

# **UNAUDITED CONDENSED FINANCIAL STATEMENTS 2015**

**Prepared in compliance with the International Financial Reporting  
Standards approved in the European Union**

Riga, 2016

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## FINANCIAL CALENDAR

Audited accounts 2015	April 29, 2016
3 months 2016	May 27, 2016
6 months 2016	August 26, 2016
9 months 2016	November 25, 2016

## INVESTOR RELATIONS

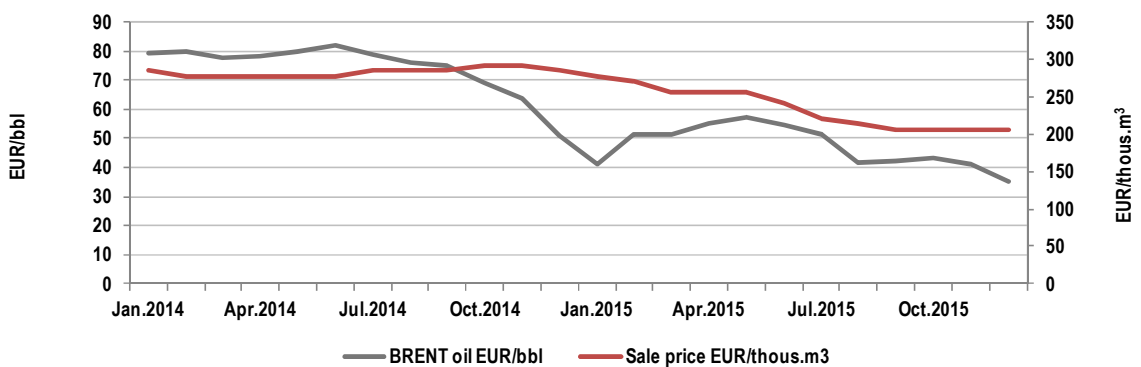
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## MANAGEMENT REPORT




The Joint Stock Company "Latvijas Gāze" (hereinafter – the Company) is a vertically integrated natural gas transmission, storage, distribution and sale operator in Latvia. The Company ensures natural gas supply to 443.6 thousand customers in Latvia and during heating season also to Estonia, the Northwestern part of Russia, and Lithuania from the Inčukalns Underground Gas Storage Facility.

The Company's main goal in 2015 was to ensure a safe and continuous natural gas supply to the existing customers in the volume and quality stipulated in the contracts. The main tasks – the supervision and implementation of capital investments – were successfully accomplished.

BRENT oil and natural gas sale prices



### Description of operation environment

-  The year 2015 saw a substantial price drop in the global oil markets, with influence on both the average natural gas purchase price and the annual income of Latvijas Gāze.
-  The sales volume was 2% higher than in 2014 reaching 1.3 billion m<sup>3</sup>.
-  Despite the decrease in income caused by the price drop, the EBITDA will remain at the previous year's level – 68.1 million EUR.

**THE OIL PRICE DROP  
 ENABLES TO CHARGE  
 LOWER PRICES TO  
 CUSTOMERS**

Key performance figures (mio m <sup>3</sup> unless specified otherwise)	2015	2014
Natural gas sales in Latvia	1 318	1 294
Gas volume injected into IUGS <sup>1</sup>	1 550	1 907
Number of customers (addresses), thousand	444	443
Number of employees, average	1 264	1 255
Length of distribution lines, km	5 044	4 967
Length of transmission lines, km	1 193	1 242

Key financial figures (thous. EUR)	2015	2014
Net turnover	444,686	503,076
EBITDA <sup>2</sup>	68,077	68,582
Net profit	30,517	30,069
Total assets	750,015	747,970
Equity	611,403	610,182
Profit per share, EUR	0.765	0.754

<sup>1</sup> IUGS - Inčukalns Underground Gas Storage

<sup>2</sup> EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortisation

### *Operational results of segments*

The Company has 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.

Although in 2015 the EBITDA remained at the previous year's level of 68.1 million EUR, a decrease in turnover enabled a increase in the EBITDA margin to 15.3% compared to 13.6% in previous year.

In terms of amount of assets, the largest operating segment is that of distribution, with its assets comprising 34% of the total assets of the Company. Distribution is also the segment with the largest number of people employed, as its staff comprises 53% of the Company's employees. In 2015 the EBITDA of the distribution segment were 23.7 million EUR constituting the highest EBITDA proportion in the Company – 35% of the Company's total EBITDA of 2015. 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. In 2015 it was the only segment where a decrease in the EBITDA margin was registered. This occurred because there was less natural gas transmitted in international transactions, including injections into the Inčukalns Underground Gas Storage. The transmission segment's EBITDA of 2015 were 15.7 million EUR accounting for 23% of the Company's total EBITDA. The transmission segment is the second largest in terms of amount of assets. With a worth of 193.6 million EUR, the segment's assets accounted for 26% of the Company's total assets as at the end of 2015.

The storage segment saw a 13% decrease in net turnover against the year 2014 as there was less natural gas injected and withdrawn. Still, the decrease did not undermine the segment's profitability. In 2015 the segment's EBITDA were 15.9 million EUR making it the second largest by this criterion.

The natural gas trade segment is the largest in terms of net turnover. The segment yielded an income of 342.4 million EUR, which makes 77% of the Company's total income. Following a drop in the natural gas sale price, the segment's income fell by 13% against the year 2014. The segment's EBITDA, however, increased by 2.9 million EUR against 2014, mainly due to smaller provisions for doubtful debts and possible liabilities included in the results of 2014.

### *Description of regulatory environment*

Under Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (hereinafter – Directive 2009/73), the EU countries are required to transpose provisions aimed at creating an efficient internal energy market into their national regulatory framework. The key provision stipulates the unbundling of network operations from those of trade and production, including a mandatory unbundling of natural gas transmission networks, and, subject to an objective and provable necessity, also unbundling of the natural gas storage and distribution infrastructure from production and trade operations.

Having regard of the EU regulatory framework, on February 11, 2016 the Saeima passed amendments to the Energy Law stipulating that:

- 1) by April 3, 2017 there shall be a company unbundled from Latvijas Gāze, and it shall own the natural gas transmission and storage infrastructure and not constitute part of Latvijas Gāze as a vertically integrated undertaking;
- 2) by December 31, 2017 it shall be ensured that natural gas transmission and storage operations not be controlled by persons related to natural gas production and trade (divestiture of the natural gas storage and transmission infrastructure);

- 3) by January 1, 2018 it shall be ensured that the natural gas distribution system infrastructure be unbundled as a separate subsidiary which constitutes part of Latvijas Gāze as a vertically integrated undertaking whilst meeting the statutory independence requirements.

On February 9, 2016, the Cabinet of Ministers passed amendments to the regulations on natural gas trade, effectively enabling Latvian consumers to purchase natural gas from other traders outside Latvia.

### Shares and shareholders

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

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



The Company's shares are included in the baskets of the following indexes: OMXBBGI, OMXBBCAPGI, OMXBGI, OMXRGI.

OMX Baltic is 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 at NASDAQ OMX Riga.

The Company's capitalisation value in 12 months of 2015 reached EUR 389.4 million – EUR 24.7 million more than in 12 months of the previous reporting period. In terms of stock market capitalisation the Company ranked number two among companies listed on Nasdaq Riga and number six among companies listed on Nasdaq Baltic.

## STATEMENT OF BOARD RESPONSIBILITY

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

The unaudited condensed financial statements 2015, including the management report, have been prepared in compliance with the International Financial Reporting Standards approved in the European Union and provide

a true and fair view of the Company's financial position, operational results and cash flows in all key aspects.

The unaudited condensed financial statements 2015 of the Joint Stock Company "Latvijas Gāze" were approved by the Board on February 23, 2016.

The statements were approved by the Board of the JSC "Latvijas Gāze" on February 23, 2016 and they are signed on behalf of the Board by:

Aigars Kalvītis  
 Chairman of the Board

Zane Kotāne  
 Member of the Board

## FINANCIAL STATEMENTS

### PROFIT OR LOSS STATEMENT

	Appendix	2015	2014
		EUR'000	EUR'000
Income from principal activity	2	444,686	503,076
Other income	3	3,319	3,602
Costs of materials	4	(334,552)	(391,929)
Personnel costs	5	(29,215)	(27,151)
Depreciation, amortisation and impairment of fixed assets		(33,756)	(33,832)
Other operating costs	6	(16,161)	(19,016)
<b>Gross profit</b>		<b>34,321</b>	<b>34,750</b>
Financial income, costs, net		535	684
Write-down of value of financial fixed assets and short-term securities		(65)	(112)
<b>Profit or loss before taxes</b>		<b>34,791</b>	<b>35,322</b>
Corporate income tax	7	(4,274)	(5,253)
<b>Net profit</b>		<b>30,517</b>	<b>30,069</b>
		EUR	EUR
Profit per share		0.765	0.754

### STATEMENT OF COMPREHENSIVE INCOME

	Appendix	2015	2014
		EUR'000	EUR'000
<b>Net profit</b>		<b>30,517</b>	<b>30,069</b>
Revaluation of fixed assets		197	239
Deferred tax liability from revaluation of fixed assets		(30)	(36)
Revaluation of post-employment benefits		(735)	(80)
Other adjustments		-	(3)
<b>Net income or expenses recognised directly in equity</b>		<b>(568)</b>	<b>120</b>
<b>Total comprehensive income for the year</b>		<b>29,949</b>	<b>30,189</b>

*The appendices to the financial statement are an integral part of this statement.*

The statements were approved by the Board of the JSC "Latvijas Gāze" on February 23, 2016 and they are signed on behalf of the Board by:

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 Aigars Kalvītis  
 Chairman of the Board

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 Zane Kotāne  
 Member of the Board

## BALANCE SHEET

	Appendix	31.12.2015	31.12.2014
		EUR'000	EUR'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	10	557,450	561,675
Intangible assets	9	2,282	2,229
Other receivables	12	8	8
<b>Total non-current assets:</b>		<b>559,740</b>	<b>563,912</b>
<b>Current assets</b>			
Inventories	11	80,747	80,253
Accounts receivable	12	27,873	51,659
Other current assets	13	2,448	1,022
Cash		79,207	51,124
<b>Total current assets:</b>		<b>190,275</b>	<b>184,058</b>
<b>TOTAL ASSETS:</b>		<b>750,015</b>	<b>747,970</b>
<b>LIABILITIES</b>			
<b>Equity:</b>			
Share capital	17	55,860	55,860
Share premium		20,376	20,376
Reserves		478,059	491,944
Retained earnings of previous years		26,591	11,933
Retained earnings of reporting year		30,517	30,069
<b>Total equity:</b>		<b>611,403</b>	<b>610,182</b>
<b>Non-current liabilities</b>			
Deferred income	14	27,948	28,339
Provisions for post-employment benefit liabilities	16	5,233	4,486
Deferred tax liabilities	8	52,398	54,644
<b>Total non-current liabilities:</b>		<b>85,579</b>	<b>87,469</b>
<b>Current liabilities</b>			
Trade payables		11,794	3,785
Deferred income	14	1,213	1,187
Other liabilities	15	40,026	45,347
<b>Total current liabilities:</b>		<b>53,033</b>	<b>50,319</b>
<b>TOTAL LIABILITIES:</b>		<b>750,015</b>	<b>747,970</b>

*The appendices to the financial statement are an integral part of this statement.*

The statements were approved by the Board of the JSC "Latvijas Gāze" on February 23, 2016 and they are signed on behalf of the Board by:

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

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

## STATEMENT ON CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>December 31, 2013</b>	<b>56,773</b>	<b>20,376</b>	<b>491,990</b>	<b>39,582</b>	<b>608,721</b>
Dividends	-	-	-	(28,728)	(28,728)
Share capital conversion to EUR	(913)	-	913	-	-
Transfers to reserves	-	-	876	(876)	-
Fixed assets disposed	-	-	(2,304)	2,304	-
Deferred tax for fixed assets disposed	-	-	346	(346)	-
Comprehensive income	-	-	123	(3)	120
Profit or loss for the year	-	-	-	30,069	30,069
<b>December 31, 2014</b>	<b>55,860</b>	<b>20,376</b>	<b>491,944</b>	<b>42,002</b>	<b>610,182</b>
Dividends	-	-	-	(28,728)	(28,728)
Transfers to reserves	-	-	828	(828)	-
Adjustment between items	-	-	(11,350)	11,350	-
Fixed assets disposed	-	-	(3,288)	3,288	-
Deferred tax for fixed assets disposed	-	-	493	(493)	-
Comprehensive income	-	-	(568)	-	(568)
Profit or loss for the year	-	-	-	30,517	30,517
<b>December 31, 2015</b>	<b>55,860</b>	<b>20,376</b>	<b>478,059</b>	<b>57,108</b>	<b>611,403</b>

*The appendices to the financial statement are an integral part of this statement.*



## CASH FLOW STATEMENT

	Appendix	31.12.2015 EUR'000	31.12.2014 EUR'000
<b>Cash flow from operating activities</b>			
<b>Profit before corporate income tax</b>		<b>34,791</b>	<b>35,322</b>
<i>Adjustments:</i>			
- impairment of fixed assets		32,685	32,464
- impairment of intangible assets		1,071	1,379
- provisioning (except provisions for doubtful debts)		(1,354)	1,792
- foreign currency rate fluctuations		1	(13)
- income from participating interests		(1,191)	(1,169)
- losses on sale of fixed assets		2,460	1,148
<i>Adjustments:</i>			
- to accounts receivable		23,852	(12,213)
- to inventories		(477)	104,927
- to accounts payable		4,836	(120,760)
Corporate income tax paid	18	(7,544)	(5,528)
<b>Net cash flow from operating activities</b>		<b>89,130</b>	<b>37,349</b>
<b>Cash flow from investing activities</b>			
Purchase of fixed assets		(31,296)	(29,153)
Cash received from sale of fixed assets		102	47
Purchase of intangible assets		(1,124)	(861)
Co-financing received from EC		-	3
Term deposits withdrawn		-	38,900
<b>Net cash flow from investing activities</b>		<b>(32,318)</b>	<b>8,936</b>
<b>Cash flow from financial activities</b>			
Dividends paid		(28,728)	(28,728)
<b>Net cash flow from financial activities</b>		<b>(28,728)</b>	<b>(28,728)</b>
Result of foreign currency rate fluctuations		(1)	13
<b>Net cash flow</b>		<b>28,083</b>	<b>17,570</b>
<b>Cash and cash equivalents at the beginning of reporting year</b>		<b>51,124</b>	<b>33,554</b>
<b>Cash and cash equivalents at the end of reporting period</b>		<b>79,207</b>	<b>51,124</b>

*The appendices to the financial statement are an integral part of this statement.*

## APPENDIX TO THE FINANCIAL STATEMENT

### Information on segments

The Company has 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.

### 1. Information on segments

31.12.2015	Gas transmission	Gas storage	Gas distribution	Gas sale	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Net turnover from sale to external customers	4,620	13,363	1,029	425,674	<b>444,686</b>
Internal income/expenses	21,392	14,422	47,466	(83,280)	-
Profit before taxes	1,437	8,750	12,208	12,396	<b>34,791</b>
Assets	193,643	149,515	261,704	145,153	<b>750,015</b>
Depreciation and amortisation	14,163	7,195	11,823	575	<b>33,756</b>
Purchase of fixed and intangible assets	11,691	13,619	6,377	733	<b>32,420</b>

31.12.2014	Gas transmission	Gas storage	Gas distribution	Gas sale	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Net turnover from sale to external customers	5,594	17,610	911	478,961	<b>503,076</b>
Internal income/expenses	20,825	14,179	48,570	(83,574)	-
Profit before taxes	3,187	10,515	12,395	9,225	<b>35,322</b>
Assets	199,995	143,037	254,124	150,814	<b>747,970</b>
Depreciation and amortisation	13,952	7,396	11,633	851	<b>33,832</b>
Purchase of fixed and intangible assets	14,858	8,016	6,499	641	<b>30,014</b>

*Profit or loss statement*

**2. Income**

<b>Income from principal activity</b>	<b>2015</b>	<b>2014</b>
	EUR'000	EUR'000
Natural gas trade	425,632	478,915
Natural gas storage	18,025	23,250
Other income from principal activity	1,029	911
	<b>444,686</b>	<b>503,076</b>

**3. Costs of materials**

<b>Costs of materials</b>	<b>2015</b>	<b>2014</b>
	EUR'000	EUR'000
Natural gas purchase	323,760	376,515
Costs of materials, spare parts and fuel	7,557	10,134
Natural gas for technological purposes	3,235	5,280
	<b>334,552</b>	<b>391,929</b>

**6. Other operating costs**

<b>Other operating costs</b>	<b>2015</b>	<b>2014</b>
	EUR'000	EUR'000
Costs of maintenance of premises and other services	4,705	4,582
Other costs	3,420	5,603
Donations, financial support	2,309	3,136
Taxes and duties	2,200	2,170
Office and other administrative costs	1,295	1,222
Sale and advertising costs	1,221	1,035
Costs of IT system maintenance, communications and transport	1,011	987
Provisions for bad debts, net*	-	281
	<b>16,161</b>	<b>19,016</b>

\* In 2015 the net provisions for bad debts in the amount of 438 thousand EUR were included under other income as income from disposal of assets.

**Other income**

<b>Other income</b>	<b>2015</b>	<b>2014</b>
	EUR'000	EUR'000
Income from construction of service lines	1,196	1,169
Fines	930	1,241
Income from disposal of assets	829	851
Other income	364	341
	<b>3,319</b>	<b>3,602</b>

**4. Personnel costs**

<b>Personnel costs</b>	<b>2015</b>	<b>2014</b>
	EUR'000	EUR'000
Salary	22,612	21,149
State social security contributions	4,749	4,346
Life, health and pension insurance	1,405	1,306
Other personnel costs	449	350
	<b>29,215</b>	<b>27,151</b>

including Board and Council remuneration

	<b>2,982</b>	<b>2,279</b>
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Annual average number of employees	1,264	1,255
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**7. Corporate income tax**

<b>Corporate income tax</b>	<b>2015</b>	<b>2014</b>
	EUR'000	EUR'000
Corporate income tax	6,057	6,746
Deferred tax	(1,783)	(1,493)
	<b>4,274</b>	<b>5,253</b>

## 8. Deferred corporate income tax

Deferred tax estimate	2015	2014
	EUR'000	EUR'000
<b>Profit before taxes</b>	<b>34,791</b>	<b>35,322</b>
Tax theoretically calculated with 15% rate	5,219	5,298
Influence of taxes:		
Costs not eligible for reduction of taxable income, net	243	1210
Tax reduction on donations	(1,188)	(1,255)
<b>Tax expense</b>	<b>(4,274)</b>	<b>(5,253)</b>

Deferred tax calculation	2015	2014
	EUR'000	EUR'000
<b>Deferred tax liabilities at the beginning of reporting year</b>	<b>54,644</b>	<b>56,447</b>
Increase in deferred tax liabilities from revaluation of fixed assets (against equity)	30	36
Decrease in deferred tax liabilities (included in profit or loss statement)	(1,783)	(1,493)
Deferred tax for revaluated fixed assets disposed (against equity)	(493)	(346)
<b>Deferred tax liabilities at the end of reporting year</b>	<b>52,398</b>	<b>54 644</b>
<b>Temporary differences in deferred tax:</b>		
Difference in depreciation of fixed assets (will level out in 12 months)	1,020	2,318
Difference in depreciation of fixed assets (will level out longer than 12 months)	55,381	56,145
Difference in provisions for impairment of bad and doubtful debts (will level out in 12 months)*	(1,528)	(1,128)
Difference in costs accrued for unused leaves and bonuses (will level out in 12 months)	(1,015)	(1,213)
Difference in provisions for post-employment benefits and other liabilities towards employees (will level out longer than 12 months)	(663)	(673)
Difference in other accrued liabilities (will level out in 12 months)	(734)	(739)
Difference in provisions for impairment of slow-movement and outdated inventory (will level out in 12 months)	(63)	(66)
<b>Deferred tax liabilities, net</b>	<b>52,398</b>	<b>54,644</b>

\* 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.

*Balance sheet*

**9. Intangible assets**

Intangible assets	2015	2014
	EUR'000	EUR'000
<b>Initial value</b>		
As at the beginning of period	13,346	12,616
Purchased	1,124	860
Written down	(124)	(67)
Adjustment	-	(63)
<b>As at the end of period</b>	<b>14,346</b>	<b>13,346</b>
<b>Amortisation</b>		
As at the beginning of period	11,117	9,826
Amortisation over reporting year	1,071	1,379
For write-down	(124)	(25)
Adjustment	-	(63)
<b>As at the end of period</b>	<b>12,064</b>	<b>11,117</b>
<b>Residual value as at December 31</b>	<b>2,282</b>	<b>2,229</b>

The intangible assets include fully depreciated intangible assets with a total initial value of EUR 7,407 thousand (on 31.12.2014: EUR 7,407 thousand).

**10. Fixed assets**

Fixed assets	Land	Cushion gas	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	EUR'000
<b>31.12.2014</b>	<b>2,584</b>	<b>9,377</b>	<b>1,054,386</b>	<b>133,904</b>	<b>20,956</b>	<b>16,739</b>	<b>1,237,946</b>
Purchased	-	-	-	-	-	31,543	31,543
Reclassified	-	-	32,069	2,507	1,212	(35,788)	-
Revaluated	-	-	195	2	-	-	197
Written down	-	-	(9,117)	(1,390)	(659)	(9)	(11,175)
Adjustment	-	-	1	(5)	(548)	(3)	(555)
<b>31.12.2015</b>	<b>2,584</b>	<b>9,377</b>	<b>1,077,534</b>	<b>135,018</b>	<b>20,961</b>	<b>12,482</b>	<b>1,257,956</b>
<b>Depreciation</b>							
<b>31.12.2014</b>	<b>-</b>	<b>-</b>	<b>589,655</b>	<b>71,954</b>	<b>14,662</b>	<b>-</b>	<b>676,271</b>
Calculated	-	-	24,205	6,655	1,837	-	32,697
Written down	-	-	(5,980)	(1,281)	(646)	-	(7,907)
Adjustment	-	-	-	(9)	(546)	-	(555)
<b>31.12.2015</b>	<b>-</b>	<b>-</b>	<b>607,880</b>	<b>77,319</b>	<b>15,307</b>	<b>-</b>	<b>700,506</b>
<b>Residual book value as at 31.12.2015</b>	<b>2,584</b>	<b>9,377</b>	<b>469,654</b>	<b>57,699</b>	<b>5,654</b>	<b>12,482</b>	<b>557,450</b>
<b>Residual book value as at 31.12.2014</b>	<b>2,584</b>	<b>9,377</b>	<b>464,731</b>	<b>61,950</b>	<b>6,294</b>	<b>16,739</b>	<b>561,675</b>

Fixed assets	Land	Cushion gas	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	EUR'000
<b>31.12.2013</b>	<b>2,584</b>	<b>9,377</b>	<b>1,042,126</b>	<b>131,556</b>	<b>20,770</b>	<b>8,723</b>	<b>1,215,136</b>
Purchased	-	-	-	-	-	29,504	29,504
Reclassified	-	-	15,562	4,812	1,048	(21,422)	-
Revaluated	-	-	239	-	-	-	239
Written down	-	-	(3,541)	(2,464)	(862)	(66)	(6,933)
<b>31.12.2014</b>	<b>2,584</b>	<b>9,377</b>	<b>1,054,386</b>	<b>133,904</b>	<b>20,956</b>	<b>16,739</b>	<b>1,237,946</b>
<b>Depreciation</b>							
<b>31.12.2013</b>	-	-	<b>568,164</b>	<b>67,337</b>	<b>13,527</b>	-	<b>649,028</b>
Calculated	-	-	23,679	6,803	1,982	-	32,464
Written down	-	-	(2,188)	(2,186)	(847)	-	(5,221)
<b>31.12.2014</b>	-	-	<b>589,655</b>	<b>71,954</b>	<b>14,662</b>	-	<b>676,271</b>
<b>Residual book value as at 31.12.2014</b>	<b>2,584</b>	<b>9,377</b>	<b>464,731</b>	<b>61,950</b>	<b>6,294</b>	<b>16,739</b>	<b>561,675</b>
<b>Residual book value as at 31.12.2013</b>	<b>2,584</b>	<b>9,377</b>	<b>473,962</b>	<b>64,219</b>	<b>7,243</b>	<b>8,723</b>	<b>566,108</b>

Real estate value according to State Land Service	2015	2014
	EUR'000	EUR'000
Engineering buildings	61,335	59,128
Constructions	10,064	10,038
Land	4,578	4,616

The fixed assets include fully depreciated fixed assets with a total initial value of EUR 18,141 thousand (on 31.12.2014: EUR 13,242 thousand).

## 11. Inventories

Inventories	31.12.2015	31.12.2014
	EUR'000	EUR'000
Natural gas and fuel (purchase value)	52,592	74,277
Advance payments for natural gas	24,122	-
Materials and spare parts	4,348	6,351
Advance payments for materials	106	63
Provisions for slow-movement inventory	(421)	(438)
	<b>80,747</b>	<b>80,253</b>

Provisions for impairment of slow-movement and outdated inventory	2015	2014
	EUR'000	EUR'000
<b>Provisions at the beginning of year</b>	<b>438</b>	<b>461</b>
Costs included in profit or loss statement	3	9
Income included in profit or loss statement	(11)	(30)
Written down	(9)	(2)
<b>Provisions at the end of year</b>	<b>421</b>	<b>438</b>

## 12. Trade receivables

Trade receivables	31.12.2015	31.12.2014
	EUR'000	EUR'000
Long-term receivables at book value	12	12
Provisions for impairment of long-term receivables	(4)	(4)
	<b>8</b>	<b>8</b>
Short-term receivables at book value	38,059	62,279
Provisions for impairment of short-term receivables	(10,186)	(10,620)
	<b>27,873</b>	<b>51,659</b>
<b>Provisions for impairment of bad and doubtful receivables</b>	<b>2015</b>	<b>2014</b>
	EUR'000	EUR'000
<b>Provisions at the beginning of year</b>	<b>10,722</b>	<b>10,514</b>
Costs included in profit or loss statement	1,708	2,175
Income included in profit or loss statement	(2,145)	(1,894)
<b>Net changes included in profit or loss statement</b>	<b>(437)</b>	<b>281</b>
Bad debts written down	(95)	(73)
<b>Provisions at the end of year</b>	<b>10,190</b>	<b>10,722</b>

## 14. Deferred income

Deferred income	31.12.2015	31.12.2014
	EUR'000	EUR'000
<b>Income from residential and corporate customers' contributions to construction of gas pipelines:</b>		
Long-term part	19,344	19,468
Short-term part	946	919
	<b>20,290</b>	<b>20,387</b>
<b>Balance at the beginning of year</b>	<b>20,387</b>	<b>20,517</b>
Received from residential and corporate customers during reporting year	827	769
Included in income of reporting year	(924)	(899)
<b>Transferred to next years</b>	<b>20,290</b>	<b>20,387</b>
Income from EC co-financing:		
Long-term part	8,603	8,871
Short-term part	268	268
	<b>8,871</b>	<b>9,139</b>

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.

## 13. Other current assets

Other current assets	2015	2014
	EUR'000	EUR'000
Advance CIT	1,956	469
Prepayments and deferred charges	391	405
Other receivables	193	246
	<b>2,540</b>	<b>1,120</b>
Provisions for impairment of bad and doubtful debts	(92)	(98)
	<b>2,448</b>	<b>1,022</b>

### Movement of deferred income:

Balance at the beginning of year	9,139	9,407
EC financing recognised in reporting year	-	2
Included in income of reporting year	(268)	(270)
<b>Transferred to next years</b>	<b>8,871</b>	<b>9,139</b>
<b>Total transfer to next years</b>	<b>29,161</b>	<b>29,526</b>

Under the EC resolution C(2010)5554 dated August 13, 2008 on financial aid to gas and electricity interconnections in the field of Regulation (EC) No.663/2009, the Company was granted financing in the amount of 50% but not exceeding EUR 10 million for the actions No.EEPR-2009-INTg-RF-LV-LT SI2.566527 „Reconstruction of 15 wells at the Inčukalns Underground Gas Storage Facility” and SI2.566531 „Reconstruction of underwater passage across Daugava River and construction of new pipeline service plant”. The objects were commissioned in 2011. The unspent portion of financing was used for the reconstruction of two other wells. The last payment from the EC was received in 2013.

## 15. Other liabilities

Other liabilities	2015	2014
	EUR'000	EUR'000
Prepayments received	12,153	12,111
Value added tax received	9,066	12,789
Other current liabilities	6,897	6,886
Accrued costs for annual performance bonus	5,565	6,850
Excise tax	2,519	2,740
Accrued costs for unused leave	1,245	1,318
Social security contributions	888	848
Salaries	781	752
Individual income tax	554	585
Accrued costs for other expenses	312	403
Natural resource tax	29	65
Real estate tax	17	-
	<b>40,026</b>	<b>45,347</b>

## 16. Provisions for employment and post-employment benefits

Provisions for employment and post-employment benefits	2015	2014
	EUR'000	EUR'000
<b>Provisions at the beginning of reporting year</b>	<b>4,486</b>	<b>5,812</b>
Provisions made	159	(1,206)
Paid	(147)	(200)
Interest costs	10	(24)
Revaluations due to changes in actuarial assumptions	725	104
<b>Provisions at the end of reporting year</b>	<b>5,233</b>	<b>4,486</b>

### Other information

## 17. Shares and shareholders

Equity	31.12.2015 % of total share capital	31.12.2015 Number of shares	31.12.2014 % of total share capital	31.12.2014 Number of shares
<b>Equity</b>				
Registered (closed issue) shares	36.52	14,571,480	36.52	14,571,480
Bearred (public issue) shares	63.48	25,328,520	63.48	25,328,520
	<b>100.00</b>	<b>39,900,000</b>	<b>100.00</b>	<b>39,900,000</b>
<b>Shareholders</b>				
Uniper Ruhrgas International GmbH (including registered (closed issue) shares 7,285,740)	47.23	18,846,385	47.23	18,846,385
Itera Latvija LLC	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
	<b>100.00</b>	<b>39,900,000</b>	<b>100.00</b>	<b>39,900,000</b>

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

As at December 31, 2015, 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.



## 18. Taxes

Tax movement	Liabilities	Overpayment	Calculated	Paid	Liabilities	Overpayment
	31.12.2014	31.12.2014	2015	2015	31.12.2015.	31.12.2015.
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	12,789	-	86,805	(90,528)	9,066	-
Excise tax	2,740	-	20,317	(20,538)	2,519	-
Social security contributions	848	-	7,249	(7,209)	888	-
Corporate income tax	-	469	6,057	(7,544)	-	1,956
Individual income tax	585	-	4,606	(4,637)	554	-
Real estate tax	-	-	1,205	(1,188)	17	-
Natural resource tax	65	-	296	(332)	29	-
Retentions from non-residents	4	-	-	(4)	-	-
	<b>17,031</b>	<b>469</b>	<b>126,535</b>	<b>(131,980)</b>	<b>13,073</b>	<b>1,956</b>

### *Related person transactions*

## 19. Claims and liabilities with related persons

Transactions with related persons	2015	2014
	EUR'000	EUR'000
<b>Income from provision of services</b>		
PJSC "Gazprom"	15,140	21,207
<b>Expenses on natural gas purchase</b>		
PJSC "Gazprom"	289,422	265,122
<b>Expenses on purchase of services from companies controlled by related companies</b>		
Companies controlled by PJSC "Gazprom"	6,523	4,273
E.ON Global Commodities SE	-	25
	<b>6,523</b>	<b>4,298</b>

Claims and liabilities with related persons	31.12.2015	31.12.2014
	EUR'000	EUR'000
<b>Debts to related companies for natural gas and services*</b>		
PJSC "Gazprom"	7,893	470
Companies controlled by PJSC "Gazprom"	1,390	402
	<b>9,283</b>	<b>872</b>
<b>Debts of related companies for natural gas transit**</b>		
PJSC "Gazprom"	35	2,364
<b>Advance payment to related company for services</b>		
PJSC "Gazprom"	24,122	-
Companies controlled by PJSC "Gazprom"	460	1,052
	<b>24,582</b>	<b>1,052</b>

*Key principles of accounting and evaluation*

These financial statements are based on the accounting and evaluations principles below. The principles have been used in previous years unless stated otherwise. When drawing up the unaudited condensed financial statements of 2015, adjustments have been made to the comparative figures of 2014 to make sure that the respective statements be comparable.

**Fixed assets**

Buildings, gas transmission and distribution system and equipment are stated at fair value as determined under the policy of revaluation of fixed assets approved by the Board, less accumulated depreciation and impairment charge. Revaluation shall be made with sufficient regularity to ensure the carrying amount not differ materially from that which would be determined using fair value at the end of the reporting period. Revaluation is performed every 5 years using the depreciated replacement cost method. All other fixed assets (including land and cushion gas) are stated at historical cost, less accumulated depreciation and impairment charge. Historical cost includes expenditure directly attributable to the acquisition of the items.

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

Upon revaluation of fixed assets, the accumulated depreciation is changed in proportion to changes in the gross value of the fixed assets revaluated. 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, cushion gas, advances and assets under construction are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful lives, as follows:

	years
Buildings	60 - 100
Gas transmission and distribution system	40 - 50
Machinery and technical equipment	5 - 20
Furniture and fittings	5 - 10
Computers and equipment	3.33

The Company's policy is to capitalise fixed assets with cost exceeding EUR 250 and useful life exceeding 1 year. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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.

Costs of borrowing to finance assets under construction and other direct charges related to the particular asset under construction are capitalised during the time that is required to complete and prepare the asset for its intended use, as part of the cost of the asset. Capitalisation of the borrowing costs is suspended during extended periods in which active developments are interrupted.

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.

**Inventories**

The cost of natural gas in the Inčukalns UGS and in gas transmission pipelines is determined separately using the first-in first-out (FIFO) method based on the total natural gas movement. The cost of natural gas is composed of the gas purchase cost. The cost of materials, spare parts, gas meters and other inventories is determined using the weighted average method. Direct labour costs attributable to manufacturing costs and other direct costs are attributed by the principle of accruals in the period when incurred.

Inventories are recorded at the lowest between 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-movement 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 provision 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 provisions 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 (such as improvement of the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss statement.

#### **Accrued unused annual leave expenses**

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

#### **Employee benefits**

##### *Bonus plans*

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

##### *Social security and pension contributions*

The Company pays social security contributions for state pension insurance to the state funded pension scheme in compliance with the Latvian legislation. The state funded pension scheme is a fixed-contribution pension plan whereby the Company has to make payments in an amount specified by law. The Company also pays contributions to an external fixed-contribution private pension plan. The Company does not incur legal or constructive obligations to pay further contributions if the state funded pension scheme or private pension plan is unable to meet its liabilities towards employees. The social security and pension contributions are recognised as an expense on an accrual basis and are included within staff costs.

##### *Post-employment and other employee benefits*

Under the Collective Agreement, the Company provides certain benefits upon termination of employment and over the rest of life to employees whose employment conditions meet

certain criteria. The amount of benefit liability is calculated based on the current salary level and the number of employees who are entitled or may become entitled to receive those payments, as well as based on actuarial assumptions. The benefit obligation is calculated once per year.

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

#### **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.

##### *Income from sale of natural gas*

Sales are recognised upon delivery of gas, net of value added tax and discounts, 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.

##### *Income from transmission and storage of natural gas*

Income from the rendering of services is recognised upon performance of services, net of value added tax and discounts, but including excise tax. 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.

The applicable natural gas selling price is calculated based on the latest available data. The exchange rate for EUR/USD set by the ECB in the last day of the previous month, the actual gross calorific value of gas in the previous month as well as the planned volume of received and delivered gas are used in the calculation. The actual purchase costs of natural gas are calculated based on methodology approved by the PUC's Council, taking into account the exchange rate of EUR/USD on the last day of the month when gas is delivered, the actual gas gross calorific value as well as the actual volume of gas purchased from suppliers.

*Interest income*

Interest income is recognised according to the principle of time proportion using the effective interest rate. Interest income on term deposits is classified as Other income and interest on cash balances is classified as Finance income. The accrual of interest income is ceased, if its recoverability is uncertain.

*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 and the amount of the

revenue can be measured reliably. 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.

*Post balance sheet events*

During the period since the last day of the annual accounts till the signing of the accounts there have been no events of substantial influence upon the accounts of 2015.