LATVIJAS GĀZE

ANNUAL REPORT 2016

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

Riga, 2017

CONTENTS

COUNCIL

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

Kirill Seleznev (Кирилл Селезнев), 1974
Chairman of the Council
Since March 20, 2003 - Head of Gas and Liquid Hydrocarbon Marketing and Processing division of PJSC "Gazprom"

Juris Savickis, 1946
Deputy Chairman of the Council

Since 1996, President of LLC "ITERA Latvija"

Jörg Tumat, 1969
Council member

Since 2013 TILL 2016, Member of the Board of E.ON Russia

Nicolás Merigó Cook, 1963
Council member

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

Nikolay Dubik (Николай Дубик), 1971
Council member

Since 2008, Member of Management Committee of PJSC "Gazprom", Head of legal Department

Elena Mikhaylova (Елена Михайлова),
1977, Council member
Since 2012, Member of the Gazprom Management Committee, Head of the Asset Management and Corporate Relations Department of PJSC "Gazprom"

Oliver Giese, 1967
Deputy Chairman of the Council
Since 2011, Senior Vice President Infrastructure Management
E.ON Global Commodities SE/E.ON Ruhrgas, Düsseldorf/Essen, Germany

Guillaume Rivron, 1972
Council member

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

Hans-Peter Floren, 1961
Council member

Since 2014, CEO FAKT Energy AG (Essen, Germany)

Vitaly Khatkov (Виталий Хатьков), 1969
Council member

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

Oleg Ivanov (Олег Иванов), 1974
Council member

Since 2014, Head of Department for Gas Business Planning, Efficiency Management and Development, 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 to August 15, 2018)

Aigars Kalvītis, 1966
Chairman of the Board

Latvia University of Agriculture Master Degree Economics

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

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 of Business Administration Degree

Gints Freibergs, 1959
Member of the Board

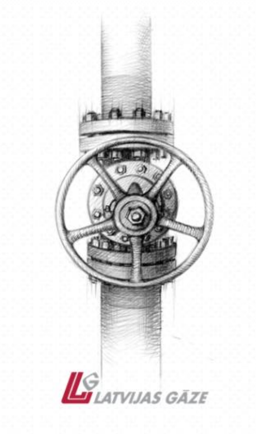
Riga Polytechnic Institute, Engineer, heat power industry

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

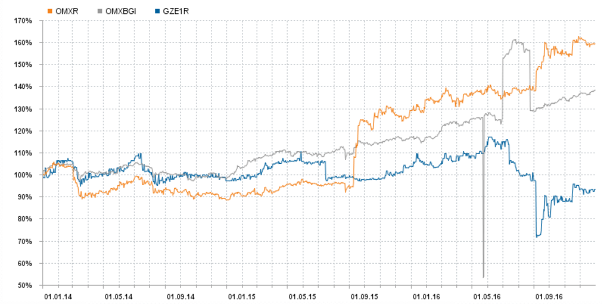
The Company's shares have been listed on the Nasdaq Riga stock exchange since February 15, 1999, and its ticker code has been GZE1R since August 1, 2004. The total number of securities has not changed since 1999.

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

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 country industry indexes, which include public utilities - B7000GI, B7000PI, B7500GI, B7500PI, as well as in three geographical 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 – 39.08 million EUR less than in the previous reporting year.

On September 2, 2016, in the Company's shareholder meeting it was 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.

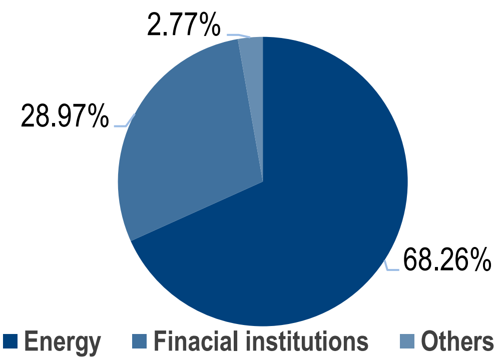
Share price development and share turnover (01.01.2014.-31.12.2016.)

Source: Nasdaq Riga

Share sales information (01.01.2014.-31.12.2016.)

	2014	2015	2016
Share price (EUR)			
First	9.4	9.1	9.8
Highest	10.4	10.4	11.1
Lowest	8.9	9.1	5.6
Average	9.5	9.6	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
Capitalization (million EUR)	364.69	389.42	350.32

Composition of shareholders by industry represented as at 31.12.2016



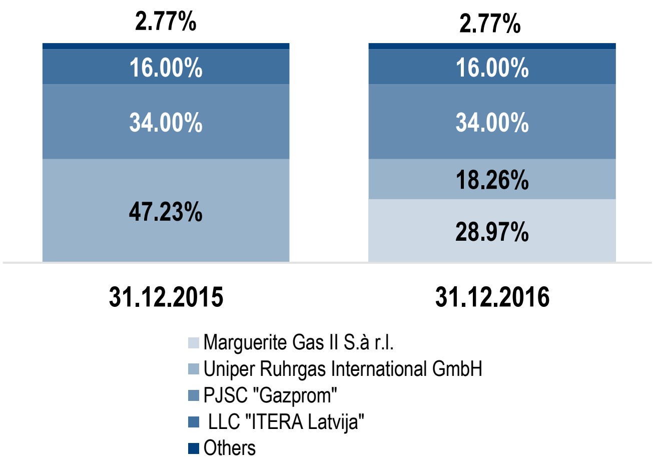
Shares owned by the governance bodies

		At the date of signing financial statements
Management Board		Number of shares
Chairman of the Board	Aigars Kalvītis	None
Deputy Chairman of the Board	Aleksandr Frolov	None
Deputy Chairman of the Board	Sebastian Grönlinghoff	None
Member of the Board	Gints Freibergs	416
Member of the Board	Zane Kotāne	None
Chairman of the Council	Kirill Seleznev	None
Deputy Chairman of the Council	Juris Savickis	None
Deputy Chairman of the Council	Oliver Giese	None
Member of the Council	Jörg Tumat	None
Member of the Council	Nikolaj 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	Guilaume Rivron	None
Member of the Council	Hans-Peter Floren	None
Member of the Council	Elena Mikhaylova	None

FACTS AND FIGURES

Shares and dividends

SHAREHOLDERS

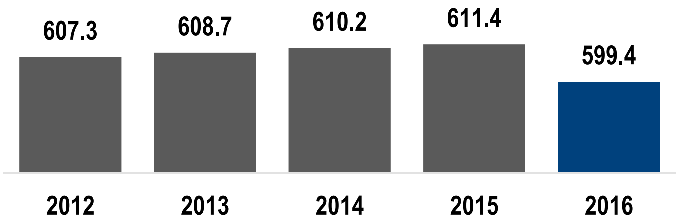


DIVIDENDS
(EUR/share)

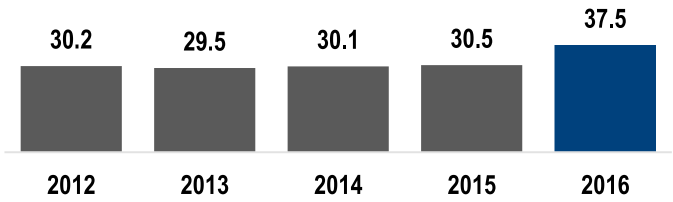
* Payout of retained earnings of previous year
** Distribution of profit recommended by the Board

Financial indicators

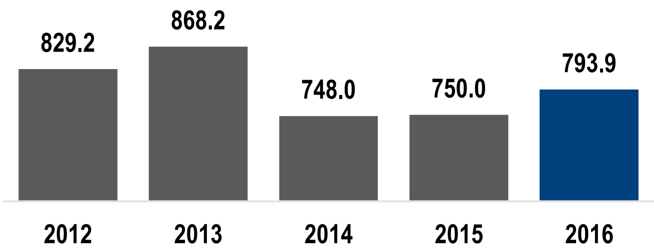
EQUITY
(million EUR)



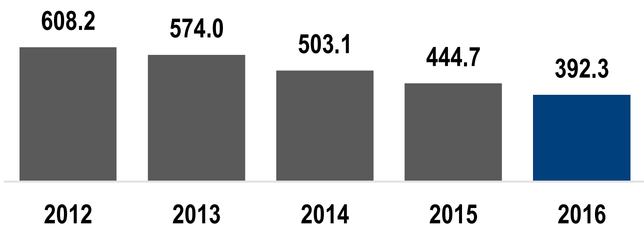
PROFIT
(million EUR)



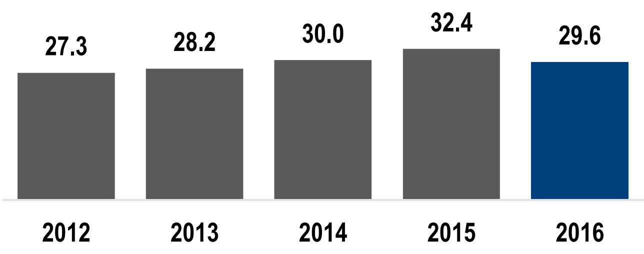
ASSETS
(milllion EUR)



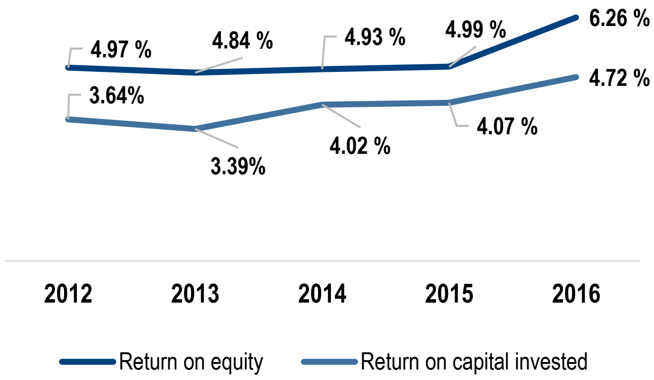
NET TURNOVER
(million EUR)



INVESTMENTS (million EUR)

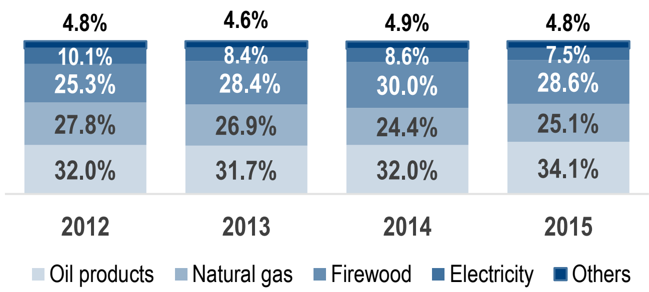


KEY FINANCIAL INDICATORS

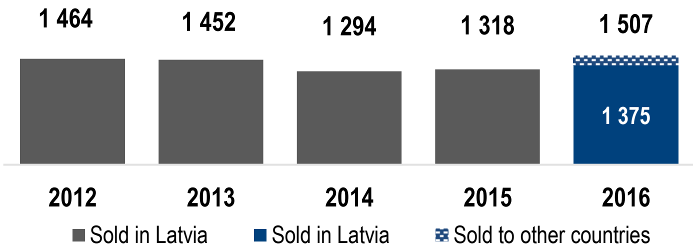


Natural gas market

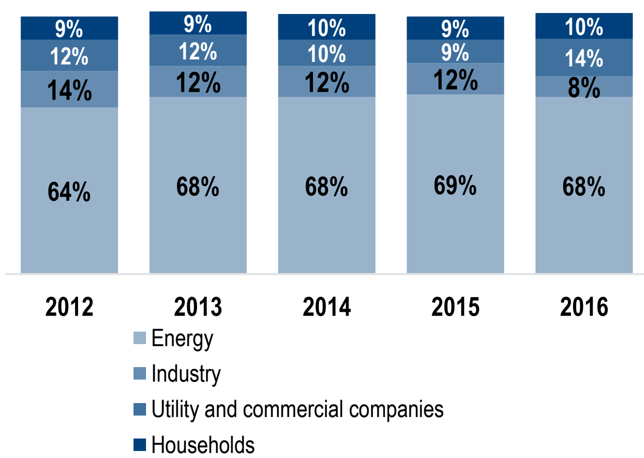
CONSUMPTION OF PRIMARY ENERGY RESOURCES IN LATVIA (CSB data)



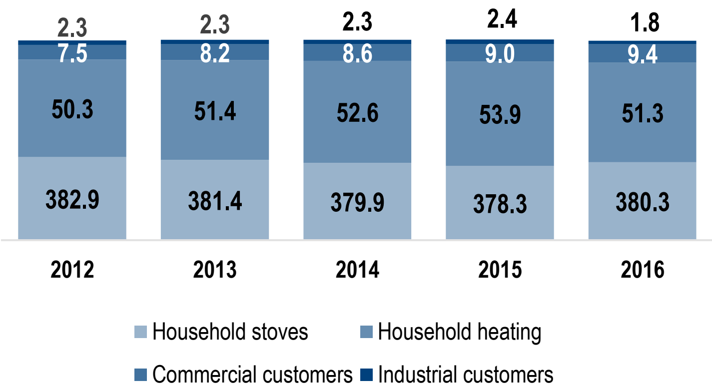
NATURAL GAS SOLD (million m^3)



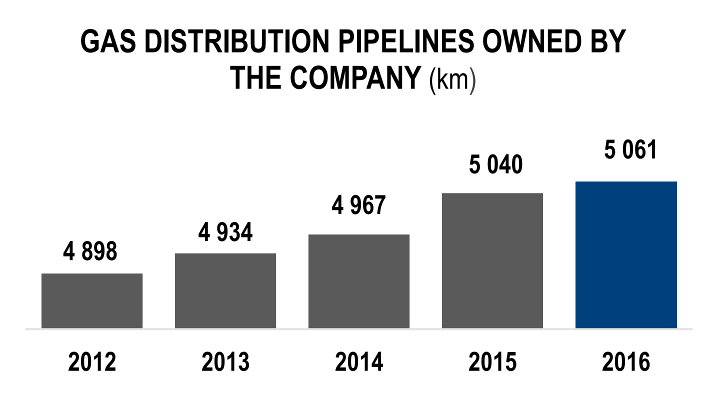
NATURAL GAS TRADE IN LATVIA BY SECTORS

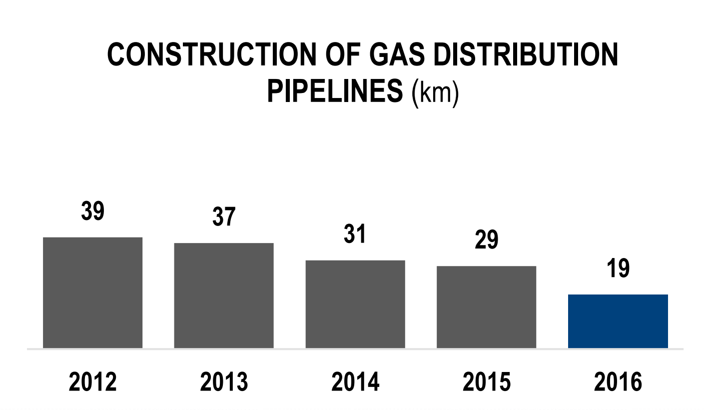


NUMBER OF CUSTOMERS (thousand)

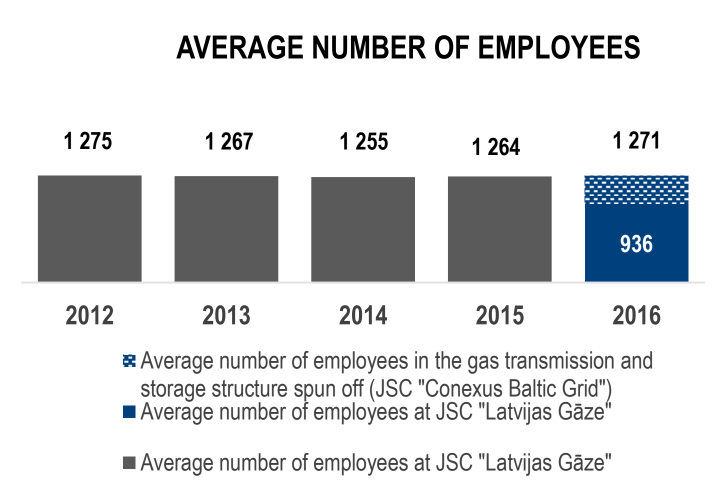


Distribution system





Employees



CORPORATE SOCIAL RESPONSIBILITY

Latvijas Gāze has always paid attention to issues that affect Company's impact to the environment and society and the Company also purposefully and methodically implemented various policies – for example, environmental and personnel policy, corporate governance, work safety, etc. Despite of that the Company does not apply to a specific corporate social responsibility standard, it defines key corporate operational risk groups - environment and security, work safety and personnel, but at the same time they think about other risk groups which may cause negative consequences for society.

Directions and principles

Environment

Natural gas is the most environment-friendly type of fuel with the lowest emissions of CO2, ashes and other substances. Promotion of energy-efficient appliances and heating solutions in the market. Investment in reduction of losses of natural gas and other substances. Improvement of energy efficiency at the company's objects.

Safety

Investment in the improvement of safety and infrastructure capacity. Educating society in the safe use of natural gas. Regular infrastructure monitoring and efficient emergency service. Instruction and training of emergency service employees and other staff. The Company has a training centre where gas specialists of the Company and beyond are instructed.

Personnel

High standards of occupational health and safety. Support for education and qualification-raising. Remuneration policy and collaboration with trade unions. Improvement of the labour environment and team.

Human rights

The Company operates in the markets of European Union, where are high principles of observance of the human and labour rights.

Society and state

The Company is one of the major taxpayers. Cooperation with various state institutions in environmental, safety, planning and other areas. Legislative initiatives. Membership of international gas supply partnership and planning organizations.

Anti-corruption measures

The four eye principle in decision making. Acting in accordance with the Law On the Procurement of Public Service Providers. Procurement procedures are defined in Statutes and in Procurement regulation, providing for significant purchases involving multiple parties, establishment of commissions and regulated procurement procedures. Such preventive control mechanisms as code of ethics, reporting of Board and Council members related party transactions, etc.

Corporate management

Listed on the "Nasdaq Riga", exchange with high standards of company management. Transparency and publicity. Equal treatment of all shareholders.

Operational results

Environment: During the reporting year implemented energy management system according to requirements LVS EN ISO 500001:2012 (intended for measures and controls of building energy efficiency, electricity and fuel consumption, employee training, etc.); taken measures for energy savings (educational activities in Training Center, energy efficiency booklets and information in company's homepage, etc.)

Society and state: The Company participated in the development of important laws and in shareholder and customer rights defence. In 2016 Company was 4th largest taxpayer in Latvia - total payment 112 million EUR for various taxes.

Safety: During the reporting year was one accident in distribution system (previous year – 3), number of emergency calls on 1000 gasified objects decreased from 9,9 calls in 2015 to 8,6 in 2016, in total of 3 711 calls. During the reporting year Company's employees 945 times went in various training programs (one person can go to several programs), where can learn about safety issues, while other organizations representatives went to trainings 816 times; the Company participated in various activities and exhibitions in which children were taught about safe use of natural gas.

Anti-corruption measures: In financial year there was no any labour disputes or pending cases for corruption offenses against employees.

Personnel: The average number of employees in 2016 was 1 271; despite of reorganization, the Company was able to ensure that employees situation in both Companies doesn't deteriorate; there was one labour dispute during the reporting year (not related to reorganization); there was one accident when the employee performed his work duties.

Corporate governance: During the reporting year Company's reorganization was successfully performed without any legal disputes from shareholders; improved compliance with corporate governance principles, making Company's management documentation more accessible to shareholders and improving participation of management representatives in shareholder meetings.

Human rights: The Company has not received any complaints about their employees as well as suppliers or cooperation partners for human right violations.

Charity

Charity is one of the ways the Company sees the opportunity to invest consumable resources into important areas to society. Latvijas Gāze in long term has been donating to sport, culture, education and science as well as children's social programs. In 2016 the Company supported more than 100 different organizations and events.

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. Main of them relates to methane or natural gas emission during usage of the system and accidents. The purposeful investments in system modernisation made in the previous 20 years have enabled the distribution system to operate efficiency 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 an environment policy so as to:

- achieve sustainable environmental protection and economic activity indices;
- maintain a mutual understanding and close communications with state and municipal institutions, as well as society;
- actively improve the qualifications of our personnel;
- ensure the identification of the impact of economic activity on the environment, analysis of its causes, and the assessment of issues related to the environmental impact;
- constantly study, analyse, and meet the requirements of normative acts;
- ensure a proper response in emergency situations.

MANAGEMENT REPORT

Key figures

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 share and began selling natural gas to the neighbouring countries.

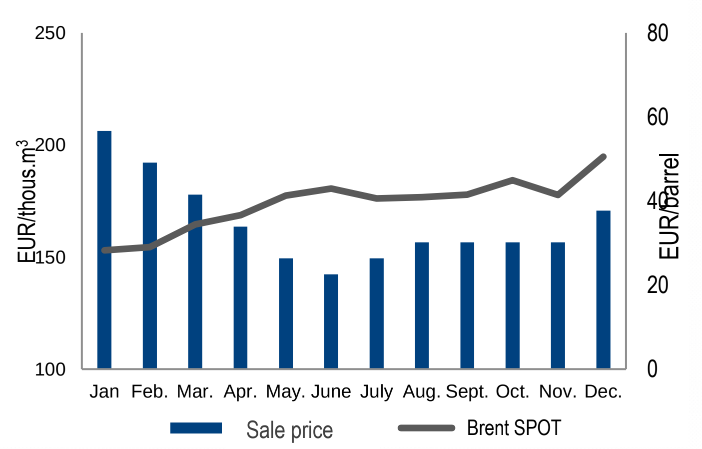
2016 was the last year for the Company as a vertically integrated natural gas transmission, storage, distribution and trade operator. Next year the Company will proceed as a unified natural gas distribution operator and trader. It should be noted that 2016 was also the last year before the opening of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

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.

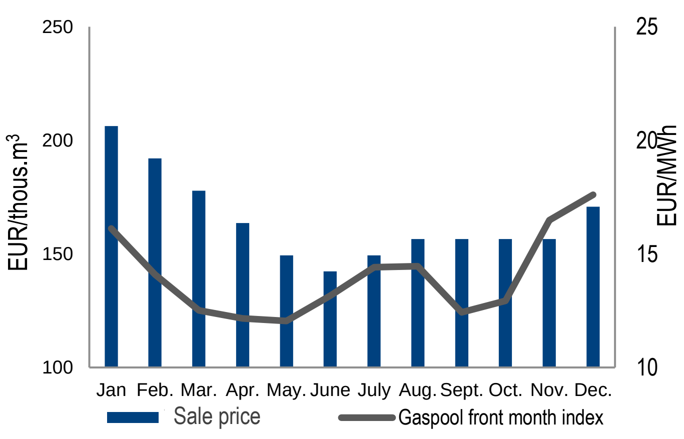
Key performance figures	2016	2015
Natural gas sales, thousand m^3	1,507	1,318
Number of customers (addresses), thousand	443	444
Number of employees, average	1,271	1,264
Length of distribution lines, km	5,061	5,040

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



Source: eia.gov and JSC "Latvijas Gāze"



Source: Argus Media Ltd and AS "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^3.

- 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 15.4% 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 238.5 million EUR or 38.7% 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 27.2 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 182.9 million EUR, which was 29.7% 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 159.2 million EUR comprising 25.8% 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 10.8 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 continued to implement and improve 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.

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

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 the 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.

Proposed distribution of profit

	2016
	EUR
Profit for the reporting year (under the Law On the Annual reports and Consolidated Annual Reports of the Republic of Latvia)	40,388,139
Share or profit not available for distribution (due to revaluation of property, plant and equipment)	(2,882,382)
Share of profit available for distribution	37,505,757
Suggested distribution of profit	
Dividends to shareholders (91.8%)	**37,107,000**
Dividends per share (EUR/1 share)	**0.93**
Transferred to reserves	3,281,139

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 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.

Subsequent events

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".

The financial statements were approved by the Board of the JSC "Latvijas Gāze" on April 25, 2017 and they are signed on behalf of the Board by:

Aigars Kalvītis Chairman of the Board	Zane Kotāne Member of the Board

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 financial statements for 2016 have been prepared in compliance with the International Financial Reporting Standards 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 Company's financial statements for 2016 were approved by the Board on April 25, 2017.

The financial statements were approved by the Board of the JSC "Latvijas Gāze" on April 25, 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 I.S.a.r.II. (28,97%) Uniper Ruhrgas International GmbH (18,26%) ITERA Latvija SIA (16,0%)
Corporate Governance Report	www.lg.lv
Financial Year	January 1 - December 31, 2016

STATEMENT OF PROFIT OR LOSS

	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)
Operating profit		**37,920**	**26,317**
Financial income, net		47	90
Profit before taxes		**37,967**	**26,407**
Corporate income tax	7	(5,544)	(3,074)
Profit from continuing operations		**32,423**	**23,333**
Profit from discontinued operations	9	**5,083**	**7,184**
Profit for the year		**37,506**	**30,517**
		EUR	**EUR**
Earnings per share (basic and diluted)	19	0.940	0.765
Earnings per share from continuing operations (basic and diluted)	19	0.813	0.585

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	2016	2015 (Restated)
		EUR'000	EUR'000
Profit for the year		**37,506**	**30,517**
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	17	108	(549)
Net income recognised as other comprehensive income from continuing operations		**188**	**(382)**
Net income from discontinued operations	9	**15,273**	**(186)**
Total net income		**15,461**	**(568)**
Total comprehensive income for the period		**52,967**	**29,949**

The Notes on pages 24-47 are integral part of these Financial Statements

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Chairman of the Board

Zane Kotāne
Member of the Board

Financial statement preparer:

Svetlana Selena
Head of Financial
Accounting Department

BALANCE SHEET

	Note	31.12.2016	31.12.2015
		EUR'000	EUR'000
ASSETS			
Non-current assets			
Intangible assets	10	2,182	2,282
Property, plant and equipment	11	237,519	557,450
Other debtors	13	8	8
Total non-current assets		**239,709**	**559,740**
Current assets			
Inventories	12	3,902	56,519
Advances for inventories		1,236	24,228
Trade receivables	13	28,285	27,873
Current income tax receivable	20	988	1,956
Other current assets	14	540	492
Cash and cash equivalents		167,630	79,207
Assets held for distribution	18	351,668	-
Total current assets		**554,249**	**190,275**
TOTAL ASSETS		**793,958**	**750,015**

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Accounting Department

BALANCE SHEET (continued)

	Note	31.12.2016	31.12.2015
		EUR'000	EUR'000
LIABILITIES			
Equity			
Share capital	19	55,860	55,860
Share premium		20,376	20,376
Reserves	19	485,624	504,650
Current year's retained earnings		37,506	30,517
Total equity		**599,366**	**611,403**
Non-current liabilities			
Deferred income	15	19,195	27,948
Employee benefit obligations	17	3,731	5,233
Deferred tax liabilities	8	24,423	52,398
Total non-current liabilities		**47,349**	**85,579**
Current liabilities			
Trade payables		2,392	11,794
Deferred income	15	974	1,213
Unpaid dividends		35,112	-
Other liabilities	16	31,183	40,026
Liabilities held for distribution	18	77,582	-
Total current liabilities		**147,243**	**53,033**
TOTAL LIABILITIES		**793,958**	**750,015**

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Current year's retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2014	**55,860**	**20,376**	**503,877**	**30,069**	**610,182**
Transactions with owners:					
Dividends	-	-	-	(28,728)	(28,728)
Total transactions with owners	*-*	*-*	*-*	*(28,728)*	*(28,728)*
Transfers to reserves / reclassification	-	-	1,341	(1,341)	-
Other comprehensive income:					
Other comprehensive income	-	-	(568)	-	(568)
Profit for the year	-	-	-	30,517	30,517
Total other comprehensive income	*-*	*-*	*(568)*	*30,517*	*29,949*
December 31, 2015	**55,860**	**20,376**	**504,650**	**30,517**	**611,403**
Transactions with owners:					
Dividends	-	-	-	(30,324)	(30,324)
Transferred to unpaid dividend	-	-	(35,112)	-	(35,112)
Total transactions with owners	*-*	*-*	*(35,112)*	*(30,324)*	*(65,436)*
Transfers to reserves / reclassification	-	-	625	(193)	432
Other comprehensive income:					
Other comprehensive income	-	-	15,461	-	15,461
Profit for the year	-	-	-	37,506	37,506
Total other comprehensive income	*-*	*-*	*15,461*	*37,506*	*52,967*
December 31, 2016	**55,860**	**20,376**	**485,624**	**37,506**	**599,366**

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STATEMENT OF CASH FLOW

	Note	31.12.2016	31.12.2015 (Restated)
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before corporate income tax from continuing operations		**37,967**	**26,407**
Profit before corporate income tax from discontinued operations	**9**	**6,252**	**8,384**
Adjustments:			
- depreciation of property, plant and equipment		31,275	32,685
- amortisation of intangible assets		1,084	1,071
- movement in provisions		(7,429)	(1,354)
- income from participating interests		(1,219)	(1,191)
- proceeds from sale of property, plant and equipment		1,277	2,460
Changes in operating assets and liabilities:			
- in accounts receivable		(3,490)	23,848
- in advances for inventories		22,992	(24,165)
- in inventories		47,482	23,670
- in accounts payable		(8,084)	4,858
Corporate income tax paid		(5,312)	(7,544)
Net cash flow from operating activities		**122,795**	**89,129**
Cash flow from investing activities			
Payments for property, plant and equipment		(5,506)	(6,651)
Payments for intangible assets		(1,663)	(807)
Proceeds from sale of property, plant and equipment		70	102
Purchase of property, plant, equipment and intangible assets of discontinued operations		(22,349)	(24,962)
Net cash outflow from investing activities		**(29,448)**	**(32,318)**
Cash flow from financing activities			
Discontinued operations (loan received)	18	35,000	-
Dividends paid		(30,324)	(28,728)
Net cash inflow / (outflow) from financing activities		**4,676**	**(28,728)**
Net cash flow		**98,023**	**28,083**
Cash and cash equivalents at the beginning of the reporting year		**79,207**	**51,124**
Cash to be spun off as a result of discontinued operations	18	(9,600)	-
Cash and cash equivalents at the end of the reporting year		**167,630**	**79,207**

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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	Gas storage	Gas distribution	Gas sale	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
Revenue from external customers	1,933	9,111	943	380,279	**392,266**
including Latvia	-	*380*	*943*	*357,715*	***359,038***
Other countries	*1,933*	*8,731*	-	*22,564*	***33,228***
Internal revenue/expenses	22,340	15,090	49,939	(87,369)	**-**
Total revenue	**24,273**	**24,201**	**50,882**	**292,910**	**392,266**
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 and equipment and intangible assets	7,235	14,984	6,425	953	**29,597**
Segment assets	182,879	159,189	238,496	36,164	**616,728**

31.12.2015 (Restated)*	Gas transmission	Gas storage	Gas distribution	Gas sale	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
Revenue from external customers	4,620	13,363	1,029	425,674	**444,686**
including Latvia	-	-	*1,029*	*425,674*	***426,703***
Other countries	*4,620*	*13,363*	-	-	***17,983***
Internal revenue/expenses	21,392	14,422	47,466	(83,280)	**-**
Total revenue	**26,012**	**27,785**	**48,495**	**342,394**	**444,686**
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 and equipment and intangible assets	11,691	13,619	6,377	733	**32,420**
Segment assets	187,301	146,068	251,131	86,308	**670,808**

* Restated compared to financial statements 2015 due to changes in segment expense allocation methodology

Segment information collation

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

Statement of profit or loss

2. Revenues

Revenues	2016	2015
	EUR'000	EUR'000
Natural gas trade	342,801	389,818
Other revenue	991	1,070
	343,792	**390,888**

3. Other income

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

* Decrease in provisions for client legal claims and related expenses
**The 2016 accruals for doubtful debtors net increase by 70 thousand EUR is included other operating expenses.

4. Raw materials and consumables used

Raw materials and consumables used	2016	2015
	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
	271,250	**328,352**

5. Personnel expenses

Personnel expenses	2016	2015
	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
	20,047	**19,654**
including Board and Council remuneration		
- salaries	3,078	2,696
- state compulsory social insurance contributions	636	148
- life, health insurance and pension insurance	93	127
- other personnel costs	21	11
	3,828	**2,982**
Annual average number of employees in continuing operations	936	971

6. Other operating expenses

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	1,197	797
Taxes and duties	883	829
Costs of IT system maintenance, communications and transport	726	693
Loss from disposal of property, plant and equipment	459	300
Other costs	400	333
Annual report statutory audit	26	26
Other audit tasks	9	-
	7,914	**7,128**

7. Corporate income tax

Corporate income tax	2016	2015
	EUR'000	EUR'000
Corporate income tax	6,279	6,057
Deferred tax	434	(1,783)
Corporate income tax from discontinued operations	(1,169)	(1,200)
	5,544	**3,074**

8. Deferred corporate income tax

Reconciliation between profit before taxes and tax expense	2016	2015
	EUR'000	EUR'000
Profit before taxes	**44,219**	**37,586**
Tax theoretically calculated at 15% rate	6,633	5,638
Tax effect of:		
Costs not eligible for reduction of taxable income, net	1,261	(176)
Tax reduction on donations	(1,181)	(1,188)
Corporate income tax from discontinued operations	(1,169)	(1,200)
Tax expense	**5,544**	**3,074**

Deferred tax calculation	2016	2015
	EUR'000	EUR'000
Deferred tax liabilities at the beginning of the reporting year	**52,398**	**54,644**
Deferred tax liability increase from the revaluation of fixed assets (attributed to shareholders' equity)	2,709	30
Decrease in deferred tax liabilities (included in the income statement)	434	(1,783)
Deferred tax on disposed revaluated assets (attributed to shareholders' equity)	(432)	(493)
Deferred tax liabilities at the end of the reporting year	**55,109**	**52,398**
Temporary differences in deferred tax:		
Difference in depreciation of property, plant and equipment (will level out in 12 months)	840	1,020
Difference in depreciation of property, plant and equipment (will level out longer than 12 months)	57,282	55,381
Difference in provisions for impairment of bad and doubtful debts (will level out in 12 months)*	(1,534)	(1,528)
Difference in costs accrued for unused leaves and bonuses (will level out in 12 months)	(559)	(1,015)
Difference in provisions for post-employment benefits and other liabilities towards employees (will level out longer than 12 months)	(684)	(663)
Difference in other accrued liabilities (will level out in 12 months)	(178)	(734)
Difference in provisions for impairment of slow-movement and outdated inventory (will level out in 12 months)	(58)	(63)
Deferred tax liabilities from discontinued operations	(30,686)	-
Deferred tax liabilities, net	**24,423**	**52,398**

* The calculation includes provisions for the impairment of those bad and doubtful debts, which will be eligible for reduction for corporate income tax purposes in near future. The said debtors are at the stage of liquidation.

9. 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)
Operating profit	**6,254**	**8,384**
Financial income, net	(2)	-
Profit before taxes	**6,252**	**8,384**
Corporate income tax	(1,169)	(1,200)
Profit from discontinued operations	**5,083**	**7,184**
Profit for the year	**5,083**	**7,184**

STATEMENT OF OTHER COMPREHENSIVE INCOME	2016	2015
	EUR'000	EUR'000
Profit for the year	**5,083**	**7,184**
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)
Net income recognised as other comprehensive income	**15,273**	**(186)**
Total comprehensive income for the year	**20,356**	**6,998**

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 reorganization, the Company will proceed next year as a unified natural gas distribution operator and trader.

The average number of employees in the Gas transmission and Gas storage segment in 2016 was 335, in 2015: 293.

Balance sheet

10. Intangible assets

Intangible assets	2016	2015
	EUR'000	EUR'000
Cost		
As at the beginning of period	14,346	13,346
Additions	2,320	1,124
Disposals	(8)	(124)
Intangible assets held for distribution	(5,352)	-
As at the end of period	**11,306**	**14,346**
Amortisation		
As at the beginning of period	12,064	11,117
Amortisation	1,084	1,071
Disposals	(7)	(124)
Intangible assets held for distribution	(4,017)	-
As at the end of period	**9,124**	**12,064**
Net book value as at December 31	**2,182**	**2,282**

The intangible assets include fully depreciated intangible assets with a total historical cost of EUR 7,689 thousand (on 31.12.2015: EUR 7,597 thousand). The most part of intangible assets of the Company consists of software for operations of various operating segments.

11. 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						
31.12.2015	**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)
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)
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**

11. 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						
31.12.2014	**11,961**	**1,054,386**	**133,904**	**20,956**	**16,739**	**1,237,946**
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)
31.12.2015	**11,961**	**1,077,534**	**135,018**	**20,961**	**12,482**	**1,257,956**
Depreciation						
31.12.2014	**-**	**589,655**	**71,954**	**14,662**	**-**	**676,271**
Calculated	-	24,205	6,655	1,837	-	32,697
Disposals	-	(5,980)	(1,290)	(1,192)	-	(8,462)
31.12.2015	**-**	**607,880**	**77,319**	**15,307**	**-**	**700,506**
Net book value as at 31.12.2015.	**11,961**	**469,654**	**57,699**	**5,654**	**12,482**	**557,450**
Net book value as at 31.12.2014.	**11,961**	**464,731**	**61,950**	**6,294**	**16,739**	**561,675**

The fixed assets include fully depreciated fixed assets with a total historical cost of EUR 11,725 thousand (at 31.12.2015: EUR 18,141 thousand).

During the reporting year the Company has capitalised depreciation in the amount of EUR 8 thousand (2015: EUR 12 thousand)

Revaluation effect

In 2016 the Company carried out revaluation of Buildings, Constructions and Machinery and equipment of Gas transmission and storage system. Considering the unique nature and use of the assets, revaluation was based on Level 3 data, meaning that the data are not freely observable for relevant type of assets. This is repeated revaluation, and used revaluation method was not changed.

In order to arrive at the fair value of a financial instrument different methods are used: quoted prices, valuation techniques incorporating observable data and valuation techniques based on internal models. These valuation methods are divided according with the fair value hierarchy in Level 1, Level 2 and Level 3.

The level in the fair value hierarchy within which the fair value of a financial instrument is categorized shall be determined on the basis of the lowest level input that is significant to the fair value in its entirety.

The classification of financial instruments in the fair value hierarchy is a two-step process:

1. Classifying each input used to determine the fair value into one of the three levels;
2. Classifying the entire financial instrument based on the lowest level input that is significant to the fair value in its entirety.

Quoted market prices - Level 1

Valuations in Level 1 are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available and the prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques using observable inputs - Level 2

Valuation techniques in Level 2 are models where all significant inputs are observable for the asset or liability, either directly or indirectly. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as price) or indirectly (that is, derived from prices).

Valuation technique using significant unobservable inputs - Level 3

A valuation technique that incorporates significant inputs that are not based on observable market data (unobservable inputs) is classified in Level 3. Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. Level 3 inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

The revaluation was performed by an external expert using the depreciated replacement cost method. According to this method, initial value of assets is determined according to the prices, requirements and applied materials at the time of the valuation. Key assumptions during revaluation process are associated with the materials cost and the cost of the average construction prices at the time of revaluation. For determination of values, data available to the Company about similar constructions of facilities in recent years is being used. A significant section of the revaluation consists of revaluation of underground gas pipelines. Depending on the diameter and the location of the pipeline, when conducting revaluation it is assumed that the price of steel pipe may range from EUR 65 / m to 621 EUR / m. The total length of pipeline transmission system is 1,191 km. In case of an increase in the average construction cost in the country or significant increase the cost of materials, asset value will increase. If the cost of construction or materials decreases the value of the assets will decrease accordingly.

Parallel to the initial value, accumulated depreciation is determined. As key factors here the asset's physical, functional and technical depreciation are being taken into account. If revalued assets are used in a substantially different way, or they are functionally obsolete, revalued asset value may decrease significantly.

As a result of the revaluation, assets gross amount was increased by 11,280 thousand EUR and accumulated depreciation reduced by 5,969 thousand EUR. As a result of the revaluation, gain of 18,061 thousand EUR was recognised in the statement of other comprehensive income, but net loss of 812 thousand EUR was included in profit and loss account.

In addition, as a part of accounting for property, plant and equipment, the Company conducts asset impairment estimates. At the end of 2016, these estimates were made for the property, plant and equipment of distribution segment with carrying value of 235,178 thousand EUR or 98% of the total long-term investments. The key assumptions for the impairment estimate relate to the expected natural gas consumption in the country as well as the capital investment required for asset maintenance. For its estimates, the Company assumes that the distribution will remain as a regulated operating segment, and the current regulatory regime will provide for the possibility of recovering economically substantiated distribution system maintenance costs. Asset impairment estimate does not create expenses in 2016.

Valuation of buildings and constructions and equipment and machinery of other segments is currently in the process. Based on the management estimates, no significant differences are expected with regard to fair value of the assets under valuation as compared to their book value. Management estimates are based on the preliminary results of valuation performed by independent certified valuator for TOP 21 asset and assets located in one of the nine gas distribution districts.

The following table summarises values of the revaluated assets groups into Gas distribution and Gas sale segments, assuming that revalued assets were carried at historic cost.

Revaluated assets at cost value	2016	2015
	EUR'000	EUR'000
Buildings and Gas Transmission system	107,937	108,050
Machinery and Equipment	10,219	10,367

12. 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)
	3,902	**56,519**

Allowance for impairment of slow-moving and obsolete inventories	2016	2015
	EUR'000	EUR'000
Allowance at the beginning of the year	**421**	**438**
Released in profit or loss statement from continuing operations	(19)	(11)
Released in profit or loss statement from discontinued operations	(11)	-
Written down	(7)	(9)
Costs included in profit or loss statement	-	3
Assets held for distribution	(86)	-
Allowance at the end of the year	**298**	**421**

13. Trade receivables

Trade receivables	31.12.2016	31.12.2015
	EUR'000	EUR'000
Long-term receivables at book value	11	11
Allowance for impairment of long-term receivables	(3)	(3)
	8	**8**
Short-term receivables at book value	41,379	37,967
Allowance for impairment of short-term receivables	(10,131)	(10,094)
Assets held for distribution	(2,963)	-
	28 285	**27 873**

Allowance for impairment of bad and doubtful receivables	2016	2015
	EUR'000	EUR'000
Allowance at the beginning of the year	**10,190**	**10,722**
Costs included in profit or loss statement from continuing operations	1,567	1,708
Release of allowance in profit or loss statement from discontinued operations	(1,496)	(2,145)
Net changes included in profit or loss statement	**71**	**(437)**
Bad debts written off	(37)	(95)
Allowance at the end of the year	**10,224**	**10,190**

The provisions for debts were made on the basis of an assessment of financial position and business activity of certain customer tiers. The final losses may differ from those currently estimated because the particular amounts are periodically revised and changes are reflected in the profit or loss statement.

14. Other current assets

Other current assets	31.12.2016	31.12.2015
	EUR'000	EUR'000
Deferred charges	424	391
Other receivables	223	193
Assets held for distribution	(18)	-
	629	**584**
Allowance for impairment of bad and doubtful debts	(89)	(92)
	540	**492**

15. Deferred income

Deferred income	31.12.2016	31.12.2015
	EUR'000	EUR'000
Income from residential and corporate customers' contributions to construction of gas pipelines:		
Long-term part	19,195	19,344
Short-term part	974	946
	20,169	**20,290**
Income from EC co-financing:		
Long-term part	-	8,604
Short-term part	-	267
	-	**8,871**
Total deferred income		
Long-term part	19,195	27,948
Short-term part	974	1,213

Changes of deferred income	2016	2015
	EUR'000	EUR'000
Balance at the beginning of the year	**29,161**	**29,526**
Received from residential and corporate customers during reporting year	562	827
Included in income of reporting year	(951)	(1,192)
Liabilities held for distribution	(8,603)	-
Total transfer to next years	**20,169**	**29,161**

16. 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	3,088	5,877
Excise tax	2,636	2,519
Social security contributions	1,553	888
Other current liabilities	1,016	6,897
Vacation pay reserve	1,002	1,245
Personnel income tax	899	554
Salaries	828	781
Natural resource tax	36	29
Real estate tax	-	17
	31,183	**40,026**

17. Employment and post-employment benefit obligations

Employment and post-employment benefit obligations	2016	2015
	EUR'000	EUR'000
Obligations at the beginning of the reporting year	**5,233**	**4,486**
Recognised in profit or loss statement from continuing operations	39	132
Recognised in profit or loss statement from discontinued operations	328	27
Paid	(222)	(147)
Revaluations due to changes in actuarial assumptions - directly in equity	(108)	735
Liabilities held for distribution	(1,539)	-
Obligations at the end of the reporting year	**3,731**	**5,233**

Assumptions used in calculations of obligations	2016	2015
Discount rate, %	0.24%	0.53%
Employee rotation rate,%	3.40%	3.00%
Employee retirement age, years	62.75	62.50
Wage growth,%	4.00%	4.00%
Contributions to private pension fund,%	5.00%	5.00%
Compulsory social security contributions (employees),%	23.59%	23.59%
Compulsory social security contributions (retired),%	19.90%	19.86%

Assumptions used in calculations of obligations		Impact to obligations due to change in assumptions		
	Changes in assumptions		**2016**	**2015**
Discount rate	+ 0.5%	Savings reduced by	5.30%	5.18%
Employee rotation rate	+ 0.5%	Savings reduced by	4.78%	4.45%
Employee retirement age	+1 gads	Savings reduced by	2.40%	2.34%
Wage growth	+0.5%	Savings increased by	4.46%	4.02%
Contributions to private pension fund	+0.5%	Savings increased by	0.34%	0.31%
Compulsory social security contributions	+0.5%	Savings increased by	0.34%	0.31%

Assumptions used in calculations of obligations		Impact to obligations due to change in assumptions		
	Changes in assumptions		**2016**	**2015**
Discount rate	-0.5%	Savings increased by	5.88%	5.73%
Employee rotation rate	-0.5%	Savings increased by	5.24%	4.88%
Employee retirement age	-1 gads	Savings increased by	2.20%	2.55%
Wage growth	-0.5%	Savings reduced by	4.08%	3.68%
Contributions to private pension fund	-0.5%	Savings reduced by	0.34%	0.31%
Compulsory social security contributions	-0.5%	Savings reduced by	0.34%	0.31%

18. Assets and liabilities held for distribution

Assets	Note	31.12.2016
ASSETS		EUR'000
Non-current assets		
Intangible assets	10	1,335
Property, plant and equipment		
Land		10,427
Buildings and constructions		258,713
Equipment and machinery		49,665
Other fixed assets		1,343
Assets under construction		12,419
Total property, plant and equipment:	*11*	*332,567*
Total non-current assets		**333,902**
Current assets		
Inventories		5,138
Trades receivable		3,028
Cash and cash equivalents		9,600
Total current assets:		**17,766**
TOTAL ASSETS:		**351,668**

Liabilities	Note	31.12.2016
LIABILITIES		EUR'000
Equity:		
Reserves of discontinued operations	19	274,086
Total equity:		**274,086**
Long-term liabilities		
Loans from credit institutions		32,375
Deferred income		8,335
Employee benefit obligations		1,539
Deferred tax liabilities		30,686
Total long-term liabilities:		**72,935**
Short-term liabilities		
Loans from credit institutions		2,625
Trade payables		312
Deferred income		267
Other liabilities		1,443
Total short-term liabilities:		**4,647**
TOTAL LIABILITIES:		**351,668**

As a result of reorganization JSC "Latvijas gāze", natural gas transmission and storage operating segment was transferred of in its full economic composition comprising the assets and liabilities to newly founded JSC "Conexus Baltic Grid" (Registration no. 40203041605, legal address: Aristida Briana street 6, Riga, LV-1001). JSC "Conexus Baltic Grid" has obtained all permits and licenses that are necessary for storage and transmission of natural gas ensuring its economic activities. According to the Commercial law 20, first paragraph, and 351. Article second and third paragraphs, JSC "Latvijas Gāze" during reorganization is responsible for the JSC "Conexus Baltic Grid" transferred natural gas and transmission storage liabilities (which arose prior to the reorganization) 5 years after JSC “Latvijas Gāze” reorganization's coming in effect. The reorganization takes effect on January 2, 2017 (date of registration in the commercial register).

19. 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
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 *(including registered (closed issue) shares 7,285,740)*	18.26	7,285,740	47.23	18,846,385
Marguerite Gas I S. à r.l.	28.97	11,560,645	-	-
Itera Latvija SIA	16.00	6,384,001	16.00	6,384,001
PJSC "Gazprom" *(including registered (closed issue) shares 7,285,740)*	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.

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. The Company is jointly controlled by PJSC Gazprom, Itera Latvija SIA un Uniper Ruhrgas International GmbH. The Company has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as the basic earnings per share. Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

Dividends payable are not accounted for until they are declared at the Annual General Meeting. At the meeting in 2017, a dividend in respect to 2016 EUR 0.93 per share will be proposed by the management. These financial statements do not reflect these dividends payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings for 2016. The dividends paid in 2016 for 2015 were EUR 30,324 thousand (EUR 0.76 per share). In addition, in 2016 approved but not paid dividends EUR 35,112 are included in balance sheet as current liabilities.

	Earnings per share		Earnings per share from continuing operations	
	2016	2015	2016	2015
Net profit attributable to shareholders (a) EUR'000	**37,506**	**30,517**	**32,423**	**23,333**
Ordinary shares as at 1 January (Number, th.)	39,900	39,900	39,900	39,900
Ordinary shares as at 31 December (Number, th.)	39,900	39,900	39,900	39,900
Weighted average number of ordinary shares outstanding during the year (b) (Number, th.)	39,900	39,900	39,900	39,900
Basic earnings per share during the year (a/b) in EUR	**0.940**	**0.765**	**0.813**	**0.585**

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

Reserves	31.12.2016	31.12.2015
	EUR'000	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*	-
	485,624	**504,650**

19. Shares and shareholders (continued)

Distribution of dividends and transfer funds to other reserves takes place according to the profit and retained earnings in accordance with the statutory financial statements prepared in accordance with Latvian accounting rules. Changes in other reserves can be made only with shareholders' approval. The revaluation reserve and share premium cannot be distributed as dividends to shareholders.

20. Taxes

Tax movement	Liabilities 31.12.2015	Receivable 31.12.2015	Calculated 2016	Paid 2016	Liabilities 31.12.2016.	Receivable 31.12.2016.
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	9,066	-	70,660	(71,874)	7,852	-
Excise tax	2,519	-	20,959	(20,842)	2,636	-
Social security contributions	888	-	8,622	(7,957)	1,553	-
Corporate income tax	-	1,956	6,279	(5,311)	-	988
Personal income tax	554	-	4,899	(4,555)	898	-
Real estate tax	17	-	1,158	(1,175)	-	-
Natural resource tax	29	-	259	(252)	36	-
	13,073	**1,956**	**112,836**	**(111,966)**	**12,975**	**988**

21. Related party transactions

No individual entity exercises control over the Company. The Company has following transactions with entities disclosed below, which own or owned more than 20% of the shares that deemed to provide a significant influence over the Company.

Income or expenses	2016	2015
	EUR'000	EUR'000
Income from provision of services		
PJSC “Gazprom”	7,817	15,140
Expenses on natural gas purchase		
PJSC “Gazprom”	203,034	289,422
Expenses on purchase of services from companies controlled by related companies		
Companies controlled by PJSC “Gazprom”	5,466	6,523

Related party payables and receivables	31.12.2016	31.12.2015
	EUR'000	EUR'000
Receivables from related companies for natural gas transit		
PJSC “Gazprom”	**-**	**35**
Advance payment to related entities		
PJSC “Gazprom”	1,236	24,122
Companies controlled by PJSC “Gazprom”	-	460
	1,236	**24,582**
Payables to related companies for natural gas and services		
PJSC “Gazprom”	1	7,893
Companies controlled by PJSC “Gazprom”	-	1,390
	1	**9,283**

22. 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. The following table summarises the Company's financial assets and liabilities

Financial assets and liabilities	31.12.2016	31.12.2015
	EUR'000	EUR'000
Receivables from related companies	-	35
Trade receivables	28,285	27,838
Other receivables	540	492
Cash and cash equivalents	167,630	79,207
Financial assets	**196,455**	**107,572**
Payables to related companies	1	9,283
Trade payables	2,391	2,511
Financial liabilities	**2,392**	**11,794**

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, which as at December 31, 2016 comprise 18% of the total outstanding receivables. Debts of five largest clients are not overdue and are not impaired as at December 31, 2016. The following table illustrates the credit risk for outstanding receivables.

Trade receivables	31.12.2016	31.12.2015
	EUR'000	EUR'000
Impaired	10,131	10,094
Not overdue	28,297	26,703
Overdue less than 90 days, but not impaired	2,922	1,169
Overdue more than 90 days, but not impaired	29	1
Trade receivables, gross	**41,379**	**37,967**
Allowance for impairment of bad and doubtful debts	(10,131)	(10,094)
Assets held for distribution	(2,963)	-
Trade receivables, net	**28,285**	**27,873**

Credit risk management practices

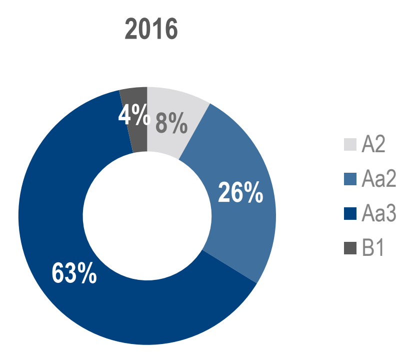
The credit risk management is performed by the trading segment of the Company under supervision of the management board member responsible for commercial operations. For the largest customers the Company uses individual credit risk management policies, which include several practices such as initial 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

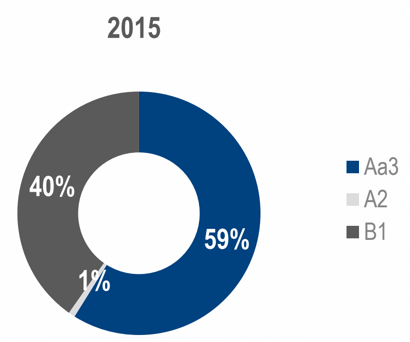
22. Financial risk management (continued)

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 December 31, 2016, cash and cash equivalents represented only current account balances with credit institutions.

As a part of internal assessment, the Company also analyses the Moody's Investor Services credit rating of a particular credit institution or its ultimate parent. Based on such assessment, outstanding cash and cash equivalents can be summarised as follows (grouped by long term rating):





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.

23. 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 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 the fair value and the remaining useful life of buildings and constructions and equipment and machinery based on valuations performed by independent certified valuators 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 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

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.

24. 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. To ensure that the reports are comparable in preparation of 2016 Statement of Profit or Loss and Balance Sheet the reclassification is made in comparative figures for 2015.

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.

Adoption of new and/or amended IFRS

The following new and amended IFRS and interpretations became effective in 2016, but have no significant impact on the operations of the Company and these financial statements:

Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – regarding bearer plants (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 1 “Presentation of financial statements” regarding disclosure initiative (effective for annual periods beginning on or after 1 January 2016).

Amendments to IFRS 10 “Consolidated financial statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in associates and joint ventures” – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

Annual improvements to IFRS’s 2014 (effective for annual periods beginning on or after 1 January 2016). The amendments include changes that affect 4 standards:

IFRS 5 “Non-current assets held for sale and discontinued operations”,

IFRS 7 “Financial instruments: Disclosures” with consequential amendments to IFRS 1,

IAS 19 “Employee benefits”, and

IAS 34 “Interim financial reporting”.

Amendments to IAS 19 “Employee benefits plans” regarding defined benefit plans (effective for annual periods beginning on or after 1 February 2015).

Annual improvements to IFRS’s 2012 (effective for annual periods beginning on or after 1 February 2015). These amendments include changes that affect 6 standards:

IFRS 2 “Share-based payment”,

IFRS 3 “Business Combinations”,

IFRS 8 “Operating segments”,

IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets”, and

IAS 24 “Related party disclosures”.

24. Key accounting policies (continued)

Property, plant and equipment

Fixed assets are tangibles held for using in supply of goods and in providing services, and which are used in more than one period. Company`s main assets groups are buildings and structures, which include transmission and distribution gas pipelines, as well as equipment and machinery that is mainly related to Inčukalns underground gas storage facility operation and maintenance of gas transmission and distribution.

The Company's buildings and constructions (including the gas transmission and 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 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	20 - 100
Constructions, including gas transmission and 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 revaluated assets are sold, the amounts included in Revaluation reserve are transferred to retained earnings.

24. Key accounting policies (continued)

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.

Inventories

The cost of natural gas in the Inčukalns underground storage is accounted separately using the first-in first-out (FIFO). 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.

24.Key accounting policies (continued)

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 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.

24.Key accounting policies (continued)

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.

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.

24. Key accounting policies (continued)

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

In the statement of profit or loss 2016 revenue and expense items include only income and expense of the continuing operations. Revenue and expenses from discontinued operations are presented amounts as net profit from discontinued operations. Discontinued operations Income Statement is provided in the notes to Financial Statements. 2015 comparative figures have been adjusted retrospectively using the same principle. Corporate income tax declaration is drawn up on the basis of the total JSC "Latvijas Gāze" Income Statement that includes continuing and discontinued operations.

In the balance sheet, a new item of current assets has been created - "Assets held for distribution" and a new item of short-term liabilities - "Liabilities held for distribution". These include JSC Conexus Baltic Grid distributable assets and liabilities as at balance sheet value. IFRS 5 does not require adjustment of comparative figures as at 31 December 2015. Details of assets and liabilities held for distribution to JSC Conexus Baltic Grid are presented in the notes of the financial statements.

Reorganization of the Company was conducted in 2016 in accordance with Article 20 of the LR Commercial law. As a result of the reorganization, a new sister company was founded, to which net financial assets of natural gas transmission and storage segments were transferred. All JSC "Latvijas Gāze" shareholders had equal opportunities to apply for the newly-established company's shares. Reorganization process foresees that all rights and obligations related to distributed business units are transferred to the newly founded company, including rights and obligations arising from the commitments between shareholders. Largest shareholders of JSC "Latvijas Gāze" also became shareholders of JSC "Conexus Baltic Grid", keeping their previously established shareholder's obligations. As a result, the same group of shareholders, who controlled the net assets before the reorganization, continues to control them also after the company's reorganization. Also, an essential part of administrative bodies elected as representatives of the two sister companies are identical. Therefore, in the context of IFRS it is considered that distribution of net assets of transmission and storage segments to shareholders was performed within the group restructuring framework and IFRIC 17 principles are not relevant.

25. Contingent liabilities

The Company has a long-term agreement with PJSC Gazprom based on “take or pay” rules that determine the minimum quantity to be purchased in the respective period. If the entity is not able to consume the agreed volume, legal obligations might arise.

According to the first paragraph of Article 20 of the Commercial Law as well as the second and third part of Article 351 the JSC "Latvijas Gāze" is responsible for the JSC "Conexus Baltic Grid", registration number 40203041605, by way of reorganization transferred natural gas transmission and storage liabilities of (which arose prior to the reorganization) 5 years after the JSC "Latvijas Gāze" reorganization takes effect.

The following table summarised contracted commitments at the end of reporting year:

Commitments	2016	2015
	EUR'000	EUR'000
Contracted	469	18,143

26. Subsequent events

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".

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2016.

INDEPENDENT AUDITOR'S REPORT

pwc

Independent auditor's report

(Translation of the Latvian original)*

To the Shareholders of JSC "Latvijas Gāze"

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements set out on pages 18 to 47 of the accompanying annual report give a true and fair view of the financial position of JSC "Latvijas Gāze" (the Company) as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

What we have audited

The Company's financial statements comprise:

- the balance sheet as at 31 December 2016;
- the statement of profit or loss and the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year ended;
- the statement of cash flow for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements and auditor's independence rules that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Our audit approach

Overview

Materiality

- Overall materiality: 1,898 thousand EUR, which represents 5% of profit before tax from continuing operations

Audit scope

- We performed a full scope audit on the financial statements of the Company

Key audit matters

- Accounting for the reorganisation of the Company
- Assessment whether the carrying value of property, plant and equipment is measured in accordance with IAS 16

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	Overall materiality is EUR 1,898 thousand.
How we determined it	Overall materiality is 5% of profit before tax from continuing operations.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. One year profit is used due to stable profitability.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 190 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Accounting for the reorganisation of the Company Following the requirements of Energy Law of the Republic of Latvia, reorganisation process of the Company was commenced in 2016 with an aim to unbundle the operations and related net assets of natural gas transmission and storage segments. As at 4 January 2017, the Company transferred the assets and liabilities of natural gas transmission and storage business to a newly established company JSC "Conexus Baltic Grid", as a distribution on behalf of the shareholders, based on the business spin-off principles specified in Spin-off Decision, approved by the shareholders of the Company on 2 September 2016 (available at www.lg.lv). For accounting purposes the management of the Company considered the requirements of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* and concluded that as at 31 December 2016 the assets and liabilities of natural gas transmission and storage operating segments met the criteria of *Assets held for distribution* and *Liabilities held for distribution*. Also, the management concluded that those segments met the criteria of classifying as discontinued operations. Determining whether the transferable assets and liabilities should be classified as held for sale, whether the segments meet the definition of discontinued operations and what are the potential measurement and presentation consequences, requires judgement. Due to the size of natural gas transmission and gas storage segments' operations and the judgements involved, it is considered a key audit matter.	Our audit procedures included, among others: • We examined the judgements exercised by the Company's management in determining the relevance of IFRS 5 and IFRIC 17 to the accounting treatment of the reorganisation by reading relevant supporting documentation, such as Resolutions of shareholders' meetings and other legal documents. We concluded that management judgement regarding applicability of IFRS 5 and non-applicability of IFRIC 17 was appropriate in the circumstances. • We tested, on a sample basis, the accuracy and completeness of assets and liabilities presented as *Assets held for distribution* and *Liabilities held for distribution* by reconciling the information to the source data, e.g., to the fixed asset register of natural gas transmission and storage segments immediately before the transfer, and • We reconciled the main asset and liability categories to the Spin-off Balance sheet approved by the Board of the Company. We noted no material exceptions. • We read the relevant disclosures and assessed if they complied with the requirements of relevant standards. We noted no material omitted disclosures.

Key audit matter	*How our audit addressed the key audit matter*
Assessment whether the carrying value of property, plant and equipment (PPE) is measured in accordance with IAS 16	
Buildings, constructions, equipment and machinery are accounted for using the revaluation method, as described in Notes 23 and 24. As at 31 December 2016 the respective assets are carried within property, plant and equipment in the amount of EUR 232,376 thousand (Note 11) and within non-current assets held for distribution in the amount of EUR 308,378 thousand (Note 18). The Company performs revaluations when there are indications that the fair value of assets can materially differ from their carrying amount. The management determines the fair value of buildings, constructions, equipment and machinery based on valuations performed by independent certified valuators in accordance with real estate valuation standards, using the depreciated replacement cost model where the most significant input is the estimated acquisition or construction cost of the assets. In 2016 the management of the Company performed revaluation of property, plant and equipment related to natural gas transmission and gas storage segments, classified as held for distribution as at 31 December 2016. Revaluation was done based on the valuation performed by a certified independent valuator and resulted in an increase of net carrying amount of the assets in the amount of EUR 17,249 thousand, as disclosed in Note 11. For the remainder of the buildings, constructions, equipment and machinery assets, the Company has assessed whether there are significant differences between the carrying amount at the balance sheet date and the fair value. Based on the management's estimates, no significant differences are expected as at 31 December 2016. Management's estimates are based on the preliminary results of valuation performed by an independent certified valuator for the largest 21 assets by their carrying amount and assets located in one out of the nine gas distribution districts. The revaluation of the remainder of the assets is expected to be completed within the 2nd half of 2017. Due to the magnitude, complex calculations and related estimation uncertainty, valuation of property, plant and equipment is considered a key audit matter.	Our audit procedures included, among others: • We engaged our internal experts knowledgeable in valuation matters, given the inherent subjectivity involved in the valuation of property, plant and equipment and the need for deep market knowledge and valuation expertise. • We considered the expertise of the independent valuator engaged by the Company, in respect of valuation of pipelines and similar structures. We found that the expert had sufficient expertise in valuations of similar assets. • We assessed the valuation methodology used by the independent valuator and found that the valuation techniques used were in accordance with IFRS requirements. • On a sample basis we verified that valuator was able to demonstrate supporting valuation documents for individual assets, including technical specifications, in light of available property-specific and market evidence. • For assets for which revaluation process was not finished, we obtained the preliminary revaluation results of the valuation of assets of gas distribution and sale segments, performed by the same independent valuator, to evaluate if the fair values of the assets of these segments differed materially from their carrying amounts at 31 December 2016 and found no material differences. • Regarding the assets not covered by the preliminary revaluation, we considered if there were any indicators (e.g changes in construction prices or in laws regulating tariffs) which would cause the fair values to be materially different from their carrying amounts values and, in light of evidence obtained, we concluded that the management's judgment that the carrying value of these assets approximates their fair value was appropriate. • We also read the disclosures provided in respect of inputs used in determining the fair values of property, plant and equipment and assessed if they comply with the requirements of relevant standards. We assessed the disclosures as sufficient taking into account the overall presentation of financial statements.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Other information

Management is responsible for the other information. The other information comprises:

- the *Management Report*, as set out on pages 13 to 16 of the accompanying Annual Report,
- the *Statement of the Board Responsibility*, as set out on page 17 of the accompanying Annual Report,
- the *Statement of Corporate Governance*, set out in separate statement prepared by the Company's management and available on the Company's website http://www.lg.lv/ as at the date of this audit report,
- Information on the composition of the Council and the Board, as set out on pages 3 to 4 of the accompanying Annual Report, and
- Other disclosed information including, information on strategy and objectives, shares and shareholders, facts and figures, corporate social responsibility, as set out on pages 5 to 12 of the accompanying Annual Report,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information included in the Annual Report and we do not express any form of assurance conclusion thereon, except as described in the Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

In addition, in accordance with the Law on Audit Services with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

Based solely on the work required to be undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports .

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in accordance with Article 56.[1], section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.[2], section two, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.[2], section two, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

Based solely on the work required to be undertaken in the course of our audit, in our opinion, the Statement of Corporate Governance, available on the Company's website http://www.lg.lv/ as at the date of this audit report, includes, in all material respects, the information in accordance with Article 56.[1], section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.[2], section two, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in Article 56.[2], section two, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Member of the Board

Lolita Čapkeviča
Certified auditor in charge
Certificate No. 120

Riga, Latvia

25 April 2017