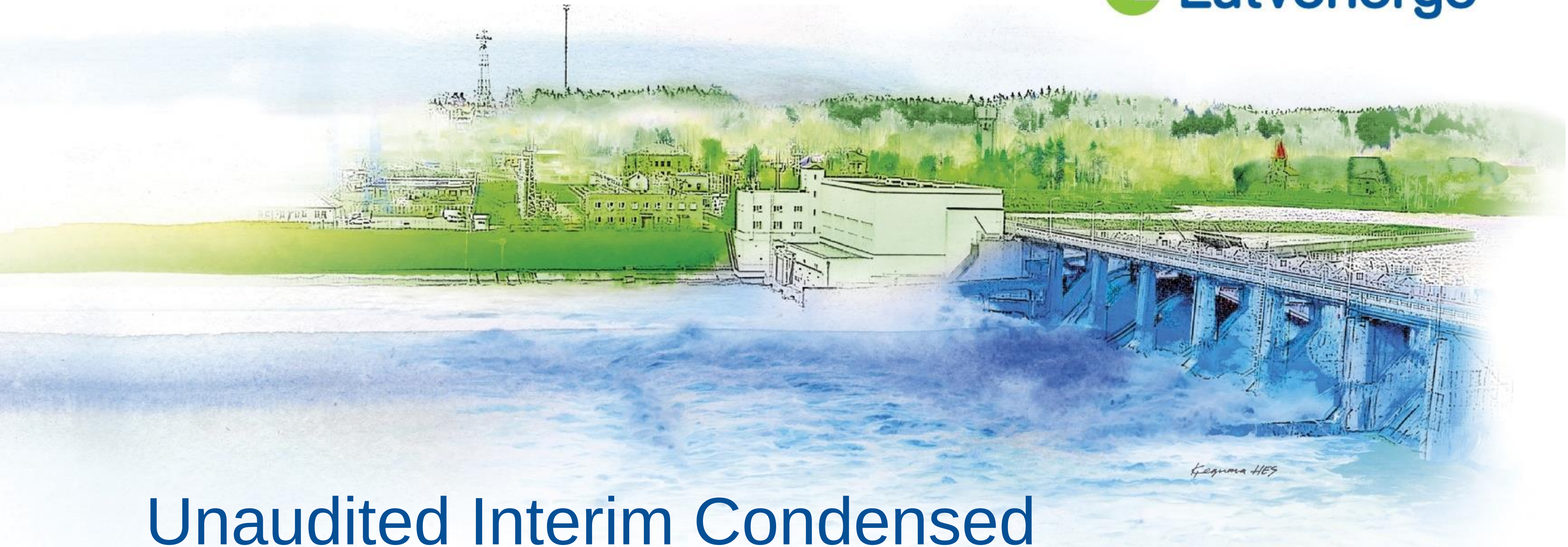

Unaudited Interim Condensed Consolidated Financial Statements

for the 9 months period ended
30 September 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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** Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union*

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Latvenergo 2015 Annual Condensed Consolidated Financial Statements (unaudited)

20.04.2016.

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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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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 9 months of 2015, electricity spot price decrease in the Nordics and in the Baltics was mainly determined by electricity generation increase in hydropower plants in Scandinavia. 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. The number of customers in Lithuania and Estonia was increased by 5% compared to the respective period last year. Retail electricity supplied 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 1 October, the majority of households have chosen to keep Latvenergo as their electricity supplier. Prior to the opening of electricity market, Latvenergo AS supplied electricity for households in Latvia at the regulated tariff, which was lower than the market price.

- Amount generated by the power plants of Latvenergo Group in the 9 months was 2,676 GWh of electricity and 1,584 GWh of thermal energy. Electricity output at Daugava HPPs and Riga CHPPs has remained unchanged compared to the previous year. Similarly to 2014, in 2015 water inflow in the Daugava River remained unusually low. The total amount of thermal energy generated by Latvenergo Group decreased by 5% due to warmer weather.

- Compared to the respective period last year, revenue of Latvenergo Group has decreased by 8% reaching EUR 685.9 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 32% reaching EUR 236.2 million. Results were positively impacted by the opening of electricity market in Latvia and lower electricity procurement costs.

- In 9 months of 2015, the amount of investment was EUR 136.7 million. Approximately two thirds 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 9 months of 2015 EUR 26.9 million were invested in the reconstruction of Daugava HPPs hydropower units.

- Latvenergo AS issued *green* bonds in the amount of EUR 75 million. Issue was carried out under the second bond offering programme, which total amount is up to EUR 100 million.

- International rating agency *Moody's Investors Service* has assigned Baa2 (stable) to the *green* bonds issued by Latvenergo AS. Along with assigning a rating to the *green* bonds Moody's Investors Service has reconfirmed the Latvenergo AS Baa2 rating with a stable outlook.

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 transmission system asset management.

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 management 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	Transmission system asset management	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 840 thousand customers). Distribution tariffs are approved by the Public Utilities Commission (PUC).

The management 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 management and 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.

Key Performance Indicators

Operational Figures

		9M 2015	9M 2014	9M 2013
Retail electricity supply	GWh	5,801	6,485	6,026
Electricity generation	GWh	2,676	2,688	3,775
Thermal energy supply	GWh	1,525	1,575	1,772
Number of employees		4,180	4,560	4,518
Moody's credit rating		Baa2 (stable)	Baa3 (stable)	Baa3 (stable)

Financial Figures

		9M 2015	9M 2014	9M 2013
Revenue	MEUR	685.9	748.9	819.1
EBITDA 1)	MEUR	236.2	178.6	203.0
Net profit	MEUR	68.6	30.0	32.9
Assets	MEUR	3,530.5	3,522.3	3,475.7
Equity	MEUR	2,060,3	2,020.2	2,006.5
Net debt2)	MEUR	682.5	713.7	675.4
Investments	MEUR	136.7	114.6	159.9

Financial Ratios

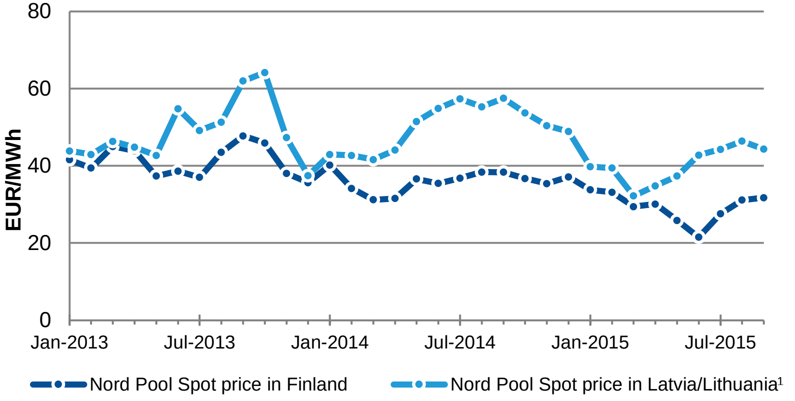
	9M 2015	9M 2014	9M 2013
Net debt /EBITDA 3)	2.3	3.2	2.6
EBITDA margin 4)	31%	22%	23%
Capital ratio 5)	58%	57%	58%

1) EBITDA: earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortisation, and impairment of intangible and fixed assets
2) Net debt: borrowings at the end of the period minus cash and cash equivalents at the end of the period
3) Net debt / EBITDA: net debt to EBITDA ratio (12-month rolling)
4) EBITDA margin: EBITDA / revenue (12-month rolling)
5) Capital ratio: total equity / total assets

Operating Environment

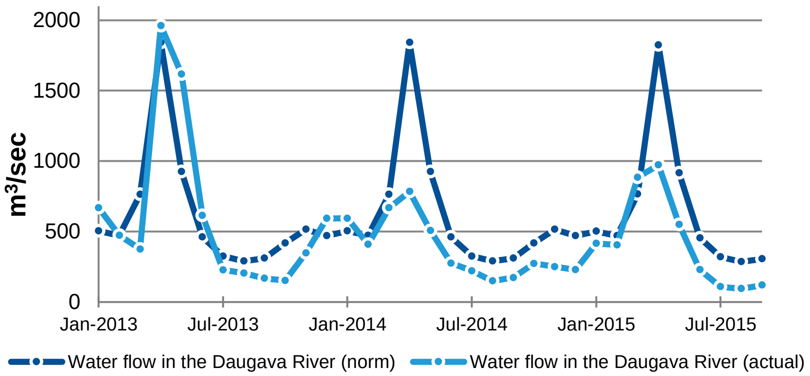
Price decrease in the Nordics and in the Baltics

In 9 months of 2015, compared to the same time period in 2014, electricity price was lower in all the Baltic countries and Finland. The average electricity spot price in Latvia and Lithuania bidding areas[1] decreased by 19% and reached 40.2 EUR/MWh, while the average spot price in Estonia and Finland bidding areas decreased by 18% to 30.9 EUR/MWh and 29.3 EUR/ MWh respectively.



Electricity price fall in the Nordic and Baltic region was affected by high rainfalls in Scandinavia, which contributed to increased hydroelectric power generation. Similarly, lower coal prices contributed to the reduction in electricity price, which in the first 9 months of 2015 decreased by 24% compared to the 9 months of 2014 and amounted to 57.9 USD/t (9 months of 2014: 76.1 USD/t). The decline of the price in the Baltics was also determined by stable performance of transmission power interconnections that allowed to import higher volume of cheaper electricity from the Nordics as well as by effective performance of Riga combined heat and power plants successfully balancing the floating amount of electricity import and limiting rapid price fluctuations in Latvia during the 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 9 months of 2015 was on average by 9.3 EUR/MWh or 30% higher than in Estonia (9 months of 2014: 12.2 EUR/MWh).



Decline of electricity price in the Nordics, as well as warmer weather at the beginning of the year and reduction of water inflow in the river Daugava fostered lower electricity generation in the Baltics. In 9 months of 2015, total amount of electricity generated in the Baltics was 12,756 GWh, which is 7% lower than in the respective period last year. While the import volume of electricity increased by more than 20% compared to the respective period last year, reaching 5,227 GWh.

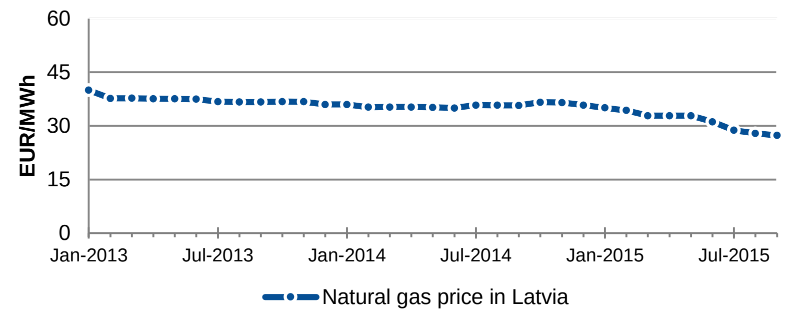
Consumption of electricity in the Baltics remained in the same level as in 9 months of 2014. In 9 months of 2015 consumed electricity in the Baltics amounted to 17,982 GWh.

[1] In 9 months of 2015, electricity prices in the Latvia and Lithuania bidding areas were equal 99% 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 9 months of 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 31.4 EUR/MWh, which is by 11% lower than in the 9 months last year when it was 35.5 EUR/MWh. The average price of *Brent* oil in 9 months of 2015 has decreased by almost a half compared to 9 months of 2014 reaching 55.3 USD/bbl (9 months of 2014: 107.8 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 9 months of 2015 was 1.11, while in 9 months of 2014 it was 1.35. The decline in natural gas price fosters the competitiveness of cogeneration plants.



Moderate economic growth in the Baltics

In 9 months of 2015 overall economic growth was observed in the Baltics, 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 Q3 2015 compared to the respective period previous year in Latvia was 2.5% (Q3 2014: 2.3%), in Lithuania – 1.8% (2.7%) and in Estonia 0.5% (2.7%). Economic growth could be further negatively affected by uncertainty in relation to geopolitical developments.

According to the *Eurostat*, in September 2015, the inflation in all three Baltic countries had turn negative – into deflation - in Latvia it was 0.4%, in Estonia – 0.3%, while in Lithuania - 0.8%. In September 2015, deflation of 0.1% 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. Until 1 October 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. While starting from 2016 the electricity supply to vulnerable customers will be co-financed by the State and the service provider will be selected in a public procurement process.

Future events

According to draft laws "On the State budget 2016" and "On the medium-term budgetary framework for 2016, 2017 and 2018" endorsed at the meeting held by the Cabinet of Ministers of the Republic of Latvia on 29 September 2015, Latvenergo AS 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 of 9 months of 2015 - 58%, debt to equity ratio of - 0.4) is higher than the average for the industry, thus not limiting the payment of dividends.

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

In 9 months of 2015, Latvenergo Group's revenue was EUR 685.9 million, which is by 8% lower than in the respective period last year.

EBITDA of the Group has increased

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.

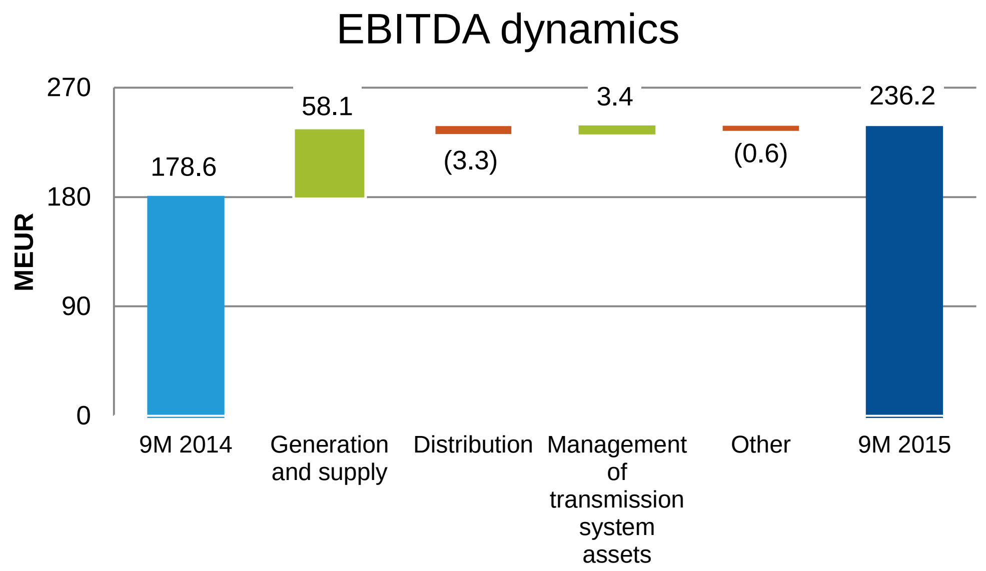
Latvenergo Group's EBITDA increased by 32% reaching EUR 236.2 million. While Latvenergo

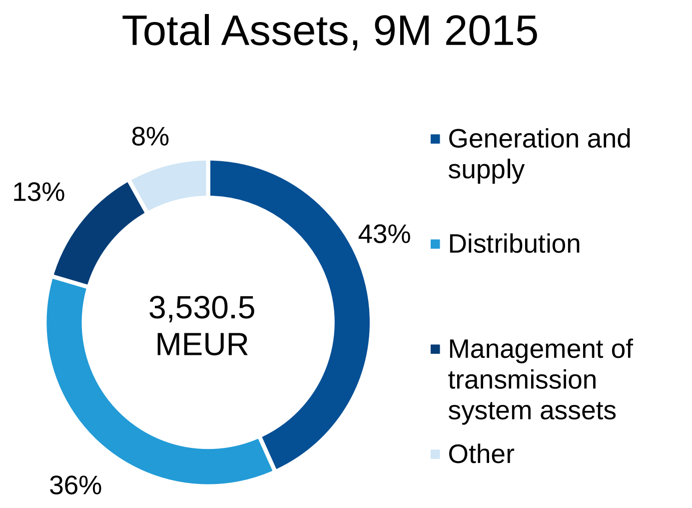
Financial figures		9M 2015	9M 2014	Δ	Δ, %
Revenue	MEUR	685.9	748.9	(62.9)	(8%)
EBITDA	MEUR	236.2	178.6	57.6	32%
Net profit	MEUR	68.6	30.0	38.6	129%
Assets	MEUR	3,530.5	3,522.3	8.2	0%

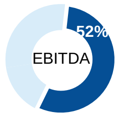
Group's profit in 9 months of 2015 is EUR 68.6 million.

The results of the Group were 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 9 months of 2014, lost revenues due to electricity supply at the regulated tariff were EUR 37.8 million. The results were also positively impacted by lower electricity prices in the market. On average, electricity spot price in Latvia and Lithuania bidding areas were 19% lower, in Estonia – 18% lower than the 9 months of 2014.

Also, EBITDA margin has increased to 31% (9 months of 2014: 22%).







Generation and Supply

Revenue **61%**

EBITDA **52%**

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 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 and lower electricity prices. In contrast, the results of the segment were negatively impacted by warmer weather, which led to the decrease in thermal energy generation.

The amount of electricity generated by Latvenergo Group is insufficient to ensure the amount supplied in retail. The generated electricity in 9 months of 2015 represents 46% (in 9 months of 2014 – 41%) of the total retail electricity supply.

Operational figures		9M 2015	9M 2014	Δ	Δ, %
Electricity supply	GWh	5,801	6,485	(684)	(11%)
Electricity generation	GWh	2,676	2,688	(11)	0%
Thermal energy generation	GWh	1,584	1,658	(75)	(5%)

Financial figures		9M 2015	9M 2014	Δ	Δ, %
Revenue	MEUR	444.0	502.2	-58.2	(12%)
EBITDA	MEUR	123.8	65.7	58.1	88%
Assets	MEUR	1,527.8	1,526.0	1.8	0%
Investments	MEUR	41.9	22.3	19.6	88%

Purchased electricity volume is subject to market price volatility. In order to avoid the market price fluctuation Latvenergo Group applies financial instruments to hedge against the risk, but due to limited access to financial instruments in Latvian and Lithuanian electricity price bidding areas it does not provide a perfect hedge. It is expected that electricity derivatives for hedging will become more efficient and accessible due to the new transmission capacities between Lithuania and Sweden and Lithuania and Poland in 2016.

Supply

In 9 months of 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.

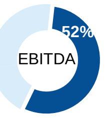
Latvenergo Group supplies electricity to the Baltic countries through trade brand *Elektrum*. Its product range consists of a variety of electricity products, tailored to different power consumption and consumption habits, allowing everyone to choose the most suitable product for them.

As a result of focused trade activities in 9 months of 2015 compared to the corresponding period last year the number of Latvenergo Group customers in Estonia and Lithuania has increased by approximately 5%. In 9 months of 2015, the number of customers outside Latvia exceeded 36.3 thousand.

We have supplied 5,801 GWh of electricity to the Baltic retail customers (9 months of 2014: 6,485 GWh). Decrease in supplied electricity was mainly determined by separate large customer transition to other electricity suppliers due to increased price competition.

The total electricity supply volume in Lithuania and Estonia reached 1,875 GWh, which is more than 40% higher than the amount provided by competing electricity suppliers in Latvia.

Latvenergo Group's electricity supply volume in Latvia was 3,926 GWh; in Lithuania – 1,192 GWh and in Estonia – 683 GWh.



Generation and Supply

Generation

In 9 months of 2015, the total amount generated by the power plants of Latvenergo Group comprised 2,676 GWh of electricity and 1,584 GWh of thermal energy.

Overall, the amount of electricity generated compared with the same period last year has not changed significantly. The amount of power generated by the Daugava hydropower plants (Daugava HPPs) has remained unchanged. Similarly to 2014 in 2015, unusually low water inflow was observed in the river Daugava. The last time such a low water inflow was observed back in 1976.

In Riga combined heat and power plants (Riga CHPPs) the electricity generation has remained at previous levels.

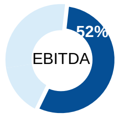
Changes made to the support mechanism in 2013 states that the cogeneration plants with an installed capacity above 4 MW are not eligible to have their variable cost reimbursed in a case where these costs exceed the market price, instead, they only receive aid for the installed capacity. Consequently, 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 smaller scale, using the opportunity to purchase cheaper electricity from the Nordic countries.

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		**9M 2015**	**9M 2014**	**Δ**	**Δ, %**
Electricity supply	GWh	5,801	6,485	(684)	(11%)
Electricity generation	GWh	2,676	2,688	(11)	0%
Daugava HPPs	GWh	1,590	1,597	(7)	0%
Riga CHPPs	GWh	1,048	1,052	(5)	0%
Liepaja plants and small plants	GWh	38	38	0	1%
Thermal energy generation		584	658	(75)	(5%)
Riga CHPPs	GWh	1,425	1,490	(65)	(4%)
Liepaja plants and small plants	GWh	159	169	(10)	(6%)

In 9 months of 2015, the weight of Latvenergo AS power plants in the eligible costs of mandatory procurement, excluding SET costs, has decreased and was 37% (9 months of 2014: 40%).

In 9 months of 2015, the total amount of thermal energy generated by Latvenergo Group decreased by 5%. 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 in 2015 (January – April), the average temperature in Riga was +3.1 ºC, while during the heating season in 2014 it was +2.3 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[2] 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.

		9M 2015	9M 2014	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	128.6	131.8	(3.2)	(2%)
Received State grant	MEUR	20.3	0.0[3]	20.3	-
Mandatory procurement expenditures[2]	MEUR	(194.8)	(180.2)	(14.5)	8%
Incl. cogeneration	MEUR	(117.9)	(115.7)	(2.3)	2%
Incl. renewable energy resources	MEUR	(76.2)	(64.5)	(11.8)	18%
Difference	MEUR	**(45.8)**	**(48.4)**	**2.6**	**(5%)**

On 19 February 2015, the PUC approved the mandatory procurement PSO fee as of 1 April 2015 in the amount of EUR 2.679 cents/kWh, which remains at the level of the previous year. To limit the increase of mandatory procurement PSO fee, a State grant in the amount of EUR 20.3 million (2014: EUR 29.3 million[3]) is taken into account upon calculation of the fee.

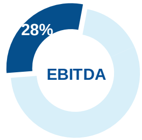
Revenues from SET, which was introduced on 1 January 2014, are used as a funding for the above mentioned State Budget programme. In the upcoming years, according to the draft laws - "On State Budget for 2016" and "On the medium-term budgetary framework for 2016, 2017 and 2018" additional funding is expected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

In 9 months of 2015, mandatory procurement expenditures was EUR 194.8 million (9 months of 2014: EUR 180.2 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 11.8 million.

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 9 months of 2015, the difference between PSO fee income and expenditures was EUR 45.8 million (9 months of 2014: EUR 48.4).

[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 Spot exchange as well the costs of mandatory procurement balancing

[3] State grant for 2014 was received in December 2014.



Distribution

Segment weight in Latvenergo Group

Revenue	29%
EBITDA	28%
Assets	36%
Employees	62%

The distribution segment is the second largest segment of Latvenergo Group both by revenue and assets. In 9 months of 2015 revenue decreased by 2%, compared to the same period last year, and has reached EUR 211.2 million, EBITDA, on the other hand, decreased by 5%, reaching EUR 65.2 million.

Increased investments in distribution assets

Operational figures		9M 2015	9M 2014	Δ	Δ, %
Electricity distributed	GWh	4,646[4]	4,729	(83)	(2%)
Financial figures		**9M 2015**	**9M 2014**	**Δ**	**Δ, %**
Revenue	MEUR	211.2	216.4	(5.2)	(2%)
EBITDA	MEUR	65.2	68.4	(3.3)	(5%)
Assets	MEUR	1,281.1	1,269.5	11.7	1%
Investments	MEUR	70.9	60.1	10.8	18%

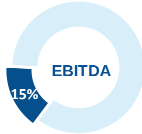
In 9 months of 2015, results of the segment were positively impacted by lower costs of electricity. Nonetheless, the results were negatively impacted by 2% lower volume of electricity distributed[4], contributing to lower revenue for distribution services.

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.

Investments in distribution assets were increased by 18% compared to 9 months of 2014, reaching EUR 70.9 million. Large-scale investments in modernisation of the network are scheduled also during the following years thus ensuring high quality of network services and improved 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.

Management 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 management segment represents 5% of Latvenergo Group revenue. In 9 months of 2015, revenue of the segment decreased by EUR 9.8 million reaching EUR 35.8 million, while EBITDA increased by 11% reaching EUR 34.3 million.

Revenue decrease was influenced by system asset construction and maintenance function transfer to transmission system operator Augstsprieguma tīkls AS as of 1 January 2015. Transfer of the 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).

Though Latvijas elektriskie tīkli AS continues to conduct transmission system asset management functions – financing and lease of the transmission system assets to Augstsprieguma tīkls AS.

Financial figures		9M 2015	9M 2014	Δ	Δ, %
Revenue	MEUR	35.8	45.6	(9.8)	(22%)
EBITDA	MEUR	34.3	30.9	3.4	11%
Total assets	MEUR	435.4	439.1	(3.7)	(1%)
Investments	MEUR	14.9	25.4	(10.6)	(42%)

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

In 9 months of 2015, the return on transmission system assets[5] has increased up to 4.5% (9 months of 2014: 3.8%).

Investments in the 9 months of 2015 in transmission system assets is EUR 14.9 million, which is by EUR 10.6 million less than in the same period last year. This is mainly due to the *Grobiņa-Ventspils* stage finalization in 2014 of the project *Kurzeme Ring*.

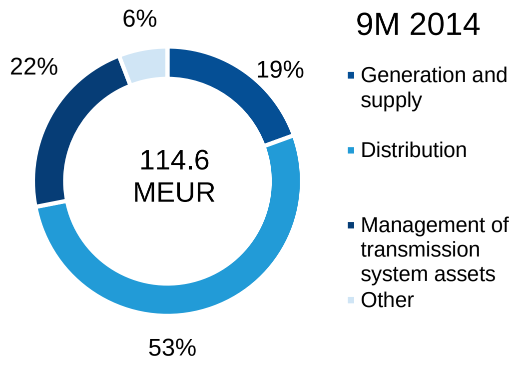
[5] Return on segment assets – operating profit of the segment (12-month rolling)/ average segment assets ((assets at the beginning of the period + assets at the end of the period) /2)

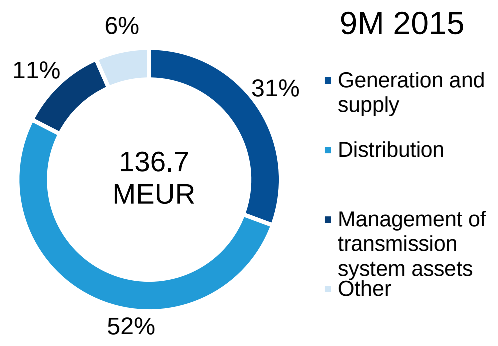
Investments

In 9 months of 2015, the total amount of investments were EUR 136.7 million, which is 19% higher than in 9 months of 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 9 months of 2015, the amount invested in Daugava HPPs hydropower unit reconstruction was EUR 26.9 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 9 months of 2015, the amount invested in the networks represented 63% 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 46.5 million as of 30 September 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. In 9 months of 2015, EUR 1 million were invested in the project.

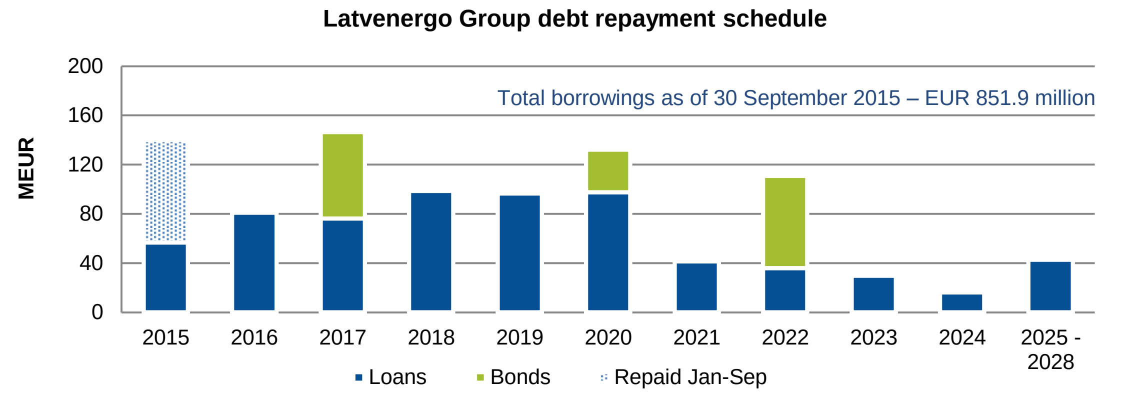
Third electricity transmission interconnection between Estonia and Latvia

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 their own resources and external long-term borrowed funds, which are regularly and timely sourced in financial and capital markets. Timely planned funding attraction 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 for the following 12 months.

Green bonds amounting to EUR 75 million were issued



As of 30 September 2015 the Group borrowings are EUR 851.9 million (30 September 2014: EUR 877.1 million), which includes loans from commercial banks and 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 fundraising sources in the long run have been purposefully diversified, thus creating a balance of lender categories in the total loan portfolio.

As of 30 September 2015, all borrowings are denominated in the Euro currency. As of 30 September 2015, the weighted average repayment period was 4.5 years (30 September 2014: 4.2 years). Nearly all borrowings from financial institutions had a variable interest rate, comprising 3, 6 to 12 month EURIBOR and margin rate. Taking into account the effect of interest rate swaps and bonds with fixed interest rate, 48% of the borrowings have a fixed interest rate with an average period of 2.3 years as at 30 September 2015. In 9 months of 2015, the effective weighted average interest rate (with interest rate swaps) was 2.4% (2.5%) ensuring sufficient debt service ratios (interest coverage ratio[6] – 5.1).

As of 30 September 2015, the net borrowings of Latvenergo Group are EUR 682.5 million (EUR 713.7 million), while the net debt/EBITDA ratio was 2.3 (3.2).

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 2015, the liquid assets (cash and short term deposits up to 3 months) of Latvenergo Group reached EUR 169.4 million (EUR 163.5 million), while the current ratio[7] was 1.9 (1.3). In 9 months of 2015, all the binding financial covenants set in Latvenergo Group loan agreements have been met.

Along with assigning the rating to the *green* bonds Moody's Investors Service has reconfirmed Latvenergo AS Baa2 rating with a stable outlook.

[6] Interest coverage ratio: (net cash flow from operating activities (12-month rolling) – changes in working capital + interest expense (12-month rolling)) / interest expense (12-month rolling)
[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 Unaudited Condensed Consolidated Financial Statements for the 9 months period ended 30 September 2015*, including the Management Report, have been prepared in accordance with International Financial Reporting Standards that are approved by the European Union and in all material aspects give a true and fair view of assets, liabilities, financial position and profit and loss of Latvenergo Group.

Latvenergo Unaudited Condensed Consolidated Financial Statements for the 9 months period ended 30 September 2015 are approved by the Management Board of Latvenergo AS on 24 November 2015.

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 Interim Condensed Consolidated Financial Statements

Consolidated Statement of Profit or Loss

For the 9 months ended 30th of September 2015

	Notes	01/01–30/09/2015	01/01–30/09/2014
		EUR'000	EUR'000
Revenue	5	685,945	748,885
Other income		3,630	2,155
Raw materials and consumables used	6	(336,343)	(454,364)
Personnel expenses		(71,151)	(73,323)
Depreciation, amortisation and impairment of property, plant and equipment		(149,040)	(131,843)
Other operating expenses		(45,873)	(44,712)
Operating profit		**87,168**	**46,798**
Finance income		2,192	2,227
Finance costs		(14,557)	(15,206)
Share of profit / (loss) of associates		–	(493)
Profit before tax		**74,803**	**33,326**
Income tax	7	(6,208)	(3,308)
Profit for the period		**68,595**	**30,018**

Consolidated Statement of Comprehensive Income

For the 9 months ended 30th of September 2015

	01/01–30/09/2015	01/01–30/09/2014
	EUR'000	EUR'000
Profit for the period	**68,595**	**30,018**
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods (net of tax):		
- gains / (loss) from change in hedge reserve	3,508	(6,740)
- loss on currency translation differences	–	(14)
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods	**3,508**	**(6,754)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):		
- gains on revaluation of property, plant and equipment	3	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**3**	**–**
TOTAL other comprehensive income / (loss) for the period	**3,511**	**(6,754)**
TOTAL comprehensive income for the period	**72,106**	**23,264**

Consolidated Statement of Financial Position

	Notes	30/09/2015	31/12/2014
		EUR'000	EUR'000
ASSETS			
Non–current assets			
Intangible assets and property, plant and equipment	8	3,063,833	3,079,327
Investment property		751	1,343
Non–current financial investments		41	41
Investments in held–to–maturity financial assets		20,623	28,528
Other non–current receivables		7	14
Total non–current assets		**3,085,255**	**3,109,253**
Current assets			
Inventories	9	26,783	22,560
Trade receivables and other receivables	10	241,244	233,752
Investments in held–to–maturity financial assets		7,860	–
Cash and cash equivalents	11	169,407	121,011
Total current assets		**445,294**	**377,323**
TOTAL ASSETS		**3,530,549**	**3,486,576**
EQUITY			
Share capital		1,288,446	1,288,446
Reserves		649,320	645,829
Retained earnings		116,269	79,995
Equity attributable to equity shareholder of the Parent Company		**2,054,035**	**2,014,270**
Non–controlling interests		6,245	6,531
Total equity		**2,060,280**	**2,020,801**
LIABILITIES			
Non–current liabilities			
Borrowings	12	747,986	688,297
Deferred income tax liabilities		269,788	268,026
Provisions		14,971	15,588
Derivative financial instruments		10,391	11,698
Other liabilities and deferred income		195,001	194,474
Total non–current liabilities		**1,238,137**	**1,178,083**
Current liabilities			
Trade and other payables		120,011	139,912
Borrowings	12	103,955	138,925
Derivative financial instruments		8,166	8,855
Total current liabilities		**232,132**	**287,692**
Total liabilities		**1,470,269**	**1,465,775**
TOTAL EQUITY AND LIABILITIES		**3,530,549**	**3,486,576**

Consolidated Statement of Changes in Equity

	Attributable to equity shareholder 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 shareholder 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 2013	**1,288,011**	**652,418**	**74,832**	**2,015,261**	**6,453**	**2,021,714**
Dividends for 2013	–	–	(23,605)	**(23,605)**	(1,197)	**(24,802)**
TOTAL contributions by and distributions to equity shareholder of the Parent Company, recognised directly in equity	**–**	**–**	**(23,605)**	**(23,605)**	**(1,197)**	**(24,802)**
Profit for the period	–	–	29,344	**29,344**	674	**30,018**
Other comprehensive loss for the period	–	(6,754)	–	**(6,754)**	–	**(6,754)**
TOTAL comprehensive (loss) / income for the period	**–**	**(6,754)**	**29,344**	**22,590**	**674**	**23,264**
As at 30th of September 2014	**1,288,011**	**645,664**	**80,571**	**2,014,246**	**5,930**	**2,020,176**
As at 31st of 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 by and distributions to equity shareholder of the Parent Company, 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 at 30th of September 2015	**1,288,446**	**649,320**	**116,269**	**2,054,035**	**6,245**	**2,060,280**

Consolidated Statement of Cash Flows
For the 9 months ended 30th of September 2015

	Notes	01/01–30/09/2015	01/01–30/09/2014
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before tax		74,803	33,326
Adjustments:			
- Amortisation, depreciation and impairment of non–current assets		152,263	133,946
- Net financial adjustments		14,893	4,649
- Other adjustments		(579)	732
Operating profit before working capital adjustments		**241,380**	**172,653**
Increase in current assets		(56,012)	(73,748)
(Decrease) / increase in trade and other payables		(26,748)	20,588
Cash generated from operating activities		**158,620**	**119,493**
Interest paid		(10,364)	(10,310)
Interest received		1,454	1,860
Taxes repaid / (paid)		4,094	(4,604)
Net cash flows from operating activities		**153,804**	**106,439**
Cash flows from investing activities			
Purchase of intangible assets and property, plant and equipment		(132,790)	(117,868)
Proceeds on financing from European Union funds and other financing		17,971	2,073
Proceeds from redemption of held–to–maturity assets		45	45
Net cash flows used in investing activities		**(114,774)**	**(115,750)**
Cash flows from financing activities			
Proceeds from issued debt securities (bonds)	12	74,898	–
Proceeds on borrowings from financial institutions	12	30,000	22,600
Repayment of borrowings	12	(83,240)	(93,880)
Dividends paid to non–controlling interests		(1,148)	(1,197)
Dividends paid to equity holders of the Parent Company *		(31,479)	(12,649)
Received compensation of mandatory procurement public service obligation		20,335	–
Dividends received from associates	13	–	2,473
Net cash flows used in financing activities		**9,366**	**(82,653)**
Net increase / (decrease) in cash and cash equivalents		**48,396**	**(91,964)**
Cash and cash equivalents at the beginning of the period	11	91,747	255,423
Cash and cash equivalents at the end of the period **	**11**	**140,143**	**163,459**

* 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

** received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 (30/09/2014 - nil) has not be included in cash and cash equivalents as at 30th of September 2015 because it is defined as restricted cash and cash equivalents (Note 11)

Notes to the Unaudited Interim 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.

Latvenergo Consolidated Annual Report 2014 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/).

The Unaudited Interim Condensed Consolidated Financial Statements for the period ending 30th of September 2015 include the financial information in respect of the Parent Company and its all subsidiaries for the 9 months ended 30th of September 2015 and comparative information for the 9 month period ending 30th of September 2014.

The Unaudited Interim Condensed Consolidated Financial Statements for the 9 month period ending 30th of September 2015 were authorised by the Latvenergo AS Management Board on 24th of November 2015.

2. Summary of Most Significant Accounting Policies

Unaudited Interim 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 or revised IFRS and amendments to International Financial Reporting Interpretations Committee interpretations (IFRIC) that became mandatory for the Group from 1st of January 2015 did not have any impact to the Group's accounting policies and Interim Consolidated Financial Statements.

The Unaudited Interim 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 as assets at 30th of September 2015 and disclosed in the Consolidated Statement of Financial position by applying agent accounting principle (see Note 10).

Unaudited Interim Condensed Consolidated Financial Statements had been prepared in Euro currency and all amounts shown in these Unaudited Interim 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 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 management 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 heat generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity sales operations, including wholesale, which are conducted Pan–Baltic by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB, as well as management 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 Latvenergo AS – the owner of the distribution system real estate assets.

The operations of the management 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 construction and maintenance as well as the lease of assets to the transmission system operator Augstsprieguma tīkls AS, and Latvenergo AS – the owner of the transmission system real estate assets. 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 network system assets as well as development of the transmission system and construction of new networks.

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	Management of transmission system assets	Corporate Functions	TOTAL segments	Adjustments and eliminations	Consolidated
Period 01/01–30/09/2015	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
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**
Period 01/01–30/09/2014							
Revenue							
External customers	486,610	215,091	43,477	3,707	**748,885**	–	**748,885**
Inter–segment	15,588	1,325	2,149	34,812	**53,874**	(53,874)	**–**
Total revenue	**502,198**	**216,416**	**45,626**	**38,519**	**802,759**	**(53,874)**	**748,885**
Results							
Segment profit	**7,564**	**21,866**	**12,877**	**4,491**	**46,798**	**(13,472)**	**33,326**
Capital expenditure	22,299	60,135	25,423	6,725	**114,582**	**–**	**114,582**

Segment Assets

	Generation and supply	Distribution	Management 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 30th of September 2015	1,527,813	1,281,138	435,378	87,743	**3,332,072**	198,477	**3,530,549**
At 31st of December 2014	1,514,218	1,272,355	456,723	87,283	**3,330,579**	155,997	**3,486,576**

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

	01/01–30/09/2015	01/01–30/09/2014
	EUR'000	EUR'000
Segment profit	**87,168**	**46,798**
Finance income	2,192	2,227
Finance costs	(14,557)	(15,206)
Share of profit / (loss) of associates	–	(493)
Profit before tax	**74,803**	**33,326**

Reconciliation of Assets

	30/09/2015	31/12/2014
	EUR'000	EUR'000
Segment operating assets	**3,332,072**	**3,330,579**
Non–current financial investments	41	41
Held–to–maturity financial assets	28,483	28,528
Other assets and assets held for sale	546	6,417
Cash and cash equivalents	169,407	121,011
Group operating assets	**3,530,549**	**3,486,576**

5. Revenue

	01/01–30/09/2015	01/01–30/09/2014
	EUR'000	EUR'000
Electricity and electricity services *	565,556	617,193
Heat sales	64,618	70,518
Lease and management of transmission system assets	33,562	43,013
Other revenue	22,209	18,161
Total revenue	**685,945**	**748,885**

* in period from 1st of January 2015 through 30th of September 2015 revenue from customers' payments for mandatory procurement public service obligation fee in the amount of EUR 128 631 thousand (in period from 1st of April 2014 through 30th of September 2014 – EUR 83 689 thousand) is recognised in the Consolidated Statement of Financial Position by applying agent accounting principle

6. Raw Materials and Consumables Used

	01/01–30/09/2015	01/01–30/09/2014
	EUR'000	EUR'000
Electricity:		
Purchased electricity *	149,718	266,664
Fair value loss / (income) on electricity forwards and futures	2,526	(8,786)
Electricity transmission services costs	55,056	54,830
	207,300	**312,708**
Fuel expense	104,537	115,742
Raw materials, spare parts and maintenance costs	24,506	25,914
Total raw materials and consumables used	**336,343**	**454,364**

* in period from 1st of January 2015 through 30th of September 2015 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) in the amount of EUR 156 674 thousand (in period from 1st of April 2014 through 30th of September 2014 – EUR 89 315 thousand) are recognised in the Consolidated Statement of Financial Position by applying agent accounting principle

7. Income Tax

	01/01–30/09/2015	01/01–30/09/2014
	EUR'000	EUR'000
Current tax	4,443	3,426
Deferred tax	1,765	(118)
Total income tax	**6,208**	**3,308**

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 30th of September 2015						
Cost or valuation	43,875	4,482,593	2,096,638	168,863	112,280	**6,904,249**
Accumulated amortisation, depreciation and impairment	(31,535)	(2,487,869)	(1,194,336)	(120,652)	(6,024)	**(3,840,416)**
Net book amount	**12,340**	**1,994,724**	**902,302**	**48,211**	**106,256**	**3,063,833**
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

	30/09/2015	31/12/2014
	EUR'000	EUR'000
Raw materials and spare parts	20,132	15,510
Other inventories (fuel)	8,273	8,437
Allowance for raw materials, spare parts, technological fuel	(1,622)	(1,387)
Total inventories	**26,783**	**22,560**

10. Trade Receivables and Other Current Receivables

Trade Receivables, net

	30/09/2015	31/12/2014
	EUR'000	EUR'000
Receivables		
– Electricity customers	123,418	103,756
– Heating customers	3,181	17,477
– Other trade receivables	25,717	30,877
	152,316	**152,110**
Allowances for impairment of receivables		
– Electricity customers	(42,376)	(41,080)
– Heating customers	(409)	(393)
– Other trade receivables	(2,717)	(2,530)
	(45,502)	**(44,003)**
Receivables, net		
– Electricity customers	81,042	62,676
– Heating customers	2,772	17,084
– Other trade receivables	23,000	28,347
	106,814	**108,107**
Compensated accrued revenue on mandatory procurement public service obligation fee *	–	15,887
Unsettled revenue on mandatory procurement public service obligation fee recognised as assets **	124,832	63,146
Other current receivables and accrued income	9,598	46,612
Total trade receivables and other current receivables	**241,244**	**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

	01/01–30/09/2015	01/01–30/09/2014	2014
	EUR'000	EUR'000	EUR'000
At the beginning of the period	**44,003**	**43,494**	**43,494**
Receivables written off during the period as uncollectible	(1,320)	(592)	(934)
Allowance for impaired receivables	2,819	1,991	1,443
At the end of the period	**45,502**	**44,893**	**44,003**

11. Cash and Cash Equivalents

	30/09/2015	31/12/2014
	EUR'000	EUR'000
Cash at bank	109,004	38,141
Short–term bank deposits	27,000	52,000
Restricted cash and cash equivalents *	33,403	30,870
Total cash and cash equivalents	**169,407**	**121,011**

* restricted cash and cash equivalents consist of government grant for compensation of the increase of mandatory procurement public service obligation costs in the amount of EUR 29,264 thousand (31/12/2014 – EUR 29,264 thousand) that is restricted until acceptance from European Union and not included in the Consolidated Statement of Cash Flows and of the financial security for participating in NASDAQ OMX Commodities Exchange in the amount of EUR 4,139 thousand (31/12/2014 – EUR 1,606 thousand)

12. Borrowings

	30/09/2015	31/12/2014
	EUR'000	EUR'000
Non–current borrowings from financial institutions	568,285	583,494
Issued debt securities (bonds)	179,701	104,803
Total non–current borrowings	**747,986**	**688,297**
Current portion of non–current borrowings from financial institutions	98,778	136,809
Accrued interest on non–current borrowings	2,804	1,422
Accrued coupon interest on issued debt securities (bonds)	2,373	694
Total current borrowings	**103,955**	**138,925**
Total borrowings	**851,941**	**827,222**

Movement in Borrowings

	01/01–30/09/2015	01/01–30/09/2014	2014
	EUR'000	EUR'000	EUR'000
At the beginning of the period	**827,222**	**944,675**	**944,675**
Borrowings received	30,000	22,600	22,600
Borrowing repaid	(83,240)	(93,880)	(139,695)
Issued debt securities (bonds)	74,898	–	–
Change in accrued interest on borrowings	3,061	3,733	(358)
At the end of the period	**851,941**	**877,128**	**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

	01/01–30/09/2015	01/01–30/09/2014
	EUR'000	EUR'000
Finance income:		
– Received dividends from associates	–	2,473
Total finance income	**–**	**2,473**

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

	30/09/2015	31/12/2014
	EUR'000	EUR'000
Trade payables to related parties:		
– Other related parties	224	354
Total payables	**224**	**354**

In the 9 month period ending 30th of September 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 1,623.6 thousand (01/01 – 30/09/2014: EUR 1,317.9 thousand) and are included in the Consolidated Income Statement position 'Personnel expenses'.

14. Events after the Reporting Period

On 6th of November 2015, the Shareholders Meeting of Latvenergo AS has appointed the new Management Board of Latvenergo AS, composed of five Members. Management Board members are appointed for a five-year term. Āris Žīgurs was appointed the Chairman of the Management Board, Guntars Baļčūns and Guntis Stafeckis were appointed the Members of the Management Board. Uldis Bariss and Māris Kuņickis will continue the work in the Management Board.

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 month period ending 30th of September 2015.

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