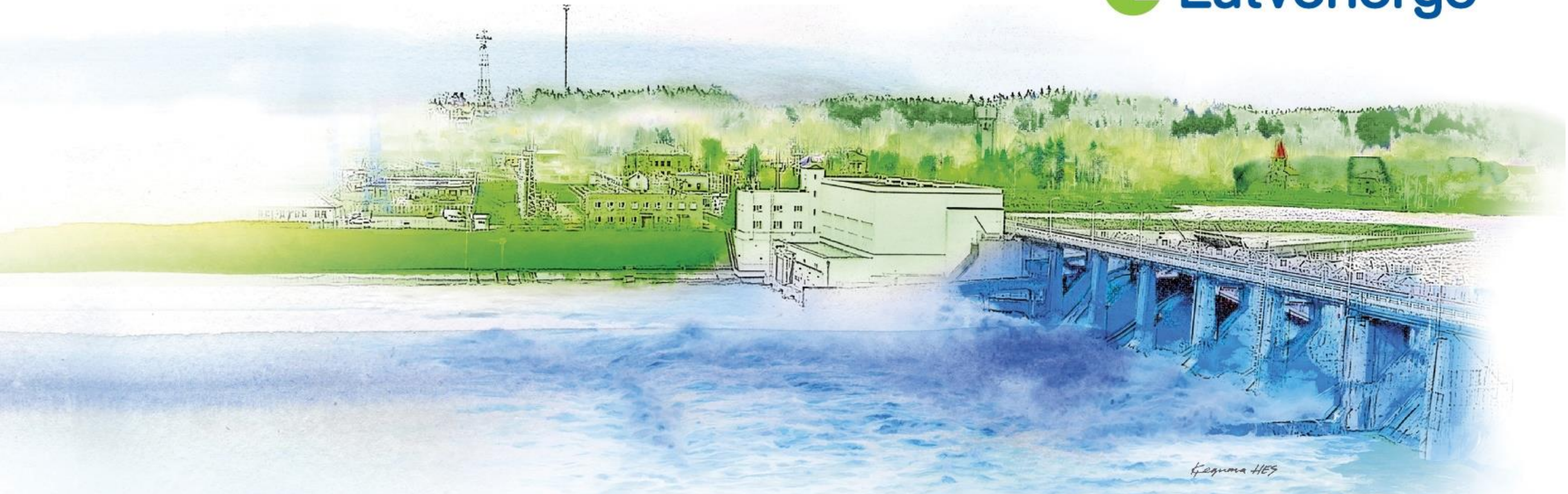

Annual Unaudited Condensed Consolidated Financial Statements of 2015

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

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Unaudited Condensed Consolidated Financial Statements*

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

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Interim Condensed Consolidated Financial Statements for the 3 months period ending 31 March 2016 (unaudited)

31.08.2016.

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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 2015, electricity spot price decrease in the Nordics and in the Baltics was mainly determined by electricity generation increase in hydropower plants in the Nordics and lower coal price. Though electricity spot price in Latvia and Lithuania bidding areas is still higher than in the Nordics due to cross-border capacity shortage.

- Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics with around 1/3 market share. The number of business customers in Lithuania and Estonia was increased by about 33% compared to last year. Retail electricity supply outside Latvia comprises approximately one third of the total retail electricity supply.

- Electricity market for households in Latvia is open since 1 January 2015. Until 31 December 2015, the majority of households have chosen to keep *Latvenergo* as their electricity supplier. Prior to the opening of electricity market, Latvenergo AS supplied electricity to households in Latvia at the regulated tariff, which was lower than the market price.

- Amount generated by the power plants of Latvenergo Group in 2015 was 3,882 GWh of electricity and 2,408 GWh of thermal energy. Electricity output generated at Riga CHPPs has increased by 23% in comparison to 2014, mainly due to favourable market conditions that were determined by a price decrease of 15% for the natural gas. In comparison, the electricity output at Daugava HPPs decreased by 6%, which was caused by the unusually low water inflow in the Daugava River. The total amount of thermal energy generated by Latvenergo Group decreased by 6% due to warmer weather.

- Compared to last year, revenue of Latvenergo Group has decreased by 8% reaching EUR 929.1 million. Decline was mainly due to change in mandatory procurement accounting principles along with the entrance into operation of Enerģijas publiskais tirgotājs AS as of 1 April 2014. While EBITDA has increased by 30% reaching EUR 306.9 million. Results were positively impacted by the opening of electricity market in Latvia.

- In 2015, the amount of investments was EUR 190.5 million. More than 60% of the total investment was made into networks. Likewise, a substantial part of investment has been invested in environmentally friendly and environmental development projects – in 2015, EUR 31.9 million were invested in the reconstruction of Daugava HPPs hydropower units.

- Latvenergo AS issued *green* bonds in the amount of EUR 75 million, the issue was carried out under the second bond offering programme. Total amount of bonds represent more than 1/5 of the total amount of borrowings.

- At the beginning of 2015 international rating agency *Moody's Investors Service* upgraded Latvenergo AS credit rating to Baa2 with a stable outlook. Likewise, in August 2015 the *green* bonds issued by Latvenergo AS received a Baa2 rating. After the end of the reporting period, on 12 February 2016 *Moody's Investors Service* reconfirmed the rating of Latvenergo AS.

Latvenergo Group in Brief

Latvenergo Group is a 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.

	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%

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.

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.

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

Key Performance Indicators

Operational Figures

		2015	2014	2013
Retail electricity supply	GWh	7,880	8,688	7,954
Electricity generation	GWh	3,882	3,625	4,854
Thermal energy supply	GWh	2,318	2,442	2,517
Number of employees		4,177	4,563	4,512
Moody's credit rating		Baa2 (stable)	Baa3 (stable)	Baa3 (stable)

Financial Figures

		2015	2014	2013
Revenue	MEUR	929.1	1,010.8	1,099.9
EBITDA 1)	MEUR	306.9	236.8	248.7
Net profit	MEUR	85.0	29.8	46.1
Assets	MEUR	3,517.3	3,486.6	3,575.4
Equity	MEUR	2,096.6	2,020.8	2,021.7
Net debt2)	MEUR	692.9	706.2	689.3
Investments	MEUR	190.5	177.6	224.9

Financial Ratios

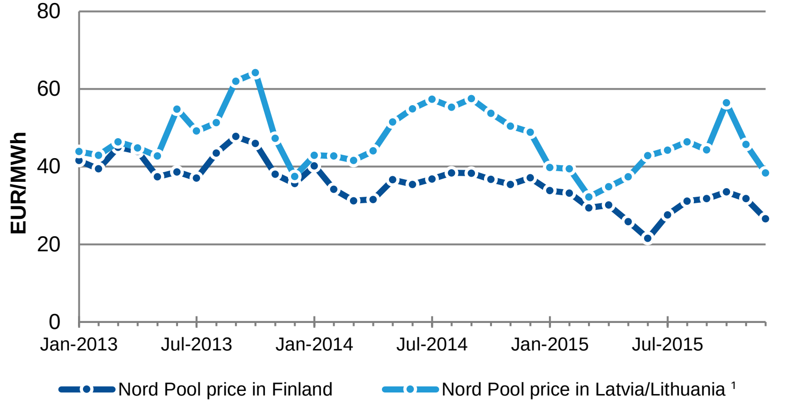
	2015	2014	2013
Net debt /EBITDA 3)	2.3	3.0	2.8
EBITDA margin 4)	33%	23%	23%
Capital ratio 5)	60%	58%	57%

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
4) EBITDA margin: EBITDA / revenue
5) Capital ratio: total equity / total assets

Operating Environment

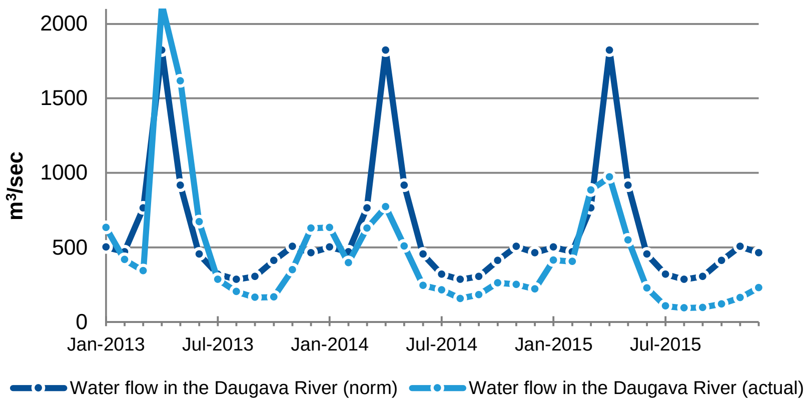
Price decrease in the Nordics and in the Baltics

In 2015, electricity price was lower in all the Baltic countries and Finland compared to the last year. The average electricity spot price in Latvia and Lithuania bidding areas[1] decreased by 16% and reached 41.8 EUR/MWh, while the average spot price in Estonia and Finland bidding areas decreased by 17%, to 31.1 EUR/MWh and by 18% to 29.7 EUR/ MWh respectively.



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 2015 on average decreased by 25% compared to 2014 and amounted to 55.9 USD/t (in 2014: 75.0 USD/t). The decline in electricity price in Latvia and Lithuania was also influenced by the reduction of natural gas price by 15% in Latvia, which in turn fostered a more competitive electricity output of the Riga CHPPs that was able to successfully limit price fluctuations in Latvia during peak hours.

From the energy balance position, Latvia and Lithuania are deficit region countries. The shortage of interconnection capacity between power systems in Latvia and Estonia is still an important factor that affects the market price which determines higher electricity prices in Latvia/Lithuania bidding areas. The average electricity price in Latvia/Lithuania bidding areas in 2015 was on average



by 10.8 EUR/MWh higher than in Estonia (in 2014: 12.5 EUR/MWh).

Decline of electricity price in the Nordics, as well as a low water inflow in the river Daugava fostered lower electricity generation in the Baltics. In 2015, total amount of electricity generated in the Baltics was 17.5 TWh, which is 6% lower than last year. Moreover the net import volume increased by 16% compared to last year, reaching 7.1 TWh.

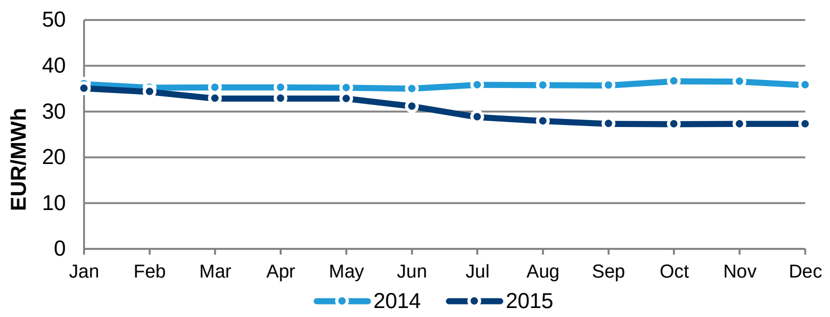
Consumption of electricity in the Baltics remained in the same level as last year. In 2015 consumed electricity in the Baltics amounted to 24.7 TWh.

[1] In 2015, electricity prices in the Latvia and Lithuania bidding areas were equal 99% of hours.

Operating Environment

Natural gas price in Latvia is gradually declining

The natural gas price in Latvia is linked to the crude oil product price (to the 9-month average heavy fuel oil and diesel quotations index). Due to its change, in 2015, the average natural gas price (incl. the excise tax) in Latvia for the user group with consumption above 100,000 thousand nm^3 was 30.4 EUR/MWh, which is by 15% lower than last year when it was 35.7 EUR/MWh. The average price of *Brent* oil in 2015 decreased by almost a half compared to 2014 reaching 52.4 USD/bbl (in 2014: 99.0 USD/bbl). While an opposite effect was caused by the changes in EUR/USD exchange rate. According to the European Central Bank the exchange rate in 2015 was 1.11, while in 2014 it was 1.33. The decline in natural gas price fosters the competitiveness of cogeneration plants.



Slowdown in economic growth in the Baltics

In 2015, overall economic growth was observed in the Baltics, which was mainly driven by an increase in private consumption, however, the growth rate was lower than the previous year. According to the statistical office of the European Union (*Eurostat*) the gross domestic product growth rate in 2015 compared to the previous year in Latvia was 2.6% (in 2014: 2.4%), in Lithuania – 2.1% (2.9%) and in Estonia 0.9% (2.1%).

According to *Eurostat*, in December 2015, the inflation in Latvia was 0.4% whilst in Lithuania and Estonia had a deflation at the rate of 0.3% and 0.2% accordingly. In December 2015, inflation of 0.2% was also present in the Eurozone.

On 1 January 2015, Lithuania has joined the European Economic and Monetary Union (EMU). Estonia has joined the EMU on 1 January 2011 and Latvia – on 1 January 2014.

The economic growth in the Baltics is also recognised by credit rating agencies, including Moody's, who raised credit rating of Latvia from Baa1 to A3 with stable outlook in February 2015. Likewise in May the credit rating for Lithuania was raised from Baa1 to A3 with stable outlook, whilst the credit rating of Estonia remained unchanged – A1 with stable outlook.

Operating Environment

As of 1 January 2015 the electricity market is open for households in Latvia

The electricity market in Latvia is open for households since 1 January 2015. In 2015, the majority of household customers have chosen to keep Latvenergo as their electricity supplier. Until the opening of electricity market, Latvenergo AS supplied electricity for households in Latvia at the regulated tariff, which was lower than the market price.

According to the Electricity Market Law, in 2015, Latvenergo AS has to supply electricity to vulnerable customers (poor or low-income persons, large families) at lower electricity price. In 2015, costs of electricity supply to vulnerable customers reached EUR 3.4 million. As regards to electricity supply to vulnerable customers at reduced price in 2016, a contract with the Ministry of Economy was concluded providing for compensation for electricity supply to vulnerable customers.

Future events

According to the laws "On the State budget 2016" and "On the medium-term budgetary framework for 2016, 2017 and 2018" Latvenergo AS in the coming years anticipated dividend payout for the use of state capital in 2016 (for the year ended 2015) is EUR 77.4 million, in 2017 – EUR 102.8 million, in 2018 – EUR 111.5 million. The actual amount of Latvenergo AS dividends 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 2015 - 60%, debt to equity ratio of - 0.4) is high enough 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 program "Electricity user support", thereby maintaining the mandatory procurement PSO fee in the coming years at the current level.

Financial Results

Financial figures		2015	2014	Δ	Δ, %
Revenue	MEUR	929.1	1,010.8	(81.6)	(8%)
EBITDA	MEUR	306.9	236.8	70.1	30%
Net profit	MEUR	85.0	29.8	55.2	185%
Assets	MEUR	3,517.3	3,486.6	30.8	1%

In 2015, Latvenergo Group's revenue was EUR 929.1 million, which is by 8% lower than last

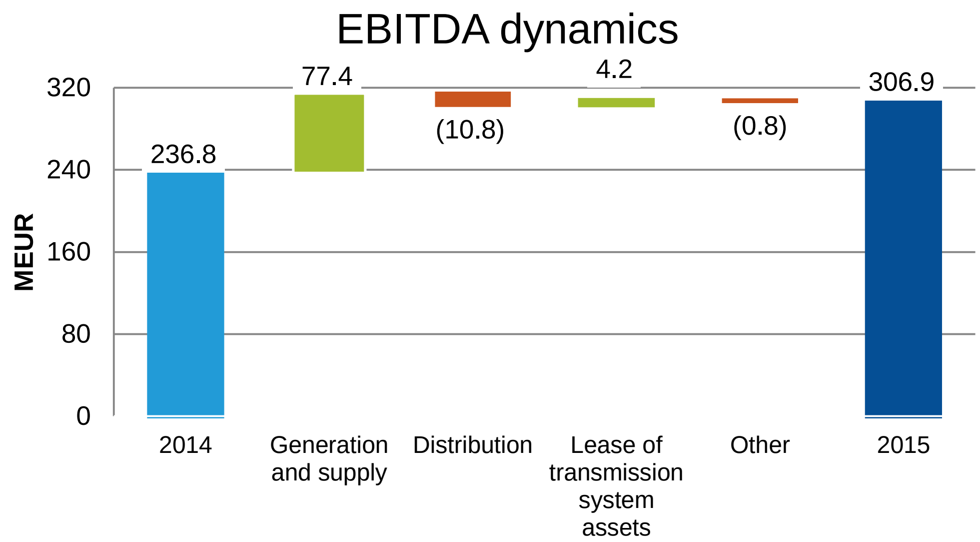
> EBITDA of the Group has increased

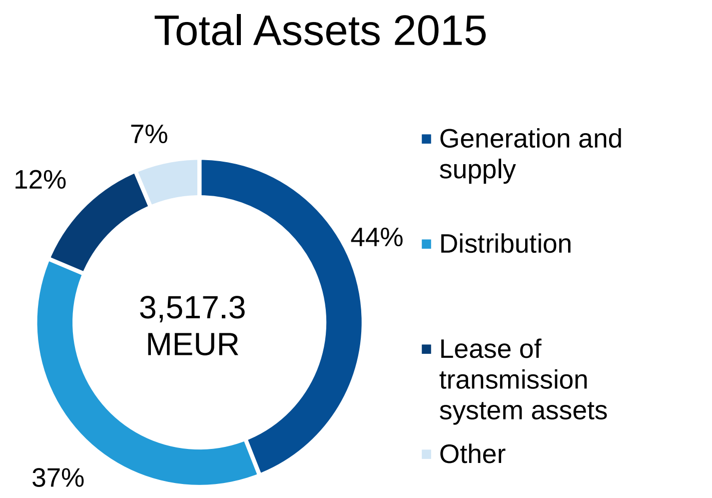
year. Revenue decline was due to change in accounting principles along with entrance into operation of Enerģijas publiskais tirgotājs AS as of 1 April 2014. Mandatory procurement PSO fee revenues are no longer recognised in the revenue of the Group.

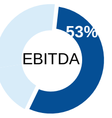
Latvenergo Group's EBITDA increased by 30% reaching EUR 306.9 million. While Latvenergo Group's profit in 2015 is EUR 85.0 million.

The results of the Group were mainly positively impacted by the opening of electricity market for households in Latvia as of 1 January 2015. Until that Latvenergo AS supplied electricity to households at the regulated tariff, which was lower than the market price. In 2014, lost revenues due to electricity supply at the regulated tariff were EUR 48.2 million. Likewise, the results were positively impacted by lower electricity prices in the market. The average electricity spot price in Latvia and Lithuania bidding areas were 16%, in Estonia – 17% lower and the natural gas price was 15% lower than in 2014. The results were negatively affected by 6% lower output from Daugava HPPs, which was due to the historically lowest water inflow in the Daugava River since 1976. Additionally the results were negatively affected by lower distributed electricity and thus, lower distribution revenue.

EBITDA margin in 2015 has improved and increased to 33% (in 2014: 23%).







Generation and Supply

Segment weight in Latvenergo Group

Revenue **61%**

EBITDA **53%**

Assets **44%**

Employees **24%**

The generation and supply is the largest operating segment of Latvenergo Group both by revenue and by assets. The majority or 85% of the segment revenue consists of revenues from electricity and related services, while 15% comes from thermal energy supply.

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

The results were positively impacted by electricity market opening, lower electricity and natural gas prices. In contrast, the results of the segment were negatively impacted by the amount of power generated by the Daugava HPPs which was affected by the historically lowest water inflow in the Daugava River since 1976.

The amount of electricity generated by Latvenergo Group is insufficient to ensure the amount supplied in retail. The generated electricity in 2015 represents 49% (in 2014 – 42%) of the total retail electricity supply. Latvenergo Group's electricity trading portfolio management policy provides for a balanced portfolio, aiming to reduce the influence of the electricity market price fluctuations on the financial results. Latvenergo Group applies electricity financial instruments to limit the electricity purchase expenses tied with the fluctuations in the price variability in power exchange. It is expected that along with the opening of the new interconnection in 2016 it will be more effective to hedge against the electricity price fluctuation risk with the Nordic financial instruments, as the correlation between the Baltic and Nordic prices increases.

Operational figures		2015	2014	Δ	Δ, %
Electricity supply	GWh	7,880	8,688	(808)	(9%)
Electricity generation	GWh	3,882	3,625	256	7%
Thermal energy generation	GWh	2,408	2,560	(151)	(6%)

Financial figures		2015	2014	Δ	Δ, %
Revenue	MEUR	610.1	677.4	(67.3)	(10%)
EBITDA	MEUR	163.8	86.4	77.4	90%
Assets	MEUR	1,548.3	1,514.2	34.1	2%
Investments	MEUR	57.3	33.5	23.8	71%

Supply

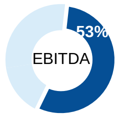
In 2015, Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics. Latvenergo Group has approximately 1/3 of the market share of the Baltic electricity retail market.

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 and consumption habits, allowing everyone to choose the most suitable product for them.

As a result of focused trade activities, in 2015 compared to last year the number of Latvenergo Group customers outside Latvia increased by 4%, exceeding 35 thousand. Sales activities in Lithuania and Estonia were mainly focused on small and medium sized enterprises. The number of business clients in Estonia and Lithuania was increased by about 1/3 compared to the previous year.

We have supplied 7,880 GWh of electricity to the Baltic retail customers (in 2014: 8,688 GWh). Decrease in electricity supply in Lithuania and Estonia was mainly determined by separate large customer transition to other electricity suppliers due to increased price competition. In comparison, the decrease in Latvia was related to changes in electricity procurement by the transmission system operator (Augstsprieguma tīkls AS). In 2015, the transmission system operator made electricity purchase directly from Nord Pool power exchange.

The total retail electricity supply volume outside Latvia accounts for almost 1/3 of the total, reaching



Generation and Supply

2,539 GWh, which is by more than 40% higher than the amount provided by competing electricity suppliers in Latvia. Latvenergo Group's electricity supply volume in Latvia was 5,341GWh (market share – 75%); in Lithuania – 1,613 GWh (17%) and in Estonia – 926 GWh (12%).

Generation

In 2015, the total amount generated by the power plants of Latvenergo Group comprised 3,882 GWh of electricity and 2,408 GWh of thermal energy.

Overall, the amount of electricity generated compared to last year has increased by 7%

The amount of power generated by Daugava HPPs has decreased by 6% compared to 2014. This was due to unusually low water inflow in the Daugava River. The last time such a low water inflow was observed was back in 1976.

In Riga CHPPs the electricity generation has increased by 23%, reaching 2,025 GWh. The increased generation was fostered by 15% decrease in the average natural gas price compared to 2014.

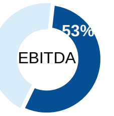
Changes made to the support mechanism in 2013 states that the cogeneration plants with an installed capacity above 4 MW are not eligible to have their variable cost reimbursed in a case where these costs exceed the market price, instead, they only receive aid for the installed capacity. Consequently, 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 lower scale, using the opportunity to purchase cheaper electricity from the Nordic countries. At the same time, Riga CHPPs is a guarantee of base load capacity in Latvia ensuring opportunity to stabilise electricity price in the region and limiting risk of electricity price increase.

Operational figures		**2015**	**2014**	**Δ**	**Δ, %**
Electricity supply	GWh	7,880	8,688	(808)	(9%)
Electricity generation	GWh	3,882	3,625	256	7%
Daugava HPPs	GWh	1,805	1,925	(120)	(6%)
Riga CHPPs	GWh	2,025	1,648	377	23%
Liepaja plants and small plants	GWh	52	52	0	0%
Thermal energy generation		408	560	(151)	(6%)
Riga CHPPs	GWh	2,175	2,308	(133)	(6%)
Liepaja plants and small plants	GWh	234	252	(18)	(7%)

In 2015, the weight of Latvenergo AS power plants in the eligible costs of mandatory procurement, excluding SET costs, has decreased by about 2 percentage points reaching 38%.

In 2015, the total amount of thermal energy generated by Latvenergo Group decreased by 6%. The decrease was determined by a higher average ambient air temperature: according to the data provided by the Central Statistical Bureau of the Republic of Latvia, during heating season[2] in 2015, the average temperature in Riga was +4.0 ºC, while during the heating season in 2014 it was +2.8 ºC.

[2] January to April and October to December.



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[3] are covered through a mandatory procurement public service obligation fee (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 Public Utilities Commission (PUC). 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 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, out of which EUR 59.7 million are expected in 2016 (in 2015 – EUR 20.3 million).

		2015	2014	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	173.3	182.5	(9.2)	(5%)
Received State grant	MEUR	20.3	29.3	(8.9)	(31%)
Mandatory procurement expenditures[2]	MEUR	255.7	245.9	9.8	4%
Incl. cogeneration	MEUR	155.3	157.5	(2.2)	(1%)
Incl. renewable energy resources	MEUR	99.6	88.2	11.4	13%
Difference	MEUR	**(62.0)**	**(34.1)**	**(27.9)**	**82%**

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 laws - "On State Budget for 2016" and "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.

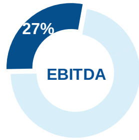
In 2015, mandatory procurement expenditures was EUR 255.7 million (in 2014: EUR 245.9 million). Major part of expenditure increase comprises payments to producers who use renewable energy sources as electricity generators. Overall expenditure for stations that use renewable energy sources increased by EUR 11.4 million.

Mandatory procurement PSO fee income has decreased by 5%, which is linked to the fact that the mandatory PSO fee income incorporated into the regulated tariff received at the beginning of 2015 were already recognised in 2014.

Along with entrance into operation of Enerģijas publiskais tirgotājs AS as of 1 April 2014, the accounting principles have been changed recognising accrued mandatory procurement revenues in the assets (under receivables).

In 2015, the difference between PSO fee income and expenditures was EUR 62.0 million (in 2014: EUR 34.1), which will be covered by the mandatory procurement PSO fee income and the State earmarked grant in order to limit the mandatory procurement PSO fee growth in subsequent periods.

[3] 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

Segment weight in Latvenergo Group

Revenue	29%
EBITDA	27%
Assets	37%
Employees	61%

The distribution segment is the second largest segment of Latvenergo Group both by revenue and assets. In 2015, revenue of the segment decreased by 4%, compared to last year, and reached EUR 284.4 million, EBITDA, on the other hand, decreased by 12%, reaching EUR 81.7 million.

Investments in distribution assets exceed EUR 100 million

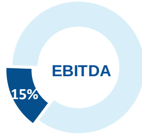
In 2015, results of the segment were positively impacted by lower costs of electricity. Nonetheless, the results were negatively impacted by lower volume of electricity distributed[4], contributing to lower revenue for distribution services.

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 20 January 2016 Sadales tīkls AS submitted PUC electricity distribution system services tariff rebalancing project, which could come into force in the first half of 2016.

Operational figures		**2015**	**2014**	**Δ**	**Δ, %**
Electricity distributed	GWh	6,263[4]	6,421	(158)	(2%)
Financial figures		**2015**	**2014**	**Δ**	**Δ, %**
Revenue	MEUR	284.4	297.4	(13.0)	(4%)
EBITDA	MEUR	81.7	92.5	(10.8)	(12%)
Assets	MEUR	1,312.8	1,272.4	40.5	3%
Investments	MEUR	101.3	99.8	1.5	1%

Investments in distribution assets in 2015 have not significantly changed in comparison to 2014, and is EUR 101.3 million. Large-scale investments in modernisation of the network are scheduled also during the following years increasing quality of network services and improving technical parameters also minimizing the risk of severe weather caused network disorders.

[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.



Lease of transmission system assets

Segment weight in Latvenergo Group

Revenue	5%
EBITDA	15%
Assets	12%
Employees	0.3%

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

Revenue of the transmission system asset lease segment represents 5% of Latvenergo Group revenue. In 2015, revenue of the segment decreased by EUR 14.1 million reaching EUR 46.6 million, while EBITDA increased by 10% reaching EUR 45.0 million.

Revenue decrease was influenced by transmission system asset construction and maintenance function transfer to transmission system operator Augstsprieguma tīkls AS as of 1 January 2015. Transfer of the transmission system asset construction and maintenance functions also comprised transfer of 430 employees to Augstsprieguma tīkls AS. Due to restructuring, at the beginning of 2015, the number of employees at Latvijas elektriskie tīkli AS decreased to 13. Also, the governance of the company has been restructured – the Management Board of Latvijas elektriskie tīkli AS further will be represented by one member (at the end of 2014: 5 members).

Latvijas elektriskie tīkli AS continues to conduct transmission system asset financing and lease to Augstsprieguma tīkls AS.

Financial figures		2015	2014	Δ	Δ, %
Revenue	MEUR	46.6	60.7	(14.1)	(23%)
EBITDA	MEUR	45.0	40.7	4.2	10%
Total assets	MEUR	432.0	456.7	(24.7)	(5%)
Investments	MEUR	17.5	31.8	(14.4)	(45%)

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

In 2015, the return on transmission system assets[5] has increased up to 4.7% (in 2014: 3.7%).

Investments in 2015 in transmission system assets are EUR 17.5 million, which is by EUR 14.4 million less than last year. This is mainly due to the *Grobiņa-Ventspils* stage finalization in 2014 of the project *Kurzeme Ring*.

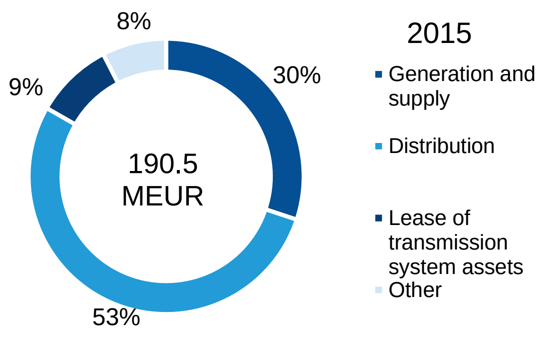
[5] Return on segment assets – operating profit of the segment/ average segment assets ((assets at the beginning of the year + assets at the end of the year) /2)

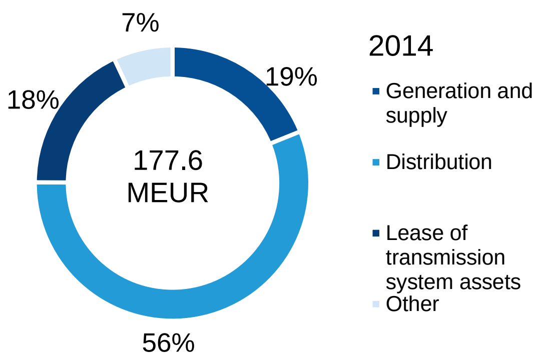
Investments

In 2015, the total amount of investments were EUR 190.5 million, which is 7% higher than in 2014. Increase in investments was mainly determined by implementation of Daugava HPPs hydropower unit reconstruction programme thereby contributing to environmentally friendly and environmental development projects. In 2015, the amount invested in Daugava HPPs hydropower unit reconstruction was EUR 31.9 million.

> Investments in environmentally friendly and environmental development projects

To improve the quality of network services, technical parameters and safety of the operations, a significant amount is invested in modernisation of power network. In 2015, the amount invested in the networks represented 62% of the total investments.





Investment projects:

Daugava HPPs hydropower unit reconstruction programme

Deeming environmentally friendly, sustainable and competitive operations 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 51.5 million as of 31 December 2015. The reconstruction will provide for further 40-year operation of hydropower units.

NORDBALT-02-330kV *Kurzeme Ring*

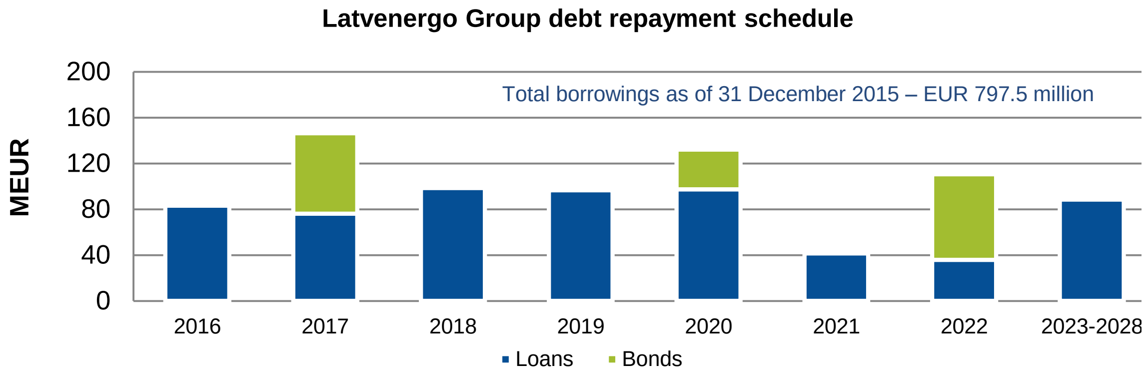
Implementation of the project is fostering increase of power supply safety in Kurzeme region and in Latvia as a whole, enabling future opportunity to use the Lithuania-Sweden marine cable NordBalt, allowing further integration of the Baltics into the Nordic electricity market. The *Kurzeme Ring* project 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. In August 2014, the second stage of the project was completed. 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). In May 2015, a contract with the EC Innovation and Networks Executive Agency was concluded providing 45% European Union (EU) co-funding of construction costs of the final stage *Ventspils–Tume–Rīga* of the project. As of 1 January 2015, implementation of the project is carried out by Augstsprieguma tīkls AS, while Latvijas elektriskie tīkli AS ensures financing of the project.

Estonia – Latvia third power transmission network interconnection

The project bears a major significance to the future electricity transmission infrastructure of 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. After the environmental impact assessment of the interconnection project the implementation will be carried out by Augstsprieguma tīkls AS, while Latvijas elektriskie tīkli AS will provide the required funding.

Funding and liquidity

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



Diversified sources of fund raising

As of 31 December 2015 the Group borrowings are EUR 797.5 million (31 December 2014: EUR 827.2 million), which includes loans from commercial banks, international investment banks, and bonds of EUR 180 million, of which EUR 75 million *green* bonds were issued on 10 June 2015. On 3 August 2015, international rating agency *Moody's Investors Service* has assigned Baa2 (stable) to the *green* bonds issued by Latvenergo AS. These are the first *green* bonds in Central and Eastern Europe that have been assigned a credit rating by an international credit rating agency.

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

As of 31 December 2015, all borrowings are denominated in the Euro currency. As of 31 December 2015, the weighted average repayment period was 4.5 years (31 December 2014: 4.4 years). Nearly all borrowings from financial institutions had a variable interest rate, comprising 3, 6 to 12 month EURIBOR and margin. Taking into account the effect of interest rate swaps and bonds with fixed interest rate, 55% of the borrowings have a fixed interest rate with an average period of 2.4 years as at 31 December 2015. The effective weighted average interest rate (with interest rate swaps) was 2.4% (2.5%), which contribute to sufficient level of debt service ratios (interest coverage ratio[6] – 4.9).

As of 31 December 2015, the net borrowings of Latvenergo Group have not changed significantly and are EUR 692.9 million (EUR 706.2 million), while the net debt/EBITDA ratio was 2.3 (3.0).

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 December 2015, the liquid assets (cash and short term deposits up to 3 months) of Latvenergo Group reached EUR 104.5 million (EUR 121.0 million), while the current ratio[7] was 1.9 (1.3). In 2015, all the binding financial covenants set in Latvenergo Group loan agreements have been met.

At the beginning of 2015 the international credit rating *Moody's Investors Service* increased Latvenergo AS credit rating to Baa2 with stable outlook, and after the reporting period ended, on 12 February 2016 it was reconfirmed.

[6] Interest coverage ratio: (net cash flow from operating activities – changes in working capital + interest expense) / interest expense
[7] Current ratio: current assets / current liabilities

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS the *Latvenergo Annual Unaudited Condensed Consolidated Financial Statements of 2015*, 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 Annual Unaudited Condensed Consolidated Financial Statements of 2015* are approved by the Management Board of Latvenergo AS on 23 February 2016.

The Management Board of Latvenergo AS:

Āris Žīgurs
Chairman of the Board

Uldis Bariss
Member of the Board

Māris Kuņickis
Member of the Board

Guntars Baļčūns
Member of the Board

Guntis Stafeckis
Member of the Board

Abbreviations

Daugava HPPs -	Daugava hydropower plants
EC -	European Commission
EMU -	European Economic and Monetary Union
EU -	European Union
PSO fee -	public service obligation fee
PUC -	Public Utilities Commission
Riga CHPPs -	Riga combined heat and power plants
SET -	Subsidised Energy Tax

Unaudited Condensed Consolidated Financial Statements

Consolidated Statement of Profit or Loss

	Notes	2015	2014
		EUR'000	EUR'000
Revenue	5	929,128	1,010,757
Other income		4,880	5,273
Raw materials and consumables used	6	(470,532)	(621,285)
Personnel expenses		(94,609)	(97,954)
Depreciation, amortisation and impairment of property, plant and equipment		(198,828)	(187,595)
Other operating expenses		(61,978)	(59,953)
Operating profit		**108,061**	**49,243**
Finance income		2,925	3,004
Finance costs		(18,579)	(20,380)
Share of profit / (loss) of associates		1	(357)
Profit before tax		**92,408**	**31,510**
Income tax	7	(7,443)	(1,720)
Profit for the year		**84,965**	**29,790**

Consolidated Statement of Comprehensive Income

	2015	2014
	EUR'000	EUR'000
Profit for the year	**84,965**	**29,790**
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods (net of tax):		
- gains / (losses) from change in hedge reserve	4,077	(6,495)
- losses on currency translation differences	–	(14)
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods	**4,077**	**(6,509)**
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods (net of tax):		
- gains on revaluation of property, plant and equipment	20,486	14
- (losses) / gains as a result of re–measurement on defined post–employment benefit plan	(1,159)	159
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**19,327**	**173**
Other comprehensive income / (loss) for the year, net of tax	**23,404**	**(6,336)**
Total comprehensive income for the year	**108,369**	**23,454**

Consolidated Statement of Financial Position

	Notes	31/12/2015	31/12/2014
		EUR'000	EUR'000
ASSETS			
Non–current assets			
Intangible assets and property, plant and equipment	8	3,090,660	3,079,327
Investment property		696	1,343
Non–current financial investments		41	41
Investments in held–to–maturity financial assets		20,609	28,528
Other non–current receivables		6	14
Total non–current assets		**3,112,012**	**3,109,253**
Current assets			
Inventories	9	24,791	22,560
Trade receivables and other receivables	10	268,128	233,752
Investments in held–to–maturity financial assets		7,859	–
Cash and cash equivalents	11	104,543	121,011
Total current assets		**405,321**	**377,323**
TOTAL ASSETS		**3,517,333**	**3,486,576**
EQUITY			
Share capital		1,288,531	1,288,446
Reserves		669,596	645,829
Retained earnings		131,588	79,995
Equity attributable to equity holders of the Parent Company		**2,089,715**	**2,014,270**
Non–controlling interests		6,913	6,531
Total equity		**2,096,628**	**2,020,801**
LIABILITIES			
Non–current liabilities			
Borrowings	12	714,291	688,297
Deferred income tax liabilities		273,980	268,026
Provisions		15,984	15,588
Derivative financial instruments		8,291	11,698
Other liabilities and deferred income		196,386	194,474
Total non–current liabilities		**1,208,932**	**1,178,083**
Current liabilities			
Trade and other payables		121,211	139,912
Borrowings	12	83,192	138,925
Derivative financial instruments		7,370	8,855
Total current liabilities		**211,773**	**287,692**
TOTAL EQUITY AND LIABILITIES		**3,517,333**	**3,486,576**

Consolidated Statement of Changes in Equity

	Attributable to equity holders 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 at 31st of December 2013	**1,288,011**	**652,418**	**74,832**	**2,015,261**	**6,453**	**2,021,714**
Increase in share capital	435	–	–	**435**	–	**435**
Dividends for 2013	–	–	(23,605)	**(23,605)**	(1,197)	**(24,802)**
Total contributions by and distributions to equity holders of the Parent Company, recognised directly in equity	**435**	**–**	**(23,605)**	**(23,170)**	**(1,197)**	**(24,367)**
Profit for the year	–	–	28,515	**28,515**	1,275	**29,790**
Other comprehensive (loss) / income	–	(6,589)	253	**(6,336)**	–	**(6,336)**
Total comprehensive (loss) / income	**–**	**(6,589)**	**28,768**	**22,179**	**1,275**	**23,454**
As at 31st of December 2014	**1,288,446**	**645,829**	**79,995**	**2,014,270**	**6,531**	**2,020,801**
As at 31st of 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 by and distributions to equity holders of the Parent Company, recognised directly in equity	**85**	**–**	**(31,479)**	**(31,394)**	**(1,148)**	**(32,542)**
Profit for the year	–	–	**83,435**	**83,435**	**1,530**	**84,965**
Other comprehensive income / (loss)	–	23,767	(363)	**23,404**	–	**23,404**
Total comprehensive income	**–**	**23,767**	**83,072**	**106,839**	**1,530**	**108,369**
As at 31st of December 2015	**1,288,531**	**669,596**	**131,588**	**2,089,715**	**6,913**	**2,096,628**

Consolidated Statement of Cash Flows

	Notes	2015	2014
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before tax		92,408	31,510
Adjustments:			
- Amortisation, depreciation and impairment of non–current assets		202,906	190,065
- Net financial adjustments		16,300	9,904
- Other adjustments		(735)	215
Operating profit before working capital adjustments		**310,879**	**231,694**
Increase in current assets		(79,421)	(90,817)
(Decrease) / increase in trade and other payables		(19,318)	19,062
Cash generated from operating activities		**212,140**	**159,939**
Interest paid		(19,189)	(20,915)
Interest received		1,606	2,082
Repaid / (paid) corporate income tax and real estate tax		3,631	(5,777)
Net cash flows from operating activities		**198,188**	**135,329**
Cash flows from investing activities			
Purchase of intangible assets and PPE		(190,423)	(177,988)
Proceeds from sales of investments		–	5,779
Proceeds on financing from EU funds and other financing		17,972	2,161
Proceeds from redemption of held–to–maturity financial assets		60	60
Net cash flows used in investing activities		**(172,391)**	**(169,988)**
Cash flows from financing activities			
Proceeds from issued debt securities (bonds)		74,902	–
Proceeds on borrowings from financial institutions	12	30,000	22,600
Repayment of borrowings	12	(134,875)	(139,695)
Dividends paid to non–controlling interests	12	(1,148)	(1,197)
Dividends paid to equity holders of the Parent Company*		(31,479)	(12,649)
Cancelled restriction on government grant for mandatory procurement public service obligation costs compensation	11	29,264	–
Received government grant for mandatory procurement public service obligation costs compensation		20,335	–
Dividends received from associates	13	–	1,924
Net cash flows used in financing activities		**(13,001)**	**(129,017)**
Net increase / (decrease) in cash and cash equivalents		**12,796**	**(163,676)**
Cash and cash equivalents at the beginning of the year	11	91,747	255,423
Cash and cash equivalents at the end of the year**	**11**	**104,543**	**91,747**

* dividends declared for 2013 in the amount of EUR 23,605 thousand are settled partly by corporate income tax overpayment in the amount of EUR 10,956 thousand

** at the end of 2014 received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 was not included in cash and cash equivalents because it was defined as restricted cash and cash equivalents (see Note 11)

Notes to the Unaudited Condensed 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 the Parent Company is 12 Pulkveža Brieža Street, Riga, LV–1230, Latvia. 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 18th of September 2006) with 100 % interest held;
- Elektrum Eesti OÜ (since 27th of June 2007) and its subsidiary Elektrum Latvija SIA (since 18th of September 2012) with 100 % interest held;
- Elektrum Lietuva UAB (since 7th of January 2008) with 100 % interest held;
- Latvijas elektriskie tīkli AS (since 10th of February 2011) with 100 % interest held;
- Enerģijas publiskais tirgotājs AS (since 25th of February 2014) with 100 % interest held;
- Liepājas enerģija SIA (since 6th of 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 company Pirmais Slēgtais Pensiju Fonds AS that manages a defined–contribution corporate pension plan in Latvia.

On 12th of February 2014 the Cabinet of Ministers of the Republic of Latvia adopted decision No. 67 „On Latvenergo AS termination of partnership in Nordic Energy Link AS" and on 19th of March 2014 at the Nordic Energy Link AS Shareholders' meeting was approved decision to liquidate Nordic Energy Link AS. In December 2014 Latvenergo AS terminated its shareholding in Nordic Energy Link AS with 25 % interest held.

„2014 Latvenergo Group Consolidated Annual Report" has been approved on 20th of April 2015 by the Latvenergo AS Shareholders' meeting (see on Latvenergo AS web page section "Investors" – http://www.latvenergo.lv/eng/investors/reports/).

Annual Unaudited Condensed Consolidated Financial Statements of 2015 include the financial information in respect of the Parent Company and its all subsidiaries for the year ended 31th of December 2015 and comparative information for the year ended 31th of December 2014.

„Annual Unaudited Condensed Consolidated Financial Statements of 2015" were authorised by the Latvenergo AS Management Board on 23th of February 2016.

2. Summary of Most Significant Accounting Policies

These Annual Unaudited Condensed Consolidated Financial Statements had been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union and accounting policies or principles applied to these financial statements were identical to those used in the Latvenergo Group Consolidated Financial Statements for the 2014 financial year. These policies have been consistently applied to all reporting periods presented, unless stated differently. Where it is necessary, comparatives are reclassified.

New and/or changed IFRS and amendments to International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective and were mandatory for the reporting periods started from 1st of January 2015 did not have any impact to the Group's most significant accounting policies and to these Annual Unaudited Condensed Consolidated Financial Statements.

The Annual Unaudited Condensed Consolidated Financial Statements are prepared under the historical cost convention, as modified by the revaluation of non–current assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss as disclosed in accounting policies presented in the Latvenergo Group Consolidated Financial Statements of 2014.

Since 1st of April 2014 mandatory procurement public service obligation revenue and costs have been recognised as unsettled difference or uncollected revenue on mandatory procurement public service obligation and disclosed at 31st of December 2015 in the Consolidated Statement of Financial position as assets by applying agent accounting principle (see Note 10).

Annual Unaudited Condensed Consolidated Financial Statements had been prepared in Euro (EUR) currency and all amounts shown in these 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 is carried out by the Parent Company (the Group Treasury) according to the Group's Financial Risk Management Policy. 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 Group's Financial Risk Management Policy provides written principles for the Group's overall risk management, as well as written policies covering specific areas, such as interest rate risk, foreign exchange risk, liquidity risk and credit risk, and defines use of financial instruments and investment of excess liquidity.

a. Market Risk

I) Foreign Currency Exchange Risk

The introduction of Euro in Latvia at 1st of January 2014 prevented the Euro currency risk. As at 30th of September 2015 the Group had none of its borrowings and substantial liabilities denominated in any other currency except Euro, therefore, there is no significant foreign currency exchange risk.

On 1st of January 2015 Lithuania has joined the Euro zone, converting the Lithuanian Litas into the Euros at fixed exchange rate EUR 1 = LTL 3.4528, therefore operations of the Group's entity Elektrum Lietuva UAB are no longer exposed to foreign currency risks.

The Group's Financial Risk Management policy approved by the Parent Company's Management has set up principles how to manage the Group's foreign currencies exchange risk against functional currency. To manage the Group's foreign currencies exchange risk arising from the Group's future transactions and recognised assets and liabilities, the Group Treasury uses 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 (Euro).

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 has purchased 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 entities' management does not expect any losses from non–performance by these counterparties.

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 entities' 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 transmission system assets*	Corporate Functions	TOTAL segments	Adjustments and eliminations	Consolidated
Year ended 31st of December 2015	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
Revenue							
External customers	593,937	282,752	44,151	8,288	**929,128**	–	**929,128**
Inter–segment	16,173	1,599	2,459	46,198	**66,429**	(66,429)	**–**
Total revenue	**610,110**	**284,351**	**46,610**	**54,486**	**995,557**	**(66,429)**	**929,128**
Results							
Segment profit	**87,096**	**(4,179)**	**20,750**	**4,394**	**108,061**	**(15,653)**	**92,408**
Capital expenditure	57,305	101,283	17,453	14,420	**190,461**	–	**190,461**
Year ended 31st of December 2014							
Revenue							
External customers	652,778	295,314	57,795	4,870	**1,010,757**	–	**1,010,757**
Inter–segment	24,603	2,040	2,933	46,432	**76,008**	(76,008)	**–**
Total revenue	**677,381**	**297,354**	**60,728**	**51,302**	**1,086,765**	**(76,008)**	**1,010,757**
Results							
Segment profit	**11,935**	**15,010**	**16,416**	**5,882**	**49,243**	**(17,733)**	**31,510**
Capital expenditure	33,542	99,830	31,836	12,399	**177,607**	–	**177,607**

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 31st of December 2015	1,548,305	1,312,817	432,028	89,350	**3,382,500**	134,833	**3,517,333**
At 31st of December 2014	1,514,218	1,272,355	456,723	87,283	**3,330,579**	155,997	**3,486,576**

* In accordance with European Union Directive 2009/72/EC and concerning common rules for the internal market of electricity and the Electricity Market Law of the Republic of Latvia, Latvijas elektriskie tīkli AS at 1st of January 2015 transferred to Augstsprieguma tīkls AS functions of the reconstruction or renewal, operation and routine maintenance of the existing transmission system network as well as development of the transmission system and construction of new networks. Due to transfer of these functions has been changed the name of operating segment from "Management of transmission system assets" to "Lease of transmission system assets".

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

	2015	2014
	EUR'000	EUR'000
Segment profit	**108,061**	**49,243**
Finance income	2,925	3,004
Finance costs	(18,579)	(20,380)
Share of profit / (loss) of associates	1	(357)
Profit before tax	**92,408**	**31,510**

Reconciliation of Assets

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Segment operating assets	**3,382,500**	**3,330,579**
Non–current financial investments	41	41
Held–to–maturity financial assets	28,468	28,528
Other assets and assets held for sale	1,781	6,417
Cash and cash equivalents	104,543	121,011
Group operating assets	**3,517,333**	**3,486,576**

5. Revenue

	2015	2014
	EUR'000	EUR'000
Electricity supply and electricity services *	495,010	540,157
Distribution system services	267,189	280,366
Heat sales	92,525	108,963
Lease and management of transmission system assets	43,630	57,161
Other revenue	30,774	24,110
Total revenue	**929,128**	**1,010,757**

* revenue from mandatory procurement public service obligation fee since the 1st of April 2014 was recognised in the Consolidated Statement of Financial Position by applying agent accounting principle

6. Raw Materials and Consumables Used

	2015	2014
	EUR'000	EUR'000
Electricity:		
Purchased electricity *	196,602	338,551
Fair value loss / (income) on electricity forwards and futures	533	(7,800)
Electricity transmission services costs	73,849	73,824
	270,984	**404,575**
Fuel expense	164,397	178,033
Raw materials, spare parts and maintenance costs	35,151	38,677
Total raw materials and consumables used	**470,532**	**621,285**

* 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) since the 1st of April 2014 were recognised in the Consolidated Statement of Financial Position by applying agent accounting principle

7. Income Tax

	2015	2014
	EUR'000	EUR'000
Current tax	4,965	2,796
Deferred tax	2,478	(1,076)
Total income tax	**7,443**	**1,720**

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 at 31st of December 2015						
Cost or valuation	46,545	4,479,055	2,072,519	173,118	94,201	**6,865,438**
Accumulated amortisation, depreciation and impairment	(32,483)	(2,464,828)	(1,149,877)	(121,484)	(6,106)	**(3,774,778)**
Net book amount	**14,062**	**2,014,227**	**922,642**	**51,634**	**88,095**	**3,090,660**
As at 31st of December 2014						
Cost or valuation	41,483	4,458,341	2,091,623	158,262	61,037	**6,810,746**
Accumulated amortisation, depreciation and impairment	(28,800)	(2,445,607)	(1,134,781)	(116,184)	(6,047)	**(3,731,419)**
Net book amount	**12,683**	**2,012,734**	**956,842**	**42,078**	**54,990**	**3,079,327**

9. Inventories

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Raw materials and spare parts	17,983	15,510
Other inventories (fuel)	8,422	8,437
Allowance for raw materials, spare parts, fuel	(1,614)	(1,387)
Total inventories	**24,791**	**22,560**

10. Trade Receivables and Other Current Receivables

Trade Receivables, net

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Receivables		
– Electricity supply and electricity services customers	121,112	117,942
– Heating customers	11,735	17,477
– Other trade receivables	25,405	30,877
	158,252	**166,296**
Allowances for impairment of receivables		
– Electricity supply and electricity services customers	(43,356)	(41,080)
– Heating customers	(423)	(393)
– Other trade receivables	(2,347)	(2,530)
	(46,126)	**(44,003)**
Receivables, net		
– Electricity supply and electricity services customers	77,756	76,862
– Heating customers	11,312	17,084
– Other trade receivables	23,058	28,347
	112,126	**122,293**
Compensated accrued revenue on mandatory procurement public service obligation fee *	–	15,887
Unsettled revenue on mandatory procurement public service obligation fee recognised as assets **	141,060	63,146
Other current receivables and accrued income	14,942	32,426
Total trade receivables and other current receivables	**268,128**	**233,752**

* Accrued revenue on mandatory procurement public service obligation fee is calculated as difference between procurement expenditure above electricity market price and collected payments from electricity end users for mandatory procurement public service obligation fees for period from 1st of January 2013 through 31st of March 2014. Since 1st of April 2014 according to the conditions included in the article No. 37 of transition terms of the Electricity Market Law of the Republic of Latvia, Public Supplier licence holder (established in 2014) was obliged to compensate the uncollected difference of mandatory procurement service obligation for period from 1st of January 2013 until transfer of Public Supplier licence.

** By applying agent principle unsettled revenue on mandatory procurement public service obligation fee is recognised as assets in net amount as difference between revenue from sale of electricity in Nord Pool Spot energy exchange by market price, received mandatory procurement public service obligation 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

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**44,003**	**43,494**
Receivables written off during the year as uncollectible	(2,143)	(934)
Allowance for impaired receivables	4,266	1,443
At the end of the year	**46,126**	**44,003**

11. Cash and Cash Equivalents

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Cash at bank	89,391	38,141
Short–term bank deposits	10,000	52,000
Restricted cash and cash equivalents *	5,152	30,870
Total cash and cash equivalents	**104,543**	**121,011**

* restricted cash and cash equivalents as at 31st of December 2015 consist of the financial security for participating in *NASDAQ OMX Commodities Exchange* in the amount of EUR 5,152 thousand (31/12/2014 – EUR 1,606 thousand) and as at 31st of December 2014 – government grant for compensation of the increase of mandatory procurement public service obligation costs in the amount of EUR 29,264 thousand that was restricted until acceptance from European Union and was not included in the Consolidated Statement of Cash Flows

12. Borrowings

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Non–current borrowings from financial institutions	534,586	583,494
Issued debt securities (bonds)	179,705	104,803
Total non–current borrowings	**714,291**	**688,297**
Current portion of non–current borrowings from financial institutions	80,842	136,809
Accrued interest on non–current borrowings	848	1,422
Accrued coupon interest on issued debt securities (bonds)	1,502	694
Total current borrowings	**83,192**	**138,925**
Total borrowings	**797,483**	**827,222**

Movement in Borrowings

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**827,222**	**944,675**
Borrowings received	30,000	22,600
Borrowing repaid	(134,875)	(139,695)
Issued debt securities (bonds)	74,902	–
Change in accrued interest on borrowings	234	(358)
At the end of the year	**797,483**	**827,222**

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.

Transactions with Related Parties

	2015	2014
	EUR'000	EUR'000
Finance income:		
– Received dividends from associates	–	1,924
Total finance income	**–**	**1,924**

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

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Trade payables to related parties:		
– Other related parties	252	354
Total payables	**252**	**354**

In 2015 remuneration to the management includes remuneration to the members of the Management Boards and Supervisory body of the Group entities, including salary, social insurance payments and payments to pension plan and is amounted to EUR 1,993.5 thousand (2014: EUR 1,774.4 thousand) and are included in the Consolidated Income Statement position 'Personnel expenses'.

14. Events after the Reporting year

On 20th of January 2016 Sadales tīkls AS has submitted to Public Utilities Commission (PUC) electricity distribution system services tariff (distribution tariff) structure rebalancing project, which determines to decrease by 20 % the price of electricity distributed to households, and at the same time to set the fixed fee for network connection providing regardless of electricity consumption level.

On 20th of January 2016 Enerģijas publiskais tirgotājs AS submitted to Public Utilities Commission calculation of mandatory procurement public service obligation fees, and at the PUC meeting on 11th of February 2016 mandatory procurement public service obligation fee were approved as of 1st of April 2016 in the amount of EUR 2.679 cents/kWh.

On 12th of February 2016 international credit rating agency Moody's Investors Service has affirmed the credit rating of Latvenergo AS to Baa2 (stable).

There have been no other significant events subsequent to the end of the reporting year that might have a material effect on the Annual Unaudited Condensed Consolidated Financial Statements of 2015.

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