively lower price of the natural gas.

Following the price reduction, mandatory procurement expenses are lower for cogeneration, biomass and biogas power plants.

In 9 months of 2016, the assets recognized as unearned PSO fee revenue have decreased by EUR 13.1 million (in 9 months of 2015 – increase by EUR 45.8 million). The reduction was facilitated by the government grant in the amount of EUR 59.2 million received in April 2016, which corresponds to ¾ of the overall grant, while the remaining ¼ is expected to be received in 2017.

Distribution



Revenue
31%

EBITDA
26%

Assets
37%

Employees
61%

Segment weight in Latvenergo Group

The distribution segment is the second largest segment of Latvenergo Group both by revenue and assets. In 9 months of 2016, revenue of the segment increased by 6% compared to the respective period last year and reached EUR 224.3 million, while EBITDA increased by 17% reaching EUR 76.0 million.

> The value of distribution assets exceeds EUR 1.3 billion

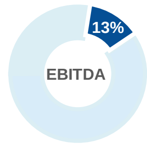
In 9 months of 2016, results of the segment were positively impacted by the increase of distribution service revenue (EUR 12.5 million). Growth was determined by electricity revenue at a regulated tariff received at the beginning of 2015 that were recognized in 2014, and the new rebalanced distribution system services tariff that came into force on 1 August 2016. The revenue at a regulated tariff received at the beginning of 2015 that were recognized in 2014 also negatively impacted higher purchasing costs of electricity losses in 9 months of 2016 (EUR 2.3 million), compared to the respective period in 2015.

Operational figures		**9M 2016**	**9M 2015**	**Δ**	**Δ, %**
Electricity distributed	GWh	4,770	4,646 *	124	3%
SAIFI	number	2.4	2.3	0.1	4%
SAIDI	minutes	222	261	(39)	(15%)
Financial figures		**9M 2016**	**9M 2015**	**Δ**	**Δ, %**
Revenue	MEUR	224.3	211.2	13.1	6%
EBITDA	MEUR	76.0	65.2	10.8	17%
Assets	MEUR	1,314.8	1,281.1	33.6	3%
Investments	MEUR	73.8	70.9	2.8	4%

* 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

Investment in distribution assets in 9 months of 2016 has increased by 4% compared to the 9 months last year, and reached EUR 73.8 million. As a result of investment, assets of the segment have increased by 3% and comprise EUR 1,314.8 million. Large-scale investments in modernisation of the network are scheduled also for the following years in order to increase the safety and quality of network services, lessen SAIFI and SAIDI indicators, as well as minimize the risk of network disorders caused by severe weather conditions.

Lease of Transmission System Assets



Segment weight in Latvenergo Group

Revenue	5%
EBITDA	13%
Assets	12%
Employees	0.2%

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

Revenue of the transmission system asset lease segment represents 5% of Latvenergo Group revenue. In 9 months of 2016, revenue of the segment increased by 4% reaching EUR 37.1 million, while EBITDA increased by 5% reaching EUR 36.1 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.

Financial figures		**9M 2016**	**9M 2015**	**Δ**	**Δ, %**
Revenue	MEUR	37.1	35.8	1.3	4%
EBITDA	MEUR	36.1	34.3	1.8	5%
Assets	MEUR	415.0	435.4	(20.3)	(5%)
Investments	MEUR	16.4	14.9	1.6	11%

The return on transmission system assets in 9 months of 2016 is 2.6% (9 months of 2015: 4.5%). The change in the ratio value is due to impairment of the transmission assets that is to be performed at least once every five years.

During the reporting period, investment in transmission system assets was EUR 16.4 million, which is by EUR 1.6 million more than in the respective period last year.

Investments

In 9 months of 2016, the total amount of investment has not changed significantly compared to the same period last year and it is EUR 136.5 million.

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

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 9 months of 2016, the amount invested in the networks represented 66% of the total investment.

In 9 months of 2016, the amount invested in Daugava HPPs hydropower unit reconstruction was EUR 23.7 million.

Investment projects:

Daugava HPPs hydropower unit reconstruction programme (Daugava HPPs reconstruction)

Deeming environmentally safe, sustainable and competitive operations and effective water resource management as highly important, Latvenergo Group proceeds with gradual overhaul of eleven Daugava HPPs hydropower units that have not been overhauled yet. The programme is scheduled to be completed until 2022, with the estimated total reconstruction costs exceeding EUR 200 million. The completed workload within the contract reached EUR 75.2 million as of 30 September 2016. The reconstruction will provide for further 40-year operation of hydropower units.

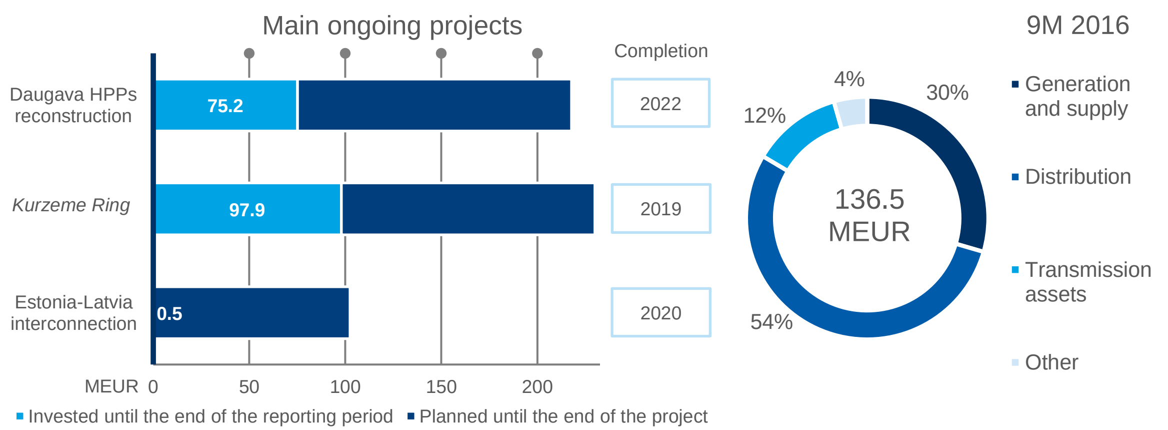
Kurzeme Ring project

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

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

Estonia – Latvia third power transmission network interconnection

The project bears a major significance to the future electricity transmission infrastructure of the whole Baltic region. The construction of the new 330 kV interconnection is scheduled for completion until the end of 2020 and the total construction costs of the project in Latvia are estimated at approximately EUR 100 million. During the reporting period, the environmental impact assessment of the interconnection project has been approved, and the preliminary route project is being developed. As of August 2016, the Cabinet approved the activities and location for construction of the interconnection, and established its status as an object of national interest. The project is co-funded by the EU covering 65% of eligible costs.



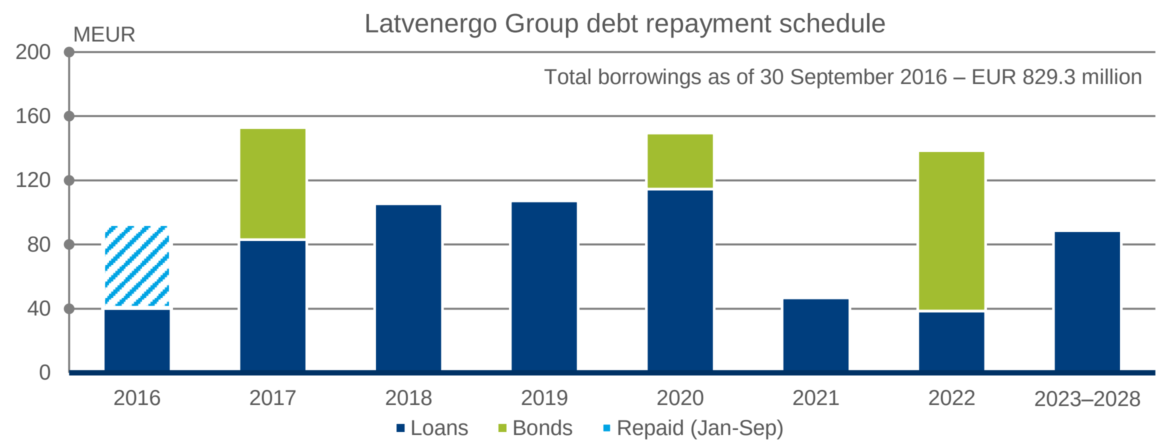
Funding and Liquidity

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

Moody's assigns the highest Green Bond Assessment grade

As of 30 September 2016, the Group's borrowings are EUR 829.3 million (30 September 2015: EUR 851.9 million), comprising loans from commercial banks, international investment banks, and bonds of EUR 205 million. On 14 April 2016, Latvenergo AS issued *green* bonds in the amount of EUR 25 million, thus completing the second bond offering programme of EUR 100 million. *Moody's* assigned a Baa2 (stable) credit rating for the bonds. As of 12 October 2016, *Moody's* assigned the highest Green Bond Assessment grade of GB1 (excellent). This marks the first time when *Moody's* assesses *green* bonds and even assigns excellent grade for *green* bonds issued in Eastern Europe.

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



As of 30 September 2016, all borrowings are denominated in the euro currency. The weighted average repayment period was 4.0 years (30 September 2015: 4.5 years). Borrowings from financial institutions had a variable interest rate, comprising 3, 6 or 12 month EURIBOR and a margin. Taking into account the effect of interest rate swaps and bonds with fixed interest rate, 60% of the borrowings had a fixed interest rate with an average period of 2.4 years as of 30 September 2016. The effective weighted average interest rate (with interest rate swaps) was 1.7% (30 September 2015: 2.4%). Sufficient coverage of debt service requirements has been ensured (interest coverage ratio – 12.6).

As of 30 September 2016, the net borrowings of Latvenergo Group are EUR 623.0 million (EUR 682.5 million), while the net debt/EBITDA ratio is 1.8 (2.4).

Latvenergo Group maintains sufficient liquidity reserves in order to implement the investment programme and fulfil its commitments according to the debt repayment schedule. As of 30 September 2016, the liquid assets (cash and short term deposits up to 3 months) of Latvenergo Group reached EUR 206.3 million (EUR 169.4 million), while the current ratio was 2.3 (1.9). In 9 months of 2016, all the binding financial covenants set in Latvenergo Group loan agreements have been met.

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

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS the *Latvenergo Unaudited Interim Condensed Consolidated Financial Statements for the 9 months period ended 30 September 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 9 months period ended 30 September 2016* are approved by the Management Board of Latvenergo AS on 22 November 2016.

The Management Board of Latvenergo AS:

Āris Žīgurs
Chairman of the Board

Guntars Baļčūns
Member of the Board

Uldis Bariss
Member of the Board

Māris Kuņickis
Member of the Board

Guntis Stafeckis
Member of the Board

List of Abbreviations and Formulas

Abbreviations

bbl –	barrel of oil (158.99 litres)
Daugava HPPs –	Daugava hydropower plants
EBITDA –	earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortization, and impairment of intangible and fixed assets
EC –	European Commission
EU –	European Union
kV –	kilovolt
MEUR –	million euros
MW –	megawatt
MWh –	megawatt hour (1,000,000 MWh = 1,000 GWh = 1 TWh)
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

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

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

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

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

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

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

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

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

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

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

Unaudited Interim Condensed Consolidated Financial Statements

Consolidated Statement of Profit or Loss

For the 9 months period ended 30 September 2016

	Notes	01/01–30/09/2016	01/01–30/09/2015
		EUR'000	EUR'000
Revenue	5	678,203	685,945
Other income		4,904	3,630
Raw materials and consumables used	6	(274,874)	(336,343)
Personnel expenses		(72,754)	(71,151)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		(171,370)	(149,040)
Other operating expenses		(47,338)	(45,873)
Operating profit		**116,771**	**87,168**
Finance income		1,788	2,192
Finance costs		(10,935)	(14,557)
Profit before tax		**107,624**	**74,803**
Income tax	7	(13,308)	(6,208)
Profit for the period		**94,316**	**68,595**

Consolidated Statement of Comprehensive Income

For the 9 months period ended 30 September 2016

	01/01–30/09/2016	01/01–30/09/2015
	EUR'000	EUR'000
Profit for the period	**94,316**	**68,595**
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods (net of tax):		
– income / (losses) from change in hedge reserve	(1,797)	3,508
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods	**(1,797)**	**3,508**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):		
– change of property, plant and equipment revaluation reserve net of income tax	81	3
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**81**	**3**
Total other comprehensive income / (loss) for the period, net of tax	**(1,716)**	**3,511**
Total comprehensive income for the period	**92,600**	**72,106**

Consolidated Statement of Financial Position

	Notes	30/09/2016	31/12/2015
		EUR'000	EUR'000
ASSETS			
Non–current assets			
Intangible assets and property, plant and equipment	8	3,052,743	3,090,661
Investment property		731	696
Non–current financial investments		41	41
Investments in held–to–maturity financial assets		17,046	20,609
Other non–current receivables		1,281	1,712
Total non–current assets		**3,071,842**	**3,113,719**
Current assets			
Inventories	9	32,264	24,791
Trade receivables and other receivables	10	245,550	266,460
Investments in held-to-maturity financial assets		3,521	7,859
Derivative financial instruments		5,123	–
Cash and cash equivalents	11	206,291	104,543
Total current assets		**492,749**	**403,653**
TOTAL ASSETS		**3,564,591**	**3,517,372**
EQUITY			
Share capital		1,288,531	1,288,531
Reserves		667,340	669,596
Retained earnings		148,393	131,662
Equity attributable to equity holders of the Parent Company		**2,104,264**	**2,089,789**
Non–controlling interests		6,248	6,913
Total equity		**2,110,512**	**2,096,702**
LIABILITIES			
Non–current liabilities			
Borrowings	12	752,549	714,291
Deferred income tax liabilities		268,937	273,987
Provisions		16,541	15,984
Derivative financial instruments		10,224	8,291
Other liabilities and deferred income		194,475	196,386
Total non–current liabilities		**1,242,726**	**1,208,939**
Current liabilities			
Trade and other payables		130,464	121,256
Borrowings	12	76,739	83,192
Derivative financial instruments		4,150	7,283
Total current liabilities		**211,353**	**211,731**
Total liabilities		**1,454,079**	**1,420,670**
TOTAL EQUITY AND LIABILITIES		**3,564,591**	**3,517,372**

Consolidated Statement of Changes in Equity

	Attributable to equity shareholder of the Parent Company				Non–controlling interests	
	Share capital	Reserves	Retained earnings	Total		TOTAL
	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
As of 31 December 2014	**1,288,446**	**645,829**	**79,995**	**2,014,270**	**6,531**	**2,020,801**
Increase in share capital	85	–	–	**85**	–	**85**
Dividends for 2014	–	–	(31,479)	**(31,479)**	(1,148)	**(32,627)**
Total contributions and profit distributions recognised directly in equity	**85**	**–**	**(31,479)**	**(31,394)**	**(1,148)**	**(32,542)**
Profit for the year	–	–	83,509	**83,509**	1,530	**85,039**
Other comprehensive income / (loss) for the year	–	23,767	(363)	**23,404**	–	**23,404**
Total comprehensive income for the year	**–**	**23,767**	**83,146**	**106,913**	**1,530**	**108,443**
As of 31 December 2015	**1,288,531**	**669,596**	**131,662**	**2,089,789**	**6,913**	**2,096,702**
As of 31 December 2014	**1,288,446**	**645,829**	**79,995**	**2,014,270**	**6,531**	**2,020,801**
Dividends for 2014	–	–	(31,479)	**(31,479)**	(1,148)	**(32,627)**
Total contributions and profit distributions recognised directly in equity	**–**	**–**	**(31,479)**	**(31,479)**	**(1,148)**	**(32,627)**
Profit for the period	–	–	67,733	**67,733**	862	**68,595**
Other comprehensive income for the period	–	3,491	20	**3,511**	–	**3,511**
Total comprehensive income for the period	**–**	**3,491**	**67,753**	**71,244**	**862**	**72,106**
As of 30 September 2015	**1,288,446**	**649,320**	**116,269**	**2,054,035**	**6,245**	**2,060,280**
As of 31 December 2015	**1,288,531**	**669,596**	**131,662**	**2,089,789**	**6,913**	**2,096,702**
Dividends for 2015	–	–	(77,413)	**(77,413)**	(1,377)	**(78,790)**
Total contributions and profit distributions recognised directly in equity	**–**	**–**	**(77,413)**	**(77,413)**	**(1,377)**	**(78,790)**
Profit for the period	–	–	93,604	**93,604**	712	**94,316**
Other comprehensive income / (loss) for the period	–	(2,256)	540	**(1,716)**	–	**(1,716)**
Total comprehensive income / (loss) for the period	**–**	**(2,256)**	**94,144**	**91,888**	**712**	**92,600**
As of 30 September 2016	**1,288,531**	**667,340**	**148,393**	**2,104,264**	**6,248**	**2,110,512**

Consolidated Statement of Cash Flows
For the 9 months period ended 30 September 2016

	Notes	01/01–30/09/2016	01/01–30/09/2015
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before tax		107,624	74,803
Adjustments :			
– Amortisation, depreciation and impairment of non-current assets		173,782	152,263
– Net financial adjustments		984	14,893
– Other adjustments		601	(579)
Operating profit before working capital adjustments		**282,991**	**241,380**
Decrease / (increase) in current assets		11,300	(35,677)
Decrease in trade and other payables		(12,317)	(26,748)
Cash generated from operating activities		**281,974**	**178,955**
Interest paid		(8,609)	(10,364)
Interest received		2,088	1,454
Corporate income tax and real estate tax (paid) / repaid		(4,459)	4,094
Net cash flows generated from operating activities		**270,994**	**174,139**
Cash flows from investing activities			
Purchase of intangible assets and property, plant and equipment		(128,340)	(132,790)
Proceeds on financing from European Union funds and other financing		–	17,971
Proceeds from redemption of held–to–maturity assets		7,900	45
Net cash flows used in investing activities		**(120,440)**	**(114,774)**
Cash flows from financing activities			
Proceeds from issued debt securities (bonds)	12	26,266	74,898
Proceeds on borrowings from financial institutions	12	56,055	30,000
Repayment of borrowings	12	(52,337)	(83,240)
Dividends paid to equity holders of the Parent Company		(77,413)	(31,479)
Dividends paid to non–controlling interests		(1,377)	(1,148)
Net cash flows used in financing activities		**(48,806)**	**(10,969)**
Net increase in cash and cash equivalents		**101,748**	**48,396**
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**	**206,291**	**140,143 ***

* 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 30 September 2015 because it was defined as restricted cash and cash equivalents

1. Corporate Information

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

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

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

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

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

Latvenergo Consolidated Annual Report 2015 has been approved on 5 May 2016 by the Latvenergo AS Shareholder's 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 9 months period ended 30 September 2016 include the financial information in respect of the Latvenergo AS and all of its subsidiaries for the 9 months period started on 1 January 2016 and ended on 30 September 2016 and comparative information for the 9 months period ended 30 September 2015.

The Unaudited Interim Condensed Consolidated Financial Statements for the 9 months period ended 30 September 2016 were authorised by the Latvenergo AS Management Board on 22 November 2016.

2. Summary of Most Significant Accounting Policies

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

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

The Condensed Consolidated Financial Statements are prepared under the historical cost convention, except for some financial assets and liabilities (including derivative financial instruments) measured at fair value through profit or loss and for the revaluation of property, plant and equipment carried at revalued amounts to other comprehensive income as disclosed in accounting policies presented in the Latvenergo Consolidated Annual Report 2015.

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

3. Financial Risk Management

3.1. Financial Risk Factors

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

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

a) Market Risk

I) Foreign Currency Exchange Risk

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

In 9 months period of 2016 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. The Group's policy is to maintain at least 35% of its borrowings as fixed interest rate borrowings (taking into account the effect of interest rate swaps) with duration between 2–4 years.

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

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

III) Price Risk

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

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

b) Credit Risk

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

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

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

c) Liquidity Risk

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

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

3.2. Capital Risk Management

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

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

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

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

4. Operating Segment Information

Operating Segments

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

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

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

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

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

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

	Generation and supply	Distribution	Lease of trans-mission system assets	Corporate Functions	TOTAL segments	Adjustments and eliminations	Consolidated
Period 01/01–30/09/2016	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
Revenue							
External customers	413,691	223,079	35,256	6,177	**678,203**	–	**678,203**
Inter–segment	8,248	1,220	1,869	34,702	**46,039**	(46,039)	**–**
Total revenue	**421,939**	**224,299**	**37,125**	**40,879**	**724,242**	**(46,039)**	**678,203**
Results							
Segment profit	**106,185**	**1,604**	**6,152**	**2,830**	**116,771**	**(9,147)**	**107,624**
Capital expenditure	40,258	73,756	16,439	6,066	**136,519**	–	**136,519**
Period 01/01–30/09/2015							
Revenue							
External customers	435,750	210,050	33,958	6,187	**685,945**	–	**685,945**
Inter–segment	8,240	1,170	1,838	34,591	**45,839**	(45,839)	**–**
Total revenue	**443,990**	**211,220**	**35,796**	**40,778**	**731,784**	**(45,839)**	**685,945**
Results							
Segment profit	**66,942**	**905**	**16,054**	**3,267**	**87,168**	**(12,365)**	**74,803**
Capital expenditure	41,881	70,915	14,863	9,021	**136,680**	–	**136,680**

Segment Assets

	Generation and supply	Distribution	Lease of trans-mission system assets	Corporate Functions	TOTAL segments	Adjustments and eliminations	Consolidated
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
As of 30 September 2016	1,517,120	1,314,754	415,035	85,592	**3,332,501**	232,090	**3,564,591**
As of 31 December 2015	1,548,341	1,312,819	432,028	89,350	**3,382,538**	134,834	**3,517,372**

Adjustments and Eliminations

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

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

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

Reconciliation of Profit

	01/01–30/09/2016	01/01–30/09/2015
	EUR'000	EUR'000
Segment profit	**116,771**	**87,168**
Finance income	1,788	2,192
Finance costs	(10,935)	(14,557)
Profit before tax	**107,624**	**74,803**

Reconciliation of Assets

	30/09/2016	31/12/2015
	EUR'000	EUR'000
Segment operating assets	**3,332,501**	**3,382,538**
Non–current financial investments	41	41
Held–to–maturity financial assets	20,567	28,468
Derivative financial instruments	5,123	–
Other assets and assets held for sale	68	1,782
Cash and cash equivalents	206,291	104,543
Group operating assets	**3,564,591**	**3,517,372**

5. Revenue

	01/01–30/09/2016	01/01–30/09/2015
	EUR'000	EUR'000
Electricity supply and electricity services	355,391	367,161
Distribution system services	210,839	198,395
Heat sales	54,966	64,618
Lease of transmission system assets	34,832	33,562
Other revenue	22,175	22,209
Total revenue	**678,203**	**685,945**

6. Raw Materials and Consumables Used

	01/01–30/09/2016	01/01–30/09/2015
	EUR'000	EUR'000
Electricity :		
Purchased electricity	116,597	149,718
Fair value (income) / loss on electricity forwards and futures	(7,528)	2,526
Electricity transmission services costs	54,033	55,056
	163,102	**207,300**
Energy resources costs	86,947	104,537
Raw materials, spare parts and maintenance costs	24,825	24,506
Total raw materials and consumables used	**274,874**	**336,343**

7. Income Tax

	01/01–30/09/2016	01/01–30/09/2015
	EUR'000	EUR'000
Current tax	18,278	4,443
Deferred tax	(4,970)	1,765
Total income tax	**13,308**	**6,208**

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**
As of 30 September 2016						
Cost	48,156	4,483,619	2,071,019	178,816	163,107	**6,944,717**
Accumulated amortisation, depreciation and impairment	(35,236)	(2,523,339)	(1,203,482)	(123,905)	(6,012)	**(3,891,974)**
Net book amount	**12,920**	**1,960,280**	**867,537**	**54,911**	**157,095**	**3,052,743**
As of 31 December 2015						
Cost	46,545	4,469,448	2,072,520	173,118	94,201	**6,855,832**
Accumulated amortisation, depreciation and impairment	(32,483)	(2,455,220)	(1,149,878)	(121,484)	(6,106)	**(3,765,171)**
Net book amount	**14,062**	**2,014,228**	**922,642**	**51,634**	**88,095**	**3,090,661**

9. Inventories

	30/09/2016	31/12/2015
	EUR'000	EUR'000
Raw materials and materials	20,246	17,983
Natural gas	5,562	–
Other inventories	8,117	8,422
Allowance for raw materials and other inventories	(1,661)	(1,614)
Total inventories	**32,264**	**24,791**

10. Trade Receivables and Other Current Receivables

Trade Receivables, net

	30/09/2016	31/12/2015
	EUR'000	EUR'000
Receivables		
– Electricity supply and electricity services customers	128,805	121,112
– Heating customers	2,811	11,735
– Other trade receivables	21,903	25,405
	153,519	**158,252**
Allowances for impairment of receivables		
– Electricity supply and electricity services customers	(45,220)	(43,319)
– Heating customers	(429)	(423)
– Other trade receivables	(2,904)	(2,347)
	(48,553)	**(46,089)**
Receivables, net		
– Electricity supply and electricity services customers	83,585	77,793
– Heating customers	2,382	11,312
– Other trade receivables	18,999	23,058
	104,966	**112,163**
Unsettled revenue on mandatory procurement public service obligation fee recognised as assets *	127,914	141,060
Other current receivables and accrued income	12,670	13,237
Total trade receivables and other current receivables	**245,550**	**266,460**

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

Movements in Allowances for Impairment of Trade Receivables

	01/01–30/09/2016	01/01–30/09/2015	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	(1,088)	(1,320)	(2,143)
Allowance for impaired receivables	3,552	2,819	4,229
At the end of the period	**48,553**	**45,502**	**46,089**

11. Cash and Cash Equivalents

	30/09/2016	31/12/2015
	EUR'000	EUR'000
Cash at bank	197,314	89,391
Short–term bank deposits	7,000	10,000
Restricted cash and cash equivalents *	1,977	5,152
Total cash and cash equivalents	**206,291**	**104,543**

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

12. Borrowings

	30/09/2016	31/12/2015
	EUR'000	EUR'000
Non–current borrowings from financial institutions	547,038	534,586
Issued debt securities (bonds)	205,511	179,705
Total non-current borrowings	**752,549**	**714,291**
Current portion of non–current borrowings from financial institutions	72,108	80,842
Accrued interest on non–current borrowings	2,104	848
Accrued coupon interest on issued debt securities (bonds)	2,527	1,502
Total current borrowings	**76,739**	**83,192**
Total borrowings	**829,288**	**797,483**

Movement in Borrowings

	01/01–30/09/2016	01/01–30/09/2015	2015
	EUR'000	EUR'000	EUR'000
At the beginning of the period	**797,483**	**827,222**	**827,222**
Borrowings received	56,055	30,000	30,000
Borrowing repaid	(52,337)	(83,240)	(134,875)
Issued debt securities (bonds)	25,806	74,898	74,902
Change in accrued interest on borrowings	2,281	3,061	234
At the end of the period	**829,288**	**851,941**	**797,483**

13. Related Party Transactions

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

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

	30/09/2016	31/12/2015
	EUR'000	EUR'000
Trade payables to related parties:		
– Other related parties *	209	252
Total payables	**209**	**252**

* Pirmais Slēgtais Pensiju Fonds AS

In the 9 months period ended 30 September 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 1,470.6 thousand (9 months period of 2015: EUR 1,623.6 thousand) and are included in the Consolidated Income Statement position 'Personnel expenses'.

14. Events after the Reporting Period

As of 13 October 2016 international credit rating agency *Moody's Investors Service* has assigned the highest GB1 (excellent) rating to *green* bonds issued by Latvenergo AS in the series of EUR 100 million.

On 12 October 2016 the Management board of Latvijas elektriskie tīkli AS has adopted decision on revaluation of transmission system assets owned by Latvijas elektriskie tīkli AS for financial reporting purposes as of 1 April 2016 recognising increase of transmission system assets value in the amount of EUR 18,726 thousand.

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 9 months period ended 30 September 2016.

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