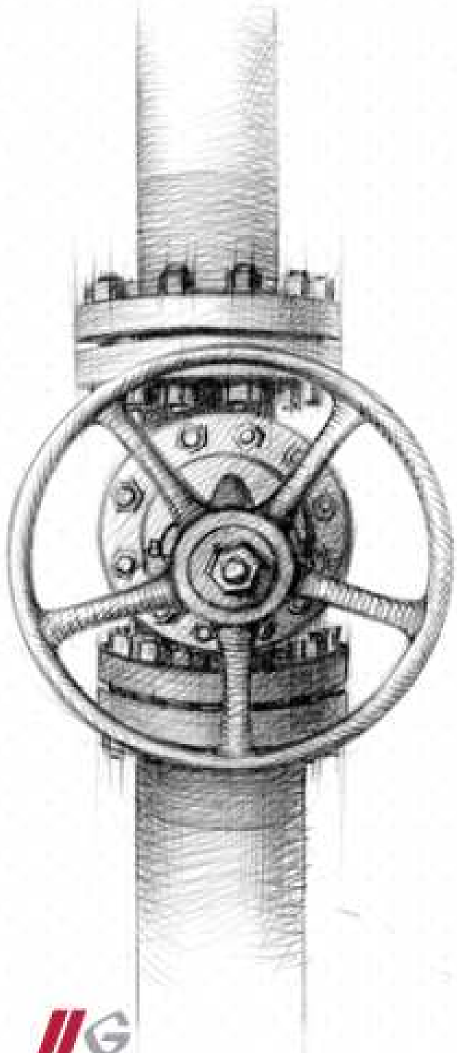


ANNUAL REPORT 2015

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

Riga, 2016

CONTENTS

NEW CHALLENGES AND OPPORTUNITIES (CEO ADDRESS READERS)

***Aigars Kalvītis**, AS "Latvijas Gāze" Chairman of the Board*

The year 2015 was marked by natural gas market legislation and so it continued till February 2016 when amendments to the Energy Law were finally adopted. These amendments will govern the company's operation in 2016 and 2017.

Both major and minor shareholders of the company have always relied on the state's promises of the company remaining as a single structure with exclusive gas supply rights in Latvia by April 3, 2017. The previous performance suggests that such circumstances have yielded a high efficiency to the benefit of both customers and the company's owners. Therefore the Board stood up for the promises given to the strategic investors.

The legislative amendments identified a number of clear steps that will influence the company, the natural gas market, and the shareholders. Firstly, as of April 3, 2017 the natural gas market will be open and consumers will be eligible to freely choose their supplier. Secondly, the state has opted for the most stringent of possible unbundling models by requiring separation of the unified transmission and storage operator by April 3, 2017 and a full ownership unbundling by the end of 2017. This means that part of shareholders will have to sell their shares in one or the other company. Thirdly, as of January 1, 2018 the distribution operator will have to be separate from the natural gas trader.

On a regional scale, a key feature of 2015 was the operation of the Klaipeda liquefied natural gas terminal launched by Lithuania in 2014. The terminal proved to have both advantages and disadvantages. The diversification of supply routes will undeniably provide the region with alternatives and foster competition. However, given the small size of the Baltic market, new infrastructure projects also constitute a substantial burden on service tariffs. The year 2015 also proved Latvijas Gāze capable of offering a competitive natural gas price, as the natural gas supplied from Norway to Klaipeda was about one third more expensive.

While the year 2014 saw a substantial decrease in natural gas consumption, 2015 followed with a slight increase facilitated by a number of factors. First, there was an invariably high demand for new connections in the household sector as well as in the commercial sector, industry and energy. Second, there was a gradual natural gas price drop throughout the year encouraging consumption. As in previous years, consumption was adversely affected by the disproportionate subsidies to alternative energy.

A substantial negative factor to be reckoned with in future is climate change. In Latvia the most part of natural gas is consumed in the energy sector, including heat production, as well as individual heat production. Hence, changes in temperature have an impact on natural gas consumption. Over the last fifteen years only in 2010 the air temperature averaged below the perennial norm. Still, natural gas, boasting the lowest level of greenhouse gas emissions among all fuels, heavily contributes to the restriction of climate change.

Despite the events surrounding the opening of the natural gas market and the unbundling of the company, Latvijas Gāze further developed and modernised its infrastructure to ensure a long-term market development and security of natural gas supply in the whole region. As usual, major projects were implemented at the Inčukalns Underground Gas Storage Facility which serves as guarantor of both regional and national security of gas supply.

While the company will soon face substantial changes, we also see opportunities following those changes. For instance, Latvijas Gāze will be able to prove itself not only on the Latvian market, but also those of the neighbouring countries. In 2016 the company's Board will further deal with reorganisation issues and prepare for the market opening. During the process, all shareholders will become acquainted with the steps to be taken in the coming years to comply with the law. We, the Board, will ensure a transparent and equal process to all shareholders and potential investors of the company.

COUNCIL

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

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

Juris Savickis, 1946
Deputy Chairman of the Council

Since 1996, President of LLC "ITERA Latvija"

Hans-Peter Floren, 1961
Council member

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

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

Oleg Ivanov (Олег Иванов), 1974
Council member

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

Guillaume Rivron, 1972
Council member

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

Nikolay Dubik (Николай Дубик), 1971
Council member

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

Jörg Tumat, 1969
Council member

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

Vitaly Khatkov (Виталий Хатьков), 1969
Council member

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

Nicolás Merigó Cook, 1963
Council member

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

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

Changes till approval of financial statements on April 22, 2016:

Matthias Kohlenbach – Council member (till March 22, 2016)
Uwe H. Fip – Council member (till March 22, 2016)
Daminian Bunyan – Council member (till March 22, 2016)
Vlada Rusakova (Влада Русакова) – Council member (till March 22, 2016)
Elena Karpel (Елена Карпель) – Council member (till March 22, 2016)
Achim Saul – Deputy Chairman of the Council (till July 3, 2015)
Rainer Link – Council member (till July 3, 2015)

MANAGEMENT BOARD

Term of office from August 16, 2015 to August 15, 2018

Aigars Kalvītis, 1966
Chairman of the Board

In 1995, Latvia University of Agriculture Master Degree Economics

Alexander Frolov (Александр Фролов), 1980
Deputy Chairman of the Board
In 2014, 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

Mario Nullmeier, 1964
Deputy Chairman of the Board
(from January 1, 2014 till December 31, 2016)

In 2000, Master degree in global Business Administration

Gints Freibergs, 1959
Member of the Board

In 1984, Riga Polytechnic Institute, Engineer, heat power industry

Zane Kotāne, 1977
Member of the Board

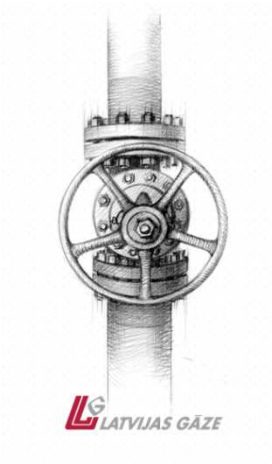
In 2014, Riga Business School Master of Business Administration Degree

Changes till approval of financial statements on April 22, 2016:

Adrians Dāvis – Chairman of the Board (till August 15, 2015)
Anda Ulpe - Board member (till August 15, 2015)
Aleksandrs Mihejevs (Александр Михеев) - Deputy Chairman of the Board (till August 15, 2015)

STRATEGY AND OBJECTIVES

The “Latvijas Gāze” is the only natural gas transmission, storage, distribution, and sales operator in Latvia. The company ensures the supply of natural gas to 443,000 customers in Latvia, and the transmission and storage of natural gas for customers in Estonia, Russia, and Lithuania.



OUR OBJECTIVE

To strengthen the position of the "Latvijas Gāze” as a leader in the Latvian fuel market by increasing the availability of natural gas, promoting the variety of its uses, and ensuring Latvia with one of the most stable natural gas supplies in Europe.

OUR MISSION

To contribute to the Baltic region's economy by ensuring the safety of supplies, the development of the sector, and competitive pricing.

OUR VISION

To promote the use of natural gas for a variety of purposes, both in households and enterprises, and to promote Latvia as a regional leader in the supply of natural gas, utilising the unique Inčukalns Underground Gas Storage Facility.

KEY FOCUS

Safefy and Security of Gas Supply

We pay equal attention to the physical safety of infrastructure and the security of sufficient capacity and cross-border interconnections. Our investments are primarily aimed at these aspects, because natural gas in our region is a primary need due to heating and is subject to variable consumption due to weather conditions. We pay lots of attention to educating people about using natural gas safely, to emergency service operations and network monitoring.

Sustainable Investment

Investments in the security of gas supply go hand in hand with efficiency and environmental factors. High diagnostic standards are aimed at the reduction of accidental risks as well as methane emissions. The modernization of the storage facility and the transmission system has also substantially reduced the emission risks of other substances. Our key investments are made in compliance with the storage modernization plan for the period until 2025, which will improve the safety and availability of natural gas in the region.

Efficient Management

The company is managed in accordance with the principles of good corporate management, ensuring the equal treatment of all shareholders, professional supervision, and transparency. The company's development and financial management takes place in line with risk management. A key role in our business is that of IT systems, which help to effectively manage the operation of infrastructure and other business areas.

Professional Staff

Our company has a large staff with specialists in many areas. Due to the key role of safety in supplying gas, we pay great attention to the qualifications of gas supply specialists, and labour safety. We have ensured up-to-date labour conditions and operate in line with our personnel policy, which ensures efficiency at work and in staff recruitment.

Quality of Product

Natural gas is a product of invariably high quality with the lowest level of harmful emissions among all types of fuel. Our goal is to achieve a wider use of highly efficient heating systems and cogeneration resulting in less harm to the environment and more savings to the customers.

Quality of Service

We are persistently working on the improvement of quality and availability of our services. We have introduced many improvements in service processes to make them faster and simpler, as well as a wide range of electronic services.

Competitiveness of Prices

By making advised investments in efficiency we have avoided the influence of increased raw material and other costs upon the prices of services. By exporting transmission and storage services to neighbouring countries, we ensure lower costs of these services to our consumers in Latvia. The high quality of the product, efficient burning technologies and product price ensures competitiveness with other energy resources in Latvia.

Network Development and Customer Attraction

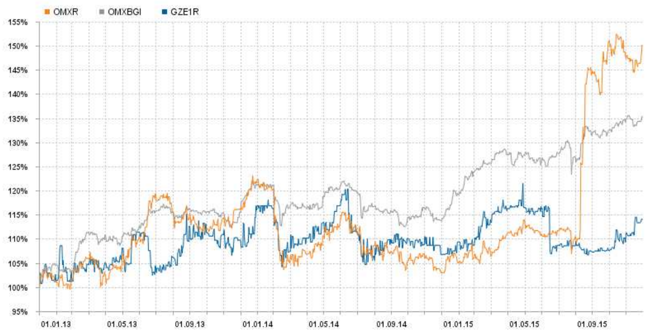
We have resumed active gasification by connecting many households and enterprises to natural gas and developing new projects of gasification of settlements. The development is driven not only by the economic recovery, but also our investment policy, which envisages up to 70% co-funding of new gasification projects.

SHARES AND SHAREHOLDERSS

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

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

Company's share price, OMX Riga GI and OMX Baltic GI index changes (01.01.2013. – 31.12.2015.)



Source: Nasdaq Riga

The Company's shares are included in the baskets of the following indexes: OMXBBGI, OMXBBCAPGI, OMXBGI, OMXRGI. OMX Baltic is a Baltic-level index of all shares. Its basket consists of the shares of the Official and Second list of Baltic exchanges. The index reflects the current situation and changes at Nasdag Riga.

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

Share price development and share turnover (01.01.2013.-31.12.2015.)

Source: Nasdaq Riga

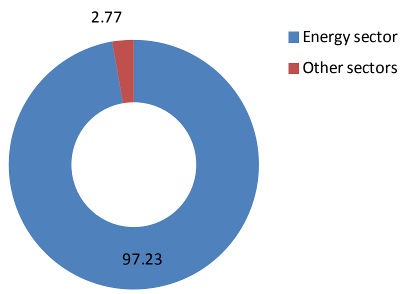
Share sale's information

	2013	2014	2015
Shares price (EUR):			
First	8.694	9.390	9.140
Highest	9.861	10.400	10.400
Lowest	8.580	8.900	9.110
Average	9.049	9.470	9.56
Last	9.391	9.140	9.760
Change	8.02%	-2.66%	6.78%
Share turnover, number	121.774	118.685	136.627
Share turnover, mio EUR	1.101	1.123	1.307
Number of deals	1.479	1.290	1.283
Capitalization, mio EUR	374.701	364.686	389.424

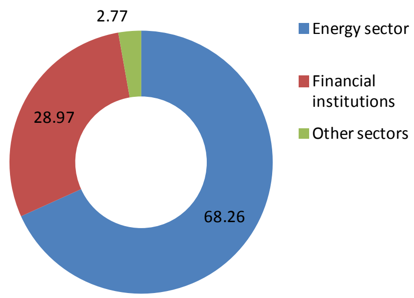
Source: Nasdaq Riga

Distribution of holdings

On 31.12.2015.



At the time of signing financial statements

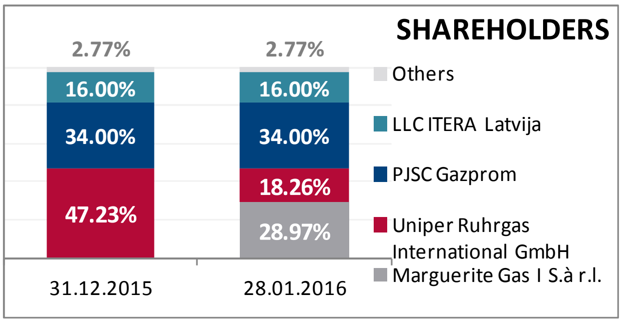


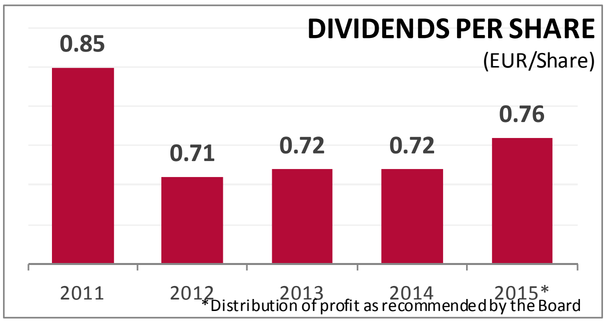
Shares owned by the governance bodies

		At the date of signing financial statements
Management Board		Number of shares
Chairman of the Board	Aigars Kalvītis	None
Deputy Chairman of the Board	Aleksandr Frolov	None
Deputy Chairman of the Board	Mario Nullmeier	None
Member of the Board	Gints Freibergs	416
Member of the Board	Zane Kotāne	None
Chairman of the Council	Kiril Seleznev	None
Deputy Chairman of the Council	Juris Savickis	None
Deputy Chairman of the Council	Oliver Giese	None
Member of the Council	Jorg Tumat	None
Member of the Council	Nikolaj Dubik	None
Member of the Council	Vitaly Khatkov	None
Member of the Council	Oleg Ivanov	None
Member of the Council	Nicolas Merigo	None
Member of the Council	Guilaume Rivron	None
Member of the Council	Hans-Peter Floren	None
Member of the Council	Jeļena Mihailova	None

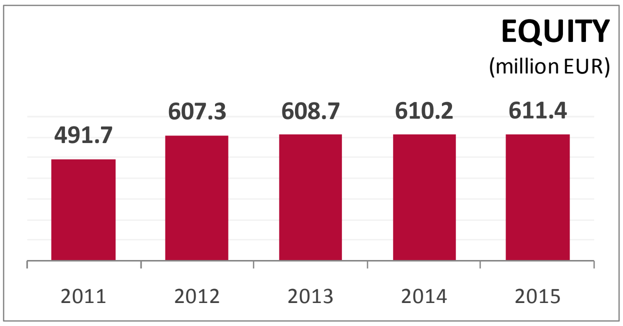
FACTS & FIGURES

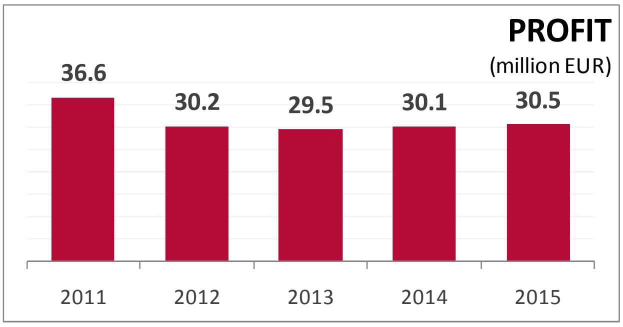
Shares and Dividends

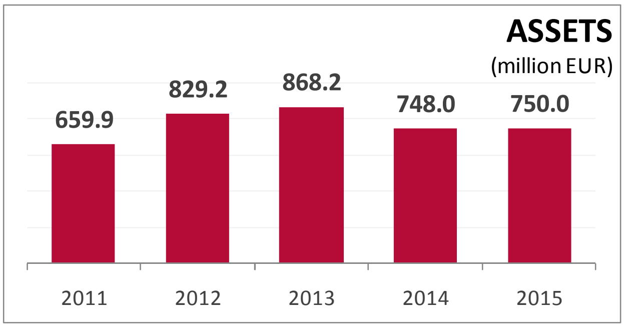


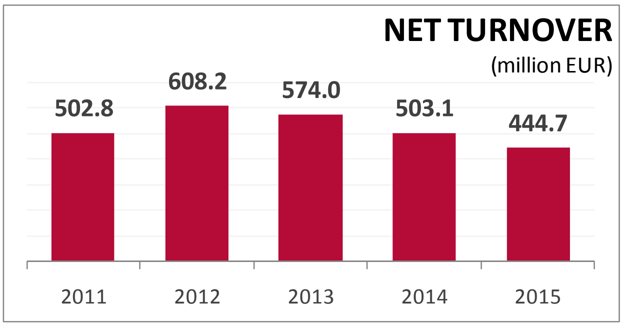


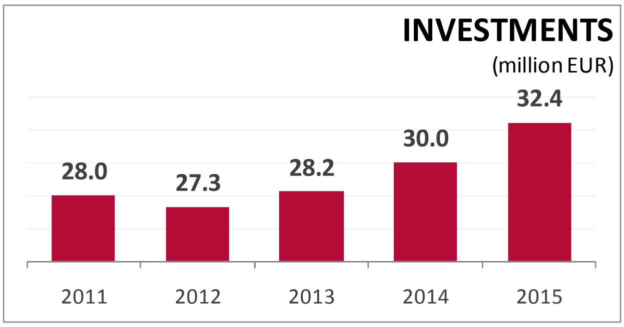
Financial Performance

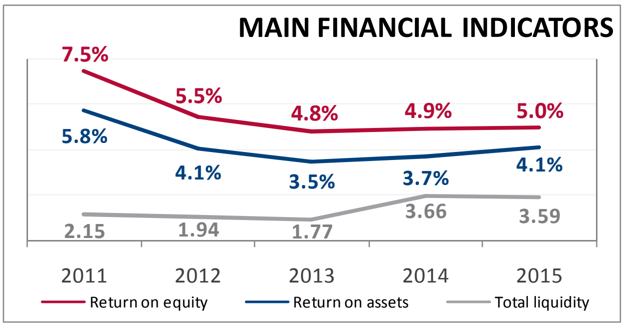




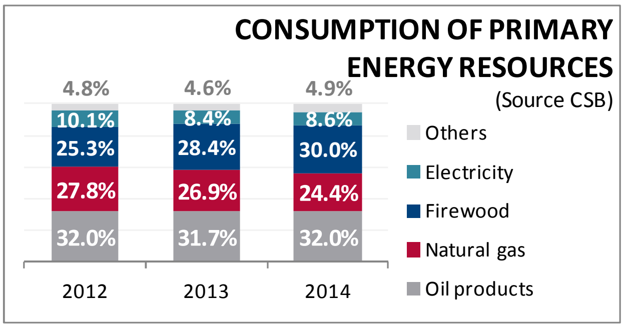


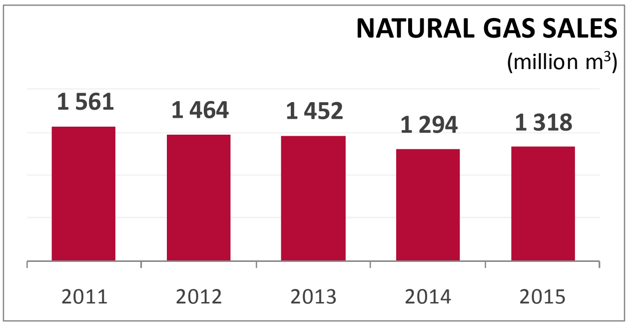


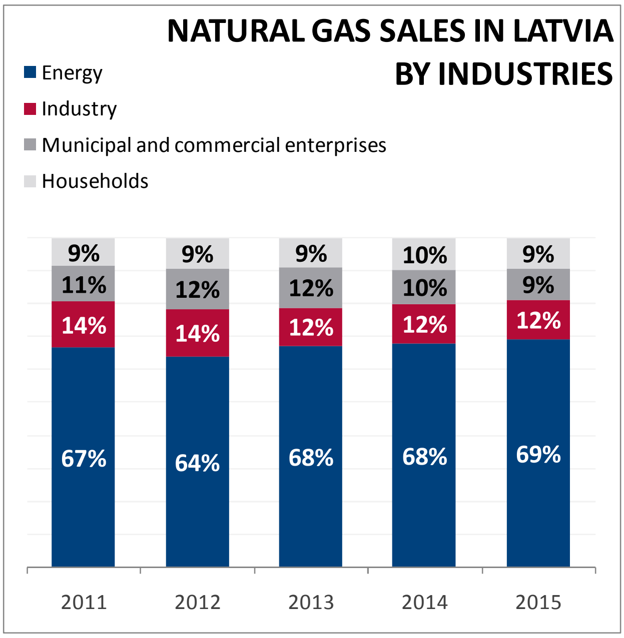


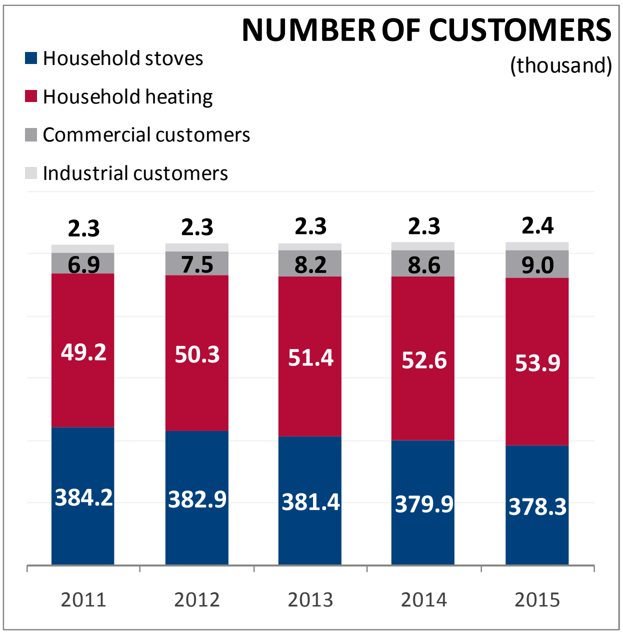


Natural Gas Market

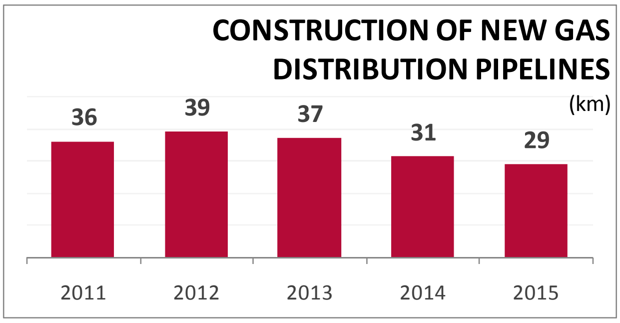


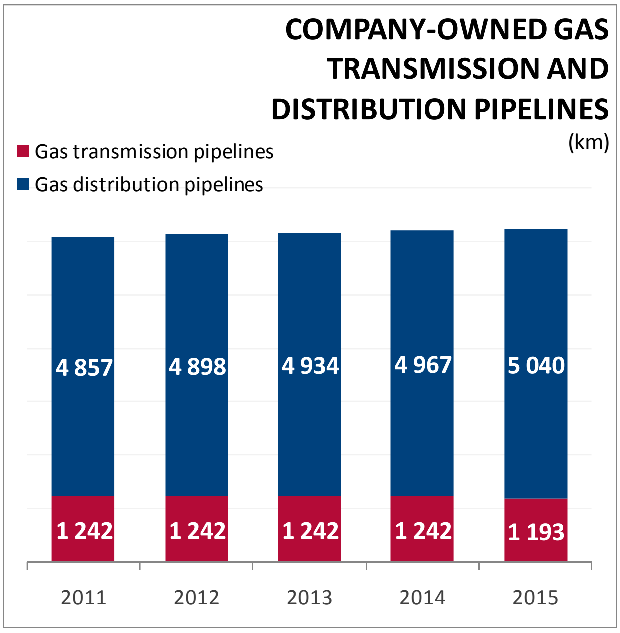




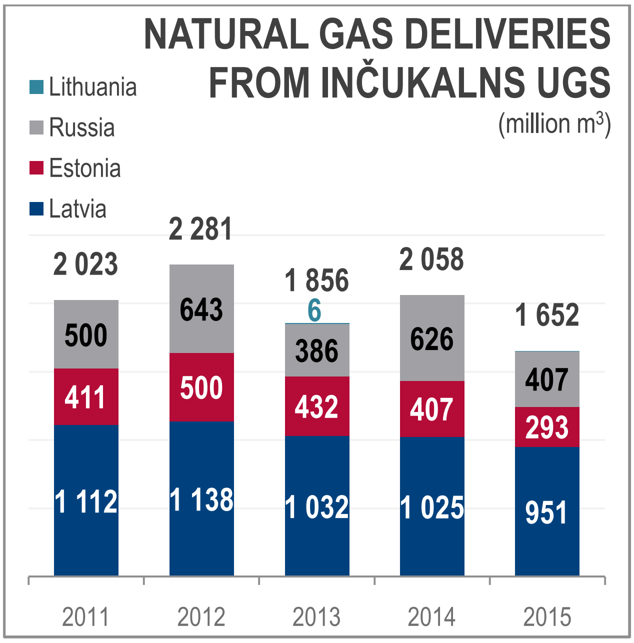


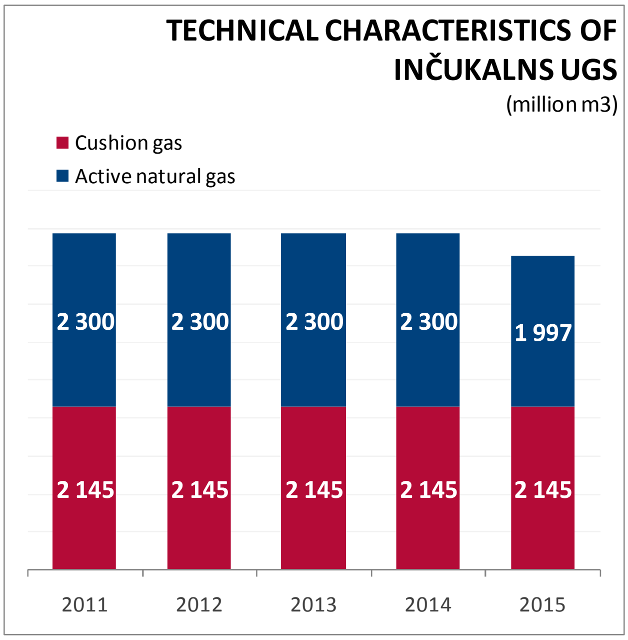
Transmission and Distribution Systems



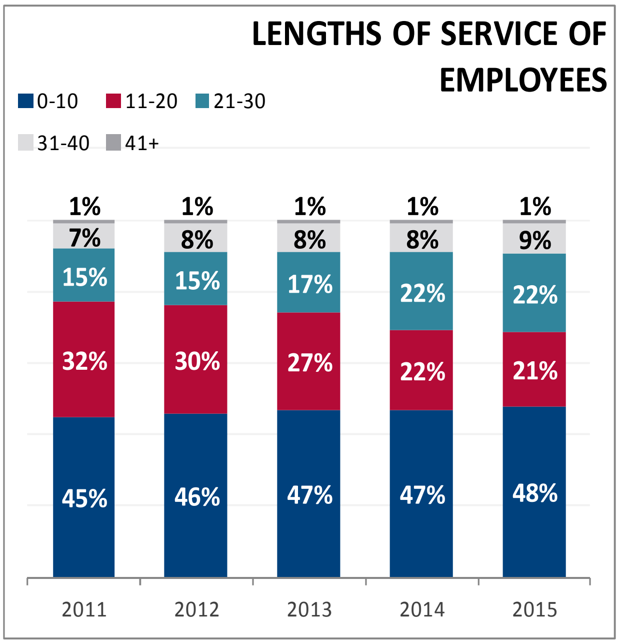


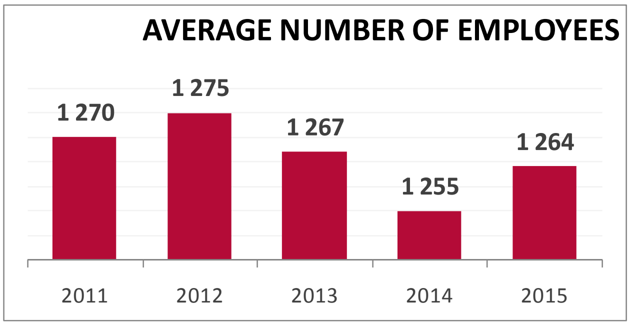
Inčukalns UGS





Employees





CORPORATE SOCIAL RESPONSIBILITY

directions and principles

Environment

Natural gas is the most environment-friendly type of fuel with the lowest emissions of CO_2, ashes and other substances

Promotion of energy-efficient appliances and heating solutions in the market

Investment in reduction of losses of natural gas and other substances

Improvement of energy efficiency at the company's objects

Safety

Investment in the improvement of safety and infrastructure capacity

Educating society in the safe use of natural gas

Regular infrastructure monitoring and efficient emergency service

Instruction and training of emergency service employees and other staff

The company has a training centre where gas specialists of the company and beyond are instructed

Corporate management

Listed on the NASDAQ OMX exchange with high standards of company management

Transparency and publicity

Equal treatment of all shareholders

Cooperation and state

The company is one of the major taxpayers

Cooperation with various state institutions in environmental, safety, planning and other areas

Legislative initiatives

Membership of international gas supply partnership and planning organizations

Personnel

High standards of occupational health and safety

Support for education and qualification-raising

Remuneration policy and collaboration with trade unions

Improvement of the labour environment and team

Charity

Support for sports and culture

Support for education and science

Support for children's social programmes

ENVIRONMENTAL PROTECTION

Given the global importance of environmental protection and the specific nature of our company, environmental matters hold a prominent role in the operation of the JSC "Latvijas Gāze". The technological processes used in the gas industry mean that multiple chemical substances, such as methane in the storage, transmission, and distribution systems, or carbon dioxide in the units used to inject natural gas into the Inčukalns UGS, are unavoidably emitted. Being aware of our interaction with the environment we take a number of compulsory and voluntary measures to mitigate the harm as much as possible.

We implement an environment policy so as to:

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

MANAGEMENT REPORT

Key Figures

Key performance figures (mio m³ unless specified otherwise)	2015	2014
Natural gas sales in Latvia	1,318	1,294
Gas volume injected into IUGS	1,550	1,907
Number of customers (addresses), thousand	444	443
Number of employees, average	1,264	1,255
Length of distribution lines, km	5,044	4,967
Length of transmission lines, km	1,193	1,242

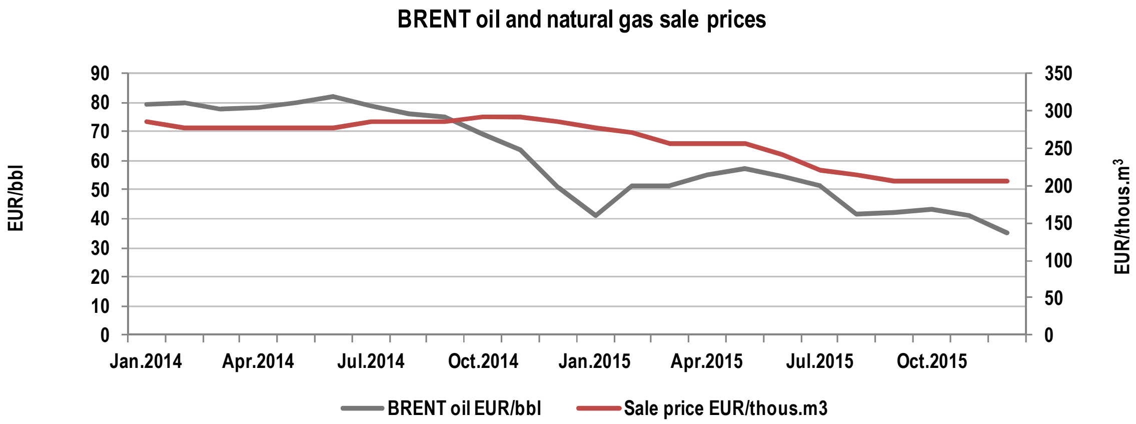
IUGS - Inčukalns Underground Gas Storage

Key financial figures (thous. EUR)	2015	2014
Revenues	444,686	503,076
EBITDA	68,457	68,817
EBITDA, %	15.4	13.7
EBIT	34.791	35.322
EBIT, %	7.8	7.0
Profit for the year	30,517	30,069
Net profit margin, %	6.9	6.0
Total assets	750,015	747,970
Equity	611,403	610,182
Earnings per share, EUR	0.765	0.754
P/E	12.76	12.13

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

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

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



Source: eia.gov

Description of operation environment

- The year 2015 saw a substantial price drop in the global oil markets, with influence on both the average natural gas purchase price and the annual income of Latvijas Gāze.
- The sales volume was 2% higher than in 2014 reaching 1.3 billion m^3.
- Despite the decrease in income caused by the price drop, the EBITDA remains at the previous year's level – 68.5 million EUR.

THE OIL PRICE DROP ENABLES TO CHARGE LOWER PRICES TO CUSTOMERS

Operational results of segments

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

Thanks to the fact that the Company managed to maintain EBITDA in 2015 at the previous year's level, (68.5 mio EUR), despite the decrease in turnover, the EBITDA margin increased in 2015 to 15,4% as compared to 13,7% in previous year.

In terms of carrying value of assets, the largest operating segment is distribution, with its assets comprising 34% of the total assets of the Company. Distribution is also the segment with the largest number of people employed, as its staff comprises 53% of the Company's employees. In 2015 the EBITDA of the distribution segment were 24.0 million EUR constituting the highest EBITDA proportion in the Company – 35% of the Company's total EBITDA of 2015. The distribution segment's turnover and profitability is affected by the volume of natural gas sold in Latvia and the spread of customers across consumption tiers.

The transmission segment earns income from both natural gas consumption in Latvia and international natural gas deliveries, as well as from natural gas movement upon injection into or withdrawal from the Inčukalns Underground Gas Storage. In 2015 it was the only segment where a decrease in the EBITDA margin was registered. This occurred because there was less natural gas transmitted in international transactions, including injections into the IUGS. The transmission segment's EBITDA of 2015 were 15.6 million EUR accounting for 23% of the Company's total EBITDA. The transmission segment is the second largest in terms of carrying value of assets. Amounting to 193.6 million EUR, the segment's assets accounted for 26% of the Company's total assets as at the end of 2015.

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

The natural gas trade segment is the largest in terms of revenues. The segment revenue was 342.4 million EUR, which makes 77% of the Company's total revenues. Following a drop in the natural gas sale price, the segment's revenues fell by 13% against the year 2014. The segment's EBITDA, however, increased by 2.9 million EUR against 2014, mainly due to lower provisions for doubtful debts and accruals for expenses included in the results of 2014.

Description of regulatory environment

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

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

1) by April 3, 2017 there shall be a company unbundled from Latvijas Gāze, and it shall own the natural gas transmission and storage infrastructure and not constitute part of Latvijas Gāze as a vertically integrated undertaking;
2) by December 31, 2017 it shall be ensured that natural gas transmission and storage.
   operations not be controlled by persons related to natural gas production and trade (divestiture of the natural gas storage and transmission infrastructure);
3) by January 1, 2018 it shall be ensured that the natural gas distribution system infrastructure be unbundled as a separate subsidiary which constitutes part of Latvijas Gāze as a vertically integrated undertaking whilst meeting the statutory independence requirements.

On February 9, 2016, the Cabinet of Ministers passed amendments to the regulations on natural gas trade, effectively enabling Latvian consumers to purchase natural gas from other traders outside Latvia. As at date of signing the financial statements the Company and some of the shareholders have submitted to the Republic of Latvia, represented by the Privatisation Agency, a notice on breach of initial privatisation agreement, which provided that the Company shall retain the monopolistic market position in Latvia until April 3, 2017.

Financial risk management

The Company is exposed to credit risk on its financial assets and to liquidity risk due to high seasonality of natural gas sales. The Company acquires and sells most of the services and goods in Euros, thus there is no significant exposure to foreign exchange risk. All operations of the Company are financed from own funds, thus there is no exposure to interest rate risks or market risks. The Company is also exposed to high customer concentration risk - five clients together comprise 56% of sales volume during 2015.

For largest customers the Company uses individual credit risk management policies, which include several practices such as, initial credit limit assessment, detailed monitoring of financial measures, as well as frequent billing practice to avoid accumulation of current debt. For smaller customers, the Company has approved detailed credit risk management policies, describing basic steps for monitoring the progress and managing required communication with the clients.

For managing credit risk associated with cash and cash equivalents, the Company has approved financial asset management policy based on which all corporation credit institutions are graded quarterly, taking into account their financial measures as well as non-financial indicators.

Liquidity risk is associated with ability of the Company to settle its obligations within agreed due dates. The Company uses various term cash flow planning tools to manage liquidity risk.

Proposed distribution of profit

	2015
	EUR
Profit for the reporting year (according to Latvian Law on Annual Accounts)	33,311,640
Share of profit not available for distribution (resulting from the revalued property, plant and equipment)	(2,794,923)
Share of profit available for distribution	30,516,717
Suggested distribution of profit	
Dividends to shareholders (91,0%)	**30,324,000**
Dividends per share (EUR/1 share)	**0.76**
Transferred to retained earnings	2,987,640

Subsequent events

On January 28, 2016, Marguerite Gas I.S.a.r.l. purchased 28.97% shares from Uniper Ruhrgas International GmbH (formerly E.ON Ruhrgas International GmbH), which remains shareholder of the Company with 18.26% of shares.

On March 22, 2016 extraordinary shareholder meeting approved commencement of reorganisation process. The aim of the reorganisation is to unbundle operations and related net assets of transmission and storage segments into sister company in accordance with the provisions of Commercial Law. The reorganisation shall be completed by April 3, 2017.

Future prospects

Subsequent to the year end, the commencement of unbundling of transmission and storage has started. It is planned that unbundling will be the key focus for the management during upcoming years. Subsequent to unbundling of transmission and storage operations, distribution activities shall be separated from operations of the sales trading segment. Legal and ownership unbundling shall be completed by end of 2017, and the distribution shall be separated effective from January 1, 2018.

Besides unbundling, the Company has also started preparations for gas market opening in Latvia in April 2017. The Law provides, that two years after market opening, households will still have the rights to acquire gas for regulated tariffs. As such, the Company estimates that less than 10 thousand clients will need to select their supplier at the beginning of 2017. At the same time, clients that will need to acquire gas in open market represent approximately 90% of total sales volume in 2015.

STATEMENT OF BOARD RESPONSIBILITY

The management of the Joint Stock Company “Latvijas Gāze” (hereinafter – the Company) is responsible for the preparation of the Company’s financial statements.

The financial statements for 2015, have been prepared in compliance with the International Financial Reporting Standards as adopted by the European Union and provide a true and fair view of the Company’s financial position, operational results and cash flows in all key aspects.

The financial statements for 2015 of the Joint Stock Company “Latvijas Gāze” were approved by the Board on April 22, 2016.

The financial statements were approved by the Board of the JSC "Latvijas Gāze" on April 22, 2016 and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Zane Kotāne
Member of the Board

FINANCIAL STATEMENTS 2015

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

CORPORATE INFORMATION

Company	JSC Latvijas Gāze, Joint Stock Company
Registration number, place and date of registration	000300064 Riga, March 25, 1991 Reregistered in Commercial Register December 20, 2004 with common registration number No 40003000642
Address	Vagonu street 20, Riga LV-1009, Latvia www.lg.lv
Major shareholders	PJSC "Gazprom" (34,0%) Marguerite Gas I.S.a.r.l. (28,97%) Uniper Ruhrgas International GmbH (18,26%) ITERA Latvija SIA (16,0%)
Corporate Governance Report	www.lg.lv
Name and address of the auditor and responsible certified auditor	PricewaterhouseCoopers SIA Certified audit company Licence No.5 Kr. Valdemāra street 21-21 Riga, LV-1010 Latvia Certified auditor in charge: Lolita Čapkeviča Certified auditor Certificate No. 120
Financial Year	January 1 - December 31, 2015

STATEMENT OF PROFIT OR LOSS

	Note	2015	2014 (Restated)
		EUR'000	EUR'000
Revenue	2	444,686	503,076
Other income	3	3,441	3,144
Raw materials and consumables used	4	(334,552)	(391,929)
Personnel expenses	5	(29,215)	(27,151)
Depreciation, amortisation and impairment of property, plant and equipment		(33,756)	(33,832)
Other operating expenses	6	(15,903)	(18,323)
Operating profit		**34,701**	**34,985**
Financial income, net		90	337
Profit before taxes		**34,791**	**35,322**
Corporate income tax	7	(4,274)	(5,253)
Profit for the year		**30,517**	**30,069**
		EUR	EUR
Earnings per share (basic)	17	0.765	0.754
Earnings per share (diluted)	17	0.765	0.754

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	2015	2014
		EUR'000	EUR'000
Profit for the year		**30,517**	**30,069**
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods			
Revaluation of property, plant and equipment		197	239
Deferred tax liability from revaluation of property, plant and equipment		(30)	(36)
Remeasurement of post-employment benefit obligations	16	(735)	(80)
Other adjustments		-	(3)
Net (income) or expenses recognised as other comprehensive income		**(568)**	**120**
Total comprehensive income for the year		**29,949**	**30,189**

The Notes on pages 23-44 are integral part of these Financial Statements.

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

BALANCE SHEET

	Note	31.12.2015	31.12.2014
		EUR'000	EUR'000
ASSETS			
Non-current assets			
Intangible assets	9	2,282	2,229
Property, plant and equipment	10	557,450	561,675
Trade receivables	12	8	8
Total non-current assets		**559,740**	**563,912**
Current assets			
Inventories	11	56,519	80,189
Advances for inventories		24,228	-
Trade receivables	12	27,873	51,659
Current income tax receivable	18	1,956	470
Other current assets	13	492	616
Cash and cash equivalents		79,207	51,124
Total current assets		**190,275**	**184,058**
TOTAL ASSETS		**750,015**	**747,970**
LIABILITIES			
Equity			
Share capital	17	55,860	55,860
Share premium		20,376	20,376
Reserves	17	478,059	491,944
Retained earnings		57,108	42,002
Total equity		**611,403**	**610,182**
Non-current liabilities			
Deferred income	14	27,948	28,339
Employee benefit obligations	16	5,233	4,179
Deferred tax liabilities	8	52,398	54,644
Total non-current liabilities		**85,579**	**87,162**
Current liabilities			
Trade payables		11,794	3,785
Deferred income	14	1,213	1,187
Other liabilities	15	40,026	45,654
Total current liabilities		**53,033**	**50,626**
TOTAL LIABILITIES		**750,015**	**747,970**

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Zane Kotāne
Member of the Board

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2013	**56,773**	**20,376**	**491,990**	**39,582**	**608,721**
Transactions with owners:					
Dividends	-	-	-	(28,728)	(28,728)
Share capital conversion to EUR	(913)	-	913	-	-
Total transactions with owners	*(913)*	-	*913*	*(28,728)*	*(28,728)*
Transfers to reserves	-	-	876	(876)	-
Property, plant and equipment disposed	-	-	(2,304)	2,304	-
Deferred tax for property, plant and equipment disposed	-	-	346	(346)	-
Other comprehensive income:					
Other comprehensive income	-	-	123	(3)	120
Profit for the year	-	-	-	30,069	30,069
Total other comprehensive income	-	-	*123*	*30,066*	*30,189*
December 31, 2014	**55,860**	**20,376**	**491,944**	**42,002**	**610,182**
Transactions with owners:					
Dividends	-	-	-	(28,728)	(28,728)
Total transactions with owners	-	-	-	*(28,728)*	*(28,728)*
Transfers to reserves	-	-	828	(828)	-
Reclassification	-	-	(11,350)	11,350	-
Property, plant and equipment disposed	-	-	(3,288)	3,288	-
Deferred tax for property, plant and equipment disposed	-	-	493	(493)	-
Other comprehensive income:					
Other comprehensive income	-	-	(568)	-	(568)
Profit for the year	-	-	-	30,517	30,517
Total other comprehensive income	-	-	*(568)*	*30,517*	*29,949*
December 31, 2015	**55,860**	**20,376**	**478,059**	**57,108**	**611,403**

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Member of the Board

STATEMENT OF CASH FLOW

	Note	31.12.2015	31.12.2014
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before corporate income tax		**34,791**	**35,322**
Adjustments:			
- depreciation of property, plant and equipment		32,685	32,464
- amortization of intangible assets		1,071	1,379
- provisioning (except provisions for doubtful debts)		(1,354)	1,792
- income from participating interests		(1,191)	(1,169)
- losses on sale of property, plant and equipment		2,460	1,149
Changes in working capital:			
- to accounts receivable		23,848	(12,163)
- to advances for inventories		(24,165)	(52)
- to inventories		23,670	104,978
- to accounts payable		4,858	(120,810)
Corporate income tax paid	18	(7,544)	(5,528)
Net cash flow from operating activities		**89,129**	**37,362**
Cash flow from investing activities			
Payments for property, plant and equipment		(31,296)	(29,153)
Proceeds from sale of property, plant and equipment		102	47
Payments for intangible assets		(1,124)	(861)
Co-financing received from EC		-	3
Term deposits withdrawn		-	38,900
Net cash (outflow)/inflow from investing activities		**(32,318)**	**8,936**
Cash flow from financing activities			
Dividends paid	17	(28,728)	(28,728)
Net cash outflow from financing activities		**(28,728)**	**(28,728)**
Net cash flow		**28,083**	**17,570**
Cash and cash equivalents at the beginning of the reporting year		**51,124**	**33,554**
Cash and cash equivalents at the end of the reporting year		**79,207**	**51,124**

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Zane Kotāne
Member of the Board

NOTES TO THE FINANCIAL STATEMENTS

Segment reporting

The Company has four operating segments: gas transmission (includes the transmission of natural gas through high-pressure pipelines to deliver it to a distribution system or directly to consumers), gas storage (the storage of natural gas at the Inčukalns Underground Gas Storage Facility), gas distribution (includes the transmission of natural gas through high-, mid- and low-pressure pipelines) and gas trade (includes the purchase of natural gas for sale and the sale of natural gas to consumers).

All revenues of the Company are from regulated activities. Based on regulatory framework for Latvian consumers invoices are issued at end user tariff which includes fees for all services provided without further specification of revenues for each service. As invoices are issued by trading segment, external revenues are allocated to the trading segment and subsequently internally reclassified to the segment which has provided relevant service. The external revenues for gas transmission and storage represent revenues from clients outside Latvia.

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

1. Segment reporting

31.12.2015	Gas transmission	Gas storage	Gas distribution	Gas sale	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
Revenue from external customers	4,620	13,363	1,029	425,674	**444,686**
Internal revenue/expenses	21,392	14,422	47,466	(83,280)	**-**
Profit before taxes	1,455	8,755	12,229	12,352	**34,791**
Assets	193,643	149,515	261,704	145,153	**750,015**
Depreciation and amortisation	14,163	7,195	11,823	575	**33,756**
Purchase of property, plant and equipment and intangible assets	11,691	13,619	6,377	733	**32,420**
EBITDA	15,618	15,950	23,961	12,928	**68,457**

31.12.2014 (Restated)	Gas transmission	Gas storage	Gas distribution	Gas sale	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
Revenue from external customers	5,594	17,610	911	478,961	**503,076**
Internal revenue/expenses	20,825	14,179	48,570	(83,574)	**-**
Profit before taxes	3,200	10,518	12,414	9,190	**35,322**
Assets	199,995	143,037	254,124	150,814	**747,970**
Depreciation and amortisation	13,952	7,396	11,633	851	**33,832**
Purchase of property, plant and equipment and intangible assets	14,858	8,016	6,499	641	**30,014**
EBITDA	17,153	17,914	23,722	10,028	**68,817**

Statement of profit or loss

2. Revenues

Revenues	2015	2014
	EUR'000	EUR'000
Natural gas trade	425,632	478,915
Natural gas storage and transportation	18,025	23,250
Other revenue	1,029	911
	444,686	**503,076**

3. Other income

Other income	2015	2014
	EUR'000	EUR'000
Income from construction of service lines	1,192	1,169
Other income	1,319	734
Penalties	930	1,241
	3,441	**3,144**

4. Raw materials and consumables used

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

5. Personnel expenses

Personnel expenses	2015	2014
	EUR'000	EUR'000
Wages and salaries	22,612	21,149
State social insurance contributions	4,749	4,346
Life, health and pension insurance	1,405	1,306
Other personnel costs	449	350
	29,215	**27,151**
including Board and Council remuneration		
Salaries	2,696	2,074
State social security contributions	148	147
Contribution to pension funds	127	53
Other personnel costs	11	5
	2,982	**2,279**
Annual average number of employees	1,264	1,255

6. Other operating expenses

Other operating expenses	2015	2014
	EUR'000	EUR'000
Expenses for maintenance of premises and other services	4,705	4,582
Loss from sale of property, plant and equipment	2,448	1,149
Donations, financial support	2,309	3,136
Taxes and duties	2,200	2,170
Office and other administrative costs	1,295	1,222
Sale and advertising costs	1,221	1,035
Costs of IT system maintenance, communications and transport	1,011	987
Provisions for bad debts, net*	-	281
Other costs	714	3,761
	15,903	**18,323**

* In 2015 the gain from release of provisions for bad debts in the amount of 437 thousand EUR were included in other income.

7. Corporate income tax

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

8. Deferred corporate income tax

Reconciliation between profit before taxes and tax expense	2015	2014
	EUR'000	EUR'000
Profit before taxes	**34,791**	**35,322**
Tax theoretically calculated at 15% rate	5,219	5,298
Tax effect of:		
Costs not eligible for reduction of taxable income, net	243	1,210
Tax reduction on donations	(1,188)	(1,255)
Tax expense	**4,274**	**5,253**

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

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

Balance sheet

9. Intangible assets

Intangible assets	2015	2014
	EUR'000	EUR'000
Cost		
As at the beginning of period	13,346	12,616
Additions	1,124	860
Disposals	(124)	(130)
As at the end of period	**14,346**	**13,346**
Amortisation		
As at the beginning of period	11,117	9,826
Amortisation	1,071	1,379
Disposal	(124)	(88)
As at the end of period	**12,064**	**11,117**
Net book value as at December 31	**2,282**	**2,229**

The intangible assets include fully depreciated intangible assets with a total historical cost of EUR 7,597 thousand (on 31.12.2014: EUR 7,407 thousand). Largest part of intangible assets of the Company consists of software for operations of various operating segments.

10. Property, plant and equipment

	Land	Cushion gas	Buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31.12.2014	**2,584**	**9,377**	**1,054,386**	**133,904**	**20,956**	**16,739**	**1,237,946**
Additions	-	-	-	-	-	31,543	31,543
Reclassified	-	-	32,069	2,507	1,212	(35,788)	-
Revaluated	-	-	195	2	-	-	197
Disposals	-	-	(9,116)	(1,395)	(1,207)	(12)	(11,730)
31.12.2015	**2,584**	**9,377**	**1,077,534**	**135,018**	**20,961**	**12,482**	**1,257,956**
Depreciation							
31.12.2014	**-**	**-**	**589,655**	**71,954**	**14,662**	**-**	**676,271**
Calculated	-	-	24,205	6,655	1,837	-	32,697
Disposals	-	-	(5,980)	(1,290)	(1,192)	-	(8,462)
31.12.2015	**-**	**-**	**607,880**	**77,319**	**15,307**	**-**	**700,506**
Net book value as at 31.12.2015	**2,584**	**9,377**	**469,654**	**57,699**	**5,654**	**12,482**	**557,450**
Net book value as at 31.12.2014	**2,584**	**9,377**	**464,731**	**61,950**	**6,294**	**16,739**	**561,675**

	Land	Cushion gas	Buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31.12.2013	**2,584**	**9,377**	**1,042,126**	**131,556**	**20,770**	**8,723**	**1,215,136**
Additions	-	-	-	-	-	29,504	29,504
Reclassified	-	-	15,562	4,812	1,048	(21,422)	-
Revaluated	-	-	239	-	-	-	239
Disposals	-	-	(3,541)	(2,464)	(862)	(66)	(6,933)
31.12.2014	**2,584**	**9,377**	**1,054,386**	**133,904**	**20,956**	**16,739**	**1,237,946**
Depreciation							
31.12.2013	**-**	**-**	**568,164**	**67,337**	**13,527**	**-**	**649,028**
Calculated	-	-	23,679	6,803	1,982	-	32,464
Disposals	-	-	(2,188)	(2,186)	(847)	-	(5,221)
31.12.2014	**-**	**-**	**589,655**	**71,954**	**14,662**	**-**	**676,271**
Net book value as at 31.12.2014	**2,584**	**9,377**	**464,731**	**61,950**	**6,294**	**16,739**	**561,675**
Net book value as at 31.12.2013	**2,584**	**9,377**	**473,962**	**64,219**	**7,243**	**8,723**	**566,108**

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

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

During the reporting year the Company has capitalized depreciation in amount of 12 thousand EUR (2014: 11 thousand EUR).

Revaluation impact

During 2003 and 2004 buildings and constructions (gas transmission and distribution system) and equipment and machinery were revalued using cost (amortised replacement cost) method. The amortised replacement cost was determined by a certified independent assessor. During 2012 the Company performed subsequent revaluation of all asset groups mentioned above using amortised replacement cost method. The amortised replacement cost was determined by independent certified valuator.

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the market assumptions. This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

The objective of the fair value measurement, even in inactive markets, is to arrive at the price at which an orderly transaction would take place between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. In order to arrive at the fair value of a financial instrument different methods are used: quoted prices, valuation techniques incorporating observable data and valuation techniques based on internal models. These valuation methods are divided according with the fair value hierarchy in Level 1, Level 2 and Level 3.

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

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

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

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

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

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

Company's buildings and constructions and equipment and machinery are stated at revalued amount, determined by using depreciated replacement cost method which is based on the definition of the assets' market value formulated in the International valuation standards. Depreciated replacement cost method was selected as the most appropriate one given the specialised nature of the assets subject to revaluation, as such assets are rarely sold or even not sold at all on the market. For the purposes of assessing the replacement cost, the data about the construction costs of the Latvia's leading construction companies for 2011 was analysed, taking into account the loss of technical and functional value of the assets over time. As a result, it may be concluded that both observable and unobservable market data is being used in valuation which corresponds to the 3rd level valuation technique.

The management of the Company has evaluated the trend in the construction costs during the period from 2012 till 2015 and has concluded that, based on the Company's financed projects data, purchase costs compared to those used in revaluation, have not significantly changed.

The following table summarises values of the revaluated assets groups, assuming that revaluated asset were carried at original costs.

Original cost	2015	2014
	EUR'000	EUR'000
Buildings, constructions	244,246	223,146
Machinery and Equipment	51,621	54,712

11. Inventories

Inventories	31.12.2015	31.12.2014
	EUR'000	EUR'000
Natural gas and fuel	52,592	74,277
Materials and spare parts	4,348	6,350
Allowance for slow-moving inventory	(421)	(438)
	56,519	**80,189**

Allowance for impairment of slow-moving and obsolete inventories	2015	2014
	EUR'000	EUR'000
Allowance at the beginning of the year	**438**	**461**
Costs included in profit or loss statement	3	9
Released in profit or loss statement	(11)	(30)
Written down	(9)	(2)
Allowance at the end of the year	**421**	**438**

12. Trade receivables

Trade receivables	31.12.2015	31.12.2014
	EUR'000	EUR'000
Long-term receivables at book value	11	12
Allowance for impairment of long-term receivables	(3)	(4)
	8	**8**
Short-term receivables at book value	37,967	62,279
Allowance for impairment of short-term receivables	(10,094)	(10,620)
	27,873	**51,659**

Allowance for impairment of bad and doubtful receivables	2015	2014
	EUR'000	EUR'000
Allowance at the beginning of the year	**10,722**	**10,514**
Costs included in profit or loss statement	1,708	2,175
Release of allowance in profit or loss statement	(2,145)	(1,894)
Net changes included in profit or loss statement	**(437)**	**281**
Bad debts written down	(95)	(73)
Allowance at the end of the year	**10,190**	**10,722**

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

13. Other current assets

Other current assets	2015	2014
	EUR'000	EUR'000
Prepayments and deferred charges	391	405
Other receivables	193	309
	584	**714**
Allowance for impairment of bad and doubtful debts	(92)	(98)
	492	**616**

14. Deferred income

Deferred income	31.12.2015	31.12.2014
	EUR'000	EUR'000
Income from residential and corporate customers' contributions to construction of gas pipelines		
Long-term part	19,344	19,468
Short-term part	946	919
	20,290	**20,387**
Income from EC co-financing		
Long-term part	8,604	8,871
Short-term part	267	268
	8,871	**9,139**
Total deferred revenues		
Long-term part	27,948	28,339
Short-term part	1,213	1,187

Changes of deferred income		
Balance at the beginning of the year	**29,526**	**29,924**
Received from residential and corporate customers during reporting year	827	769
EC financing recognised in reporting year	-	2
Included in income of reporting year	(1,192)	(1,169)
Total transfer to next years	**29,161**	**29,526**

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

15. Other liabilities

Other liabilities	2015	2014
	EUR'000	EUR'000
Prepayments received	12,153	12,111
Value added tax	9,066	12,789
Other current liabilities*	6,897	6,886
Accrued costs	5,877	7,253
Excise tax	2,519	2,740
Vacation pay reserve	1,245	1,318
Social security contributions	888	848
Salaries	781	752
Personnel income tax	554	585
Accrued post-employment benefit liabilities and other obligations to employees **	-	307
Natural resource tax	29	65
Real estate tax	17	-
	40,026	**45,654**

* Including provisions described in Ongoing and potential litigations

* *Accrued post-employment benefit liabilities and other obligations to employees are further described in Note 16.

16. Employment and post-employment benefit obligations

Employment and post-employment benefit obligations	2015	2014
	EUR'000	EUR'000
Obligations at the beginning of the reporting year	**4,486**	**5,812**
Recognised in profit or loss statement	159	(1,206)
Paid	(147)	(200)
Interest costs - part of comprehensive income	10	(24)
Revaluations due to changes in actuarial assumptions - part of comprehensive income	725	104
Obligations at the end of the reporting year	**5,233**	**4,486**
Non-current portion of accruals	5,233	4,179
Current portion of accruals	-	307
Obligations at the end of the reporting year	**5,233**	**4,486**

Other information

17. Shares and shareholders

Equity	31.12.2015 % of total share capital	31.12.2015 Number of shares	31.12.2014 % of total share capital	31.12.2014 Number of shares
Equity				
Registered (closed issue) shares	36.52	14,571,480	36.52	14,571,480
Bearer (public issue) shares	63.48	25,328,520	63.48	25,328,520
	100.00	**39,900,000**	**100.00**	**39,900,000**
Shareholders				
Uniper Ruhrgas International GmbH *(including registered (closed issue) shares 7,285,740)*	47.23	18,846,385	47.23	18,846,385
Itera Latvija LLC	16.00	6,384,001	16.00	6,384,001
PJSC "Gazprom" *(including registered (closed issue) shares 7,285,740)*	34.00	13,566,701	34.00	13,566,701
State-owned shares*	0.00	117	0.00	117
Bearer (public issue) shares	2.77	1,102,796	2.77	1,102,796
	100.00	**39,900,000**	**100.00**	**39,900,000**

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

As at December 31, 2015, the registered, signed and paid share capital consists of 39,900,000 ordinary shares with a par value of EUR 1.40 each. All shares have equal voting rights and rights to dividends. The Company has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as the basic earnings per share. Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

Dividends payable are not accounted for until they are declared at the Annual General Meeting. At the meeting in 2016, a dividend in respect to 2015 EUR 0.76 per share will be proposed by the management. These financial statements do not reflect these dividends payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings for 2015. The dividends paid in 2015 for 2014 were EUR 28,728 thousand (EUR 0.72 per share).

Earnings per share	2015	2014
	EUR'000	EUR'000
Net profit attributable to shareholders (a)	**30,517**	**30,069**
	Number, th.	Number, th.
Ordinary shares as at 1 January	39,900	39,900
Ordinary shares as at 31 December	39,900	39,900
Weighted average number of ordinary shares outstanding during the year (b)	39,900	39,900
Basic earnings per share during the year (a/b) in EUR	**0.765**	**0.754**

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	2015	2014
	EUR'000	EUR'000
Revaluation reserve	373,517	376,348
Employee benefits revaluation reserve	(815)	(80)
Other reserves	105,357	115,676
	478,059	**491,944**

Dividends are distributed and transfers to other reserves are made based upon profits and retained earnings as per statutory financial statements prepared under Latvian accounting regulations. Changes in other reserves can be made only with shareholders' approval. Revaluation reserve and share premium cannot be distributed as dividends to shareholders.

18. Taxes

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

19. Related party transactions

No entity exercises control over the Company. Entities disclosed below own or owned more than 20% of the shares that deemed to provide a significant influence over the Company.

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

Related party payables and receivables	31.12.2015	31.12.2014
	EUR'000	EUR'000
Payables to related companies for natural gas and services		
PJSC "Gazprom"	7,893	470
Companies controlled by PJSC "Gazprom"	1,390	402
	9,283	**872**
Receivables from related companies for natural gas transit		
PJSC "Gazprom"	**35**	**2,364**
Advance payment to related entities		
PJSC "Gazprom"	24,122	-
Companies controlled by PJSC "Gazprom"	460	1,052
	24,582	**1,052**

20. Financial risk management

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

Financial assets and liabilities arise from core business activities of the Company and are all measured at amortised costs. The following table summarises Company financial assets and liabilities.

Financial assets and liabilities	31.12.2015	31.12.2014
	EUR'000	EUR'000
Receivables from related companies	35	2 364
Trade receivables	27 838	49 295
Other receivables	492	651
Cash and cash equivalents	79 207	51 124
Financial Assets	**107 572**	**103 434**
Payables to related companies	9 283	470
Trade payables	2 511	3 315
Financial Liabilities	**11 794**	**3 785**

Credit risk

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

Concentration of credit risk

Similarly to the fact that the sales of the Company are exposed to high concentration risk, also outstanding receivables are exposed to high concentration risk, thus source of credit risk is mainly associated with top five customers of the Company, which as at December 31, 2015 comprise 30% of total outstanding receivables. Debts of five largest clients are not overdue and are not impaired as at December 31, 2015. The following table illustrates credit risk for outstanding receivables.

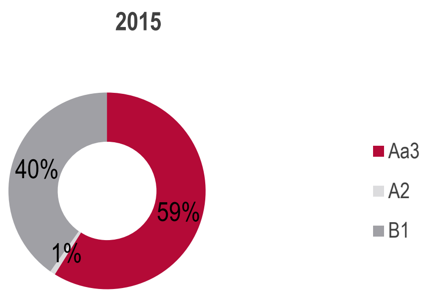
Trade receivables	2015	2014
	EUR'000	EUR'000
Impaired	10 094	10 620
Not overdue	26 703	49 395
Overdue less than 90 days, but not impaired	1 169	2 226
Overdue more than 90 days, but not impaired	1	38
Trade receivables, gross	**37 967**	**62 279**
Allowance for impairment of bad and doubtful debts	(10 094)	(10 620)
Trade receivables, net	**27 873**	**51 659**

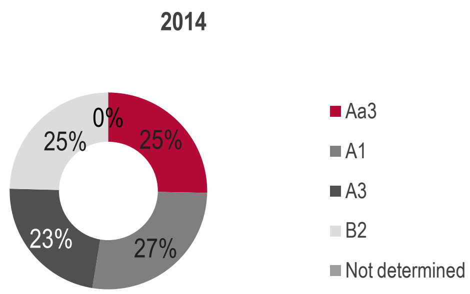
Credit risk management practices

The credit risk management is performed by the trading segment of the Company under supervision of the management board member responsible for commercial operations. For largest customers the Company uses individual credit risk management policies, which include several practices such as, initial credit limit assessment, detailed monitoring of financial measures, as well as frequent billing practice to avoid accumulation of current debt. In case of initial doubts, clients are placed for regular monitoring at the Board level, and, if required, additional collaterals are required to secure provision of services and sale of natural gas. For smaller customers, the Company has approved detailed credit risk management policies, describing basic steps for monitoring the progress and managing legally mandatory communication with the clients before insolvency procedure can be initiated. In case of customer becoming doubtful, the Company establishes provision and starts legal proceeding to collect the debt. The amount of receivables impaired as well as provisions released during the reporting year are included in note 12.

For managing credit risk associated with cash and cash equivalents, the Company has approved financial asset management policy. Based on internal guidelines all credit institutions with which the Company cooperates are graded once in a quarter, taking into account their financial measures as well as non-financial indicators. Based on the assessment, limits for current accounts with one institution as well as deposit limits are defined and regularly monitored. Due to low interest rates, as at December 31, 2015, cash and cash equivalents represented only current account balances with credit institutions.

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





Liquidity risk

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

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

21. Critical accounting estimates and judgements

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

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

Revaluation of property, plant and equipment

The management determines fair value and the remaining useful life of buildings and constructions and equipment and machinery based on valuations performed by independent certified valuators in accordance with real estate valuation standards and based on the average construction costs relevant for the reporting year. The Company's internal policy is to perform the revaluations when there are indications that average construction costs and/or purchase prices related to the buildings, gas transmission and distribution system and equipment have changed significantly. On 1 February 2012 the Company performed revaluation of the buildings, gas transmission and distribution system and equipment that increased the carrying amount of these assets by EUR 121 million. The amortised replacement cost was determined by an independent certified valuator.

Recoverable amount of trade receivables

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

Inventory valuation

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

Recognition of revenues using the leveraged consumption payment scheme

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

22. Changes in presentation and disclosures in the financial statements

During the reporting period, the management has revised the profit and loss statement classification method and changed to the classification using the nature of expenses method. The Company uses such classification also for the internal decision making and in such manner external reporting is more aligned with practices how operations of the Company are actually managed. In order to provide comparative information, also prior year classification is adjusted.

23. Key accounting policies

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

Basis of preparation

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

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

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

Adoption of new and/or changed IFRS

The following new and amended IFRS and interpretations came into force in 2015 and had no impact on these financial statements:

Amendments to IAS 19 “Employee benefits plans” regarding defined benefit plans (effective for annual periods beginning on or after 1 July 2014, endorsed by EU for annual periods beginning on or after 1 February 2015);

Annual improvements 2013 (effective for annual periods beginning on or after 1 July 2014, endorsed by EU for annual periods beginning on or after 1 January 2015). The amendments include changes that affect 3 standards - IFRS 3 “Business combinations”, IFRS 13 “Fair value measurement” and IAS 40 “Investment property”.

A number of new standards and interpretations have been published and come into force on financial periods beginning on or after 1 January 2016. The Company is currently assessing the impact of the amendments on its financial statements:

Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014, by EU for annual periods beginning on or after 1 February 2015). These amendments include changes that affect 6 standards - IFRS 2 “Share-based payment”, IFRS 3 “Business Combinations”, IFRS 8 “Operating segments”, IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets” and IAS 24 “Related party disclosures”.

IFRS 14 “Regulatory deferral accounts” (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendment to IFRS 11 “Joint arrangements” on acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016);

Amendments to IAS 16 “Property, plant and equipment” and IAS 41 “Agriculture” regarding bearer plants (effective for annual periods beginning on or after 1 January 2016);

Amendment to IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets” on depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016);

Amendments to IAS 27 “Separate financial statements” on the equity method (effective for annual periods beginning on or after 1 January 2016);

Amendments to IFRS 10 “Consolidated financial statements” and IAS 28 “Investments in associates and joint ventures” (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

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

Annual improvements 2014 (effective for annual periods beginning on or after 1 January 2016). The amendments include changes that affect 4 standards - IFRS 5 “Non-current assets held for sale and discontinued operations”, IFRS 7 “Financial instruments: Disclosures” with consequential amendments to IFRS 1, IAS 19 “Employee benefits”, IAS 34 “Interim financial reporting”.

IFRS 15 “Revenue from contracts with customers” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

IFRS 16 “Leasing” (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU);

Recognition of deferred tax asset for unrealised losses – amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);

Disclosure initiative – amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU).

Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in supply on goods and services and are expected to be used during more than one period. The key groups within property, plant and equipment for the Company are buildings and constructions, which include gas transmission and distribution pipelines, as well as equipment and machinery, which mostly relates to operations of Incukalns undergroud storage and technical transmission and distribution of gas.

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

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

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

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

	years
Buildings	60 - 100
Constructions, including gas transmission and distribution system	40 - 50
Machinery and equipment	5 - 20
Other fixed assets	3.33 - 10

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

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the profit or loss statement during the period when they are incurred. When the revaluated assets are sold, the amounts included in Revaluation reserve are transferred to retained earnings.

Intangible assets

Intangible assets primarily consist of software licences and patents. Intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their useful lives. Generally intangible assets are amortised over a period of 5 years.

Impairment of non-financial assets

All Company's non-financial assets have a finite useful life (except land and cushion gas). Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

The Company classifies all its financial assets as Loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for assets with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Receivables are classified as 'trade receivables', 'other current assets' and 'cash and cash equivalents' in the balance sheet.

Inventories

The cost of natural gas in the Inčukalns underground storage and in gas transmission pipelines is accounted separately using the first-in first-out (FIFO) method based on the total natural gas movement. The cost of natural gas is composed of the gas purchase cost. The cost of materials, spare parts and other inventories is determined using the weighted average method.

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

Trade receivables

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

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

Cash and cash equivalents

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

Share capital and dividend authorised

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

Provisions

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

Provisions are measured at the present value of managements best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Vacation pay reserve

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

Employee benefits

Bonus plans

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

Social security and pension contributions

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

Post-employment and other employee benefits

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

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

Deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

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

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

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

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

Current income tax

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

Trade payables

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

Revenue recognition

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

Revenue from trade of natural gas

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

Revenue from transportation and storage of natural gas

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

Interest income

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

Penalties income

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

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

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

Other income

Income from the rendering of services are recognised when rendered.

Related parties

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

Grants

EC funding related to property, plant and equipment is recognized as deferred income and is credited to the income statement systematically over the expected lives of the related assets.

24. Contingent liabilities

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

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

Commitments	2015	2014
	EUR'000	EUR'000
Contracted	18,143	19,776

25. Ongoing and potential litigations

On October 1, 2013 Latvian State Competition Council made a decision of December 16, 2011 case No. E02-48 No.95 (Prot. No.59, 2. §) about the case brought by the Competition Council on Article 13 of the Competition law (abuse of dominant position) for the violation of the prohibition stated in part 1 of Article 13 of the Competition law. Regional Administrative Court rejected Latvijas Gaze's claim about the decision and now the decision is appealed in the Supreme Court of Latvia.

With the Competition Council's decision the Company is legally obligated to end the unfair trade rules to new users, stopping to link natural gas supply contracts and gas supply to the user's previous debt payments, and imposed a fine of 2.23 million EUR. As at 31 December 2015 the Company had accrued 6.75 million EUR related to imposed fine and estimated losses resulting from debt repayments. Competition Council's decision was not entered into force because the Company has appealed to the Regional Administrative Court.

On February11, 2016, the Parliament of Latvia (Saeima) passed amendments to the regulations on natural gas trade, effectively enabling Latvian consumers to purchase natural gas from other traders outside Latvia. As at date of signing the financial statements the Company and its shareholder Uniper Ruhrgas International GmbH have submitted to the Republic of Latvia, represented by the Privatisation Agency, a notice on breach of privatisation agreements(Sale and Purchase Agreements) signed on April 2, 1997, between JSC Latvijas Gaze, Republic of Latvia and Ruhrgas AG un PreussenElektra AG (now - Uniper Ruhrgas International GmbH) and between JSC Latvijas Gaze, Republic of Latvia and JSC Gazprom which provided that the Company shall retain the monopolistic market position of gas trade in Latvia until April 3, 2017. Depending on further development of the issue, there might be litigations related to breach of privatisation agreement.

26. Subsequent events

On January 28, 2016, Marguerite Gas I.S.a.r.l. purchased 28.97% shares from Uniper Ruhrgas International GmbH (formerly E.ON Ruhrgas International GmbH), which remains shareholder of the Company with 18.26% of shares.

On March 22, 2016 extraordinary shareholder meeting approved commencement of reorganisation process. The aim of the reorganisation is to unbundle operations and related net assets of transmission and storage segments into sister company in accordance with the provisions of Commercial Law. The reorganisation shall be completed by April 3, 2017.

There have been no other significant events subsequent to the year end, which might require adjustments or disclosures in these financial statements.

AUDITORS REPORT

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Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC "Latvijas Gāze"

Report on the Financial Statements

We have audited the accompanying financial statements of JSC "Latvijas Gāze" set out on pages 18 to 44 of the accompanying annual report, which comprise the balance sheet as of 31 December 2015 and the statements of profit and loss, comprehensive income, changes in equity and cash flow for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of JSC "Latvijas Gāze" as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Management Report for 2015 set out on pages 14 to 17 of the accompanying annual report for 2015 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2015.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Member of the Board

Lolita Čapkeviča
Certified auditor in charge
Certificate No. 120

Riga, Latvia
22 April 2016

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.