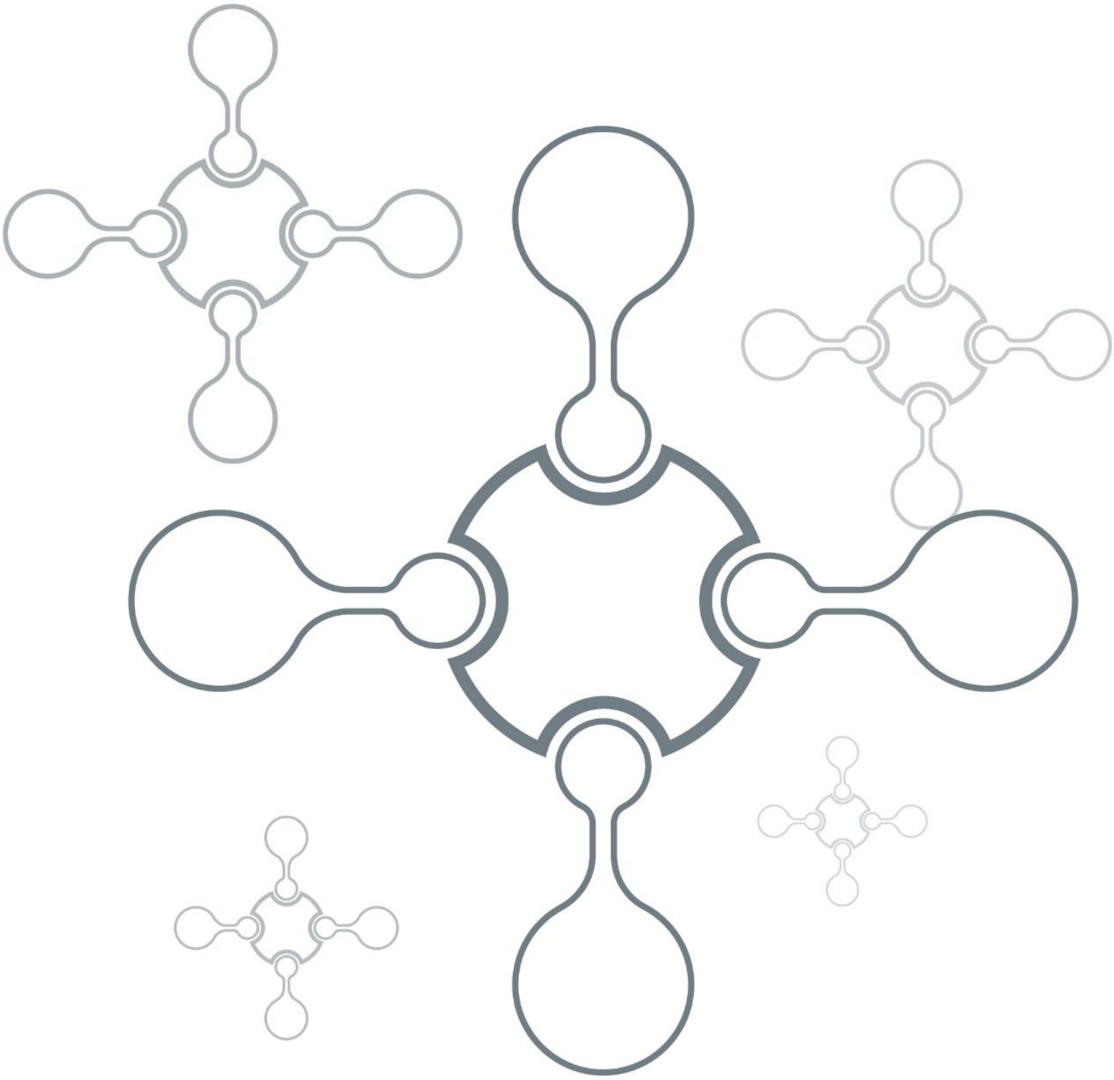


UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 12-MONTH PERIOD ENDED 31 DECEMBER 2017

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

Riga
2018

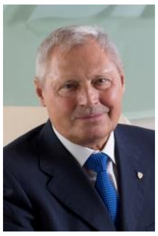
CONTENTS

COUNCIL OF THE JSC "LATVIJAS GĀZE"

(Term of office from November 16, 2017 till November 15, 2020)

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

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



Juris Savickis, 1946
Vice-Chairman of the Council

Since 1996, President of LLC "ITERA Latvija"

Oliver Giese, 1967
Vice-Chairman of the Council

Since 2016, Senior Vice President for Infrastructure Management at Uniper SE (formerly E.ON Global Commodities SE, Düsseldorf, Germany)

Matthias Kohlenbach, 1969
Member of the Council

Since 2016 Legal Department of Uniper SE, Germany; responsible for international projects

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

Since 2016, Chairman of the Board, Gazprom Germania GmbH

Nicolàs Merigó Cook, 1963
Member of the Council

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

Hans-Peter Floren, 1961
Member of the Council

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

David Stephen Harrison, 1970
Member of the Council

Since 2010, Member of the board of Marguerite Adviser S.A. (Luxembourg)

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

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

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

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

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

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

Members of the Council – term of office till November 16, 2017: Viktor Valov, Guillaume Rivron

MANAGEMENT BOARD OF THE JSC “LATVIJAS GĀZE”

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

Aigars Kalvītis, 1966
Chairman of the Board

Latvian University of Agriculture - Master’s Degree in Economics

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

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

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

Elita Dreimane, 1968
Member of the Board
(term of office from December 31, 2017 till August 15, 2018)
University of Latvia Faculty of Law, Master’s Degree of Social Sciences in Law

Members of the Board – term of office till 31 December, 2017: Zane Kotāne, Gints Freibergs

LATVIJAS GĀZE GROUP IN SHORT

2017 was a year of changes and transition for the JSC "Latvijas Gāze" (further – the Company). At the beginning of the year in line with the amendments to the Energy Law adopted by the Saeima of the Republic of Latvia on 11 February 2016 the Company's natural gas storage and transmission business was spun-off into the newly founded and fully independent company the JSC "Conexus Baltic Grid". The natural gas trading and distribution business remained with the JSC "Latvijas Gāze".

On 3 April 2017 the Latvian natural gas market was opened to competition bringing to an end the former monopoly position of the JSC "Latvijas Gāze". To complete the liberalisation process of the Latvian gas market and to fully comply with the unbundling requirements provided in the amendments to the Energy Law, the Company's shareholders on 15 August 2017 took the conceptual decision to transfer the distribution business of the Company into a 100% subsidiary with an own and fully independent Board of Management and Council. After final shareholder approval on 22 November 2017 the JSC "Latvijas Gāze" founded the distribution system operator JSC "Gaso", which formally started operations on 1 December 2017.

Since that date the formerly integrated business of the JSC "Latvijas Gāze"is now divided into two separate and independent operating segments forming Latvijas Gāze group: natural gas sales & trading and natural gas distribution.

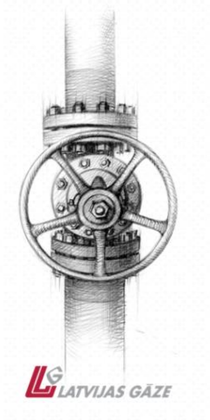
The natural gas sales & trading segment comprises the purchase, trading and sale of natural gas. The business includes wholesale trading and the sale of natural gas to industrial and commercial customers as well as to households.

The distribution segment provides natural gas distribution services in Latvia. Services are delivered by the JSC "Gaso", which holds an exclusive license for the distribution of natural gas on the territory of Latvia. The license was granted by the Public Utilities Commission (PUC) on 7 December 2017 and is valid until December 6 2037. The JSC "Gaso" owns and operates all distribution assets necessary to provide the respective services to its more than 400 thousand customers. Distribution tariffs are reviewed and approved by the PUC in regular intervals.

Structure of Latvijas Gāze group as of 1 December 2017

	Country of operations	Type of business operation	Participation share
JSC "Latvijas Gāze"	Latvia, Lithuania and Estonia	Sales & Trading of natural gas	
JSC "Gaso"	Latvia	Distribution of natural gas	100%

STRATEGY AND OBJECTIVES



OUR OBJECTIVE

To strengthen the position of Latvijas Gāze group 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 Baltic 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 businesses 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.

LATVIJAS GĀZE GROUP`S FOCUS

Latvijas Gāze group comprising the natural gas sales & trading segment and the natural gas distribution segment is fully committed to the objective of strengthening its position as a leader in the Latvian and Baltic energy market and ensuring safe and stable supplies through:

1. *Price competitiveness*

We continuously work towards improving the competitiveness of our natural gas purchase portfolio as well as to improve our cost efficiency and effectiveness with regard to the provision of our products and services. We are dedicated to offering competitive natural gas prices and to ensuring affordable distribution tariffs to all our customers.

2. *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.

3. *Quality of service*

Latvijas Gāze group is continuously working on improving the quality and availability of its products and services. 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.

4. *Effective management*

Latvijas Gāze group is governed in compliance with the principles of good corporate governance, ensuring the equality of all shareholders, a professional supervision, and transparency. The group'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 & trading business.

5. *Professional personnel*

Latvijas Gāze group employs 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. The sales & trading segment as well as the distribution segment provide their employees with a modern labour environment and operate in compliance with clearly defined personnel policies to ensure an efficient performance and recruitment.

6. *Safety and security of gas supply*

In its gas distribution segment Latvijas Gāze group strives to ensure both the physical safety of the infrastructure, as well as to guarantee the distribution capacity necessary to satisfy the natural gas demand in Latvia. Commercially Latvijas Gāze group focuses on ensuring trustful, safe and flexible gas supplies at competitive prices.

7. *Sustainable investment*

Investments in gas supply safety are closely related to the improvement of efficiency and environmental factors. The distribution segment observes high standards for the diagnostics of the natural distribution network, thus reducing the risk of an emergency and leaking of methane.

8. *Network development and customer attraction*

The distribution segment of Latvijas Gāze group plans to further develop the distribution network and to attract new customers through the realization of new gasification projects in populated areas and analysing options for the implementation of off-grid solutions.

SHARES AND SHAREHOLDERS OF THE JSC “LATVIJAS GĀZE”

Shares and shareholders

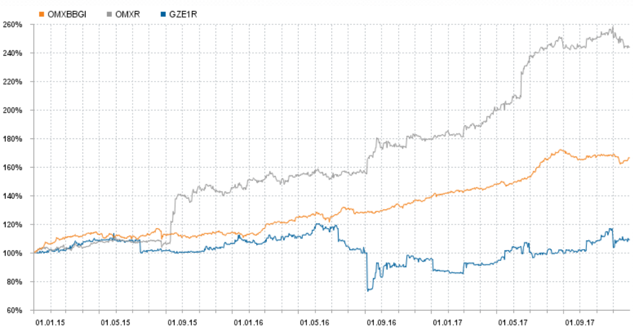
The shares of the JSC “Latvijas Gāze”are listed on the Nasdaq Riga stock exchange since February 15, 1999, and its ticker code is GZE1R since August 1, 2004. The total number of securities has not changed since 1999.

Company’s share price, OMX Riga GI and OMX Baltic GI index changes (01.01.2015. – 31.12.2017.)

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 shares of the JSC “Latvijas Gāze” 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 JSC “Latvijas Gāze” ranked number two among companies listed on Nasdaq Riga and number five among companies listed on Nasdaq Baltic. The Company’s market capitalisation value in 2017 reached 399.00 million EUR – 39.08 million EUR less than in the previous reporting year.

On 4 January, 2017 the JSC “Latvijas Gāze” completed the spin-off of the the natural gas transmission and storage segments into a fully independent company with the name JSC “Conexus Baltic Grid”. After the spin-off the Company’s share price on the stock exchange dropped by 8.1%. However, after the JSC “Latvijas Gāze” had published its annual results for 2016, the share price rose by 9.0%. There was a further rise after the opening of the Latvian natural gas market on April 3, 2017, followed by a slight drop after the annual payment of dividends in early July. Overall, from January till the end of September the Company’s share price increased by 9.9 %. With the foundation of the JSC “Gaso” as new independent Latvian distribution system operator, the JSC “Latvijas Gāze”on 1 December 2017 completed the legally required unbundling of the Company. Despite the fact that the JSC “Gaso” remains a 100% subsidiary of the JSC “Latvijas Gāze” the share price dropped by 11.2% immediately after the foundation of the JSC “Gaso”. However, by the end of the year the price had rebounded and closed the year at a level of 10 EUR per share.

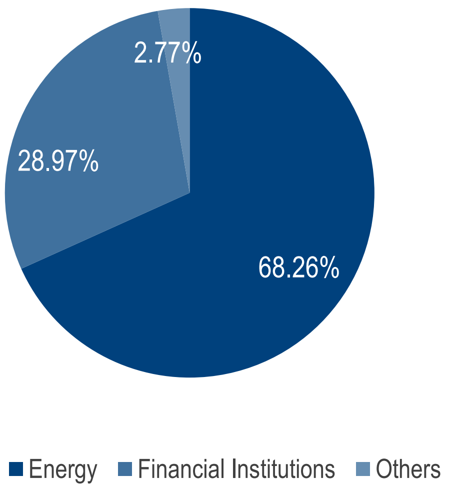
Share price development and share turnover (01.01.2015.-31.12.2017.)

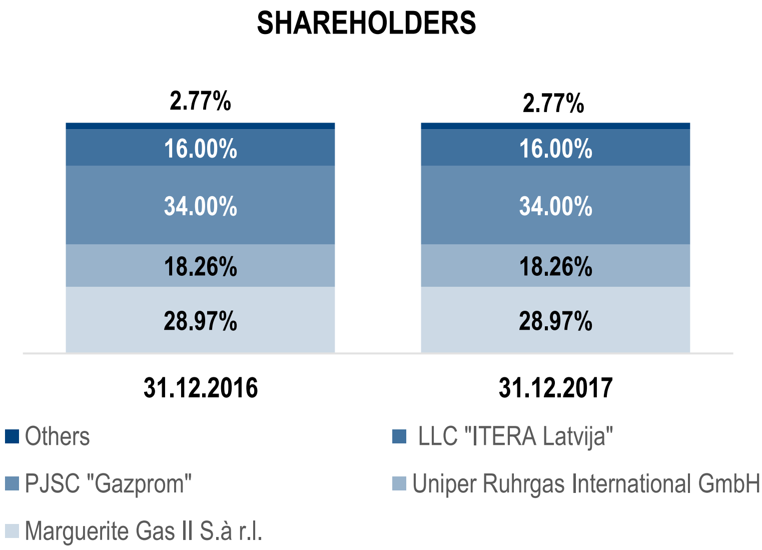
Source: Nasdaq Baltic

Information on share transactions (01.01.2015.-31.12.2017.)

	2015	2016	2017
Share price (EUR)			
First	9.1	9.8	8.8
Highest	10.4	11.1	11.1
Lowest	9.1	5.6	7.8
Average	9.6	9.5	9.1
Last	9.8	8.8	10.0
Change (From First to Last share pice)	6.78%	-10.11%	13.90%
Number of transactions	1,283	2,240	1,596
Number of shares traded	136,627	229,363	172
Turnover (million EUR)	1.31	2.17	1.55
Capitalization (million EUR)	389.42	350.32	399.00

Composition of shareholders as at 31.12.2017





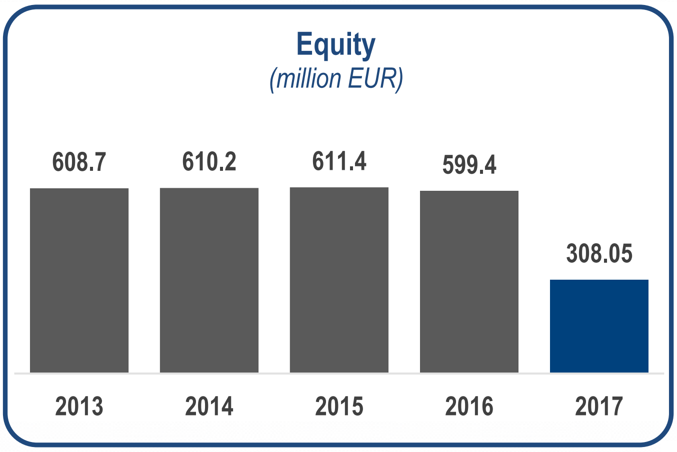
On March 23, 2017, Marguerite Gas II S.à.r.l. received all the shares owned by Marguerite Gas I S.à.r.l., thus becoming the holder of 28.97% of the shares in the JSC “Latvijas Gāze”. Both companies have the same chain of controlling owners – "MARGUERITE HOLDINGS S.à.r.l." and "2020 European Fund for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

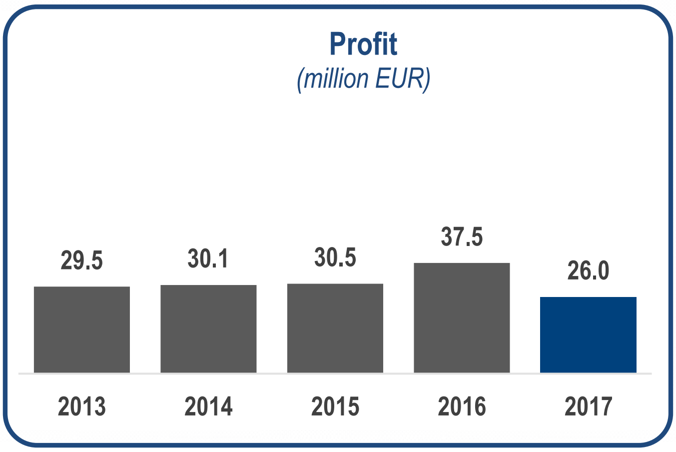
Shares owned by members of the governing bodies of the JSC "Latvijas Gāze"

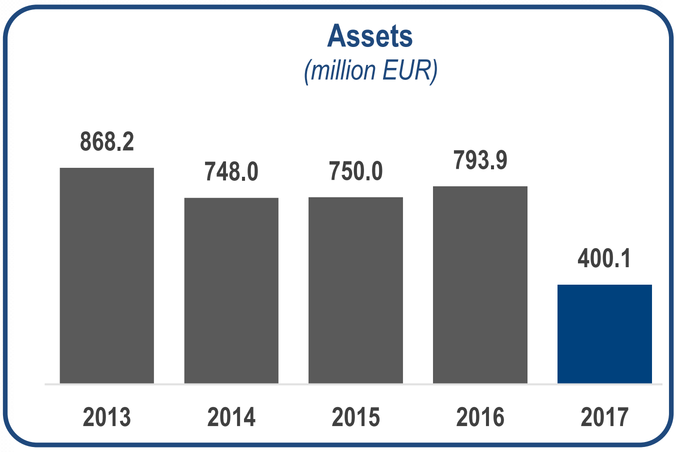
		At the date of signing financial statements
Management Board		Number of shares
Chairman of the Board	Aigars Kalvītis	None
Deputy Chairman of the Board	Alexander Frolov	None
Deputy Chairman of the Board	Sebastian Gröblinghoff	None
Member of the Board	Elita Dreimane	None
Council		
Chairman of the Council	Kirill Seleznev	None
Deputy Chairman of the Council	Juris Savickis	None
Deputy Chairman of the Council	Oliver Giese	None
Member of the Council	David Stephen Harrison	None
Member of the Council	Nikolay Dubik	None
Member of the Council	Vitaly Khatkov	None
Member of the Council	Oleg Ivanov	None
Member of the Council	Nicolas Merigo Cook	None
Member of the Council	Matthias Kohlenbach	None
Member of the Council	Hans-Peter Floren	None
Member of the Council	Elena Mikhaylova	None

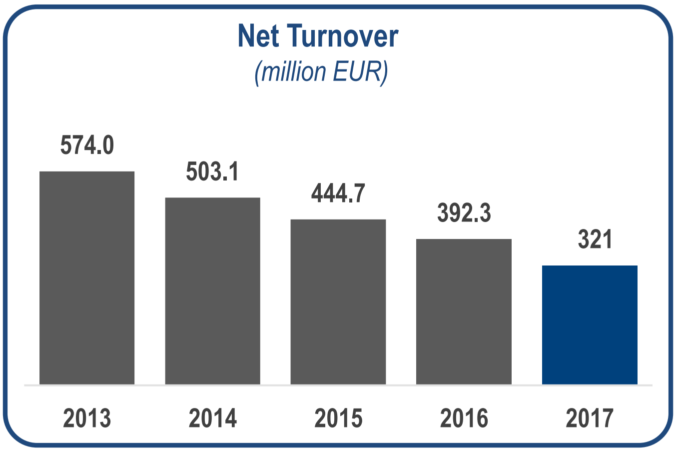
LATVIJAS GĀZE GROUP FACTS AND FIGURES

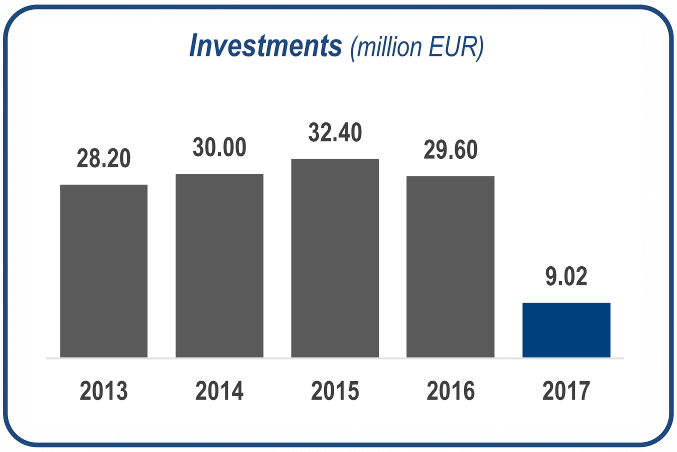
Financial indicators

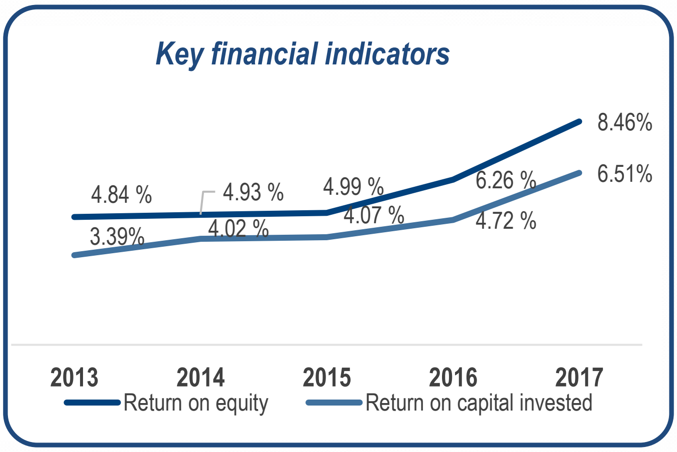




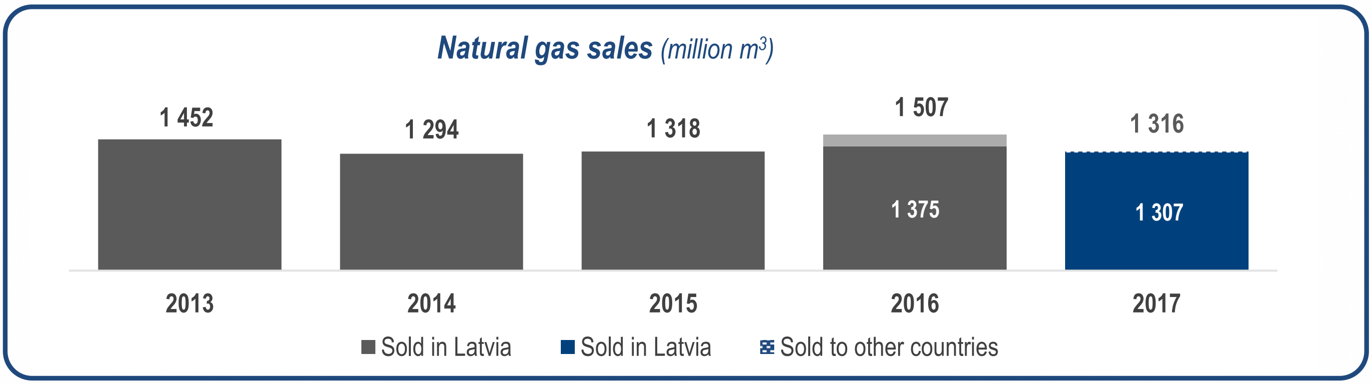




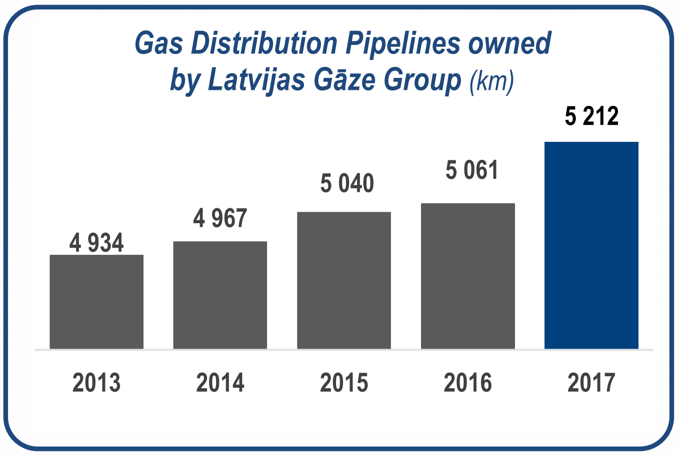


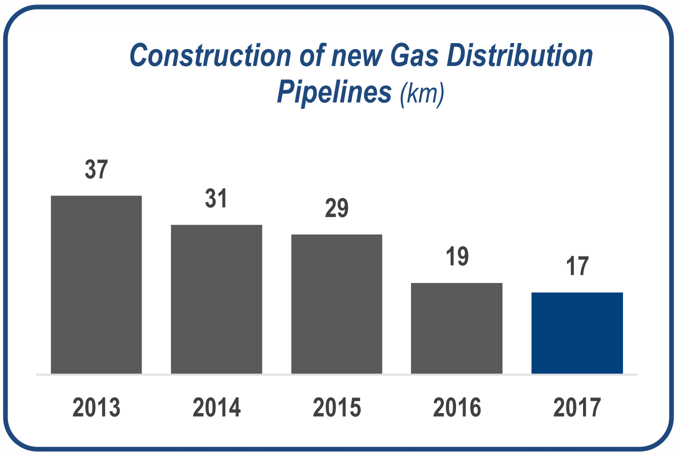


Natural gas Volumes

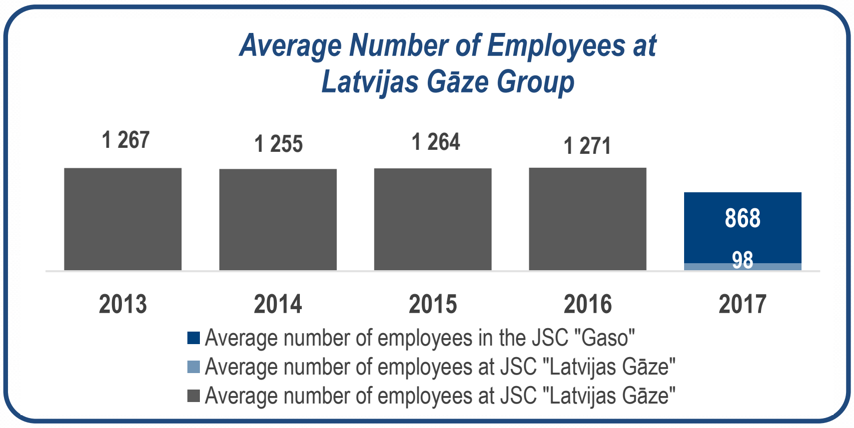


Distribution system





Employees



MANAGEMENT REPORT

The key events for the JSC “Latvijas Gāze” in 2017 were the opening of the Latvian gas market on 3 April 2017 and the foundation of the JSC “Gaso” on 22 November 2017.

Until 3 April 2017 the JSC “Latvijas Gāze” was the only company in the Latvian market selling natural gas to customers. The natural gas was sold to customers based on a regulated price set by the Public Utilities Commission (PUC). Since 3 April 2017 several new players have entered the Latvian natural gas market actively competing with the former incumbent the JSC “Latvijas Gāze” for market share. At the end of 2017 in total 37 companies were officially registered as gas trading companies in Latvia. With market opening also the regulated price was abolished except for the household segment. Customers of natural gas can now freely negotiate the pricing terms and conditions for their gas supplies. As a consequence gas trading companies face an increasing variety of customer requirements with regard to pricing structure, product features and additional services. Despite the advent of competition in the Latvian natural gas market the JSC “Latvijas Gāze” managed to limit the loss in total sales volumes in the open market segment to less than 10%. At the same time the Company actively prepared entering into the neighbouring natural gas markets in Lithuania and Estonia. Subsequently, on 17 August 2017 the JSC “Latvijas Gāze” received a license for natural gas trading in Lithuania and on 23 August 2017 the Company was granted a natural gas trading license for Estonia. The licenses allow the Company to directly sell natural gas to customers in Lithuania and Estonia instead of only delivering gas at the border of these countries.

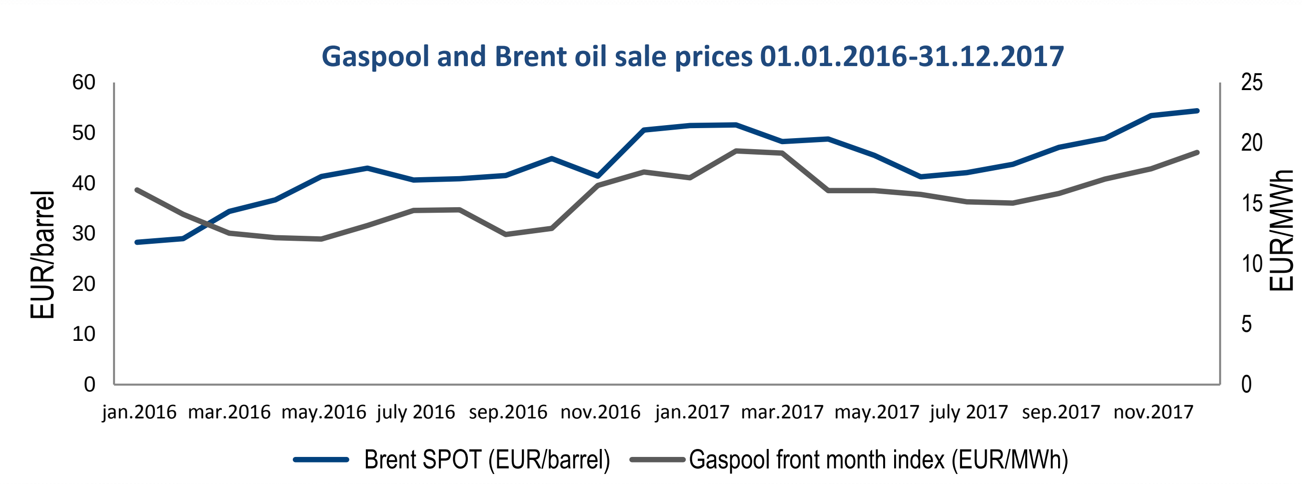
22 November 2017 marked a further milestone in the history of the JSC “Latvijas Gāze”. With the foundation of the JSC “Gaso”, which owns and operates the natural gas distribution network in Latvia, the company completed the unbundling process triggered by the amendements to the Energy Law that were adopted by the Saeima of the Republic of Latvia on 11 February 2016. The JSC “Gaso” since 1 December 2017 provides distribution services to market participants in Latvia. As a 100% subsidiary with an own and fully independent Board of Management and Council the JSC “Gaso” remains an essential part of Latvijas Gāze group.

In 2017 Latvijas Gāze group supplied natural gas to more than 400 thousand customers in Latvia and further expanded its presence in the natural gas wholesale segment and natural gas trading abroad. The total natural gas sales in 2017 amounted to 1 316 thouand m^3 (13 859 GWh), which is a decrease of 12.7 % in comparison to 2016. Taking into account the significant changes in the market and operating environment of the company as well as the costs associated with the unbundling of the Company, Latvijas Gāze group with a net profit of 26 million EUR overall achieved a solid financial result. For the future Latvijas Gāze group remains fully committed to retaining its position as the most reliable natural gas supplier for market customers and households alike and to expand its sales activities in the Baltic region.

Group`s key performance figures	2016	2017
Natural gas sales, thousand m^3	1,507	1,316
Number of employees, average	1,271	966
Length of distribution lines, km	5,061	5,212

Group`s key financial figures (thous. EUR)	2016 Restated	2017
Net turnover	343 792	321 336
EBITDA	50 408	36 483
EBITDA, %	14.7	11.4
EBIT	37 920	24 482
EBIT, %	11.0	7.6
Net profit	37 506	26 048
Net profit margin, %	10.9	8.1
Earnings per share, EUR	0.940	0.653
P/E	9.36	15.32

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



Source: eia.gov, Argus Media Ltd

Description of operating environment

- The opening of the Latvian natural gas market on 3 April 2017 fundamentally changed the operating environment for the JSC "Latvijas Gāze". The Company now faces an increasingly competitive market environment with new market players offering their products and services in the Latvian natural gas market. Despite the significant changes Latvijas Gāze group still reached a total sales quantity of 1 316 thousand m^3 (13 859 GWh) in 2017, which is a 12.6 % decrease year-on-year. As a consequence of market opening the Company not only delivers natural gas directly to its customers but also sells natural gas at the Virtual Trading Point and at the Inčukalns Underground Gas Storage Facility.

- In 2017 the natural gas purchase price was closely linked to both oil product prices on the world markets and the price for natural gas at the German GASPOOL Hub. The GASPOOL price mainly affected the purchase price during the winter months, while oil prices had a stronger impact during the remaining months of the year. In comparison to 2016 the GASPOOL price was slightly higher. The spread between summer and winter prices remained at comparably low levels. On the sales side an increasing number of customers requested fixed prices instead of formula based pricing structures.

- The Company's EBITDA in 2017 amounted to 36.4 million EUR. Taking into account 36 new gas trading companies in 2017, the JSC "Latvijas Gāze" still managed to achieve stable financial results.

- On July 28, 2017 the Parliament of the Republic of Latvia passed amendments to the Corporate Income Tax (CIT) Law which take effect on January 1, 2018. As a result of changes, in 2017 there has been an income from tax accruals recognised in the amount of 6,134 thousand EUR.

With total sales of 1 316 thousand m^3 the JSC "Latvijas Gāze" maintained a strong position after market opening

Operating results of business segments

Until 1 December 2017 the JSC "Latvijas Gāze" was a fully integrated natural gas trading and distribution company. Since the foundation of the JSC "GASO" on 22 November 2017 the two business segments are legally, structurally, functionally and operationally separated. While the JSC "Latvijas Gāze" is active in the purchase, trading and sales of natural gas, the JSC "Gaso" provides distribution services to participants in the Latvian natural gas market (i.e. transmission of natural gas through mid- and low- pressure pipelines). The information concerning the operating segments included in this report corresponds to the information used by the persons in charge of making operational decisions.

In terms of carrying value of assets, the largest operating segment is distribution with 247 million EUR or 66% of the group`s total assets. The distribution segment also employs the the largest number of people within Latvijas Gāze group. The staff of the JSC "Gaso" comprises 90% of the group`s total employees. The segment's EBITDA in 2017 was 23 million EUR constituting the highest EBITDA proportion in the group – 64% of the total EBITDA.

The distribution segment's turnover and profitability strongly depends on the volume of natural gas sold in Latvia and the spread of customers across the different consumption tiers.

The natural gas trading segment represents the biggest part of the group's net turnover. The segment's total revenue in 2017 was 271 million EUR, which made 84% of the group's total revenue. The segment`s EBITDA reached 13 million EUR or 36% of the group`s EBITDA.

Financial management

The fundamental changes in the Company's market and operating environment confront Latvijas Gāze group with new types of risk. In comparison to the past the natural gas sales & trading segment is more exposed to market and commodity price risks. Particularly the greater variety of pricing structures now requested by customers in combination with the aboltion of the regulated price for the majority of the natural gas quantities sold by Latvijas Gāze group have created new risk positions. To actively manage and mitigate these risks, the Company started to put in place a rigorous market and commodity risk management system. This approach is also reflected in the organisational setup of the sales & trading segment.

In 2017, Latvijas Gāze group also 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, Latvijas Gāze group remained exposed to a high risk of customer concentration – five customers together accounted for 51% of the sales volume of 2017. 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 Latvijas Gāze group follows approved detailed credit risk management policies where the basic steps of progress monitoring and customer communication control are described.

The group'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. Due to changes in the supply model with its key natural gas supplier the liquidity risk of the natural gas sales & trading segment increased during 2017. To mitigate this higher risk the internal liquidity control and management processes were further improved. Apart from that the JSC "Latvijas Gāze" in September 2017 entered into a short-term overdraft agreement with a duration of eigthteen months in order to strengthen the liquidity of the Company. The overdraft agreement does not expose the JSC "Latvijas Gāze" to substantial interest rate or market risks and was secured via a public procurement process.

In October the JSC "Latvijas Gāze" signed a contract on the receipt of a 35 million EURO loan for the refinancing of capital investments made in the distribution segment during the period 2012 to 2017. The loan has a duration of five years. After the JSC "Gaso" was registered in the Register of Enterprise, the rights and liabilities regarding the loan transaction were assigned and novated to JSC "Gaso".

Transactions with related parties

In September 2017 the JSC “Latvijas Gāze” and the PJSC “Gazprom” signed adjustments to the exisiting long-term gas supply agreement.

Future prospects

The general market environment is expected to remain challenging for Latvijas Gāze group in 2018. Competition on the supply side is likely to increase further while overall natural gas demand in Latvia is forecasted to stay at the current level. However, the progress in regional market integration and growing trading activity at the Latvian Virtual Trading Point will also open up new sales and business opportunities for Latvijas Gāze group. Still, ensuring competitive purchase conditions under the exisiting lon-term supply agreement and increasing the flexibility of supplies will remain key to safeguard the leading position of Latvijas Gāze group in the Latvian natural gas market and to enable a successful expansion into neighbouring markets. Apart from receiving trading licenses for Lithuania and Estonia in August 2017, the JSC “Latvijas Gāze” on 23 August 2017 concluded a contract with the JSC “Energijos Skristymo Operatorius” on the use of the Lithuanian distribution system.

To prepare for future competition in the household segment the the sales & trading segmenthas started to implement a new billing system with the aim to improve the effectiveness and efficiency of its billing processes as well as to increase customer satisfaction.

Latvijas Gāze group also plans to explore and analyse opportunities for expanding its business activities into new segments of natural gas usage (e.g. natural gas for transportation). Overall Latvijas Gāze group can build on a strong reputation in the Latvian market, which eventually is reflected in the limited loss of customers and quantities after market opening.

STATEMENT OF BOARD RESPONSIBILITY

The Board of the Joint Stock Company “Latvijas Gāzeis responsible for the preparation of the consolidated financial statements, which consist of the Company’s and the Company’s and its subsidiary (further - Group’s) financial statements.

Unaudited condensed consolidated financial statements for 2017 have been prepared in compliance with the International Financial Reporting Standards adopted by the European Union.

According to the information available to the management of the Company, the consolidated financial statements provide a true and fair view of the Company’s and the Group’s asstes, liabilities, financial position, operational results and cash flows in all key aspects.

The unaudited condensed consolidated financial statements (further – Financial statements) were approved by the Board of the JSC “Latvijas Gāze” on March 1, 2018 and they are signed on behalf of the Board by:

Aigars Kalvītis Chairman of the Board	Sebastian Gröblinghoff Deputy Chairman 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.ll. (28,97%) Uniper Ruhrgas International GmbH (18,26%) ITERA Latvija SIA (16,0%)
Financial Year	2017

STATEMENT OF PROFIT OR LOSS

	Note	Group 2017	Group 2016	Company 2017	Company 2016 Restaded
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue	2	321,336	343,792	272,914	292,910
Other income		4,223	5,827	2,282	4,623
Raw materials and consumables used	3	(256,129)	(271,250)	(252,070)	(267,523)
Personnel expenses	4	(23,083)	(20,047)	(3,884)	(3,174)
Depreciation, amortisation and impairment of property, plant and equipment		(12,001)	(12,488)	(524)	(617)
Other operating expenses	5	(9,863)	(7,914)	(5,955)	(3,690)
Operating profit		**24,482**	**37,920**	**12,763**	**22,529**
Financial income, net		(1,566)	47	(1,545)	(19)
Profit before taxes		**22,917**	**37,967**	**11,218**	**22,510**
Corporate income tax	6	3,131	(5,544)	(2,750)	(3,297)
Profit from continuing operations		**26,048**	**32,423**	**8,468**	**19,213**
Profit from discontinued operations	7	**-**	**5,083**	**15,749**	**18,293**
Profit for the year		**26,048**	**37,506**	**24,217**	**37,506**
		EUR	EUR	EUR	EUR
Earnings per share (basic and diluted)	12	0.652	0.940	0.607	0.940
Earnings per share from continuing operations (basic and diluted)	12	0.652	0.813	0.212	0.481

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	Group 2017	Group 2016 Restaded	Company 2017	Company 2016 Restaded
		EUR'000	EUR'000	EUR'000	EUR'000
Profit for the year		**26,048**	**37,506**	**24,217**	**37,506**
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods					
Revaluation of property, plant and equipment		10,178	94	-	-
Deferred tax liability from revaluation of property, plant and equipment		18,289	(14)	-	-
Remeasurement of post-employment benefit obligations		416	108	331	108
Net income recognised as other comprehensive income from continuing operations		**28,883**	**188**	**331**	**108**
Net income from discontinued operations	7	**28,883**	**15,273**	**28,467**	**15,273**
Total net income		***28,883***	***15,461***	***28,798***	***15,461***
Total comprehensive income for the period		**54,931**	**52,967**	**53,015**	**52,967**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on March 1, 2018 and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Sebastian Gröblinghoff
Deputy Chairman of the Board

Financial statement preparer: ____________________

Madara Pundure
Head of Finance and accounting division

BALANCE SHEET

	Note	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
		EUR'000	EUR'000	EUR'000
ASSETS				
Non-current assets				
Intangible assets	8	3,990	1,219	2,182
Property, plant and equipment	9	242,476	926	237,519
Investment in subsidiary	11	-	122,837	-
Other debtors		7	7	8
Total non-current assets		**246,473**	**124,989**	**239,709**
Current assets				
Inventories	10	80,892	79,608	3,902
Advances for inventories		4,293	4,292	1,236
Trade receivables		36,033	37,213	28,285
Current income tax receivable		4,101	4,101	988
Other current assets		3,482	3,111	540
Cash and cash equivalents		24,817	21,558	167,630
Assets held for distribution		-	-	351,668
Total current assets		**153,618**	**149,883**	**554,249**
TOTAL ASSETS		**400,091**	**274,872**	**793,958**

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on March 1, 2018 and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Sebastian Gröblinghoff
Deputy Chairman of the Board

Financial statement preparer: ____________________________

Madara Pundure
Head of Finance and accounting division

BALANCE SHEET (continued)

	Note	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016 Restaded
				EUR'000
LIABILITIES				
Equity				
Share capital	12	55,860	55,860	55,860
Share premium		20,376	20,376	20,376
Reserves and previous years retained earnings	12	205,770	134,100	485,624
Current year's retained earnings		26,048	24,217	37,506
Total equity		**308,054**	**234,553**	**599,366**
Non-current liabilities				
Interest-bearing loans and borrowings	13	32,375	-	-
Deferred income	14	18,918	-	19,195
Employee benefit obligations		3,246	279	3,731
Deferred tax liabilities		-	-	24,423
Total non-current liabilities		**54,539**	**279**	**47,349**
Current liabilities				
Trade payables		1,393	13,339	2,392
Interest-bearing loans and borrowings	13	5,986	3,361	-
Deferred income	14	998	5	974
Unpaid dividends		-	-	35,112
Other liabilities	15	29,121	23,335	31,183
Liabilities held for distribution	11	-	-	77,582
Total current liabilities		**37,498**	**40,040**	**147,243**
TOTAL LIABILITIES		**400,091**	**274,872**	**793,958**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on March 1, 2018 and they are signed on behalf of the Board by:

____
Aigars Kalvītis
Chairman of the Board

____
Sebastian Gröblinghoff
Deputy Chairman of the Board

Financial statement preparer: __________________________
Madara Pundure
Head of Finance and accounting division

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves and previous years retained earnings	Current year's retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2015	**55,860**	**20,376**	**504,650**	**30,517**	**611,403**
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**
Reserves of discontinued operations	-	-	(274,086)	-	(274,086)
Transactions with owners:					
Transferred to unpaid dividend	-	-	(35,112)	(37,107)	(72,219)
Total transactions with owners	-	-	*(35,112)*	*(37,107)*	*(72,219)*
Transfers to reserves / reclassification	-	-	461	(399)	62
Other comprehensive income:					
Other comprehensive income	-	-	28,883	-	28,883
Profit for the year	-	-	-	26,048	26,048
Total other comprehensive income	-	-	*28,883*	*26,048*	*54,931*
December 31, 2017	**55,860**	**20,376**	**205,770**	**26,048**	**308,054**

COMPANY'S STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves and previous years retained earnings	Current year's retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2015	**55,860**	**20,376**	**504,650**	**30,517**	**611,403**
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**
Reserves of discontinued operations	-	-	(274,086)	-	(274,086)
Retained earnings of discontinued operations	-	-	(71,697)	-	(71,697)
Transactions with owners:					
Dividends	-	-	(35,112)	(37,107)	(72,219)
Transferred to unpaid dividend	-	-	*(35,112)*	*(37,107)*	*(72,219)*
Total transactions with owners	-	-	573	(399)	174
Transfers to reserves / reclassification					
Other comprehensive income:	-	-	28,798	-	28,798
Other comprehensive income	-	-	-	24,217	24,217
Profit for the year	-	-	*28,798*	*24,217*	*53,105*
December 31, 2017	**55,860**	**20,376**	**134,100**	**24,217**	**234,533**

STATEMENT OF CASH FLOW

	Note	Group 2017	Company 2017	Group 2016	Company 2016 Restated
		EUR'000	EUR'000	EUR'000	EUR'000
Cash flows from operating activities					
Profit before corporate income tax from continuing operations		**22,917**	**11,218**	**37,967**	**22,510**
Profit before corporate income tax from discontinued operations	**7**	**-**	**9,589**	**6,252**	**21,709**
Adjustments:					
- depreciation of property, plant and equipment	9	11,025	10,200	31,275	31,275
- amortisation of intangible assets	8	990	895	1,084	1,084
- movement in provisions		(86)	(254)	(7,429)	(7,429)
- income from participating interests		-	-	(1,219)	(1,219)
- proceeds from sale of property, plant and equipment		335	40	1,277	1,277
Changes in operating assets and liabilities:					
- in accounts receivable		(10,689)	(11,676)	(3,490)	(3,490)
- in advances for inventories		(3,057)	(3,057)	22,992	22,992
- in inventories		(76,990)	(76,974)	47,482	47,482
- in accounts payable		(3,389)	6,537	(8,084)	(8,084)
Corporate income tax paid		(5,839)	(5,839)	(5,312)	(5,312)
Net cash flow from operating activities		**(64,783)**	**(59,321)**	**122,795**	**122,795**
Cash flow from investing activities					
Payments for property, plant and equipment		(6,455)	(1,199)	(5,506)	(463)
Payments for intangible assets		(2,798)	(1,808)	(1,663)	(1,159)
Proceeds from sale of property, plant and equipment		193	186	70	70
Purchase of property, plant, equipment and intangible assets of discontinued operations		-	(5,704)	(22,349)	(27,896)
Net cash outflow from investing activities		**(9,060)**	**(8,525)**	**(29,448)**	**(29,448)**
Cash flow from financing activities					
Loan received	13	38,361	38,361	-	-
Discontinued operations (loan received)		-	-	35,000	35,000
Dividends paid		(107,331)	(107,331)	(30,324)	(30,324)
Net cash inflow / (outflow) from financing activities		**(68,970)**	**(68,970)**	**4,676**	**4,676**
Net cash flow		**(142,813)**	**(136,816)**	**98,023**	**98,023**
Cash and cash equivalents at the beginning of the reporting year		**167,630**	**167,630**	**79,207**	**79,207**
Cash to be spun off as a result of discontinued operations		-	(9,256)	(9,600)	(9,600)
Cash and cash equivalents at the end of the reporting year		**24,817**	**21,558**	**167,630**	**167,630**

NOTES TO THE FINANCIAL STATEMENTS

Segment reporting

In 2016, the Company had four operation segments: gas transmission, storage, distribution and trade. At the beginning of 2017 gas transmission and gas storage segments were transferred to the newly established JSC "Conexus Baltic Grid", but gas distribution segment was transferred to the subsidiary JSC "Gaso" at the beginning of December 2017.
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

Group 2017	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	**EUR'000**
Revenue from external customers	10 150	311 186	**321 336**
including Latvia	*10 087*	*303 997*	***314 084***
Other countries	*63*	*7 189*	***7 252***
Internal revenue/expenses	39 849	(39 849)	**-**
Total revenue	**49 999**	**271 337**	**321 336**
EBITDA	23 344	13 139	**36 483**
Depreciation and amortisation	11 477	524	**12 001**
Segment profit before taxes	11 847	11 070	**22 917**
Purchase of property, plant and equipment and intangible assets	6 258	2 763	**9 021**
Segment assets 31.12.2017	247 189	128 085	**375 274**

Company 2017	Gas distribution	Gas trade	KOPĀ
	EUR'000	EUR'000	**EUR'000**
Revenue from external customers	4 292	312 763	**317 055**
including Latvia	*4 230*	*305 574*	***309 804***
Other countries	*61*	*7 189*	***7 251***
Internal revenue/expenses	39 849	(39 849)	**-**
Total revenue	**44 140**	**272 914**	**317 055**
EBITDA	20 148	12 239	**32 387**
Depreciation and amortisation	10 558	524	**11 082**
Segment profit before taxes	9 590	11 218	**20 807**
Purchase of property, plant and equipment and intangible assets	5 940	2 763	**8 703**
Segment assets 31.12.2017	-	253 314	**253 314**

1. Segment reporting (continued)

Group and Comapny 2016	Gas transmission	Gas storage	Gas distribution	Gas trade	Total
			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	14,984	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 31.12.2017	182,879	159,189	238,496	36,164	**616,728**

Segment information collation

	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
	EUR'000	EUR'000	EUR'000
Segment assets	375,274	253.314	616,728
Cash and cash equivalents	24,817	21,558	177,230
Total assets	**400,091**	**274,872**	**793,958**

Statement of profit or loss

2. Revenues

Revenues	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas trade and distribution	320,386	342,801	371,789	292,862
Other revenue	950	991	1,125	48
	321,336	**343,792**	**272,914**	**292,910**

3. Raw materials and consumables used

Raw materials and consumables used	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	253,656	269,663	251,204	267,470
Costs of materials, spare parts and fuel	2,473	1,587	866	53
	256,129	**271,250**	**252,070**	**267,523**

4. Personnel expenses

Personnel expenses	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	17,696	15,301	2,978	2,359
State social insurance contributions	4,033	3,526	668	559
Life, health and pension insurance	1,063	953	131	155
Other personnel costs	291	267	107	101
	23,083	**20,047**	**3,884**	**3,174**

5. Other operating expenses

Other operating expenses	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Sale and advertising costs	2,391	1,503	2,210	1,052
Expenses for maintenance of premises and other services	1,618	1,471	1,066	120
Donations, financial support	886	1,240	643	702
Office and other administrative costs	2,001	1,197	956	637
Taxes and duties	1,005	883	715	689
Costs of IT system maintenance, communications and transport	992	726	249	293
Loss from sale of property, plant and equipment	504	459	39	3
Other costs	379	400	59	172
Audit fee of the annual report	87	26	18	13
Other audit fees	-	9	-	9
	9,863	**7,914**	**5,955**	**3,690**

6. Corporate income tax

Corporate income tax	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Corporate income tax	3,003	6,279	2,724	6,279
Deferred tax	(6,134)	434	(6,134)	434
Corporate income tax from discontinued operations	-	(1,169)	6,159	(3,416)
	(3,131)	**5,544**	**2,749**	**3,297**

On July 28, 2017 the Parliament adopted the new Corporate Income Tax Law whereby all temporary differences between the carrying amount of assets and liabilities and the tax base are abolished. This means that deferred tax liabilities resulting from temporary differences in fixed assets will no longer be recognised in the Company's financial statements. The Company partially writes deferred tax liabilities down in the statement of other comprehensive income and partially in the profit or loss statement, recognising them as income.

Reconciliation between profit before taxes and tax expense	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Profit before taxes	**22,917**	**44,219**	**11,218**	**22,510**
Tax theoretically calculated at 15% rate	3,438	6,633	1,681	3,377
Tax effect of:				
Costs not eligible for reduction of taxable income, net	(5,966)	1,261	1,601	622
Tax reduction on donations	(603)	(1,181)	(533)	(702)
Corporate income tax from discontinued operations	-	(1,169)	-	-
Tax expense	**(3,131)**	**5,544**	**2,749**	**3,297**

7. Profit from discontinued operations

Statement of profit or loss	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Revenue	-	48,474	44 140	99,356
Other income	-	446	1 837	1,650
Raw materials and consumables used	-	(4,185)	(3 946)	(7,912)
Personnel expenses	-	(11,428)	(17 523)	(28,301)
Depreciation, amortisation and impairment of property, plant and equipment	-	(19,864)	(10 558)	(31,736)
Other operating expenses	-	(7,189)	(4 360)	(11,413)
Operating profit	**-**	**6,254**	**9 590**	**21,644**
Financial income, net	-	(2)	-	64
Profit before taxes	**-**	**6,252**	**9 590**	**21,709**
Corporate income tax	-	(1,169)	6 160	(3,416)
Profit from discontinued operations	**-**	**5,083**	**15 749**	**18,293**

STATEMENT OF OTHER COMPREHENSIVE INCOME	Group 2017	Group 2016	Company 2017	Company 2016
			EUR'000	EUR'000
Profit for the year	**-**	**5,083**	**15,749**	**18,293**
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods				
Revaluation of property, plant and equipment	-	17,967	10,178	17,967
Deferred tax liability from revaluation of property, plant and equipment	-	(2,695)	18,289	(2,695)
Remeasurement of post-employment benefit obligations	-	1	-	1
Net income recognised as other comprehensive income	**-**	**15,273**	**28,467**	**15,273**
Total comprehensive income for the year	**-**	**20,356**	**44,215**	**33,566**

The operations discontinued in 2017 are the function of natural gas distribution, while the transmission and storage functions were discontinued in 2016, which was the last year for the Company as a vertically integrated natural gas transmission, storage, distribution and trading operator. Following the reorganisation, in 2017 the Company operated as a unified natural gas distribution operator and trader, and from December 1, 2017 onwards – as a natural gas trader.

In 2017 the average number of employees in the gas distribution segment was 868. In 2016 there were 335 employees in the gas transmission and gas storage segment.

Balance sheet

8. Intangible assets

Nemateriālie aktīvi	Group 2017	Company 2017	Group and Company 2016
	EUR'000	EUR'000	EUR'000
Cost			
As at the beginning of period	11,306	11,306	14,346
Additions	2,798	2,614	2,320
Disposals	(215)	(215)	(8)
Intangible assets held for distribution	-	-	(5,352)
Intangibles, transferred during reorganisation	-	(12,411)	-
As at the end of period	**13,889**	**1,294**	**11,306**
Amortisation			
As at the beginning of period	9,124	9,124	12,064
Amortisation	990	895	1,084
Disposals	(215)	(215)	(7)
Intangible assets held for distribution	-	-	(4,017)
Intangibles, transferred during reorganisation	-	(9,729)	
As at the end of period	**9,899**	**75**	**9,124**
Net book value as at December 31	**3,990**	**1,219**	**2,182**

The intangible assets include fully depreciated intangible assets with a total historical cost of EUR 5,184 thousand EUR (Group) un EUR 14 thousand (Company) (31.12.2016.: EUR 7,689 thousand). The most part of intangible assets of the Company consists of software for operations of various operating segments.

9. Property, plant and equipment

Group	Land	Buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount						
31.12.2016	**1,534**	**485,724**	**30,869**	**11,955**	**463**	**530,545**
Additions	-	2,946	1,072	1,565	872	6,455
Reclassified	-	53,885	2,220	-	-	56,105
Revaluated	-	799	(1,716)	1,805	(888)	-
Disposals	-	(2,486)	(661)	(889)	-	(4,036)
31.12.2017	**1,534**	**540,868**	**31,784**	**14,436**	**447**	**589,069**
Depreciation						
31.12.2016	**-**	**264,970**	**19,247**	**8,809**	**-**	**293,026**
Calculated	-	7,968	1,902	1,155	-	11,025
Revaluated	-	46,527	(600)	-	-	45,927
Disposals	-		(1,114)	1,114		-

Group	Land	Buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
Reclassified	-	(2,007)	(613)	(765)	-	(3,385)
31.12.2017	**-**	**317,458**	**18,822**	**10,313**	**-**	**346,593**
Net book value as of 31.12.2017	**1,534**	**223,410**	**12,962**	**4,123**	**447**	**242,476**
Net book value as of 31.12.2016	**1,534**	**220,754**	**11,622**	**3,146**	**463**	**237,519**

Property, plant and equipment (continued)

Company	Land	Buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount						
31.12.2016	**1,534**	**485,724**	**30,869**	**11,955**	**463**	**530,545**
Additions	-	2,935	1,065	1,484	613	6,097
Revaluated	-	53,885	2,220	-	-	56,105
Reclassified		-	(1,799)	1,799	-	-
Disposals	-	(1,363)	(631)	(882)	-	(2,876)
Assets, transferred during reorganisation	(1,534)	(541,181)	(31,724)	(13,158)	(1,076)	(588,673)
31.12.2017	**-**	**-**	**-**	**1,198**	**-**	**1,198**
Nolietojums						
31.12.2016	**-**	**264,970**	**19,247**	**8,809**	**-**	**293,026**
Calculated	-	7,413	1,722	1,065	-	10,200
Revaluated	-	46,527	(600)	-	-	45,927
Reclassified	-	-	(1,114)	1,114	-	-
Disposals	-	(1,032)	(608)	(761)	-	(2,401)
Assets, transferred during reorganisation	-	(317,878)	(18,647)	(9,955)	-	(346,480)
31.12.2017	**-**	**-**	**-**	**272**	**-**	**272**
Net book value as of 31.12.2017	**-**	**-**	**-**	**926**	**-**	**926**
Net book value as of 31.12.2016	**1,534**	**220,754**	**11,622**	**3,146**	**463**	**237,519**

Group and Company	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)
Intangible 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**
Additions	-	21,308	7,001	2,153	-	30,462
Reclassified	-	3,618	(9,587)	-	-	(5,969)
Revaluated	-	(3,436)	(2,789)	(640)	-	(6,865)
Disposals	-	1,726	3,297	(5,023)	-	-
Intangible 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 of 31.12.2016	**1,534**	**220,754**	**11,622**	**3,146**	**463**	**237,519**
Net book value as of 31.12.2015	**11,961**	**469,654**	**57,699**	**5,654**	**12,482**	**557,450**

In 2017 the Company carried out the revaluation of Buildings, Constructions, and Machinery and equipment. It was performed by an external expert using the depreciated replacement cost method. This a repeated revaluation, and the level of data used in the assumptions has not changed.
The fixed assets include fully depreciated fixed assets with a total historical cost of EUR 5,861 thousand (the Group) and 100 thousand EUR (the Company) (at 31.12.2016: EUR 11,725 thousand).

Revaluation effect

In 2017 the Company carried out the revaluation of Buildings, Constructions and Machinery and equipment of the Distribution segment. In 2016 the Company carried out the revaluation of Buildings, Constructions and Machinery and equipment of Transmission and Storage. 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 the relevant type of assets. This is a repeated revaluation, and the level of data used in the assumptions has 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 into Level 1, Level 2 and Level 3.

The level in the fair value hierarchy, within which the fair value of a financial instrument is categorised, 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 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, the initial value of assets is determined according to the prices, requirements and applied materials at the time of the valuation. The key assumptions during the revaluation process are associated with the materials cost and the cost of the average construction prices at the time of revaluation. For the determination of values, data available to the Company about similar constructions of facilities in recent years is used. A significant section of the revaluation consists of the revaluation of gas distribution pipelines (2017) and underground gas pipelines (2016). In case of an increase in the average construction cost in the country or a significant increase in the cost of materials, the asset value will increase, too. If the cost of construction or materials decreases, the value of the assets will decrease accordingly.

In parallel with the initial value, the accumulated depreciation of each asset is determined. The asset's physical, functional and technical depreciation are taken into account as key factors. If the revalued assets are used in a substantially different way, or they are functionally obsolete, the revalued asset value may decrease significantly.

As a result of the revaluation, the gross asset amount was increased by 56,105 thousand EUR (in 2016: 11,280 thousand EUR) and the accumulated depreciation was increased by 45,927 thousand EUR (in 2016: reduced by 5,969 thousand EUR). As a result of the revaluation, a gain of 10,178 thousand EUR (in 2016: 18,061 thousand EUR) was recognised in the statement of other comprehensive income, while a net loss of 385 thousand EUR (in 2016: 812 thousand EUR) was included in the profit and loss account.

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

Revaluated assets at cost value	2017	2016
	EUR'000	EUR'000
Buildings	152,248	107,937
Machinery and Equipment	24,499	10,219

10. Inventories

Inventories	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
	EUR'000	EUR'000	EUR'000
Natural gas and fuel	79,608	79,608	2,593
Materials and spare parts	1,357	-	1,607
Allowance for slow-moving inventory	(73)	-	(298)
	80,892	**79,608**	**3,902**

Allowance for impairment of slow-moving and obsolete inventories	Group 2017	Company 2017	Group and Company 2016
	EUR'000	EUR'000	EUR'000
Allowance at the beginning of the year	**298**	**298**	**421**
Released in profit or loss statement from continuing operations	-	-	(19)
Released in profit or loss statement from discontinued operations	-	-	(11)
Costs included in profit or loss statement	(225)	(225)	(7)
Assets held for distribution	-	-	(86)
Transferred during reorganisation	-	(73)	-
Allowance at the end of the year	**73**	**-**	**298**

11. Assets and liabilities transferred to Group's subsidiary JSC GASO

Assets	Note	1.12.2017
ASSETS		EUR'000
Non-current assets		
Intangible assets	8	2,682
Property, plant and equipment	9	242,193
Total non-current assets		**244,875**
Current assets		
Inventories		1,269
Next period expenses		178
Cash and cash equivalents		9,258
Total current assets		**10,705**
TOTAL ASSETS		**255,580**

Liabilities	Note	1.12.2017
LIABILITIES		EUR'000
Equity		
Transferred reserves and retained earnings		194,534
Total equity		**194,534**
Non-current liabilities		
Interest-bearing loans and borrowings		32,375
Next period income		18,935
Provisions for post employment benefits		2,867
Total non-current liabilities		**54,177**
Current liabilities		
Interest-bearing loans and borrowings		2,625

Deferred income	991
Other liabilities	3,253
Total current liabilities	**6,869**
TOTAL LIABILITIES	**255,580**

Under the reorganisation, the newly established Joint Stock Company “Gaso” (unified registration No. 40203108921, legal address: 20 Vagonu Street, Riga, LV-1009) was transferred the natural gas distribution business of the Joint Stock Company “Latvijas Gāze” in its full economic composition comprised of assets and liabilities. The Joint Stock Company “Gaso” has received all the permits and licenses necessary for its natural gas distribution business. Under Section 20 Paragraph one and Section 351 Paragraphs two and three of the Commercial Law, the Joint Stock Company “Latvijas Gāze” is liable for the obligations (having arisen prior to reorganisation) of the natural gas distribution business, transferred by way of reorganisation to the Joint Stock Company “Gaso”, for 5 years after the effective date of the reorganisation of the Joint Stock Company "Latvijas Gāze". The reorganisation took effect on December 1, 2017 (the day of enrolment with the commercial register).

12. Shares and shareholders

Equity	31.12.2017 % of total share capital	31.12.2017 Number of shares	31.12.2016 % of total share capital	31.12.2016 Number of shares
Pašu kapitāls				
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	18.26	7,285,740
Marguerite Gas I S. à r.l.	-	-	28.97	11,560,645
Marguerite Gas II S. à r.l.	28.97	11,560,645	-	-
Itera Latvija SIA	16.00	6,384,001	16.00	6,384,001
PJSC "Gazprom" *(including registered (closed issue) shares 7,285,740)*	34.00	13,566,701	34.00	13,566,701
State-owned shares*	2.77	1,102,913	913	1,102,913
	100.00	**39,900,000**	**100.00**	**39,900,000**

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

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

Earnings per share/ Group	Earnings per share 2017	Earnings per share 2016	Earnings per share from continuing operations 2017	Earnings per share from continuing operations 2016
Net profit attributable to shareholders (a) EUR'000	**26,048**	**37,506**	**26,048**	**32,423**
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	**0.653**	**0.940**	**0.653**	**0.813**

Earnings per share / Company	Earnings per share 2017	Earnings per share 2016	Earnings per share from continuing operations 2017	Earnings per share from continuing operations 2016
Net profit attributable to shareholders (a) EUR'000	**24,217**	**37,506**	**8,469**	**19,213**
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	**0.607**	**0.940**	**0.212**	**0.481**

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	Group	Company	Group and Company
	31.12.2017	31.12.2017	31.12.2016
	EUR'000	EUR'000	EUR'000
Revaluation reserve	132,193	-	176,564
Employee benefits revaluation reserve	(87)	(172)	(503)
Reorganization reserve	-	132,848	
Other rezerves and retained earnings	73,664	1,424	35,477
Reserves of discontinued operations	-	-	*274,086*
	205,770	**134,100**	**485,624**

13. Interest-bearing loans and borrowings

Loans	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
Loan from JSC "SEB banka"			
- Long-term part of the loan	32,375	-	-
- Short-term part of the loan	2,625	-	-
Overdraft from "OP Corporate Bank" plc Branch in Latvia	3,361	3,361	-
	38,361	**3,361**	**-**

Under the reorganisation, the Joint Stock Company "Latvijas Gāze" transferred to the newly established acquiring Joint Stock Company "Gaso" a long-term loan of 35,000 thousand EUR for 5 years. The loan is due for repayment starting in April 2018.

14. Deferred income

Deferred income	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
	EUR'000	EUR'000	EUR'000
Income from residential and corporate customers' contributions to construction of gas pipelines:			
Long-term part	18,918	-	19,195
Short-term part	998	5	974
	19,916	**5**	**20,169**

Changes of deferred income	Group	Company	Group and Company
	2017	2017	2016
	EUR'000	EUR'000	EUR'000
Balance at the beginning of the year	**20,169**	**20,169**	**29,161**
Received from residential and corporate customers during reporting year	726	658	562
Included in income of reporting year	(979)	(896)	(951)
Liabilities held for distribution	-	-	(8,603)
Transferred during reorganisation	-	(19,926)	-
Total transfer to next years	**19,916**	**5**	**20,169**

15. Other liabilities

Other liabilities	Group 2017	Company 2017	Group and Company 2016
	EUR'000	EUR'000	EUR'000
Prepayments received	14,198	14,198	12,273
Corporate income tax	279	-	-
Value added tax	4,500	3,495	7,852
Accrued costs	6,268	3,789	3,088
Excise tax	1,267	1,267	2,636
Social security contributions	482	100	1,553
Other current liabilities	363	20	1,016
Vacation pay reserve	953	168	1,002
Personnel income tax	310	91	899
Salaries	775	202	828
Natural resource tax	5	5	36
	29,121	**23,335**	**31,183**

16. Financial risk management

Credit risk

The Company is exposed to credit risk, which is a risk of material losses arising in case of a counterparty not being able to fulfil its contractual obligations to the Company of the Group. The credit risk is critical to the operations of the Company and the Group, 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 / the Concern.

Credit risk management practices

The management of credit risk 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 the provision of services and the sale of natural gas. For smaller customers the Company has approved detailed credit risk management policies, describing the basic steps for monitoring the progress and managing legally mandatory communication with the clients before an insolvency procedure can be initiated. In case of a customer becoming doubtful, the Company establishes provisions and starts legal proceedings 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, 2017, cash and cash equivalents represented only current account balances with credit institutions.

Liquidity risk

Liquidity risk is associated with the ability of the Company and the Group to settle their obligations within the agreed due dates. Due to high seasonality of operations of the Company and the Group, 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 and the Group uses cash flow planning tools to manage liquidity risk. The Company and the Group 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.

17. 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 the management to exercise its judgment in the process of applying the Company's and the Board's accounting policies. IFRS requires that in preparing the financial statements, the management of the Company and the Board makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The actual results could differ from those estimates.

The areas involving a higher degree of judgment and thus having a 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 Group's internal policy is to perform the revaluations when there are indications that the average construction costs and/or purchase prices related to the buildings, gas distribution system, and equipment have changed significantly.

Recoverable amount of trade receivables

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

Inventory valuation

Upon valuation of inventories, the management relies on its best knowledge taking into consideration the 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 pursue an economic 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. Household customers settle accounts using the leveraged consumption payment scheme on a self-service basis. Customers perform the reading 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.

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 the 2017 Statement of Profit or Loss and Balance Sheet, the reclassification is made in comparative figures for 2016.

Basis of preparation

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

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

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

Property, plant and equipment

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

The Group'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 the one which would be determined using fair value at the end of the reporting period. All other property, plant and equipment groups (including land) are stated at historical cost, less accumulated depreciation and impairment charge. 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 or the Group 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 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. In 2017 the Group changed the accounting policy for the fixed asset revaluation reserve and began to calculate the depreciation of revaluation reserve so that the costs of depreciation of fixed assets in the profit or loss statement correspond to changes in the revaluation reserve.

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 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.

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 the Company's and the Group'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 having suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

The Company / the Group 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 Gas Storage Facility 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 / the Group 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.

Contributions to the group subsidiary's capital

Contributions to the group subsidiary's capital are accounted at acquisition cost less impairment losses. The Company only recognises income if it receives from its subsidiary a share of a profit having arisen after the date of acquisition. Any receipts exceeding such profit are deemed recovery of contribution and recorded as impairment on the acquisition value of the contribution.

If there is objective evidence that the carrying amount of a contribution to the group subsidiary's capital has decreased, the impairment losses are calculated as the difference between the carrying amount and recoverable amount of the contribution. The recoverable amount of a contribution is the higher of its fair value less costs to sell and it value in use. Impairment losses for the contribution may be reversed if the estimates used to measure impairment have changed since the last recognition of impairment losses.

Consolidation

The financial statements of the JSC "Latvijas Gāze" and its subsidiary JSC "Gaso" have been consolidated into the Group's financial statements by merging the respective items of assets, liabilities, revenue and expenses. The Group subsidiary's financial statements are included in the consolidated financial statements from the day when decisive influence is acquired up to the day when decisive influence is lost. In the course of preparation of the Group's financial statements, the unrealised gains, mutual payments, mutual shareholdings, and other mutual transactions and balances of the Group's companies have been excluded.

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 an original term of 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 / the Group 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 / the Group 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 / the Group 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 / the Group has to make payments in an amount specified by law. The Company / the Group also pays contributions to an external fixed-contribution private pension plan. The Company / the Group 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 / the Group 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.

Loans

Loans are initially recognised in the amount of funds received, less costs of borrowing. In subsequent periods, loans are carried at amortised acquisition cost as determined using the effective interest rate of the loan. The difference between the amount received, less costs of borrowing, and the loan repayment value is gradually included in the profit or loss statement.

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 in other comprehensive income or directly in equity. In this case the tax is accordingly recognised in other comprehensive income or directly in equity.

Income tax is assessed for the period in accordance with Latvian tax legislation that has 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.

Up until December 31, 2016, deferred tax was calculated using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences mostly occurred due to different rates of depreciation of fixed assets and due to accrued liabilities to be deducted from taxable income in subsequent taxation periods.

On July 28, 2017 there was a new Corporate Income Tax Law adopted whereby from January 1, 2018 onwards profit gained after 2017 shall be taxed if being distributed. The new law no longer contains provisions that cause temporary differences between the carrying amounts of assets and liabilities in financial accounting and their tax base. Under the transitional provisions of the law, taxpayers will be able to use tax losses, accrued but not used by December 31, 2017, over the subsequent 5 taxation years, reducing the tax payable for the distributed profit by up to 50% each year, and to use accruals made until December 31, 2017, for which the taxable income has been increased in the respective taxation periods, to reduce the taxable profit by the amount of their decrease. Such amounts, if any, do not generate deferred tax assets as at December 31, 2017 and onwards – where the tax rates differ between the distributed and retained earnings, deferred tax is calculated using the rate applicable to retained earnings, i.e., 0%. Thus, on December 31, 2017 there is no longer any reason for deferred tax assets or liabilities to exist, and on December 31, 2016 the deferred tax liabilities recognised by the Company and the Group were reduced to zero and their reduction was included under income in the 2017 profit or loss statement, except the tax which had been recognised outside profit or loss and whose amount is transferred to the same equity item that it was attributed to upon recognition.

Starting from the taxation year 2018, the corporate income tax will be calculated for distributed profits (20/80 from the net amount payable to shareholders). The tax on the distributed profit will be recognised when the Company's shareholders decide upon distribution.

Current income tax

Income tax is assessed for the period in accordance with the Latvian tax legislation. The tax rate stated by the 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 / the Group 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 / the Group's activities as described below. The Company / the Group 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 natural gas trading

Sales are recognised upon delivery of gas, net of value added tax and discounts, but including the excise tax. Natural gas sales 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 invoices issued according to the customers' meter readings.

Revenue from natural gas distribution

Income from the rendering of services is recognised upon performance of services, net of value added tax and discounts. Income on natural gas distribution is recognised based on the actual gas quantity distributed as determined by meter readings.

Revenue from natural gas transmission and storage

Income from the rendering of services is recognised upon performance of services, net of value added tax and discounts, but including the excise tax. Income on natural gas transmission and storage is recognised based on the actual gas quantity transmitted and stored as determined by meter readings.

Interest income

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

Penalties income

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

Income from residents' and enterprises' contribution to gas pipeline construction works

The income from residents' and enterprises' contribution to gas pipeline construction works 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 the services are rendered.

Related parties

Related parties are defined as the Company's major shareholders with a significant influence, members of the Council and the Board of the Company or its subsidiary, 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, in 2016 the Company had launched the reorganisation and in January 2017 it transferred the natural gas transmission and storage activities to the newly established JSC Conexus Baltic Grid. In December 2017 it transferred the natural gas distribution business to the newly established JSC Gaso.

Application of IFRS 5

In the 2017 statement of profit or loss, revenue and expense items only include income and expense of the continuing operations. Revenue and expenses from discontinued operations are presented in net amounts as profit from discontinued operations. The Discontinued operations Income Statement is provided in the notes to Financial Statements. The 2016 comparative figures have been adjusted retrospectively using the same principle. The corporate income tax declaration is drawn up on the basis of the total JSC "Latvijas Gāze" Income Statement that includes continuing and discontinued operations.

As at December 31, 2016, a new item of current assets - "Assets held for unbundling", and a new item of short-term liabilities - "Liabilities held for unbundling", has been created in the balance sheet. These include the assets and liabilities to be transferred to the JSC Conexus Baltic Grid at book value.

18. Subsequent events

Since December 31, 2017 up to the signing of these financial statements there have been no events with effect on the financial position or financial results of the Company / the Group as at the balance sheet date.