

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2017**

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

**Riga
2017**

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COUNCIL

(Term of office from March 22, 2016 till March 22, 2019)



Kirill Seleznev (Кирилл Селезнев), 1974
Chairman of the Council

Since 2003, Head of Gas and Liquid Hydrocarbon Marketing and Processing Division at PJSC "Gazprom"



Juris Savickis, 1946
Vice-Chairman of the Council

Since 1996, President of LLC "ITERA Latvija"



Jörg Tumat, 1969
Member of the Council

From 2013 to 2016, Member of the Board at E.ON Russia



Nicolàs Merigó Cook, 1963
Member of the Council

Since 2010, Chief Executive Officer of Marguerite Adviser S.A. (Luxemburg)



Nikolay Dubik (Николай Дубик), 1971
Member of the Council

Since 2008, Member of the Management Committee and Head of the Legal Department at PJSC "Gazprom"



Elena Mikhaylova (Елена Михайлова), 1977
Member of the Council

Since 2012, Member of the Management Committee, Head of the Asset Management and Corporate Relations Department at PJSC "Gazprom"



Oliver Giese, 1967
Vice-Chairman of the Council

Since 2011, Senior Vice President for Infrastructure Management at E.ON Global Commodities SE/E.ON Ruhrgas, Düsseldorf/Essen, Germany



Guillaume Rivron, 1972
Member of the Council

Since 2010, Investment Director of Marguerite Adviser S.A. (France)



Hans-Peter Floren, 1961
Member of the Council

Since 2014, Chief Executive Officer of FAKT Energy AG (Essen, Germany)



Vitaly Khatkov (Виталий Хатьков), 1969
Member of the Council

Since 2015, Head of the Department for Pricing and Economic Expert Analysis at PJSC "Gazprom"



Oleg Ivanov (Олег Иванов), 1974
Member of the Council

Since 2014, Head of the Department for Gas Business Planning, Efficiency Management and Development at PJSC "NK Rosneft"

BOARD

(Term of office from August 16, 2015 till August 15, 2018)



Aigars Kalvītis, 1966
Chairman of the Board

Latvian University of Agriculture -
Master's Degree in Economics



Alexander Frolov (Александр Фролов),
1980
Vice-Chairman of the Board

MBA of Applied Administration under the
programme "Administration of Oil and Gas
Corporation in Global Environment",
graduated from the St. Petersburg State
University of Economics (Higher School of
Economics), St. Petersburg, Russia



Sebastian Gröblinghoff, 1979
Vice-Chairman of the Board
(term of office from September 1, 2016 till August
31, 2019)
Maastricht University / Netherlands
Master's Degree in Economics



Zane Kotāne, 1977
Member of the Board

Riga Business School, Master's Degree in
Business Administration



Gints Freibergs, 1959
Member of the Board

Riga Polytechnic Institute, Engineer of
Heat Power Industry

SHARES AND SHAREHOLDERS

Shares and shareholders

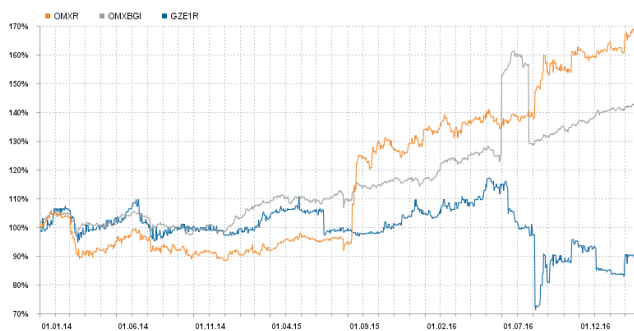
The shares of the Joint Stock Company "Latvijas Gāze" (hereinafter – the Company) have been listed on the Nasdaq Riga stock exchange since February 15, 1999, and its ticker code has been GZE1R since August 1, 2004. The total number of securities has not changed since 1999.

Company's share price, OMX Riga GI and OMX Baltic GI index changes (01.01.2014-31.03.2017)

ISIN	LV0000100899	Number of securities in public offering	25,328,520
Ticker code	GZE1R	Liquidity providers	None
List	Second list		
Nominal value	1.40 EUR		
Total number of securities	39,900,000		

Source: Nasdaq Riga

The Company's shares are included in four Baltic industry indexes which include public utilities - B7000GI, B7000PI, B7500GI, B7500PI, as well as in three geographic indexes - OMXBGI, OMXBPI, OMXRGI.



OMX RIGA – a domestic index of all shares. Its basket consists of the shares of the Official and Second list of "Nasdaq Riga". The index reflects the current situation and changes at "Nasdaq Riga".

OMX BALTIC – a Baltic-level index of all shares. Its basket consists of the shares of the Official and Second list of Baltic exchanges. The index reflects the current situation and changes on the Baltic market overall.

In terms of stock market capitalisation, the Company ranked number one among companies listed on Nasdaq Riga and number seven among companies listed on

Nasdaq Baltic. The Company's capitalisation value at the end of March 2017 was 333.56 million EUR.

January 4, 2017 saw completion of the process of reorganisation of Latvijas Gāze, with the natural gas transmission and storage segments spun off. This resulted in the Company's share price on the stock exchange dropping by 8.1%. However, after the Company's results of 2016 were published, the share price rose by 9.0%.

Changes in the Company's share price and turnover (01.01.2014-31.03.2017)

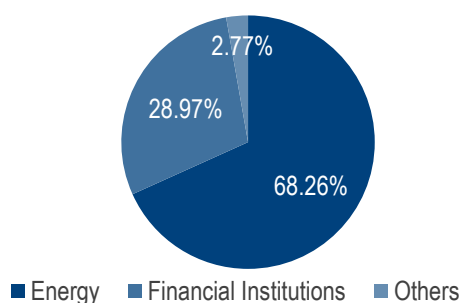


Source: Nasdaq Riga

Share trading information (01.01.2015-31.03.2017)

	2015 Q1	2016 Q1	2017 Q1
Share price (EUR):			
First	9.14	9.79	8.78
Highest	9.97	10.4	8.79
Lowest	9.13	9.65	7.76
Average	9.351	9.94	8.13
Last	9.7	10.2	8.36
Change	6.13%	4.19%	-4.78%
Number of transactions	338	437	462
Number of shares traded	38,300	33,019	55,360
Turnover (million EUR)	0.358	0.328	0.450
Capitalisation (million EUR)	387.03	406.98	333.56

Composition of shareholders by industry represented as at 31.03.2017



Shares owned by management and supervision bodies

		As at the day signing of financial statements
		Number of shares
Board		
Chairman of the Board	Aigars Kalvītis	None
Vice-Chairman of the Board	Alexander Frolov	None
Vice-Chairman of the Board	Sebastian Gröblinghoff	None
Member of the Board	Gints Freibergs	416
Member of the Board	Zane Kotāne	None
Council		
Chairman of the Council	Kirill Seleznev	None
Vice-Chairman of the Council	Juris Savickis	None
Vice-Chairman of the Council	Oliver Giese	None
Member of the Council	Jörg Tumat	None
Member of the Council	Nikolay Dubik	None
Member of the Council	Vitaly Khatkov	None
Member of the Council	Oleg Ivanov	None
Member of the Council	Nicolàs Merigó Cook	None
Member of the Council	Guillaume Rivron	None
Member of the Council	Hans-Peter Floren	None
Member of the Council	Elena Mikhaylova	None

MANAGEMENT REPORT

Key figures

In the first quarter of 2017 the Company as an integrated natural gas distribution system operator and natural gas trader ensured the supply of natural gas to 443 thousand customers in Latvia and continued the trading of natural gas abroad, which it had engaged in last year.

In the first months of the year, the Company made active preparations for the opening of the Latvian natural gas market on April 3 when legal customers become active participants of the natural gas market while households remain eligible to receive natural gas for the prices set by the Public Utilities Commission. An extensive campaign was launched to inform legal customers of the forthcoming changes and the Company's offers.

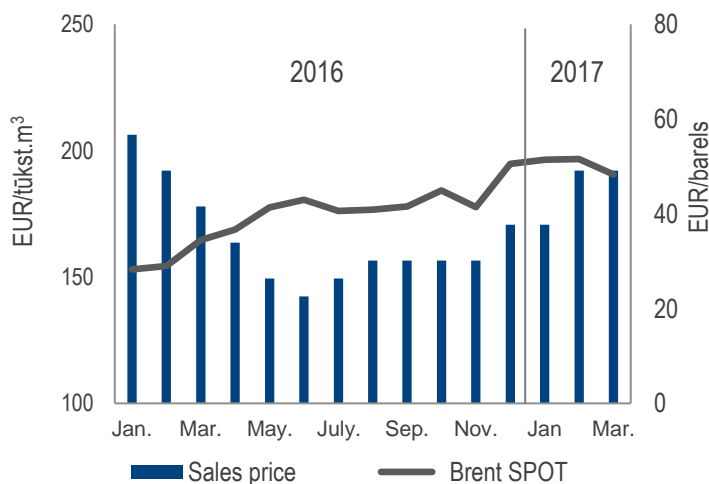
In order to meet the requirements of the Energy Law, the process of separation of the natural gas distribution system operator and the natural gas trader was also launched in the first quarter and is due for completion by January 1, 2018. The Company will pay a particular attention to the protection of shareholders' interests in the unbundling process, as it has done before.

Key financial figures (thous. EUR)	2017 Q1	2016 Q1*
Net turnover	123,244	133,457
EBITDA	17,631	25,295
EBITDA, %	14.3	19.0
EBIT	14,381	22,189
EBIT, %	11.7	16.6
Net profit	12,215	20,116
Net profitability, %	9.9	15.1
Profit per share, EUR	0.31	0.50
P/E	27.31	20.23

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization
 EBIT – Earnings Before Interest, Taxes
 P/E – price over earnings ratio

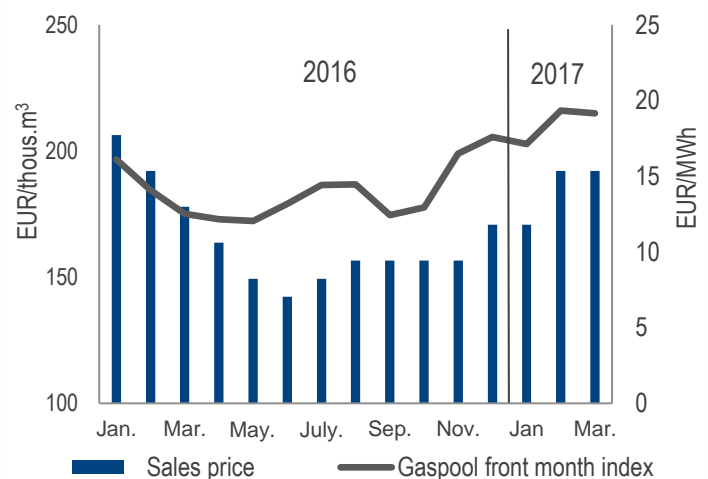
Key operational figures	2017 Q1	2016 Q1*
Natural gas sales, mio. m ³	510	516
Number of customers (addresses), thous.	443	444
Number of employees, average	959	932
Length of distribution lines, km	5,063	5,044

Brent oil and natural gas sales prices
 01.01.2016-03.31.2017



Source: eia.gov and JSC "Latvijas Gāze"

Gaspool and natural gas sale prices
 01.01.2016-03.31.2017



Source: S&P Global Platts and JSC "Latvijas Gāze"

* The results of 2016 are shown exclusive of the discontinued operations.

Description of operation environment

- In the 1st quarter of 2017 the natural gas sale price, which correlates with the future financial instrument price at Gaspool, was 6% lower than in the 1st quarter of 2016, adversely affecting the Company's turnover.
- In the first months of 2017 the natural gas sale price saw a 12.5% increase over that of the final quarter of 2016.
- The Company's total sales volume reached 510 million m³, which is a slight decrease year-on-year that stems from the higher average temperature in the early months of the year.
- The active preparations for the market opening had a negative impact on expenses in the 1st quarter of 2017 as compared to those of the 1st quarter of 2016.

The process of separation of the natural gas distribution system operator was launched

STATEMENT OF BOARD RESPONSIBILITY

The Board of the Joint Stock Company "Latvijas Gāze" (hereinafter – the Company) is responsible for the preparation of the Company's financial statements.

The unaudited interim condensed financial statements for the 3 months period ended March 31, 2017, have been prepared in compliance with the International Financial Reporting Standards as adopted by the European Union and provide a true and fair view of the Company's financial position, operational results and cash flows in all key aspects.

According to the information available to the board of the capital company, the financial information has been prepared in compliance with the effective legislation and provides a true and fair view of the capital company's assets, liabilities, financial standing and profit or losses. The principles of recognition and valuation of items observed in the preparation of financial information were the same as in the annual accounts.

The unaudited interim condensed financial statements of the Company for the 3 months period ended March 31, 2017 were approved by the Board of Directors on May 30, 2017.

The financial statements were approved by the Board of the JSC "Latvijas Gāze" on May 30, 2017 and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Zane Kotāne
Member of the Board

FINANCIAL STATEMENTS

Prepared in compliance with the International Financial Reporting Standards as Adopted by the European Union

CORPORATE INFORMATION

Company	JSC Latvijas Gāze, Joint Stock Company
LEI code	097900BGMO0000055872
Registration number, place and date of registration	Reregistered in Commercial Register December 20, 2004 with common registration number No 40003000642 Riga, March 25, 1991
Address	Vagonu street 20, Riga, LV-1009, Latvia www.lg.lv
Major shareholders	PAS Gazprom (34,0%) Marguerite Gas II S.à r.l. (28,97%) Uniper Ruhrgas International GmbH (18,26%) ITERA Latvija SIA (16,0%)
Corporate Governance Report	www.lg.lv
Financial Year	January 1 - March 31, 2017

STATEMENT OF PROFIT OR LOSS

	Note	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016 (Restated)
		EUR'000	EUR'000
Revenue	2	123,244	133,457
Other income		1,134	1,066
Raw materials and consumables used	3	(99,113)	(103,534)
Personnel expenses	4	(4,489)	(4,021)
Depreciation, amortisation and impairment of property, plant and equipment		(3,250)	(3,106)
Other operating expenses	5	(3,145)	(1,673)
Operating profit		14,381	22,189
Financial income, costs net		(2)	30
Profit before taxes		14,379	22,219
Corporate income tax		(2,164)	(2,103)
Profit from continuing operations		12,215	20,116
Profit from discontinued operations		-	7,530
Profit for the period		12,215	27,646

STATEMENT OF OTHER COMPREHENSIVE INCOME

	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016 (Restated)
	EUR'000	EUR'000
Profit for the year	12,215	27,646
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods		
Revaluation of property, plant and equipment	12	25
Net income recognised as other comprehensive income from continuing operations	12	25
Total comprehensive income for the period	12,227	27,671

The Notes on pages 14-24 are integral part of these Financial Statements

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 Aigars Kalvītis
 Chairman of the Board

 Zane Kotāne
 Member of the Board

BALANCE SHEET

	Note	31.03.2017	31.12.2016
		EUR'000	EUR'000
ASSETS			
Non-current assets			
Intangible assets	6	2,384	2,182
Property, plant and equipment	7	234,739	237,519
Other debtors		8	8
Total non-current assets		237,131	239,709
Current assets			
Inventories	8	3,598	3,902
Advances for inventories		59	1,236
Trade receivables		32,203	28,285
Current income tax receivable		2,804	988
Other current assets		-	540
Cash and cash equivalents		164,410	167,630
Assets held for distribution		-	351,668
Total current assets		203,074	554,249
TOTAL ASSETS		440,205	793,958
LIABILITIES			
Equity			
Share capital	11	55,860	55,860
Share premium		20,376	20,376
Reserves	11	211,550	485,624
Retained earnings		49,721	37,506
Total equity		337,507	599,366
Non-current liabilities			
Deferred income	9	19,084	19,195
Employee benefit obligations		3,731	3,731
Deferred tax liabilities		24,423	24,423
Total non-current liabilities		47,238	47,349
Current liabilities			
Trade payables		29,316	2,392
Deferred income	9	980	974
Unpaid dividends		-	35,112
Other liabilities	10	25,164	31,183
Liabilities held for distribution		-	77,582
Total current liabilities		55,460	147,243
TOTAL LIABILITIES		440,205	793,958

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 Zane Kotāne
 Member of the Board

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2015	55,860	20,376	504,650	30,517	611,403
<i>Transactions with owners:</i>					
Dividends	-	-	-	(30,324)	(30,324)
Transferred to unpaid dividend	-	-	(35,112)	-	(35,112)
<i>Total transactions with owners</i>	-	-	(35,112)	(30,324)	(65,436)
Transfers to reserves / reclassification	-	-	625	(193)	432
<i>Other comprehensive income:</i>					
Other comprehensive income	-	-	15,461	-	15,461
Profit for the year	-	-	-	37,506	37,506
<i>Total other comprehensive income</i>	-	-	15,461	37,506	52,967
December 31, 2016	55,860	20,376	485,624	37,506	599,366
Reserves of discontinued operations	-	-	(274,086)	-	(274,086)
<i>Other comprehensive income:</i>					
Other comprehensive income	-	-	12	-	12
Profit for the year	-	-	-	12,215	12,215
<i>Total other comprehensive income</i>	-	-	12	12,215	12,227
March 31, 2017	55,860	20,376	211,550	49,721	337,507

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 Member of the Board

STATEMENT OF CASH FLOW

	31.03.2017	31.03.2016 (Restated)
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before corporate income tax from continuing operations	14,379	22,219
Profit before corporate income tax from discontinued operations	-	10,311
<i>Adjustments:</i>		
- depreciation of property, plant and equipment	3,051	8,308
- amortisation of intangible assets	199	231
- movement in provisions	-	(158)
- income from participating interests	(243)	(303)
- proceeds from sale of property, plant and equipment	29	24
<i>Changes in operating assets and liabilities:</i>		
- in accounts receivable	(3,377)	(8,745)
- in advances for inventories	1,178	24,046
- in inventories	304	50,472
- in accounts payable	18,878	7,732
Corporate income tax paid	(1,817)	(2,003)
Net cash flow from operating activities	32,581	112,134
Cash flow from investing activities		
Payments for property, plant and equipment	(302)	(192)
Payments for intangible assets	(401)	(53)
Proceeds from sale of property, plant and equipment	14	5
Purchase of property, plant, equipment and intangible assets of discontinued operations	-	(3,158)
Net cash outflow from investing activities	(689)	(28,398)
Cash flow from financing activities		
Dividends paid	(35,112)	-
Net cash inflow / (outflow) from financing activities	(35,112)	-
Net cash flow	(3,220)	83,736
Cash and cash equivalents at the beginning of the reporting year	167,630	79,207
Cash and cash equivalents at the end of the reporting year	164,410	162,943

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 Aigars Kalvītis
 Chairman of the Board

 Zane Kotāne
 Member of the Board

NOTES TO THE FINANCIAL STATEMENTS

Statement of profit or loss

2. Revenues

Revenues	31.03.2017	31.03.2016
	EUR'000	EUR'000
Natural gas trade	123,050	133,252
Other revenue	194	205
	123,244	133,457

3. Raw materials and consumables used

Raw materials and consumables used	31.03.2017	31.03.2016
	EUR'000	EUR'000
Natural gas purchase	97,897	102,263
Natural gas for technological purposes	780	878
Costs of materials, spare parts and fuel	436	393
	99,113	103,534

4. Personnel expenses

Personnel expenses	31.03.2017	31.03.2016
	EUR'000	EUR'000
Wages and salaries	3,366	3,023
State social insurance contributions	793	725
Life, health and pension insurance	237	221
Other personnel costs	93	52
	4,489	4,021

5. Other operating expenses

Other operating expenses	31.03.2017	31.03.2016
	EUR'000	EUR'000
Sale and advertising costs	1,379	397
Office and other administrative costs	638	469
Expenses for maintenance of premises and other services	415	319
Taxes and duties	326	217
Costs of IT system maintenance, communications and transport	217	180
Other costs	170	91
	3,145	1,673

Balance sheet

6. Intangible assets

Intangible assets	31.03.2017	31.12.2016
	EUR'000	EUR'000
Cost		
As at the beginning of period	11,306	14,346
Additions	401	2,320
Disposals	(22)	(8)
Intangible assets held for distribution	-	(5,352)
As at the end of period	11,685	11,306
Amortisation		
As at the beginning of period	9,124	12,064
Amortisation	199	1,084
Disposals	(22)	(7)
Intangible assets held for distribution	-	(4,017)
As at the end of period	9,301	9,124
Net book value as at the end of the period	2,384	2,182

7. Property, plant and equipment

	Land	Buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount						
31.12.2016	1,534	485,724	30,869	11,955	463	530,545
Additions	-	49	9	100	144	302
Reclassified	-	38	66	-	(104)	-
Revaluated	-	12	-	-	-	12
Disposals	-	(90)	(16)	(98)	-	(204)
31.03.2017	1,534	485,733	30,928	11,957	503	530,655
Depreciation						
31.12.2016	-	264,970	19,247	8,809	-	293,026
Calculated	-	2,353	434	264	-	3,051
Calculated	-	(49)	(14)	(98)	-	(161)
31.03.2017	-	267,274	19,667	8,975	-	295,916
Net book value as 31.03.2017	1,534	218,459	11,261	2,982	503	234,739
Net book value as 31.12.2016	1,534	220,754	11,622	3,146	463	237,519

7. Property, plant and equipment (continued)

	Land	Buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount						
31.12.2015	11,961	1,077,534	135,018	20,961	12,482	1,257,956
Additions	-	307	1,137	1,200	24,554	27,198
Reclassified	-	20,558	8,818	(5,225)	(24,151)	-
Revaluated	-	16,749	(5,469)	-	-	11,280
Disposals	-	(4,585)	(2,976)	(650)	(3)	(8,214)
Assets held for distribution	(10,427)	(624,839)	(105,659)	(4,331)	(12,419)	(757,675)
31.12.2016	1,534	485,724	30,869	11,955	463	530,545
Depreciation						
31.12.2015	-	607,880	77,319	15,307	-	700,506
Calculated	-	21,308	7,001	2,153	-	30,462
Revaluated	-	3,618	(9,587)	-	-	(5,969)
Calculated	-	(3,436)	(2,789)	(640)	-	(6,865)
Reclassified	-	1,726	3,297	(5,023)	-	-
Assets held for distribution	-	(366,126)	(55,994)	(2,988)	-	(425,108)
31.12.2016	-	264,970	19,247	8,809	-	293,026
Net book value as 31.12.2016	1,534	220,754	11,622	3,146	463	237,519
Net book value as 31.12.2015	11,961	469,654	57,699	5,654	12,482	557,450

8. Inventories

Inventories	31.03.2017	31.12.2016
	EUR'000	EUR'000
Natural gas and fuel	2,022	2,593
Materials and spare parts	1,869	1,607
Allowance for slow-moving inventory	(293)	(298)
	3,598	3,902

Allowance for impairment of slow-moving and obsolete inventories	31.03.2017	31.12.2016
	EUR'000	EUR'000
Allowance at the beginning of the year	298	421
Released in profit or loss statement from continuing operations	(3)	(19)
Released in profit or loss statement from discontinued operations	-	(11)
Written down	(2)	(7)
Assets held for distribution	-	(86)
Allowance at the end of the period	293	298

9. Deferred income

Deferred income	31.03.2017	31.12.2016
	EUR'000	EUR'000
<i>Income from residential and corporate customers' contributions to construction of gas pipelines:</i>		
Long-term part	19,084	19,195
Short-term part	980	974
	20,064	20,169

Changes of deferred income	31.03.2017	31.12.2016
	EUR'000	EUR'000
Balance at the beginning of the year	20,169	29,161
Received from residential and corporate customers during reporting year	144	562
Included in income of reporting year	(249)	(951)
Liabilities held for distribution	-	(8,603)
Total transfer to next period	20,064	20,169

10. Other liabilities

Other liabilities	31.03.2017	31.12.2016
	EUR'000	EUR'000
Prepayments received	8,171	12,273
Value added tax	6,559	7,852
Accrued costs	3,146	3,088
Provision for taxes	2,164	-
Excise tax	2,013	2,636
Vacation pay reserve	1,002	1,002
Other current liabilities	851	1,016
Salaries	565	828
Social security contributions	386	1,553
Personnel income tax	159	899
Real estate tax	148	-
Natural resource tax	-	36
	25,164	31,183

Other information

11. Shares and shareholders

Equity	31.03.2017 % of total share capital	31.03.2017 Number of shares	31.12.2016 % of total share capital	31.12.2016 Number of shares
Equity				
Registered (closed issue) shares	36.52	14,571,480	36.52	14,571,480
Bearer (public issue) shares	63.48	25,328,520	63.48	25,328,520
	100.00	39,900,000	100.00	39,900,000
Shareholders				
Uniper Ruhrgas International GmbH (<i>including registered (closed issue) shares 7,285,740</i>)	18.26	7,285,740	18.26	7,285,740
Marguerite Gas I S.à r.l.	-	-	28.97	11,560,645
Marguerite Gas II S.à r.l.	28.97	11,560,645	-	-
Itera Latvija SIA	16.00	6,384,001	16.00	6,384,001
PJSC "Gazprom" (<i>including registered (closed issue) shares 7,285,740</i>)	34.00	13,566,701	34.00	13,566,701
State-owned shares*	0.00	117	0.00	117
Bearer (public issue) shares	2.77	1,102,796	2.77	1,102,796
	100.00	39,900,000	100.00	39,900,000

* The state-owned shares are held by the Ministry of Economy of the Republic of Latvia.

On March 23, 2017, Marguerite Gas II S.à r.l. received all the shares owned by Marguerite Gas I S.à r.l., thus becoming the holder of 28.97% of the Company's shares. Both companies have the same chain of controlling owners – "MARGUERITE HOLDINGS S.à.r.l." and "2020 European Fund for Energy, Climate Change and Infrastructure".

As at March 31, 2017, the registered, signed and paid share capital consists of 39,900,000 shares with a par value of EUR 1.40 each. All shares have equal voting rights and rights to dividends.

Reserves	31.03.2017 EUR'000	31.12.2016 EUR'000
Revaluation reserve	176,564	176,564
Employee benefits revaluation reserve	(503)	(503)
Other reserves	35,489	35,477
<i>Reserves of discontinued operations</i>	-	274,086
	211,550	485,624

12. Financial risk management

The Company is exposed to credit risk on its financial assets and to liquidity risk due to high seasonality of natural gas sales. The Company acquires and sells most of the services and goods in Euros, thus there is no significant exposure to foreign exchange risk. All

operations of the Company are financed from own funds, thus there is no exposure to interest rate risks. Financial assets and liabilities arise from core business activities of the Company and are all measured at amortised cost.

12. Financial risk management (continued)

Credit risk

The Company is exposed to credit risk, which is a risk of material losses arising in a case when a counterparty is not able to fulfil its contractual obligations to the Company. The credit risk is critical to the operations of the Company, so it is important to manage this risk effectively. The credit risk arises from cash and cash equivalents, as well as credit exposure to customers, including outstanding receivables and committed transactions.

Concentration of credit risk

Similarly to the Company's sales, its outstanding receivables are exposed to a high concentration risk, thus the source of credit risk is mainly associated with top five customers of the Company. Debts of five largest clients are not overdue and are not impaired as at 31 March 2017.

Credit risk management practices

The credit risk management is performed by the trading segment of the Company under supervision of the management board member responsible for commercial operations. For the largest customers the Company uses individual credit risk management policies, which include several practices such as initial credit limit assessment, detailed monitoring of financial measures, as well as a frequent billing practice to avoid accumulation of current debt. In case of initial doubts, clients are placed for regular monitoring at the Board level, and, if required, additional collaterals are required to secure provision of services and sale of natural gas. For smaller customers the Company has approved detailed credit risk management policies, describing basic steps for monitoring the progress and managing legally mandatory communication with the clients before an insolvency procedure can be initiated. In case of customer becoming doubtful, the Company establishes provisions and starts legal proceeding to collect the debt.

For managing the credit risk associated with cash and cash equivalents, the Company has approved a financial asset management policy. Based on internal guidelines all credit institutions with which the Company cooperates are graded once in a quarter, taking into account their

financial measures as well as non-financial indicators. Based on the assessment, limits for current accounts with one institution as well as deposit limits are defined and regularly monitored. Due to low interest rates, as at 31 March 2017, cash and cash equivalents represented only current account balances with credit institutions.

Liquidity risk

Liquidity risk is associated with ability of the Company to settle its obligations within agreed due dates. Due to high seasonality of operations of the Company, cash inflows are also exposed to high fluctuations within the year and most of revenues are generated during the first and the fourth quarter of the year. At the same time operational costs related to maintenance works are distributed evenly through the year, while dividend payments from prior year are usually done in the third quarter of the year.

The Company uses cash flow planning tools to manage liquidity risk. The Company prepares yearly, quarterly and monthly cash flows to identify operational cash flow requirements. The Company has record on attracting short term credit line, in case if such need arises.

13. Critical accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. IFRS requires that in preparing the financial statements, management of the Company makes estimates and assumptions that affect the reported amounts of assets and liabilities and required disclosure at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The areas involving a higher degree of judgment and thus having significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are revaluation of property, plant and equipment, determination of frequency of revaluations, the management assumptions and estimates in determination of useful lives of property, plant and equipment and recoverable amount of accounts receivable and inventories.

13. Critical accounting estimates and judgements (continued)

Revaluation of property, plant and equipment

The management determines the fair value and the remaining useful life of buildings and constructions and equipment and machinery based on valuations performed by independent certified valuers in accordance with real estate valuation standards and based on the average construction costs relevant for the reporting year. The Company's internal policy is to perform the revaluations when there are indications that the average construction costs and/or purchase prices related to the buildings, gas distribution system and equipment have changed significantly.

Recoverable amount of trade receivables

As individual assessment is not possible due to the large number of individual balances, only the significant debtors are assessed individually. Receivables that are not individually assessed for impairment are classified into groups of receivables based on days overdue and are collectively assessed for impairment, using historical loss experience.

Inventory valuation

Upon valuation of inventories, the management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of inventory is taken into consideration.

Recognition of revenues using the leveraged consumption payment scheme

Customers who settle payments using the leveraged consumption payment scheme when paying bills (commercial users and private persons who perform an operating activity) perform the readings of meters twice a year and determine the leveraged consumption for the winter season (November to April) and summer season. Customers are invoiced on a monthly basis. Customers who are residents (household customers) settle accounts using the leveraged consumption payment scheme in self-service order. Customers perform the readings of meters (depending on consumption) once a year or when tariffs are changed. All household

customers are invoiced on a monthly basis by summing the leveraged consumption for which a seasonal rate is applied.

14. Key accounting policies

The key accounting policies applied in the preparation of these financial accounts are set out below. These policies have been consistently applied to all years presented unless otherwise stated. When preparing the unaudited interim profit or loss statement for the 3-month period ended 31 March 2017, the comparatives of 2016 have been reclassified to ensure the comparability of the statements.

Basis of preparation

The financial statements are prepared in accordance with the International Reporting Standards (IFRS) as adopted for use in the European Union.

The financial statements are prepared under historical cost convention, as modified by revaluation of property, plant and equipment as disclosed in the note below.

All amounts shown in these financial statements are presented in thousands of Euros (EUR), unless identified otherwise.

Property, plant and equipment

Fixed assets are tangibles which are held for use in the supply of goods and in the provision of services, and used in more than one period. The Company's main asset groups are buildings and structures, which include distribution gas pipelines, as well as equipment and machinery mainly related to the operation of gas facilities and the maintenance of gas distribution.

The Company's buildings and constructions (including the gas distribution system) and equipment and machinery are stated at revalued amount as determined under the policy of revaluation of fixed assets approved by the Board, less accumulated depreciation and impairment charge. Revaluation shall be made with sufficient regularity to ensure the carrying amount not differs materially from that which would be determined using fair value at the end of the reporting period. All other property, plant and equipment groups (including land and cushion gas) are stated at historical cost, less accumulated depreciation and impairment charge. The

14. Key accounting policies (continued)

historical cost includes expenditure directly attributable to the acquisition of the items.

Assets purchased, but not yet ready for the intended use or under installation process are classified under Assets under construction. Subsequent costs are included in the asset's carrying amount or recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss statement for the financial period when they are incurred.

Upon revaluation of property, plant and equipment, the accumulated depreciation is changed in proportion to changes in the gross value of the property, plant and equipment revalued. Increases in the carrying amount arising on revaluation of buildings, gas transmission and distribution system and equipment are credited to Revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; any further decreases are charged to the profit or loss statement. The revaluation surplus is transferred to retained earnings on the retirement or disposal of the asset.

Land, advances and assets under construction are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	years
Buildings	20 - 100
Constructions, including gas distribution system	40 - 60
Machinery and equipment	5 - 30
Other fixed assets	3.33 – 10

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the profit or loss statement during the period

when they are incurred. When the revalued assets are sold, the amounts included in Revaluation reserve are transferred to retained earnings.

Intangible assets

Intangible assets primarily consist of software licences and patents. Intangible assets have a finite useful life and are carried at cost less accumulated amortisation.

Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their useful lives. Generally intangible assets are amortised over a period of 5 to 10 years.

Impairment of non-financial assets

All Company's non-financial assets have a finite useful life (except land and cushion gas). Assets subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

The Company classifies all its financial assets as Loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its financial assets at initial recognition. Receivables are non- derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They are included in current assets, except for assets with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Receivables are classified as 'trade receivables', 'other current assets' and 'cash and cash equivalents' in the balance sheet.

14. Key accounting policies (continued)

Inventories

The cost of natural gas is accounted separately on a first-in first-out (FIFO) basis. The cost of natural gas is composed of the gas purchase cost. The cost of materials, spare parts and other inventories is determined using the weighted average method.

Inventories are recorded at the lowest of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less completion and selling expenses. The value of outdated, slow-moving or damaged inventories has been provisioned for.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of trade receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the allowances are included in the profit or loss statement.

If, in the subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the profit or loss statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances of current accounts with banks and deposits held at call with banks with original term less than 90 days and other short-term highly liquid investments.

Share capital and dividend authorised

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issues of new shares, are shown in equity as a deduction, net of tax, from the proceeds. Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Provisions

Provisions for legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value according to the management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Vacation pay reserve

The amount of accrual for unused annual leave is determined by multiplying the average daily wage of employees for the last six months of the reporting year by the amount of accrued but unused annual leave at the end of the reporting year.

Employee benefits

Bonus plans

The Company recognises a liability and expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Social security and pension contributions

The Company pays social security contributions for state pension insurance to the state funded pension scheme in compliance with the Latvian legislation. The state funded pension scheme is a fixed-contribution pension plan whereby the Company has to make payments in an amount specified by law. The Company also pays contributions to an external fixed-contribution private

14. Key accounting policies (continued)

pension plan. The Company does not incur legal or constructive obligations to pay further contributions if the state funded pension scheme or private pension plan is unable to meet its liabilities towards employees. The social security and pension contributions are recognised as an expense on an accrual basis and are included within staff costs.

Post-employment and other employee benefits

Under the Collective Agreement, the Company provides certain benefits upon termination of employment and over the rest of life to employees whose employment conditions meet certain criteria. The amount of benefit liability is calculated based on the current salary level and the number of employees who are entitled or may become entitled to receive those payments, as well as based on actuarial assumptions. The benefit obligation is calculated once per year.

The present value of the benefit obligation is determined by discounting the estimated future cash outflows using the market rates on government bonds. Actuarial gains and losses arisen from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the period in which they arise.

Deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised directly in equity. In this case the tax is recognised directly in equity.

Income tax is assessed for the period in accordance with Latvian tax legislation that have been enacted or substantively enacted by the balance sheet date. The management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the

deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the temporary differences will reverse.

The principal temporary differences arise from different intangible asset amortisation and property, plant and equipment depreciation rates, revaluation of property, plant and equipment, as well as provisions for slow-moving inventory, accrued expenses for unused annual leave and bonuses, obligations for post-employment and other employee benefits and provisions for bad and doubtful debts where the management is of the opinion that they will meet the criteria stated in Section 9 of the law "On Corporate Income Tax". Deferred income tax asset is recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Increase in deferred income tax liability that results from revaluation of property, plant and equipment is charged to other comprehensive income as deduction from respective increase in the Revaluation reserve. Decrease in deferred income tax liability that results from depreciation of revalued property, plant and equipment is charged to the statement of profit or loss.

Current income tax

Income tax is assessed for the period in accordance with Latvian tax legislation. The tax rate stated by Latvian tax legislation is 15 percent.

14. Key accounting policies (continued)

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Revenue recognition

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from trade of natural gas

Sales are recognised upon delivery of gas, net of value added tax and discounts, but including the excise tax. Sales of natural gas to residential customers are recorded on the basis of meter readings reported by customers. Where relevant, this includes an estimate of the sales volume of gas supplied between the date of the last meter reading and the year-end. Natural gas sales to corporate customers are recognised based on invoice issued according to meter reading of customers.

Interest income

Interest income is recognised using the effective interest rate method. Interest income on term deposits is classified as Other income and interest on cash balances is classified as Finance income.

Penalties income

Contractual penalties, incl. periodic penalties for late payments for natural gas supplied, are recognised when it is certain that the economic benefits associated with the transaction will flow to the Company. Hence, recognition usually coincides with the receipt of penalty.

Income from residents' and enterprises' contribution to financing of construction works

The income from residents' and enterprises' contribution to financing of construction works of gas pipelines is accounted for as deferred income and gradually included in the profit or loss statement over the useful life of the fixed assets, 30 to 40 years on average.

Other income

Income from the rendering of services are recognised when rendered.

Related parties

Related parties are defined as the Company's major shareholders, members of the Council and the Board, their close relatives and companies in which they have a significant influence or control.

Discontinued operations

As described in notes to the Financial Statements and in the management report, the Company in 2016 had launched the reorganization, and in January 2017 it transferred natural gas transmission and storage activities to the newly established JSC Conexus Baltic Grid.

Application of IFRS 5

The income and expense items of the profit or loss statement for the year 2016 only include the income and expenses from continuing operations. The income and expenses from discontinued operations are presented net as profit from discontinued operations. In the balance sheet there is an asset item among current assets - "Assets held for distribution" and a new liability item among current liabilities - "Liabilities held for distribution". These include the totals of the assets and liabilities transferred to the JSC "Conexus Baltic Grid" at their book value.