



**UNAUDITED CONDENSED FINANCIAL STATEMENTS 2016**

Prepared in compliance with the European Union International Financial Reporting Standards

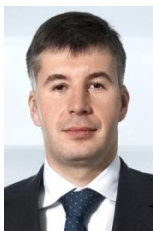
Riga, 2017

## CONTENTS

COUNCIL .....	3
MANAGEMENT BOARD .....	4
STRATEGY AND OBJECTIVES .....	5
OUR OBJECTIVE.....	5
OUR MISSION .....	5
OUR VISION .....	5
COMPANY'S FOCUS.....	5
SHARES AND SHAREHOLDERS .....	7
FACTS AND FIGURES .....	9
CORPORATE SOCIAL RESPONSIBILITY .....	12
ENVIRONMENTAL PROTECTION .....	12
MANAGEMENT REPORT .....	13
STATEMENT OF BOARD RESPONSIBILITY .....	16
FINANCIAL STATEMENTS.....	17
CORPORATE INFORMATION.....	17
PROFIT OR LOSS STATEMENT.....	18
STATEMENT OF OTHER COMPREHENSIVE INCOME .....	18
BALANCE SHEET .....	19
STATEMENT ON CHANGES IN EQUITY .....	20
CASH FLOW STATEMENT .....	21
NOTES TO THE FINANCIAL STATEMENTS .....	22

## 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 the Gas and Liquid Hydrocarbon Marketing and Processing Department 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 till 2016 – Member of the Board at E.ON Russia



**Nicolàs Merigó Cook**, 1963  
Member of the Council

Since 2010 – Chief Executive Officer at Marguerite Adviser S.A. (Luxembourg)



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

Since 2008 – Member of the Board, 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 of 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 at Marguerite Adviser S.A. (France)



**Hans-Peter Floren**, 1961  
Member of the Council

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



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

Since 2015 – Head of Pricing and Economic Expert Analysis Department at PJSC Gazprom



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

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

Members of the Council – term of office till March 22, 2016:

Matthias Kohlenbach

Damian Bunyan

Elena Karpel (Елена Карпель)

Uwe H. Fip

Vlada Rusakova (Влада Русакова)

## MANAGEMENT BOARD

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



**Aigars Kalvītis**, 1966,  
Chairman of the Board

Latvian University of Agriculture -  
Master 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 Grönlinghoff**, 1979,  
Vice-Chairman of the Board

(term of office from September 1, 2016 till August  
31, 2019)

Maastricht University (Netherlands),  
Master Degree in Economics



**Zane Kotāne**, 1977,  
Member of the Board

Riga Business School, Master Degree in  
Business Management



**Gints Freibergs**, 1959,  
Member of the Board

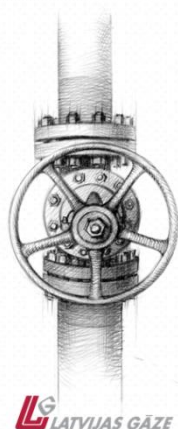
Riga Polytechnical Institute, Engineer,  
Heat Power Industry

Members of the Board – term of office till August 31, 2016:

Mario Nullmeier

## STRATEGY AND OBJECTIVES

Following the reorganisation carried out in 2016, the JSC "Latvijas Gāze" has become an integrated natural gas distribution and trading company that ensures the supply of natural gas to approximately 443 thousand customers in Latvia.



### OUR OBJECTIVE

To strengthen the position of Latvijas Gāze as a leader in the Latvian and Baltic energy market by becoming the natural gas supplier of first choice for customers and by ensuring the most stable supply of natural gas for the whole region.

### OUR MISSION

To contribute to the Baltic region's economy by ensuring the reliable, safe and flexible supply of natural gas to households and enterprises at competitive prices.

### OUR VISION

To improve people's life through delivering natural gas for a variety of purposes in different segments and to promote the advancement of natural gas as a key source of energy for the benefit of society.

## COMPANY'S FOCUS

### *Safety and security of gas supply*

With regard to the distribution network we pay as much attention to the physical safety of the infrastructure as to the availability of the capacity needed. On the commercial side we fully focus on ensuring reliable, safe and flexible gas supplies at competitive prices. We are also dedicated to educating people on the safe use of natural gas, the work of the emergency service, and network monitoring.

### *Sustainable investment*

Investments in the safety and security of gas supply are closely related to the improvement of efficiency and environmental factors. The purpose of the high standards of system diagnostics is to reduce the risk of accidents and the emission of methane.

### *Effective management*

Our company is governed in compliance with the principles of good corporate governance, ensuring the equality of all shareholders, a professional supervision, and transparency. The company's development and financial management takes place in line with respective risk management policies. A key role in our business is played by IT systems that facilitate an effective management of both the distribution infrastructure as well as the natural gas sales and trading business.

### *Professional personnel*

Our company has a large staff of specialists with many different professional backgrounds. Given the paramount role of safety and security of gas supply, we pay particular attention to the qualification of our technical specialists and to labour safety. We provide our employees with a modern labour environment and we operate in compliance with our personnel policy to ensure an efficient performance and recruitment.

### *Quality of product*

Natural gas is a product of invariably high quality with the lowest environmentally harmful emissions among all types of fossil fuel. Our goal is to promote a more widespread use of high-efficiency heating systems and cogeneration, thus inflicting less harm on the environment and saving our customers' resources.

### *Quality of service*

Our company is continuously working on improving the quality and availability of our products services. In order to become more accessible to customers, we have implemented an option of contacting us both on the social media and by chat on the customer service portal. We regularly review and improve our business and sales processes with the aim to make the provision of products and services to our customers faster and simpler.

*Price competitiveness*

We continuously work towards improving our purchase conditions for natural gas as well as to increase our cost efficiency with regard to the provision of our products and services. We are dedicated to offering competitive and affordable natural gas prices to all our customers also after the opening of the Latvian natural gas market on April 3, 2017.

*Network development and customer attraction*

We have resumed an active gasification policy by connecting a large number of households and enterprises to natural gas and by developing new projects of gasification of residential areas.

## SHARES AND SHAREHOLDERS

### Shares and shareholders

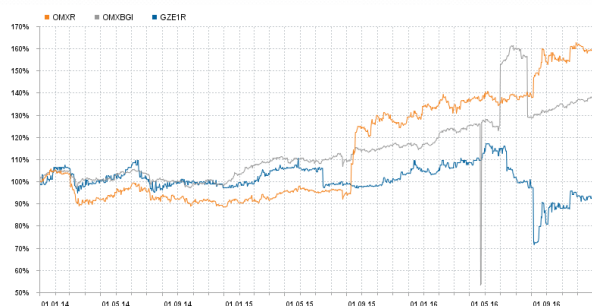
The shares of Joint Stock Company "Latvijas Gāze" (hereinafter – the Company) have been listed on the NASDAQ OMX Riga stock exchange since February 15, 1999, and its ticker code has been GZE1R since August 1, 2004. The total number of securities has not changed since 1999.

### Company's share price, OMX Riga GI and OMX Baltic GI index changes (01.01.2014 – 31.12.2016)

ISIN	LV0000100899	Number of securities in public offering	25,328,520
Ticker code	GZE1R	Liquidity provider	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 six among companies listed on Nasdaq Baltic. The Company's capitalisation value in 2016 reached 350.32 million EUR – 39.10 million EUR less than in the previous reporting year.

On September 2, 2016, the Company's shareholder meeting decided to spin off the unified natural gas

transmission and storage operator by establishing a sister joint stock company "Conexus Baltic Grid". On September 5, 2016, as the market responded to the decision, the Company's share price at the stock exchange dropped by 25.14%. The rapid changes stem from the fact that those who purchased the Company's shares after September 2, 2016 were no longer eligible to become shareholders of the to-be-established unified transmission and storage operator. However, despite the decrease in assets resulting from the infrastructure spin-off, the market appreciated the further performance of the JSC "Latvijas Gāze" and the share price increased and was around 8-9 EUR at the end of the year.

### Changes in the Company's share price and turnover (01.01.2014-31.12.2016)

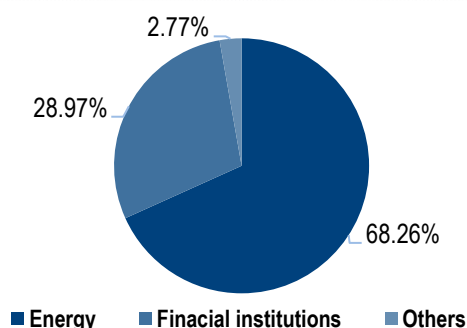


Source: Nasdaq Riga

Share trading information (01.01.2014-31.12.2016)

	2014	2015	2016
Share price (EUR):			
First	09.4	9.1	9.8
Highest	10.4	10.4	11.1
Lowest	8.9	9.1	5.6
Average	9.5	9.5	9.5
Last	9.1	9.8	8.8
Change	-3.09%	6.78%	-10.11%
Number of transactions	1,290	1,283	2,240
Number of shares traded	118,685	136,627	229,363
Turnover (million EUR)	1.12	1.31	2.17
Capitalisation (million EUR)	364.69	389.42	350.32

Composition of shareholders by industry represented as at 31.12.2016



Shares held by managerial bodies

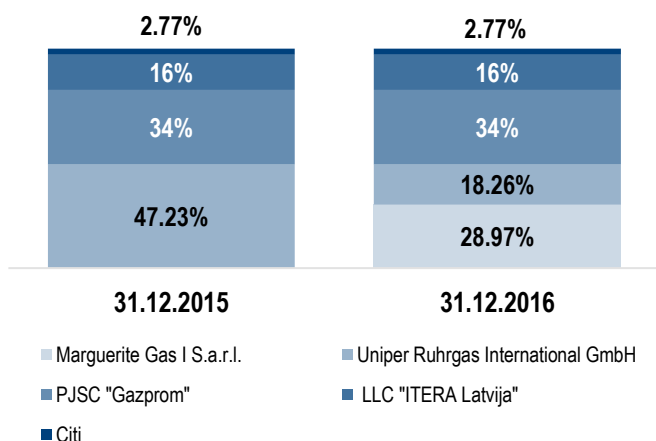
		As at the day of signing of financial statements
<b>Management Board</b>		Number of shares
Chairman of the Board	Aigars Kalvītis	None
Vice-Chairman of the Board	Alexander Frolov	None
Vice-Chairman of the Board	Sebastian Gröblichhoff	None
Member of the Board	Gints Freibergs	416
Member of the Board	Zane Kotāne	None
<b>Council</b>		
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	Joerg 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	Nicolás 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



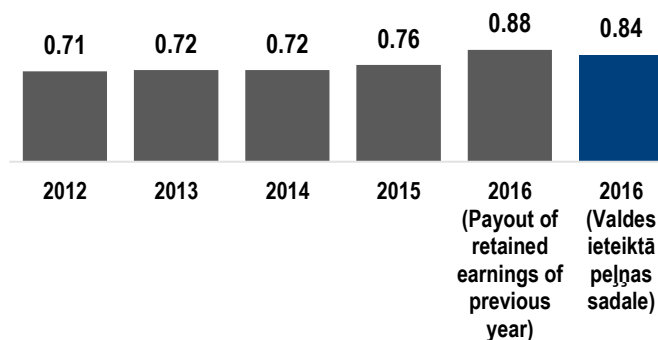
## FACTS AND FIGURES

### Shares and dividends

#### SHAREHOLDERS

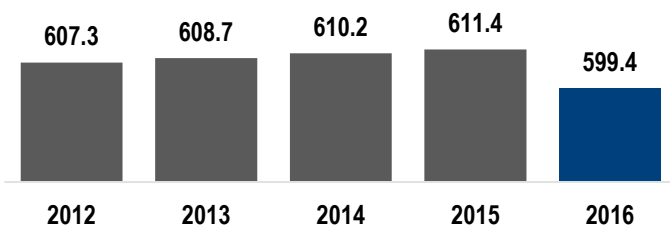


#### DIVIDENDS (EUR/share)

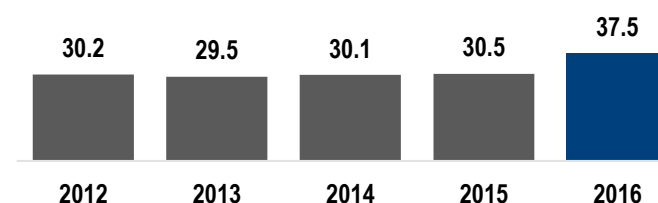


### Financial indicators

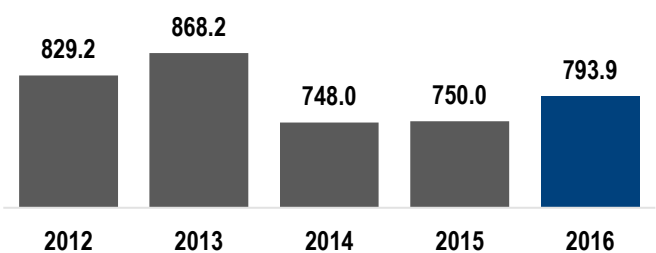
#### EQUITY (million EUR)



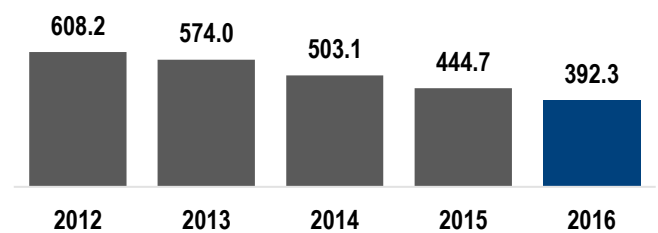
#### PROFIT (million EUR)



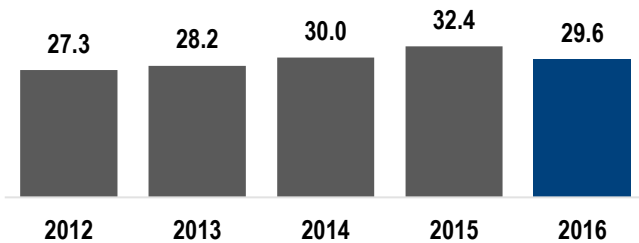
#### ASSETS (million EUR)



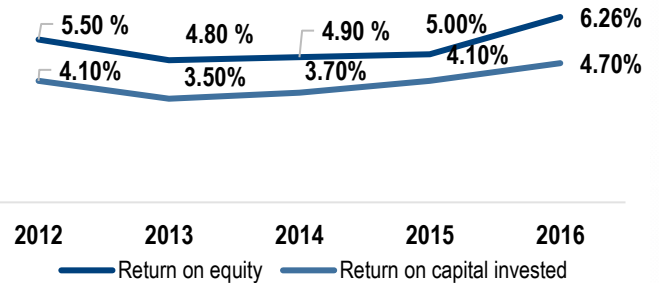
#### NET TURNOVER (million EUR)



### INVESTMENTS (milj. EUR)

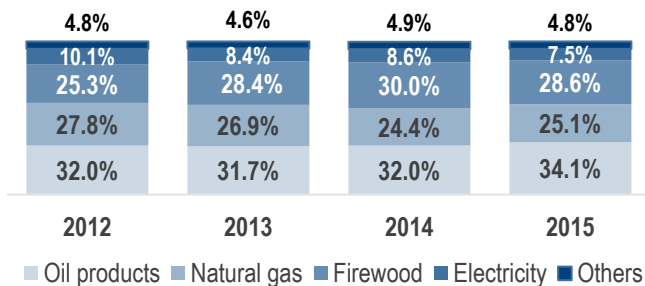


### KEY FINANCIAL INDICATORS

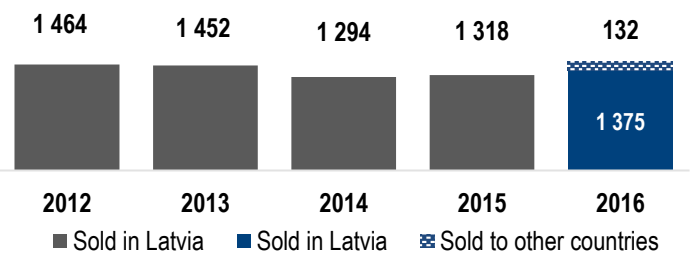


### Natural gas market

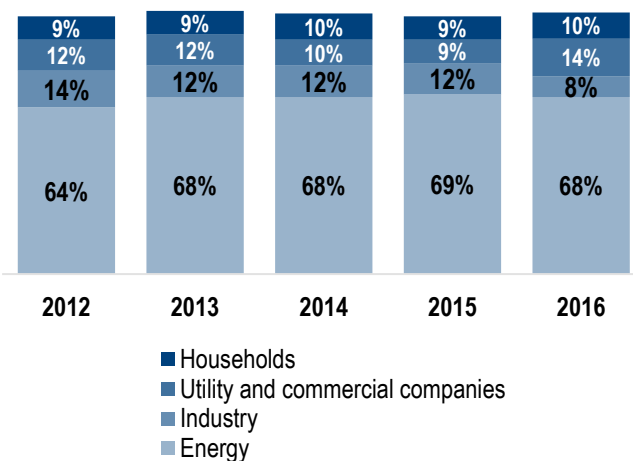
#### CONSUMPTION OF PRIMARY ENERGY RESOURCES IN LATVIA (CSB data)



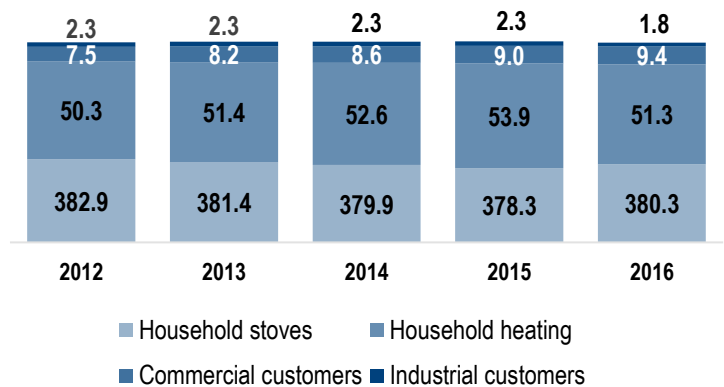
#### NATURAL GAS SOLD (million m<sup>3</sup>)



#### NATURAL GAS TRADE IN LATVIA BY SECTORS

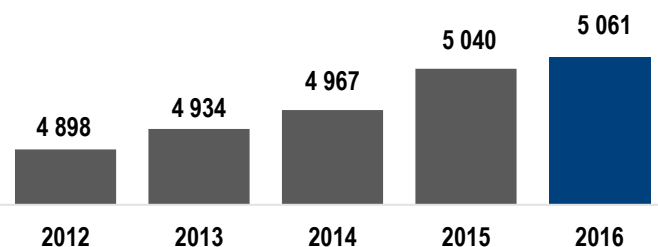


#### NUMBER OF CUSTOMERS (thousand)

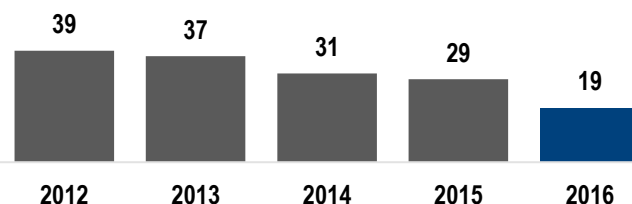


*Distribution system*

**GAS DISTRIBUTION PIPELINES OWNED BY THE COMPANY (km)**

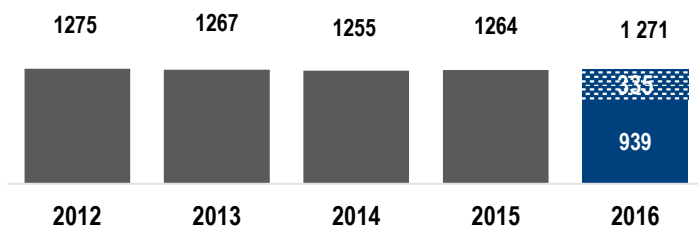


**CONSTRUCTION OF GAS DISTRIBUTION PIPELINES (km)**



*Employees*

**AVERAGE NUMBER OF EMPLOYEES**



- ▨ Average number of employees at JSC "Conexus Baltic Grid"
- Average number of employees at JSC "Latvijas Gāze"
- Average number of employees at JSC "Latvijas Gāze"

## CORPORATE SOCIAL RESPONSIBILITY

### Directions and principles

#### *Environment*

Use of natural gas as environment-friendly fuel with the lowest emission of CO<sub>2</sub>, ashes and other substances.

Promotion of energy-efficient hardware and heating solutions on the market.

Investments in reduction of losses of natural gas and other substances.

Improvement of energy efficiency at the company's facilities.

#### *Safety*

Investments in enhancement of physical safety and capacity of infrastructure.

Work with people on safe use of natural gas.

Regular infrastructure monitoring and efficient emergency service.

Instruction and training of emergency service employees and other staff.

Instruction of the company's and other gas industry specialists at the Training Centre.

#### *Personnel*

High principles of labour safety.

Support for education and qualification-raising.

Remuneration policy and work with trade unions.

Improvements in labour environment and collective.

#### *Corporate governance*

Presence on the stock exchange "Nasdaq Riga" with maintenance of high governance standards.

Transparency and publicity.

Equality for all shareholders.

#### *Public*

One of the biggest taxpayers in the country.

Cooperation with various public authorities in environmental, safety, planning and other matters.

Legislative initiatives.

Membership at international gas supply cooperation and planning organisations.

#### *Charity*

Support for sports and culture.

Support for education and science.

Support for children social programmes.

## ENVIRONMENTAL PROTECTION

Given the global importance of environmental protection and the specific nature of our company as distribution system operator, environmental issues play a prominent role in the operation of the Company. The technological processes within the natural gas distribution system result in the environmental emission of several chemical substances. The purposeful investments in system modernisation made in the previous 20 years have enabled the distribution system to operate efficiently both in terms of energy consumption and technological losses. Hence, the current measures mainly pertain to the reduction of risks of accident and the enhancement of sustainability.

#### *We implement such an environmental policy as to:*

- reach sustainable environmental protection and business results;
- maintain close communication links based on mutual understanding with the state and municipal authorities and society as a whole;
- actively facilitate the growth of personnel;
- timely identify the environmental impact of business activity, analyse its causes and address problems;
- maintain the awareness, analysis and observance of regulatory requirements;
- ensure that proper action be taken in emergency situations.

## MANAGEMENT REPORT

### Key figures

2016 was the last year for the Company as a vertically integrated natural gas transmission, storage, distribution and trade operator. Next year the Company will proceed as a unified natural gas distribution operator and trader. It should be noted that 2016 was also the last year before the opening of the Latvian natural gas market, which will enable legal entities to choose their natural gas trader.

In 2016, the Company supplied natural gas to 442.7 thousand customers in Latvia. During the heating season, natural gas was supplied from the Inčukalns Underground Gas Storage Facility to Estonia, the Northwestern part of Russia, and Lithuania. Furthermore, the Company expanded its market each and began selling natural gas to the neighbouring countries.

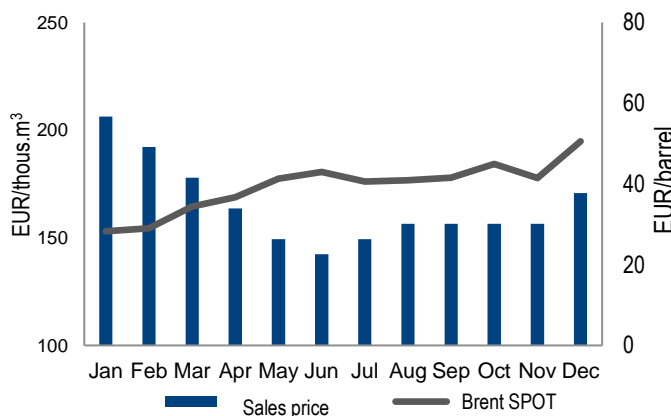
The Company's main goal for the past year was to prepare the reorganisation of the Company in compliance with the Energy Law by spinning off business segments, with the shareholders' interests protected. The reorganisation was successfully completed, and in early 2017, with the transmission and storage business units spun off, the JSC "Conexus Baltic Grid" was registered.

Key performance figures	2016	2015
Natural gas sales, thousand m <sup>3</sup>	1,507	1,318
Number of customers (addresses), thousand	443	444
Number of employees, average	1,271	1,264
Length of distribution lines, km	5,061	5,040

Key financial figures (thous. EUR)	2016	2015
Net turnover	392,266	444,686
EBITDA	76,525	68,457
EBITDA, %	19.5	15.4
EBIT	44,221	34,701
EBIT, %	11.3	7.8
Net profit	37,506	30,517
Net profit margin, %	9.6	6.9
Earnings per share, EUR	0.940	0.765
P/E	9.36	12.76

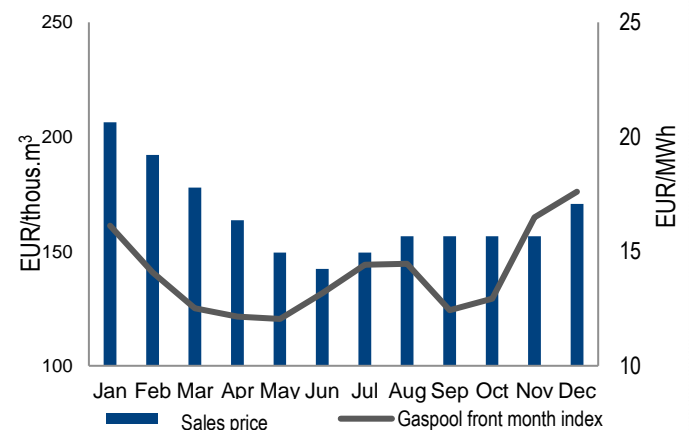
EBITDA – Earnings Before Income Tax, Depreciation and Amortisation  
EBIT – Earnings Before Interest, Taxes  
P/E – Price over earnings ratio

Brent oil and natural gas sale prices in 2016







Source: eia.gov and JSC "Latvijas Gāze"

Gaspool and natural gas sale prices in 2016



Source: Argus Media Ltd and JSC "Latvijas Gāze"

### *Description of operation environment*

-  In 2016, the natural gas purchase price was closely linked to both the oil price on the world markets and the Gaspool market price. Gaspool affected the prices in late 2016, while in the rest of the year the price was primarily determined by the oil product prices. Overall, there was a low price level, which had impact on both the Company's average natural gas purchase price and the revenues of 2016.
-  Although the world markets exhibited a positive trend in terms of oil and gas prices, the Latvian consumers did not feel these changes until late 2016. Future financial instrument prices suggest a further price rise on the oil and gas markets.
-  The Company's sales volume in Latvia grew by 4.0% against 2015 due to a lower average air temperature in the early months of the year. With the added natural gas sale to other Baltic countries, the Company's total sales volume reached 1,507 million m<sup>3</sup>.
-  The Company's EBITDA in 2016 were 76.5 million EUR. While turnover has fallen against the previous year, the EBITDA margin has gone up to 19.5% from 16% in 2015.

**THE NATURAL GAS  
SALES VOLUME IN  
2016 HAS GROWN BY  
14.4%.**

### *Operational results of segments*

The Company had four operating segments: gas transmission (includes the transmission of natural gas through high-pressure pipelines to deliver it to a distribution system or directly to consumers), gas storage (the storage of natural gas at the Inčukalns Underground Gas Storage Facility), gas distribution (includes the transmission of natural gas through high-, mid- and low-pressure pipelines) and gas trade (includes the purchase of natural gas for sale and the sale of natural gas to consumers). The information included in the operating segments corresponds to the information used by the person in charge of making operational decisions.

In terms of carrying value of assets, the largest operating segment is distribution with 232.8 million EUR or 37.7% of the Company's total assets. Distribution is also the segment with the largest number of people employed, as its staff comprises 62.1% of the Company's employees. The segment's EBITDA in 2016 were 27.1 million EUR constituting the highest EBITDA proportion in the Company – 35.5% of the Company's total EBITDA. The distribution segment's turnover and profitability is affected

by the volume of natural gas sold in Latvia and the spread of customers across consumption tiers.

The transmission segment earns income from both natural gas consumption in Latvia and international natural gas deliveries, as well as from natural gas movement upon injection into or withdrawal from the Inčukalns Underground Gas Storage. The transmission segment's EBITDA in 2016 were 14.0 million EUR accounting for 18.3% of the Company's total EBITDA. The transmission segment is the second largest in terms of carrying value of assets. The segment's assets in 2016 amounted to 186.3 million EUR, which was 30.2% of the Company's total assets.

The storage segment's EBITDA in 2016 were 12.1 million EUR making it the third largest by this criterion. The segment's assets in 2016 were worth 162.2 million EUR comprising 26.2% of the Company's total assets.

The natural gas trade segment is the largest in terms of net turnover. The segment's revenue was 292.9 million EUR, which made 74.7% of the Company's total revenue.

Following a drop in the natural gas sale price, the segment's revenue fell by 14.5% against 2015. The segment's EBITDA, however, increased by 10.9 million

EUR against 2015 owing to an increase in the volume of natural gas sold and to the inception of natural gas sale to other countries.

#### *Financial risk management*

In 2016, the Company further implemented and improved control mechanisms to mitigate the influence of credit risk, which its financial assets are exposed to, and liquidity risk, which stems from the distinct seasonality of natural gas sales, on its financial performance.

assessment of all corporate credit institutions based on their financial and non-financial indicators.

In the reporting year, the Company remained exposed to a high risk of customer concentration – five customers together accounted for 49% of the sales volume of 2016. The major customers are subject to individual credit risk management policies, which include a number of practices, such as an initial evaluation of credit limit, a detailed supervision of financial figures, and a frequent billing to avoid accumulation of debt. For transactions with minor customers, the Company follows approved detailed credit risk management policies where the basic steps of progress monitoring and customer communication control are described. Under the financial asset policy, for the purposes of management of credit risk pertaining to cash and cash equivalents, the Company made a quarterly

The Company's liquidity risk resulting from the substantial dependence of natural gas consumption on the outdoor air temperature was supervised using cash flow planning instruments of various maturities.

With the operation model of 2016 in place, the Company was not exposed to a substantial market risk. Most of the Company's transactions were in euros and therefore not exposed to a substantial risk of foreign currency rates. During the reporting year, all Company's operations were financed from equity, hence there was no interest rate or market risks. As a result of reorganisation, the loan approved in late 2016 will be transferred to the JSC "Conexus Baltic Grid", which will then have to develop the necessary mechanisms of market risk control.

#### *Future prospects*

In the next financial year, the Company has to continue the reorganisation process and prepare for the separation of the distribution and trade segments as from January 1, 2018. Changes in the trade segment will be brought by the opening of the Latvian natural gas market due on April 3, 2017. Although the number of customers moving to an

open market is relatively low – just 2% of the total number of customers –, the natural gas consumption of these customers constituted 91% of the Company's total sales volume in 2016. The market opening will make way for tailor-made offers to customers, while the expansion of sales presence is enabled by the trading abroad already underway.

## **STATEMENT OF BOARD RESPONSIBILITY**

The management 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 year 2016 have been prepared in compliance with 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.

The unaudited interim condensed financial statements for the year 2016 were approved by the Board on February 28, 2017.

The financial statements were approved by the Board of the JSC "Latvijas Gāze" on February 28, 2017 and they are signed on behalf of the Board by:

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Aigars Kalvītis  
Chairman of the Board

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Zane Kotāne  
Member of the Board



## FINANCIAL STATEMENTS

Prepared in compliance with the requirements of the International Financial Reporting Standards of the European Union

## CORPORATE INFORMATION

Company	JSC Latvijas Gāze, Joint Stock Company
LEI code	097900BGMO0000055872
Registration number, date and place	Unified registration number 40003000642 Riga, March 25, 1991, re-registered with Commercial Register December 20, 2004
Address	20 Vagonu Street, Riga, LV-1009, Latvia <a href="http://www.lg.lv">www.lg.lv</a>
Major shareholders	PJSC Gazprom (34.0%) Marguerite Gas I.S.a.r.l. (28.97%) Uniper Ruhrgas International GmbH (18.26%) ITERA Latvija LLC (16.0%)
Corporate Governance Report	<a href="http://www.lg.lv">www.lg.lv</a>
Financial year	2016

## PROFIT OR LOSS STATEMENT

	Note	2016	2015 (Restated)
		EUR'000	EUR'000
Revenue	2	343,792	390,888
Other income	3	5,827	3,004
Raw materials and consumables used	4	(271,250)	(328,352)
Personnel expenses	5	(20,047)	(19,654)
Depreciation, amortisation and impairment of property, plant and equipment		(12,488)	(12,441)
Other operating expenses	6	(7,914)	(7,128)
<b>Operating profit</b>		<b>37,920</b>	<b>26,317</b>
Financial income, net		47	90
<b>Profit before taxes</b>		<b>37,967</b>	<b>26,407</b>
Corporate income tax		(5,544)	(3,074)
<b>Profit from continuing operations</b>		<b>32,423</b>	<b>23,333</b>
<b>Profit from discontinued operations</b>	7	<b>5,083</b>	<b>7,184</b>
<b>Profit for the period</b>		<b>37,506</b>	<b>30,517</b>

## STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	2016	2015 (Restated)
		EUR'000	EUR'000
<b>Profit for the period</b>		<b>37,506</b>	<b>30,517</b>
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods			
Revaluation of property, plant and equipment		94	197
Deferred tax liability from revaluation of property, plant and equipment		(14)	(30)
Remeasurement of post-employment benefit obligations		108	(549)
<b>Net (income) or expenses recognised as other comprehensive income from continuing operations</b>		<b>188</b>	<b>(382)</b>
<b>Net (income) or expenses from discontinued operations</b>	7	<b>15,273</b>	<b>(186)</b>
<b>Total comprehensive income for the period</b>		<b>52,967</b>	<b>29,949</b>

*The Notes on pages 22-36 are integral part of these Financial Statements.*

The statements were approved by the Board of the JSC "Latvijas Gāze" on February 28, 2017 and they are signed on behalf of the Board by:

\_\_\_\_\_  
Aigars Kalvītis  
Chairman of the Board

\_\_\_\_\_  
Zane Kotāne  
Member of the Board

## BALANCE SHEET

	Note	31.12.2016	31.12.2015 (Restated)
		EUR'000	EUR'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		2,182	2,282
Property, plant and equipment	8	237,519	557,450
Trade receivables		8	8
<b>Total non-current assets</b>		<b>239,709</b>	<b>559,740</b>
<b>Current assets</b>			
Inventories	9	3,902	56,519
Advances for inventories		1,236	24,228
Trade receivables		28,285	27,873
Current income tax receivable		988	1,956
Other current assets		540	492
Cash and cash equivalents		167,630	79,207
Assets held for distribution	10	351,668	-
<b>Total current assets</b>		<b>554,249</b>	<b>190,275</b>
<b>TOTAL ASSETS</b>		<b>793,958</b>	<b>750,015</b>
<b>LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	55,860	55,860
Share premium		20,376	20,376
Reserves	13	485,624	504,650
Retained earnings of reporting year		37,506	30,517
<b>Total equity</b>		<b>599,366</b>	<b>611,403</b>
<b>Non-current liabilities</b>			
Deferred income	11	19,195	27,948
Employee benefit obligations		3,731	5,233
Deferred tax liabilities		24,423	52,398
<b>Total non-current liabilities</b>		<b>47,349</b>	<b>85,579</b>
<b>Current liabilities</b>			
Trade payables		2,392	11,794
Deferred revenues	11	974	1,213
Unpaid dividends		35,112	-
Other liabilities	12	31,183	40,026
Liabilities, held for distribution	10	77,582	-
<b>Total current liabilities</b>		<b>147,243</b>	<b>53,033</b>
<b>TOTAL LIABILITIES</b>		<b>793,958</b>	<b>750,015</b>

The Notes on pages 22-36 are integral part of these Financial Statements.

The statements were approved by the Board of the JSC "Latvijas Gāze" on February 28, 2017 and they are signed on behalf of the Board by:

\_\_\_\_\_  
Aigars Kalvītis  
Chairman of the Board

\_\_\_\_\_  
Zane Kotāne  
Member of the Board

## STATEMENT ON CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings of reporting year	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>December 31, 2014</b>	<b>55,860</b>	<b>20,376</b>	<b>503,877</b>	<b>30,069</b>	<b>610,182</b>
<i>Transactions with owners:</i>					
Dividends	-	-	-	(28,728)	(28,728)
<i>Total transactions with owners</i>	-	-	-	(28,728)	(28,728)
Transfers to reserves	-	-	828	(828)	-
Reclassification	-	-	20	(20)	-
Deferred tax for property, plant and equipment disposed	-	-	493	(493)	-
<i>Other comprehensive income:</i>					
Other comprehensive income	-	-	(568)	-	(568)
Profit for the year	-	-	-	30,517	30,517
<i>Total other comprehensive income</i>	-	-	(568)	30,517	29,949
<b>December 31, 2015</b>	<b>55,860</b>	<b>20,376</b>	<b>504,650</b>	<b>30,517</b>	<b>611,403</b>
<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)
Reclassification	-	-	193	(193)	-
Deferred tax for property, plant and equipment disposed	-	-	432	-	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
<b>December 31, 2016</b>	<b>55,860</b>	<b>20,376</b>	<b>485,624</b>	<b>37,506</b>	<b>599,366</b>

The Notes on pages 22-36 are integral part of these Financial Statements.

## CASH FLOW STATEMENT

	31.12.2016	31.12.2015
	EUR'000	EUR'000
<b>Cash flows from operating activities</b>		
<b>Profit before corporate income tax</b>	<b>37,967</b>	<b>26,407</b>
<i>Adjustments:</i>		
- depreciation of property, plant and equipment	31,275	32,685
- amortization of intangible assets	1,084	1,071
- provisioning (except provisions for doubtful debts)	(7,429)	(1,354)
- income from participating interests	(1,219)	(1,191)
- losses on sale of property, plant and equipment	1,277	2,460
- profit from discontinued operations	5,083	7,184
<i>Changes in working capital:</i>		
- to accounts receivable	(3,490)	23,848
- to advances for inventories	22,992	(24,165)
- to inventories	47,482	23,670
- to accounts payable	(8,084)	4,858
Corporate income tax paid	(5,312)	(7,544)
Corporate income tax from discontinued operations	1,169	1,200
<b>Net cash flow from operating activities</b>	<b>122,795</b>	<b>89,129</b>
<b>Cash flow from investing activities</b>		
Payments for property, plant and equipment	(5,506)	(6,651)
Proceeds from sale of property, plant and equipment	70	102
Payments for intangible assets	(1,663)	(807)
Purchase of property, plant, equipment and intangible assets of discontinued operations	(22,349)	(24,962)
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(29,448)</b>	<b>(32,318)</b>
<b>Cash flow from financing activities</b>		
Discontinued operations (loan received)	35,000	-
Dividends paid	(30,324)	(28,728)
<b>Net cash outflow from financing activities</b>	<b>4,676</b>	<b>(28,728)</b>
<b>Net cash flow</b>	<b>98,023</b>	<b>28,083</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>79,207</b>	<b>51,124</b>
Cash to be spun off as a result of discontinued operations	(9,600)	-
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>167,630</b>	<b>79,207</b>

The Notes on pages 22-36 are integral part of these Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

### Segment reporting

In 2016, the Company had four operation segments: gas transmission, storage, distribution and trade.

Under the regulatory framework, invoices to Latvian consumers are issued at end user tariff which includes fees for all services provided without further specification of tariffs for each service. For this reason, external revenues from natural gas sales are allocated to the trading segment and subsequently reclassified to the segment which provided

the relevant service. External revenues from natural gas sold at the storage and the related services, as well as from gas transmission storage represent revenues from customers outside Latvia.

The information included in the operating segments corresponds to the information used by the Management Board in making operational decisions and allocating resources.

### 1. Segment reporting

31.12.2016	Gas transmission EUR'000	Gas storage EUR'000	Gas distribution EUR'000	Gas sale EUR'000	TOTAL EUR'000
Net turnover from sale to external customers	1,933	9,111	943	380,279	392,266
<i>incl. to Latvia</i>	-	380	943	357,715	359,038
<i>to other countries</i>	1,933	8,731	-	22,564	33,228
Internal revenue/expenses	22,340	15,090	49,939	(87,369)	-
<b>Net turnover total</b>	<b>24,273</b>	<b>24,201</b>	<b>50,882</b>	<b>292,910</b>	<b>392,266</b>
EBITDA	14,020	12,097	27,196	23,212	76,525
Depreciation and amortisation	11,672	8,191	11,872	617	32,352
Segment profit before taxes	2,348	3,904	15,391	22,576	44,219
Purchase of property, plant, equipment, intangible assets	7,235	14,984	6,425	953	29,597
Segment assets	186,267	162,198	232,757	35,506	616,728

31.12.2015 (Restated)	Gas transmission EUR'000	Gas storage EUR'000	Gas distribution EUR'000	Gas sale EUR'000	TOTAL EUR'000
Net turnover from sale to external customers	4,620	13,363	1,029	425,674	444,686
<i>incl. to Latvia</i>	-	-	1,029	425,674	426,703
<i>to other countries</i>	4,620	13,363	-	-	17,983
Internal revenue/expenses	21,392	14,422	47,466	(83,280)	0
<b>Net turnover total</b>	<b>26,012</b>	<b>27,785</b>	<b>48,495</b>	<b>342,394</b>	<b>444,686</b>
EBITDA	15,016	14,682	26,371	12,387	68,457
Depreciation and amortisation	14,116	7,199	11,734	707	33,756
Segment profit before taxes	901	7,483	14,727	11,680	34,791
Purchase of property, plant, equipment, intangible assets	11,691	13,619	6,377	733	32,420
Segment assets	187,301	146,068	251,131	86,308	670,808

### Segment information comparison

	31.12.2016 EUR'000	31.12.2015 EUR'000
Segment assets	616,728	670,808
Cash and cash equivalents	177,230	79,207
Total assets	793,958	750,015

## 2. Income

<b>Revenues</b>	<b>2016</b>	<b>2015</b>
	EUR'000	EUR'000
Natural gas trade	342,801	389,818
Natural gas storage and transportation	45	42
Other revenue	946	1,028
	<b>343,792</b>	<b>390,888</b>

## 3. Other income

<b>Other income</b>	<b>2016</b>	<b>2015</b>
	EUR'000	EUR'000
Changes in provisions of prior periods	3,728	-
Income from construction of service lines	956	928
Penalties	714	924
Provisions for bad debts, net*	-	437
Other income	429	715
	<b>5,827</b>	<b>3,004</b>

\*In 2016, the net increase by 70 thousand EUR in provisions for bad debts has been included in other operating costs.

## 4. Costs of materials

<b>Costs of materials</b>	<b>2016</b>	<b>2015</b>
	EUR'000	EUR'000
Natural gas purchase	267,470	323,761
Natural gas for technological purposes	2,193	2,580
Costs of materials, spare parts and fuel	1,587	2,011
	<b>271,250</b>	<b>328,352</b>

## 5. Personnel costs

<b>Personnel expenses</b>	<b>2016</b>	<b>2015</b>
	EUR'000	EUR'000
Wages and salaries	15,301	15,126
State social insurance contributions	3,526	3,274
Life, health and pension insurance	953	968
Other personnel costs	267	286
	<b>20,047</b>	<b>19,654</b>

## 6. Other operating costs

Other operating expenses	2016	2015
	EUR'000	EUR'000
Sale and advertising costs	1,503	1,092
Expenses for maintenance of premises and other services	1,471	1,587
Donations, financial support	1,240	1,471
Office and other administrative costs	1,232	823
Taxes and duties	883	829
Costs of IT system maintenance, communications and transport	726	693
Loss from sale of property, plant and equipment	459	300
Other costs	400	333
	<b>7,914</b>	<b>7,128</b>

## 7. Profit from discontinued operations

STATEMENT OF PROFIT OR LOSS	2016	2015
	EUR'000	EUR'000
Revenue	48,474	53,798
Other income	446	437
Raw materials and consumables used	(4,185)	(6,200)
Personnel expenses	(11,428)	(9,561)
Depreciation, amortisation and impairment of property, plant and equipment	(19,864)	(21,315)
Other operating expenses	(7,189)	(8,775)
<b>Operating profit</b>	<b>6,254</b>	<b>8,384</b>
Financial income, net	(2)	-
<b>Profit before taxes</b>	<b>6,252</b>	<b>8,384</b>
Corporate income tax	(1,169)	(1,200)
<b>Profit from discontinued operations</b>	<b>5,083</b>	<b>7,184</b>
<b>Profit for the period</b>	<b>5,083</b>	<b>7,184</b>

STATEMENT OF OTHER COMPREHENSIVE INCOME	2016	2015
	EUR'000	EUR'000
<b>Profit for the period</b>	<b>5,083</b>	<b>7,184</b>
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods		
Revaluation of property, plant and equipment	17,967	-
Deferred tax liability from revaluation of property, plant and equipment	(2,695)	-
Remeasurement of post-employment benefit obligations	1	(186)
<b>Net (income) or expenses recognised as other comprehensive income from discontinued operations</b>	<b>15,273</b>	<b>(186)</b>
<b>Total comprehensive income for the period</b>	<b>20,356</b>	<b>6,998</b>

Discontinued operations are the functions of natural gas transmission and storage. 2016 was the last year for the Company as a vertically integrated natural gas transmission, storage, distribution and trading operator.

As a result of reorganisation, the Company will proceed next year as a unified natural gas distribution operator and trade.



Balance sheet

8. Fixed assets

	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
<b>31.12.2015</b>	<b>11,961</b>	<b>1,077,534</b>	<b>135,018</b>	<b>20,961</b>	<b>12,482</b>	<b>1,257,956</b>
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)
<b>31.12.2016</b>	<b>1,534</b>	<b>485,724</b>	<b>30,869</b>	<b>11,955</b>	<b>463</b>	<b>530,545</b>
<b>Depreciation</b>						
<b>31.12.2015</b>		<b>607,880</b>	<b>77,319</b>	<b>15,307</b>	<b>-</b>	<b>700,506</b>
Calculated		21,308	7,001	2,153	-	30,462
Revaluated		3,618	(9,587)	-	-	(5,969)
Disposals		(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)
<b>31.12.2016</b>	<b>-</b>	<b>264,970</b>	<b>19,247</b>	<b>8,809</b>	<b>-</b>	<b>293,026</b>
<b>Net book value as at</b>						
<b>31.12.2016</b>	<b>1,534</b>	<b>220,754</b>	<b>11,622</b>	<b>3,146</b>	<b>463</b>	<b>237,519</b>
<b>31.12.2015</b>	<b>11,961</b>	<b>469,654</b>	<b>57,699</b>	<b>5,654</b>	<b>12,482</b>	<b>557,450</b>

## 8. Fixed assets (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
<b>31.12.2014</b>	<b>11,961</b>	<b>1,054,386</b>	<b>133,904</b>	<b>20,956</b>	<b>16,739</b>	<b>1,237,946</b>
Additions	-	-	-	-	31,543	31,543
Reclassified	-	32,069	2,507	1,212	(35,788)	-
Revaluated	-	195	2	-	-	197
Disposals	-	(9,116)	(1,395)	(1,207)	(12)	(11,730)
<b>31.12.2015</b>	<b>11,961</b>	<b>1,077,534</b>	<b>135,018</b>	<b>20,961</b>	<b>12,482</b>	<b>1,257,956</b>
<b>Depreciation</b>						
<b>31.12.2014</b>	-	<b>589,655</b>	<b>71,954</b>	<b>14,662</b>	-	<b>676,271</b>
Calculated	-	24,205	6,655	1,837	-	32,697
Disposals	-	(5,980)	(1,290)	(1,192)	-	(8,462)
<b>31.12.2015</b>	-	<b>607,880</b>	<b>77,319</b>	<b>15,307</b>	-	<b>700,506</b>
<b>Net book value as at 31.12.2015</b>	<b>11,961</b>	<b>469,654</b>	<b>57,699</b>	<b>5,654</b>	<b>12,482</b>	<b>557,450</b>
<b>Net book value as at 31.12.2014</b>	<b>11,961</b>	<b>464,731</b>	<b>61,950</b>	<b>6,294</b>	<b>16,739</b>	<b>561,675</b>

## 9. Inventories

Inventories	31.12.2016	31.12.2015
	EUR'000	EUR'000
Natural gas and fuel	2,593	52,592
Materials and spare parts	1,607	4,348
Allowance for slow-moving inventory	(298)	(421)
	<b>3,902</b>	<b>56,519</b>

Allowance for impairment of slow-moving and obsolete inventories	31.12.2016	31.12.2015
	EUR'000	EUR'000
<b>Allowance at the beginning of the year</b>	<b>324</b>	<b>335</b>
Costs included in profit or loss statement	-	3
Released in profit or loss statement	(18)	(9)
Written down	(8)	(5)
<b>Allowance at the end of the period</b>	<b>298</b>	<b>324</b>

## 10. Assets and liabilities, held for distribution

Assets	31.12.2016	
		EUR'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets		1,335
<b>Property, plant and equipment</b>		
Land		10,427
Buildings, constructions		258,713
Machinery and equipment		49,665
Other fixed assets		1,343
Costs of items under construction		12,419
<b>Total fixed assets</b>	8	<b>332,567</b>
<b>Total non-current assets</b>		<b>333,902</b>
<b>Current assets</b>		
Inventories		5,138
Trade receivables		3,028
Cash and cash equivalents		9,600
<b>Total current assets</b>		<b>17,766</b>
<b>TOTAL ASSETS</b>		<b>351,668</b>

Liabilities	31.12.2016	
		EUR'000
<b>LIABILITIES</b>		
<b>Equity</b>		
Reserves	13	274,086
<b>Total equity</b>		<b>274,086</b>
<b>Non-current liabilities</b>		
Loans from credit institutions		32,375
Deferred income		8,335
Employee benefit obligations		1,539
Deferred tax liabilities		30,686
<b>Total non-current liabilities</b>		<b>72,935</b>
<b>Current liabilities</b>		
Loans from credit institutions		2,625
Trade payables		312
Deferred revenues		267
Other liabilities		1,443
<b>Total current liabilities</b>		<b>4,647</b>
<b>TOTAL LIABILITIES</b>		<b>351,668</b>

## 11. Deferred income

Deferred income	31.12.2016	31.12.2015
	EUR'000	EUR'000
<i>Income from residential and corporate customers' contributions to construction of gas pipelines</i>		
Long-term part	19,195	19,344
Short-term part	974	946
	<b>20,169</b>	<b>20,290</b>
<i>Income from EC co-financing</i>		
Long-term part	-	8,604
Short-term part	-	267
	-	<b>8,871</b>
<i>Total deferred revenues</i>		
Long-term part	19,195	27,948
Short-term part	974	1,213
<b>Changes of deferred income</b>		
<b>Balance at the beginning of the year</b>	<b>29,161</b>	<b>29,526</b>
Received from residential and corporate customers during reporting year	562	827
Included in income of reporting year	(951)	(1,192)
Deferred income to be spun off as a result of reorganisation	(8,603)	-
<b>Total transfer to next period</b>	<b>20,169</b>	<b>29,161</b>

## 12. Other liabilities

Other liabilities	31.12.2016	31.12.2015
	EUR'000	EUR'000
Prepayments received	12,273	12,153
Value added tax	7,852	9,066
Accrued costs	3,882	5,877
Excise tax	2,636	2,519
Social security contributions	1,553	888
Vacation pay reserve	1,002	1,245
Personnel income tax	899	554
Salaries	828	781
Other current liabilities	222	6,897
Natural resource tax	36	29
Real estate tax	-	17
	<b>31,183</b>	<b>40,026</b>

Other information

**13. Shares and shareholders**

Equity	31.12.2016 % of total share capital	31.12.2016 Number of shares	31.12.2015 % of total share capital	31.12.2015 Number of shares
<b>Equity</b>				
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
	<b>100.00</b>	<b>39,900,000</b>	<b>100.00</b>	<b>39,900,000</b>
<b>Shareholders</b>				
Uniper Ruhrgas International GmbH ( <i>including registered (closed issue) shares 7,285,740</i> )	18.26	7,285,740	47.23	18,846,385
Marguerite Gas I S. à r.l.	28.97	11,560,645	-	-
Itera Latvija LLC	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
	<b>100.00</b>	<b>39,900,000</b>	<b>100.00</b>	<b>39,900,000</b>

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

As at December 31, 2016, the registered, signed and paid share capital consists of 39,900,000 ordinary shares with a par value of EUR 1.40 each. All shares have equal voting rights and rights to dividends.

Reserves	31.12.2016 EUR'000	31.12.2015 EUR'000
Revaluation reserve	176,564	373,517
Employee benefits revaluation reserve	(503)	(815)
Other reserves	35,477	131,948
Reserves of discontinued operations	274,086	-
	<b>485,624</b>	<b>504,650</b>

**14. 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 costs.

**Credit risk**

The Company is exposed to credit risk, which is a risk of material losses arising in a case when 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 fact that the sales of the Company are exposed to high concentration risk, also outstanding

#### *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 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 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

receivables are exposed to high concentration risk, thus source of credit risk is mainly associated with top five customers of the Company.

mandatory communication with the clients before insolvency procedure can be initiated. In case of customer becoming doubtful, the Company establishes provision and starts legal proceeding to collect the debt.

For managing credit risk associated with cash and cash equivalents, the Company has approved 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 December 31, 2016, 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.

#### **15. 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. Actual results could differ from those estimates.

The areas involving a higher degree of judgment and thus having significant risk of causing a 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.

#### **Revaluation of property, plant and equipment**

The management determines 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 average construction costs and/or purchase prices related to the buildings, gas transmission and 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**

### **16. Changes in presentation and disclosures in the financial statements**

During the reporting period, the management has revised the profit and loss statement classification method and changed to the classification using the nature of expenses method. The Company uses such classification also for the internal decision making and in such manner external

### **17. Key accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. Where it is necessary comparatives are reclassified.

#### **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.

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 the monthly basis. Customers who are residents (household customers) settle accounts using the leveraged consumption payment scheme in the self-service order. Customers perform the readings of meters (depending on consumption) once a year or when tariffs are changed. All customers of the households are invoiced on a monthly basis by summing the leveraged consumption for which a seasonal rate is applied.

reporting is more aligned with practices how operations of the Company are actually managed. In order to provide comparative information, also prior year classification is adjusted.

When preparing the unaudited interim condensed financial statements for the 12 months period ended December 31, 2016, adjustments have been made to the comparative indicators of 2015 so as to ensure comparability of the respective statements.

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

#### **Property, plant and equipment**

Property, plant and equipment are tangible items that are held for use in supply on goods and services and are expected to be used during more than one period. The key groups within property, plant and equipment for the

Company are buildings and constructions, which include gas transmission and distribution pipelines, as well as equipment and machinery, which mostly relates to operations of Incukalns underground storage and technical transmission and distribution of gas.

Buildings and constructions (including gas transmission and distribution system) and equipment and machinery are stated at fair value 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) are stated at historical cost, less accumulated depreciation and impairment charge. 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 revaluated amounts to their residual values over their

estimated useful lives, as follows:

	years
Buildings	60 - 100
Constructions, including gas transmission and distribution system	40 - 50
Machinery and equipment	5 - 20
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 revaluated 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 years.

### **Impairment of non-financial assets**

All Company's non-financial assets have a finite useful life (except land). Assets that are subject to amortization 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 recognized 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. 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.

### **Inventories**

The cost of natural gas in the Inčukalns underground storage and in gas transmission pipelines is accounted separately using the first-in first-out (FIFO) method based on the total natural gas movement. 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 of managements 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 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 other comprehensive income 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 income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which 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 amortization 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, accruals 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 Article 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 utilized.

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 income statement.

### **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.

### **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.

*Revenue from transportation and storage of natural gas*

Income from the rendering of services is recognised upon performance of services, net of value added tax and discounts. Income on natural gas transmission and storage is recognised based on the actual amount of transmitted and stored gas, which are determined by meter readings.

*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.

income statement systematically over the expected lives of the related assets.

**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.

**Grants**

EC funding related to property, plant and equipment is recognized as deferred income and is credited to the