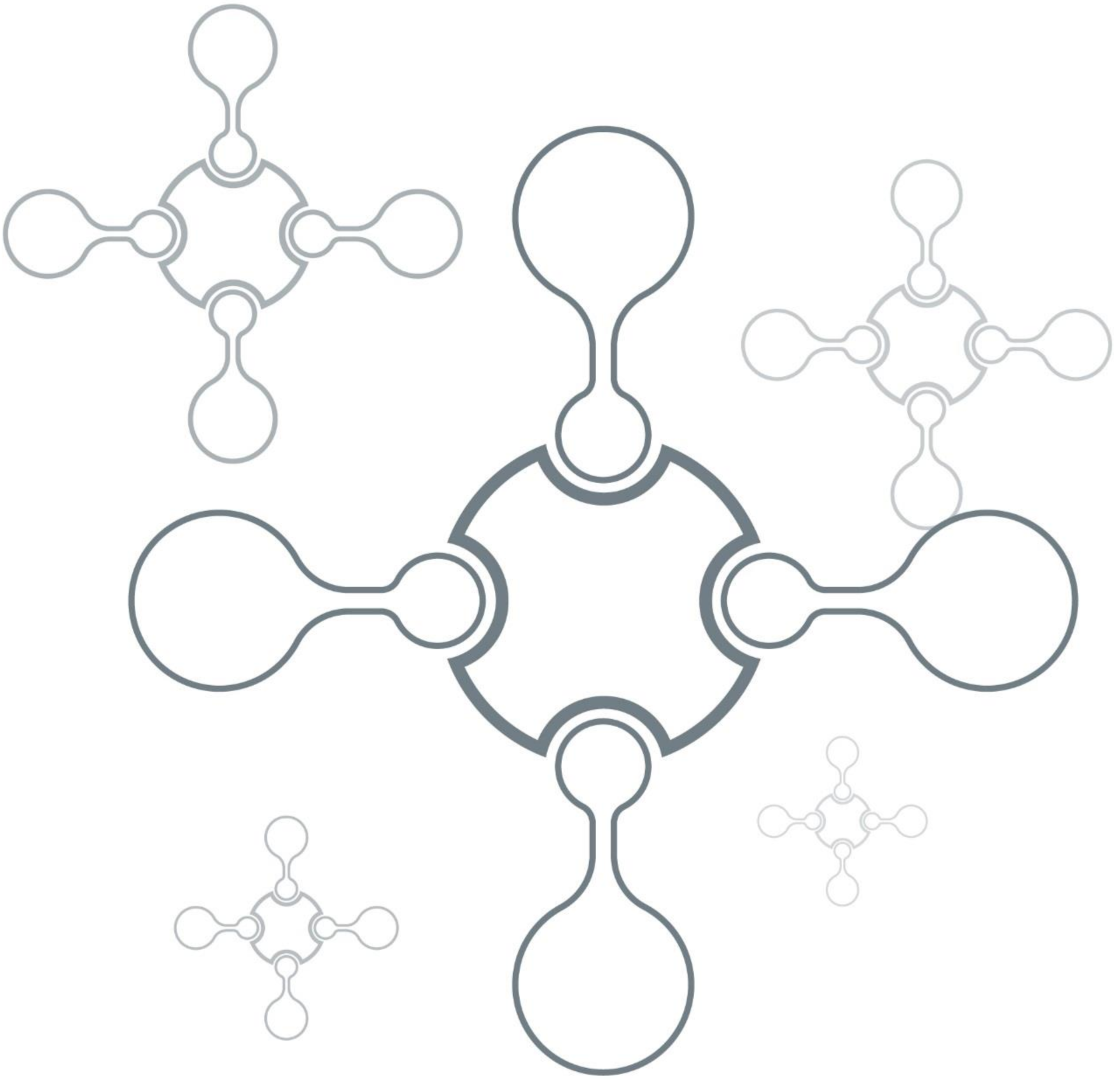


LATVIJAS GĀZE GROUP CONSOLIDATED AND JSC “LATVIJAS GĀZE” ANNUAL REPORT 2017

Prepared in compliance with the International

Financial Reporting Standards as adopted by the European Union

Riga
2018

CONTENTS

COUNCIL OF THE JSC "LATVIJAS GĀZE"

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

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

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

Juris Savickis, 1946
Vice-Chairman of the Council

Since 1996, President of LLC "ITERA Latvija"

Oliver Giese, 1967
Vice-Chairman of the Council

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

Matthias Kohlenbach, 1969
Member of the Council

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

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

Since 2016, Chairman of the Board, Gazprom Germania GmbH

Nicolàs Merigó Cook, 1963
Member of the Council

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

Hans-Peter Floren, 1961
Member of the Council

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

David Stephen Harrison, 1970
Member of the Council

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

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

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

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

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

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

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

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

MANAGEMENT BOARD OF THE JSC "LATVIJAS GĀZE"

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

Aigars Kalvītis, 1966
Chairman of the Board

Latvian University of Agriculture - Master's Degree in Economics

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

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

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

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

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

LATVIJAS GĀZE GROUP IN SHORT

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

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

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

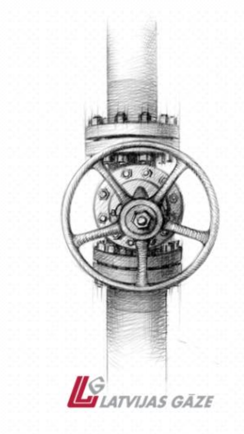
The natural gas sales & trading segment comprises the purchase, trading and sale of natural gas. The business includes wholesale trading and the sale of natural gas to industrial and commercial customers as well as to households.

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

Structure of Latvijas Gāze group as of 1 December 2017

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

STRATEGY AND OBJECTIVES



OUR OBJECTIVE

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

OUR MISSION

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

OUR VISION

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

LATVIJAS GĀZE GROUP`S FOCUS

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

1. *Price competitiveness*

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

2. *Quality of product*

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

3. *Quality of service*

Latvijas Gāze group is continuously working on improving the quality and availability of its products and services. We regularly review and improve our business and sales processes with the aim to make the provision of products and services to our customers faster and simpler.

4. *Effective management*

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

5. *Professional personnel*

Latvijas Gāze group employs a large staff of specialists with many different professional backgrounds. Given the paramount role of safety and security of gas supply, we pay particular attention to the qualification of our technical specialists and to labour safety. The sales & trading segment as well as the distribution segment provide their employees with a modern labour environment and operate in compliance with clearly defined personnel policies to ensure an efficient performance and recruitment.

6. *Safety and security of gas supply*

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

7. *Sustainable investment*

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

8. *Network development and customer attraction*

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

SHARES AND SHAREHOLDERS OF THE JSC "LATVIJAS GĀZE"

Shares and shareholders

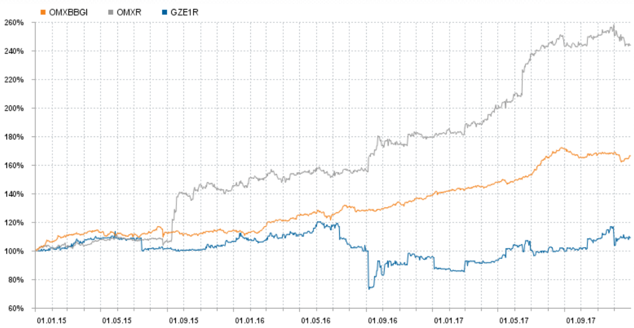
The shares of the JSC "Latvijas Gāze" are listed on the Nasdaq Riga stock exchange since February 15, 1999, and its ticker code is GZE1R since August 1, 2004. The total number of securities has not changed since 1999.

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

ISIN	LV0000100899	Number of securities in public offering	25 328 520
Ticker code	GZE1R	Liquidity provider	None
List	Second list		
Nominal value	1,40 EUR		
Total number of securities	39 900 000		

Source: Nasdaq Riga

The shares of the JSC "Latvijas Gāze" are included in four Baltic country industry indexes, which include public utilities - B7000GI, B7000PI, B7500GI, B7500PI, as well as in three geographical indexes - OMXBGI, OMXBPI, OMXRGI.



OMX RIGA – a domestic index of all shares. Its basket consists of the shares of the Official and Second list of "Nasdaq Riga". The index reflects the current situation and changes at "Nasdaq Riga".

OMX BALTIC – a Baltic-level index of all shares. Its basket consists of the shares of the Official and Second list of Baltic exchanges. The index reflects the current situation and changes on the Baltic market overall.

In terms of stock market capitalisation, the JSC "Latvijas Gāze" ranked number two among companies listed on Nasdaq Riga and number five among companies listed on Nasdaq Baltic. The Company's market capitalisation value in 2017 reached 399.00 million EUR – 39.08 million EUR less than in the previous reporting year.

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

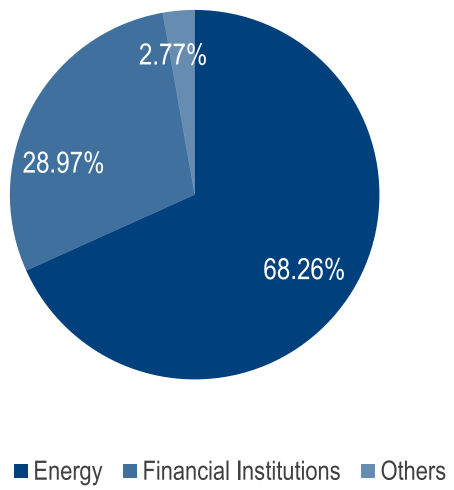
Share price development and share turnover (01.01.2015.-31.12.2017.)

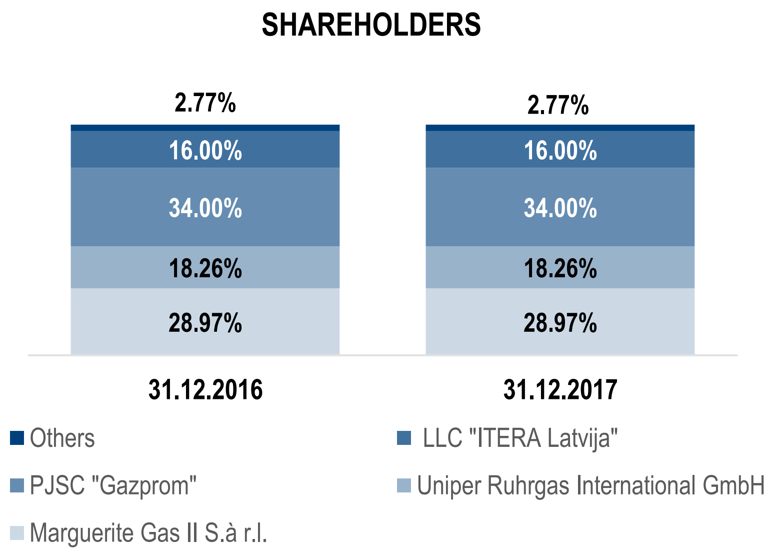
Source: Nasdaq Baltic

Information on share transactions (01.01.2015.-31.12.2017.)

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

Composition of shareholders as at 31.12.2017





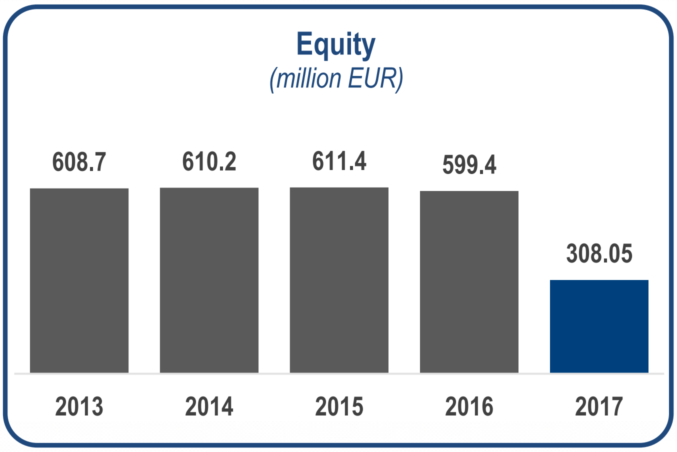
On March 23, 2017, Marguerite Gas II S.à.r.l. received all the shares owned by Marguerite Gas I S.à.r.l., thus becoming the holder of 28.97% of the shares in the JSC "Latvijas Gāze". Both companies have the same chain of controlling owners – "MARGUERITE HOLDINGS S.à.r.l." and "2020 European Fund for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

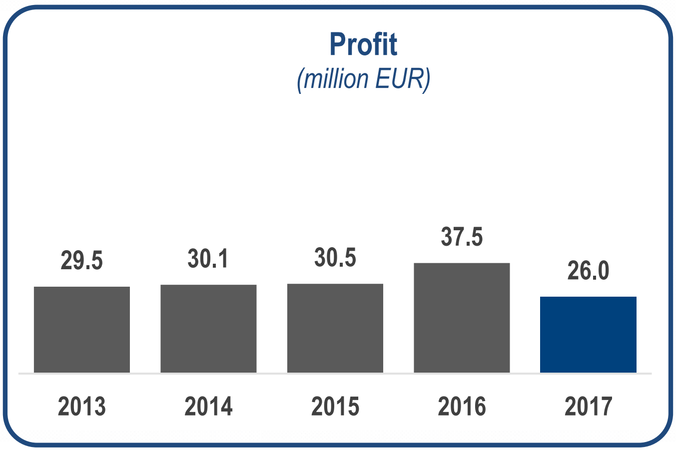
Shares owned by members of the governing bodies of the JSC "Latvijas Gāze"

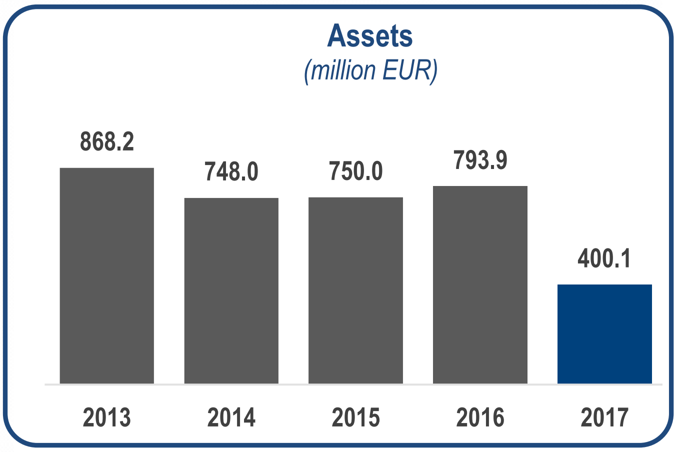
		At the date of signing financial statements
Management Board		Number of shares
Chairman of the Board	Aigars Kalvītis	None
Deputy Chairman of the Board	Alexander Frolov	None
Deputy Chairman of the Board	Sebastian Gröblinghoff	None
Member of the Board	Elita Dreimane	None
Council		
Chairman of the Council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

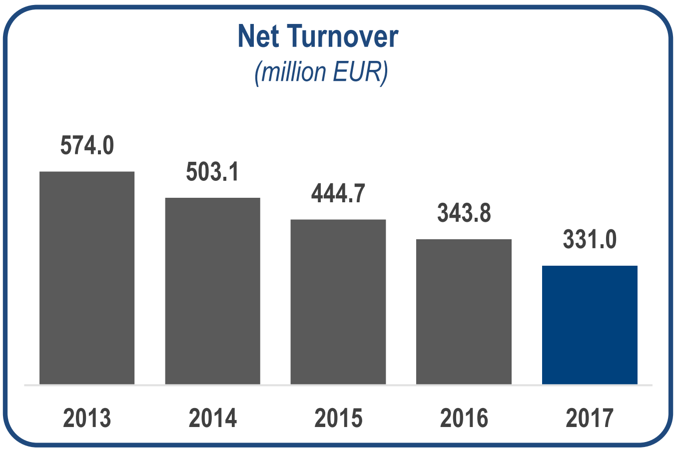
LATVIJAS GĀZE GROUP FACTS AND FIGURES

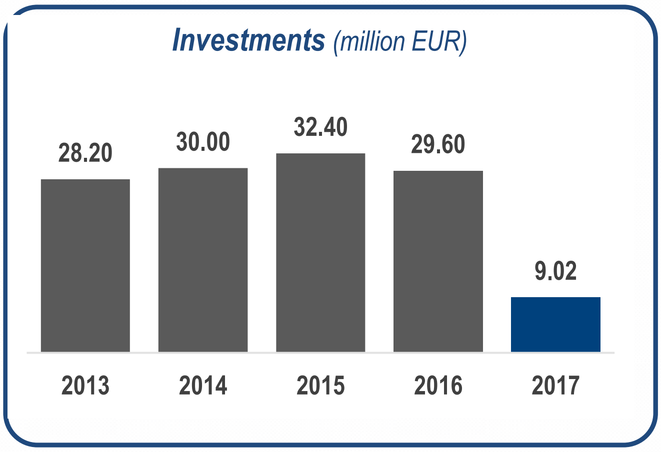
Financial indicators

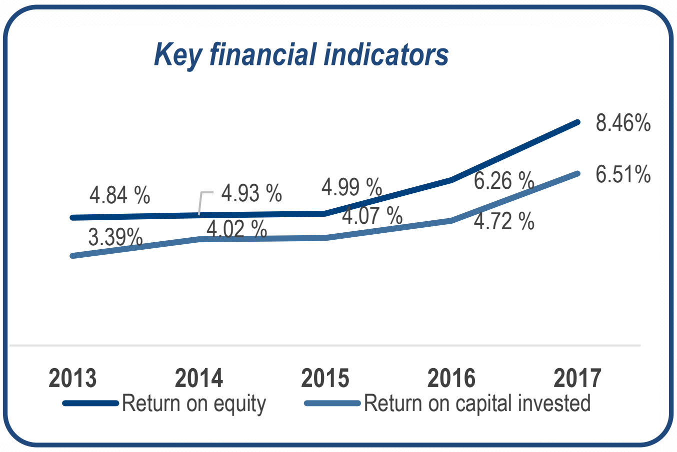




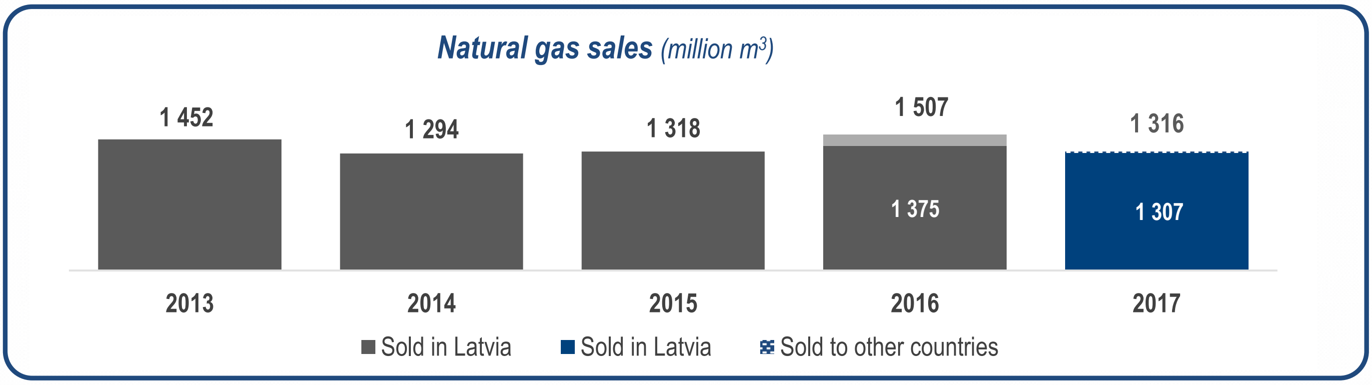




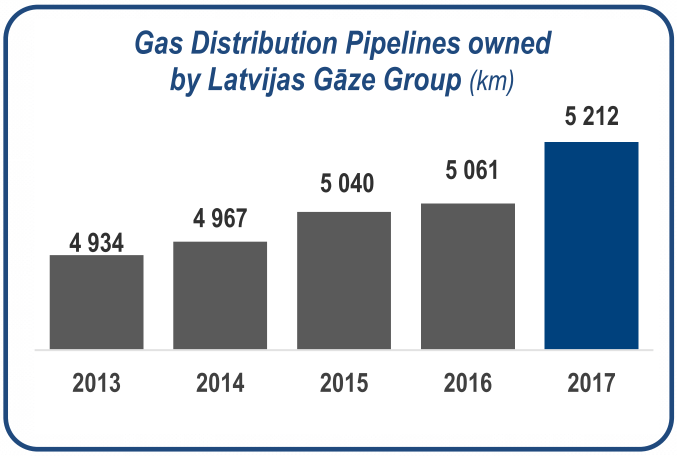


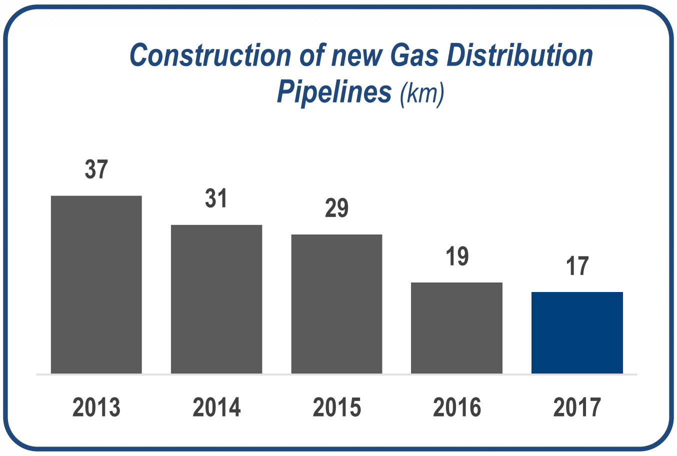


Natural gas Volumes

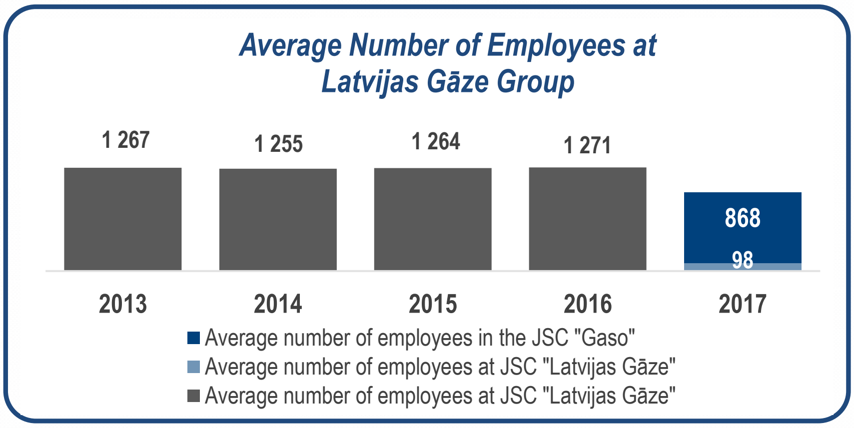


Distribution system





Employees



MANAGEMENT REPORT

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

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

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

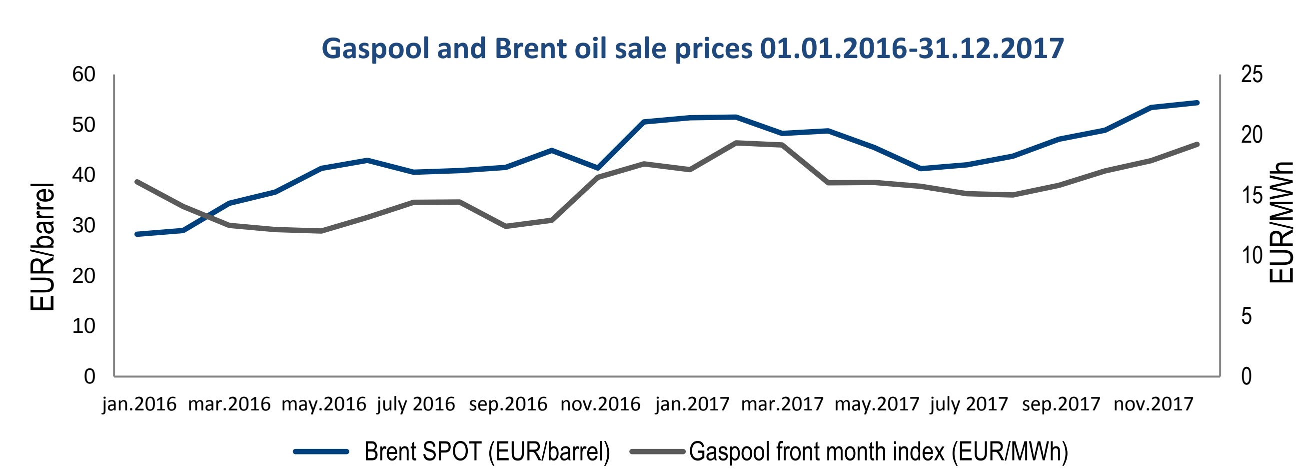
In 2017 Latvijas Gāze group supplied natural gas to more than 400 thousand customers in Latvia and further expanded its presence in the natural gas wholesale segment and natural gas trading abroad. The total natural gas sales in 2017 amounted to 1 316 thousand m^3 (13 859 GWh), which is a decrease of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

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

Group`s key financial figures (thous. EUR)	2016 Restated	2017
Net turnover	343 792	330 956
EBITDA	50 408	36 483
EBITDA, %	14.7	11.0
EBIT	37 920	24 482
EBIT, %	11.0	7.4
Net profit*	32 423	26 048
Net profit margin, %*	9.4	7.9
Earnings per share, EUR*	0.813	0.653
P/E*	10.83	15.32

EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortisation
EBIT – Earnings Before Interest andTaxes
P/E – Price per Earnings ratio

*For calculation profit from continuing operations is used



Source: eia.gov, Argus Media Ltd

Description of operating environment

- The opening of the Latvian natural gas market on 3 April 2017 fundamentally changed the operating environment for the JSC “Latvijas Gāze”. The Company now faces an increasingly competitive market environment with new market players offering their products and services in the Latvian natural gas market. Despite the significant changes Latvijas Gāze group still reached a total sales quantity of 1 316 thousand m^3 (13 859 GWh) in 2017, which is a 12.7 % decrease year-to-year. As a consequence of market opening, the Company not only delivers natural gas directly to its customers, but also sells natural gas at the Virtual Trading Point and at the Inčukalns Underground Gas Storage Facility.

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

- The Company’s EBITDA in 2017 amounted to 36.5 million EUR. Taking into account 36 new gas trading companies in 2017, the JSC “Latvijas Gāze” still managed to achieve stable financial results.

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

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

Operating results of business segments

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

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

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

The natural gas trading segment represents the biggest part of the group's net turnover. The segment's total revenue in 2017 was 281 million EUR, which made 85% of the group's total revenue. The segment`s EBITDA reached 13 million EUR or 36% of the group`s EBITDA.

Financial management

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

In 2017, Latvijas Gāze group also continued to implement and improve control mechanisms to mitigate the influence of credit risk, which its financial assets are exposed to, and liquidity risk, which stems from the distinct seasonality of natural gas sales, on its financial performance.

In the reporting year, Latvijas Gāze group remained exposed to a high risk of customer concentration – five customers together accounted for 51% of the sales volume of 2017. The major customers are subject to individual credit risk management policies, which include a number of practices, such as an initial evaluation of credit limit, a detailed supervision of financial figures, and a frequent billing to avoid accumulation of debt. For transactions with smaller customers, the Latvijas Gāze group follows approved detailed credit risk management policies where the basic steps of progress monitoring and customer communication control are described.

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

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

Proposed distribution of profit

	2017
	EUR
Profit for the reporting year	24,216,740
Income from tax accruals	6,134,089
Profit for the reporting year without income from tax accruals	18,082,651
Suggested distribution of profit	
Dividends to shareholders (74%)	**17,955,000**
Dividends per share (EUR/1 share)	**0.45**
Transferred to reserves	6,261,740

Transactions with related parties

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

Future prospects

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

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

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

STATEMENT OF BOARD RESPONSIBILITY

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

Latvijas Gāze group consolidated and JSC “Latvijas Gāze” financial statements 2017 (further – Financial statements) have been prepared in compliance with the International Financial Reporting Standards adopted by the European Union.

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

Financial statements were approved by the Board of the JSC “Latvijas Gāze” on April 25, 2018 and they are signed on behalf of the Board by:

Aigars Kalvītis	Sebastian Gröblinghoff	Elita Dreimane
Chairman of the Board	Deputy Chairman of the Board	Member of the Board

FINANCIAL STATEMENTS

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

CORPORATE INFORMATION

Company	JSC Latvijas Gāze, Joint Stock Company
LEI code	097900BGMO0000055872
Registration number, place and date of registration	Reregistered in Commercial Register December 20, 2004 with common registration number No 40003000642 Riga, March 25, 1991
Address	Vagonu street 20, Riga, LV-1009, Latvia
Corporate management report and Non-financial report	www.lg.lv
Major shareholders	PAS Gazprom (34,0%) Marguerite Gas I.S.a.r.II. (28,97%) Uniper Ruhrgas International GmbH (18,26%) ITERA Latvija SIA (16,0%)
Financial year	2017

STATEMENT OF PROFIT OR LOSS

	Note	Group 2017	Group 2016	Company 2017	Company 2016 Restated
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue	2	330,956	343,792	281,571	292,910
Other income	3	4,223	5,827	2,282	4,623
Raw materials and consumables used	4	(265,572)	(271,250)	(261,513)	(267,523)
Personnel expenses	5	(23,260)	(20,047)	(4,060)	(3,174)
Depreciation, amortisation and impairment of property, plant and equipment		(12,001)	(12,488)	(524)	(617)
Other operating expenses	6	(9,863)	(7,914)	(4,993)	(3,690)
Operating profit		**24,483**	**37,920**	**12,763**	**22,529**
Financial income		162	66	162	-
Financial expense		(1,728)	(19)	(1,708)	(19)
Profit before taxes		**22,917**	**37,967**	**11,217**	**22,510**
Corporate income tax	7	3,131	(5,544)	(2,749)	(3,297)
Profit from continuing operations		**26,048**	**32,423**	**8,468**	**19,213**
Profit from discontinued operations	8	**-**	**5,083**	**15,749**	**18,293**
Profit for the year		**26,048**	**37,506**	**24,217**	**37,506**
		EUR	EUR	EUR	EUR
Earnings per share (basic and diluted)	16	0.653	0.940	0.607	0.940
Earnings per share from continuing operations (basic and diluted)	16	0.653	0.813	0.212	0.481

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	Group 2017	Group 2016 Restated	Company 2017	Company 2016 Restated
		EUR'000	EUR'000	EUR'000	EUR'000
Profit for the year		**26,048**	**37,506**	**24,217**	**37,506**
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods					
Revaluation of property, plant and equipment		10,178	94	-	-
Deferred income tax		18,289	(14)	-	-
Remeasurement of post-employment benefit obligations		418	108	446	108
Net income recognised as other comprehensive income from continuing operations		**28,885**	**188**	**446**	**108**
Net income from discontinued operations	8	**-**	**15,273**	**28,467**	**15,273**
Total net income		***28,885***	***15,461***	***28,913***	***15,381***
Total comprehensive income for the period		**54,933**	**52,967**	**53,130**	**52,887**

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Aigars Kalvītis	Sebastian Gröblinghoff	Elita Dreimane
Chairman of the Board	Deputy Chairman of the Board	Member of the Board

BALANCE SHEET

	Note	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
		EUR'000	EUR'000	EUR'000
ASSETS				
Non-current assets				
Intangible assets	9	3,990	1,219	2,182
Property, plant and equipment	10	242,476	926	237,519
Investment in subsidiary	11	-	194,534	-
Other debtors		7	7	8
Total non-current assets		**246,473**	**196,686**	**239,709**
Current assets				
Inventories	12	80,892	79,608	3,902
Advances for inventories		4,293	4,292	1,236
Trade receivables	13	36,033	35,259	28,285
Current income tax receivable	14	4,101	4,101	988
Other current assets	15	3,482	5,065	540
Cash and cash equivalents		24,817	21,558	167,630
Assets held for distribution	21	-	-	351,668
Total current assets		**153,618**	**149,883**	**554,249**
TOTAL ASSETS		**400,091**	**346,569**	**793,958**

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Aigars Kalvītis	Sebastian Gröblinghoff	Elita Dreimane
Chairman of the Board	Deputy Chairman of the Board	Member of the Board

BALANCE SHEET (continued)

	Note	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
		EUR'000	EUR'000	EUR'000
LIABILITIES				
Equity				
Share capital	16	55,860	55,860	55,860
Share premium		20,376	20,376	20,376
Reserves and previous years retained earnings	16	205,770	205,797	485,624
Current year's retained earnings		26,048	24,217	37,506
Total equity		**308,054**	**306,250**	**599,366**
Non-current liabilities				
Interest-bearing loans and borrowings	17	32,375	-	-
Deferred income	18	18,918	-	19,195
Employee benefit obligations	19	3,246	279	3,731
Deferred tax liabilities		-	-	24,423
Total non-current liabilities		**54,539**	**279**	**47,349**
Current liabilities				
Trade payables		1,393	13,339	2,392
Interest-bearing loans and borrowings	17	5,986	3,361	-
Deferred income	18	998	5	974
Unpaid dividends		-	-	35,112
Corporate income tax		279	-	-
Other liabilities	20	28,842	23,335	31,183
Liabilities held for distribution	21	-	-	77,582
Total current liabilities		**37,498**	**40,040**	**147,243**
TOTAL LIABILITIES		**400,091**	**346,569**	**793,958**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on April 25, 2018 and they are signed on behalf of the Board by:

Aigars Kalvītis	Sebastian Gröblinghoff	Elita Dreimane
Chairman of the Board	Deputy Chairman of the Board	Member of the Board

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves and previous years retained earnings	Current year's retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2015	**55,860**	**20,376**	**504,650**	**30,517**	**611,403**
Transactions with owners:					
Dividends	-	-	-	(30,324)	(30,324)
Transferred to unpaid dividend	-	-	(35,112)	-	(35,112)
Total transactions with owners	-	-	*(35,112)*	*(30,324)*	*(65,436)*
Transfers to reserves / reclassification	-	-	625	(193)	432
Other comprehensive income:					
Other comprehensive income	-	-	15,461	-	15,461
Profit for the year	-	-	-	37,506	37,506
Total comprehensive income	-	-	*15,461*	*37,506*	*52,967*
December 31, 2016	**55,860**	**20,376**	**485,624**	**37,506**	**599,366**
Reserves of discontinued operations	-	-	(274,086)	-	(274,086)
Transactions with owners:					
Dividends	-	-	(35,112)	(37,107)	(72,219)
Total transactions with owners	-	-	*(35,112)*	*(37,107)*	*(72,219)*
Transfers to reserves / reclassification	-	-	459	(399)	60
Other comprehensive income:					
Other comprehensive income	-	-	28,885	-	28,885
Profit for the year	-	-	-	26,048	26,048
Total comprehensive income	-	-	*28,885*	*26,048*	*54,933*
December 31, 2017	**55,860**	**20,376**	**205,770**	**26,048**	**308,054**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on April 25, 2018 and they are signed on behalf of the Board by:

Aigars Kalvītis	Sebastian Gröblinghoff	Elita Dreimane
Chairman of the Board	Deputy Chairman of the Board	Member of the Board

COMPANY'S STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves and previous years retained earnings	Current year's retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2015	**55,860**	**20,376**	**504,650**	**30,517**	**611,403**
Transactions with owners:					
Dividends	-	-	-	(30,324)	(30,324)
Transferred to unpaid dividend	-	-	(35,112)	-	(35,112)
Total transactions with owners	-	-	*(35,112)*	*(30,324)*	*(65,436)*
Transfers to reserves / reclassification	-	-	625	(193)	432
Other comprehensive income:					
Other comprehensive income	-	-	15,461	-	15,461
Profit for the year	-	-	-	37,506	37,506
Total comprehensive income	-	-	*15,461*	*37,506*	*52,967*
December 31, 2016	**55,860**	**20,376**	**485,624**	**37,506**	**599,366**
Reserves of discontinued operations	-	-	(274,086)	-	(274,086)
Transactions with shareholders:					
Dividends	-	-	(35,112)	(37,107)	(72,219)
Total transactions with shareholders	-	-	*(35,112)*	*(37,107)*	*(72,219)*
Transfers to reserves / reclassification	-	-	458	(399)	59
Other comprehensive income:					
Other comprehensive income	-	-	28,913	-	28,913
Profit for the year	-	-	-	24,217	24,217
Total comprehensive income	-	-	*28,913*	*24,217*	*53,130*
December 31, 2017	**55,860**	**20,376**	**205,797**	**24,217**	**306,250**

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Aigars Kalvītis	Sebastian Gröblinghoff	Elita Dreimane
Chairman of the Board	Deputy Chairman of the Board	Member of the Board

STATEMENT OF CASH FLOW

	Note	Group 2017	Company 2017	Group 2016	Company 2016 Restated
		EUR'000	EUR'000	EUR'000	EUR'000
Cash flows from operating activities					
Profit before corporate income tax from continuing operations		**22,917**	**11,218**	**37,967**	**22,510**
Profit before corporate income tax from discontinued operations	**8**	**-**	**9,590**	**6,252**	**21,709**
Adjustments:					
- depreciation of property, plant and equipment	10	11,025	10,200	31,275	31,275
- amortisation of intangible assets	9	990	895	1,084	1,084
- movement in provisions		(86)	(254)	(7,429)	(7,429)
- income from participating interests		-	-	(1,219)	(1,219)
- interest expenses		76	56	-	-
- proceeds from sale of property, plant and equipment		335	40	1,277	1,277
Changes in operating assets and liabilities:					
- in accounts receivable		(10,689)	(11,676)	(3,490)	(3,490)
- in advances for inventories		(3,057)	(3,057)	22,992	22,992
- in inventories		(76,990)	(76,974)	47,482	47,482
- in accounts payable		(3,389)	6,536	(8,084)	(8,084)
Corporate income tax paid		(5,839)	(5,839)	(5,312)	(5,312)
Net cash (ouflow) / inflow from operating activities		**(64,707)**	**(59,265)**	**122,795**	**122,795**
Cash flow from investing activities					
Payments for property, plant and equipment		(6,455)	(1,199)	(5,506)	(463)
Payments for intangible assets		(2,798)	(1,808)	(1,663)	(1,159)
Proceeds from sale of property, plant and equipment		193	186	70	70
Purchase of property, plant, equipment and intangible assets of discontinued operations		-	(5,704)	(22,349)	(27,896)
Net cash outflow from investing activities		**(9,060)**	**(8,525)**	**(29,448)**	**(29,448)**
Cash flow from financing activities					
Loan received	17	38,361	3,361	-	-
Discontinued operations (loan received)		-	35,000	35,000	35,000
Interest paid		(76)	(56)	-	-
Dividends paid		(107,331)	(107,331)	(30,324)	(30,324)
Net cash (outflow) / inflow from financing activities		**(68,970)**	**(68,970)**	**4,676**	**4,676**
Net cash flow		**(142,813)**	**(136,816)**	**98,023**	**98,023**
Cash and cash equivalents at the beginning of the reporting year		**167,630**	**167,630**	**79,207**	**79,207**
Cash to be spun off as a result of discontinued operations		-	(9,256)	(9,600)	(9,600)
Cash and cash equivalents at the end of the reporting year		**24,817**	**21,558**	**167,630**	**167,630**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on April 25, 2018 and they are signed on behalf of the Board by:

Aigars Kalvītis	Sebastian Gröblinghoff	Elita Dreimane
Chairman of the Board	Deputy Chairman of the Board	Member of the Board

NOTES TO THE FINANCIAL STATEMENTS

Segment reporting

In 2016, the Company had four operation segments: gas transmission, storage, distribution and trade. At the beginning of 2017 gas transmission and gas storage segments were transferred to the newly established JSC "Conexus Baltic Grid", but gas distribution segment was transferred to the subsidiary JSC "Gaso" at the beginning of December 2017. Under the regulatory framework, invoices to Latvian consumers are issued at end user tariff which includes fees for all services provided without further specification of tariffs for each service. For this reason, external revenues from natural gas sales are allocated to the trading segment and subsequently reclassified to the segment which provided the relevant service.
The information included in the operating segments corresponds to the information used by the Management Board in making operational decisions and allocating resources.

1. Segment reporting

Group 2017	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	**EUR'000**
Revenue from external customers	10,150	320,806	**330,956**
including Latvia	*10,087*	*313,617*	***323,704***
Other countries	*63*	*7,189*	***7,252***
Internal revenue/expenses	39,849	(39,849)	**-**
Total revenue	**49,999**	**280,957**	**330,956**
EBITDA	23,344	13,139	**36,483**
Depreciation and amortisation	11,477	524	**12,001**
Segment profit before taxes	11,847	11,070	**22,917**
Purchase of property, plant and equipment and intangible assets	6,258	2,763	**9,021**
Segment assets 31.12.2017	247,189	128,085	**375,274**

Company 2017	Gas distribution	Gas trade	KOPĀ
	EUR'000	EUR'000	**EUR'000**
Revenue from external customers	4,291	321,420	**325,711**
including Latvia	*4,230*	*314,231*	***318,461***
Other countries	*61*	*7,189*	***7,250***
Internal revenue/expenses	39,849	(39,849)	**-**
Total revenue	**44,140**	**281,572**	**325,712**
EBITDA	20,148	12,239	**32,387**
Depreciation and amortisation	10,558	524	**11,082**
Segment profit before taxes	9,590	11,217	**20,807**
Purchase of property, plant and equipment and intangible assets	5,940	2,763	**8,703**
Segment assets 31.12.2017	194,534	130,477	**325,011**

1. Segment reporting (continued)

Group and Company 2016	Gas transmission	Gas storage	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
Revenue from external customers	1,933	9,111	943	380,279	**392,266**
including Latvia	*-*	*380*	*943*	*357,715*	***359,038***
Other countries	*1,933*	*8,731*	*-*	*22,564*	***33,228***
Internal revenue/expenses	22,340	15,090	49,939	(87,369)	**-**
Total revenue	**24,273**	**24,201**	**50,882**	**292,910**	**392,266**
EBITDA	14,020	12,097	27,196	23,212	**76,525**
Depreciation and amortisation	11,672	8,191	11,872	617	**32,352**
Segment profit before taxes	2,348	3,904	15,391	22,576	**44,219**
Purchase of property, plant and equipment and intangible assets	7,235	14,984	6,425	953	**29,597**
Segment assets 31.12.2016	182,879	159,189	238,496	36,164	**616,728**

Segment information reconciliation

Segment information reconciliation	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
	EUR'000	EUR'000	EUR'000
Segment assets	375,274	325,011	616,728
Cash and cash equivalents	24,817	21,558	177,230
Total assets	**400,091**	**346,569**	**793,958**

Statement of profit or loss

2. Revenues

Revenues	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas trade and distribution	330,006	342,801	281,409	292,862
Other revenue	950	991	163	48
	330,956	**343,792**	**281,571**	**292,910**

3. Other income

Other income	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
	EUR'000	EUR'000	EUR'000
Reversal of provisions of prior periods	-	-	3,728
Income from construction of service lines	981	2	956
Penalties	624	563	714
Other income	1,538	637	429
Provisions for bad debts, net	1,080	1,080	-
	4,223	**2,282**	**5,827**

4. Raw materials and consumables used

Raw materials and consumables used	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	263,099	269,663	260,647	267,470
Costs of materials, spare parts and fuel	2,473	1,587	866	53
	265,572	**271,250**	**261,513**	**267,523**

5. Personnel expenses

Personnel expenses	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	17,840	15,301	3,126	2,359
State social insurance contributions	4,066	3,526	701	559
Life, health and pension insurance	1,063	953	131	155
Other personnel costs	291	267	102	101
	23,260	**20,047**	**4,060**	**3,174**

Salaries of the Council and the Board*	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Remuneration	2,730	3,078	2,641	3,078
State social insurance contributions	490	636	477	636
Life, health and pension insurance	95	93	89	93
Other personnel costs	2	21	-	21
	3,317	**3,828**	**3,207**	**3,828**
Average number of employees per year from continued operations	966	1 271	100	124

* Remuneration of the Board and the Council is indicated in full amount, without taking into account the attribution of these costs to the Company's and the Group's discontined operations.

6. Other operating expenses

Other operating expenses	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Selling and advertising costs	2,391	1,503	2,210	1,052
Expenses for maintenance of premises and other services	1,618	1,471	104	120
Donations, financial support	886	1,240	643	702
Office and other administrative costs	2,001	1,197	956	637
Taxes and duties	1,005	883	715	689
Costs of IT system maintenance, communications and transport	992	726	249	293
Loss from sale of property, plant and equipment	504	459	39	3
Other costs	466	435	77	194
	9,863	**7,914**	**4,993**	**3,690**

7. Corporate income tax

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

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

Reconciliation between profit before taxes and tax expense	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Profit before taxes	**22,917**	**44,219**	**11,218**	**22,510**
Tax theoretically calculated at 15% rate	3,438	6,633	1,681	3,377
Tax effect of:				
Reversal of temporary differences	(375)	(633)	(385)	(633)
Costs not eligible for reduction of taxable income	543	1,894	8,120	1,255
Revenue from deferred tax exclusion	(6,134)	-	(6,134)	-
Tax reduction on donations	(603)	(1,181)	(533)	(702)
Corporate income tax from discontinued operations	-	(1,169)	-	-
Tax expense	**(3,131)**	**5,544**	**2,749**	**3,297**

Deferred tax calculation	Group 2017	Company 2017	Graoup and Company 2016
	EUR'000	EUR'000	EUR'000
Deferred tax liabilities at the beginning of the reporting year	**55,109**	**55,109**	**52,398**
Cancellation of deferred tax due to changes in Law on Corporate income tax	(55,109)	(55,109)	-
Deferred tax liability increase from the revaluation of fixed assets (attributed to shareholders' equity)	-	-	2,709
Decrease in deferred tax liabilities (included in the income statement)	-	-	434
Deferred tax on disposed revaluated assets (attributed to shareholders' equity)	-	-	(432)
Deferred tax liabilities at the end of the reporting year	**-**	**-**	**55,109**
Temporary differences in deferred tax:			
Difference in depreciation of property, plant and equipment (will reverse in 12 months)	-	-	840
Difference in depreciation of property, plant and equipment (will reverse longer than 12 months)	-	-	57,282
Difference in provisions for impairment of bad and doubtful debts (will reverse in 12 months)	-	-	(1,534)
Difference in costs accrued for unused leaves and bonuses (will reverse in 12 months)	-	-	(559)
Difference in provisions for post-employment benefits and other liabilities towards employees (will reverse longer than 12 months)	-	-	(684)
Difference in other accrued liabilities (will reverse in 12 months)	-	-	(178)
Difference in provisions for impairment of slow-movement and outdated inventory (will reverse in 12 months)	-	-	(58)
Deferred tax liabilities from discontinued operations	-	-	(30,686)
Deferred tax liabilities, net	**-**	**-**	**24,423**

8. Profit from discontinued operations

Statement of profit or loss	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Revenue	-	48,474	44,140	99,356
Other income	-	446	1,837	1,650
Raw materials and consumables used	-	(4,185)	(3,946)	(7,912)
Personnel expenses	-	(11,428)	(17,523)	(28,301)
Depreciation, amortisation and impairment of property, plant and equipment	-	(19,864)	(10,558)	(31,736)
Other operating expenses	-	(7,189)	(4,360)	(11,413)
Operating profit	**-**	**6,254**	**9,590**	**21,644**
Financial income, net	-	(2)	-	64
Profit before taxes	**-**	**6,252**	**9,590**	**21,709**
Corporate income tax	-	(1,169)	6,159	(3,416)
Profit from discontinued operations	**-**	**5,083**	**15,749**	**18,293**

Statement of other comprehensive income	Group 2017	Group 2016	Company 2017	Company 2016
	EUR'000	EUR'000	EUR'000	EUR'000
Profit for the year	**-**	**5,083**	**15,749**	**18,293**
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods				
Revaluation of property, plant and equipment	-	17,967	10,178	17,967
Deferred tax liability from revaluation of property, plant and equipment	-	(2,695)	18,289	(2,695)
Remeasurement of post-employment benefit obligations	-	1	-	1
Net income recognised as other comprehensive income	**-**	**15,273**	**28,467**	**15,273**
Total comprehensive income for the year	**-**	**20,356**	**44,216**	**33,566**

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

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

Balance sheet

9. Intangible assets

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

The intangible assets include fully depreciated intangible assets with a total historical cost of EUR 5,184 thousand EUR (Group) un EUR 14 thousand (Company) (31.12.2016: EUR 7,689 thousand). The most part of intangible assets of the Company consists of software for operations of various operating segments. Major intangibles have remaining useful life of 4 years (the Group) and 5 years (the Company).

10. Property, plant and equipment

Group	Land	Buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount						
31.12.2016	**1,534**	**485,724**	**30,869**	**11,955**	**463**	**530,545**
Additions	-	2,946	1,072	1,565	872	6,455
Revaluated	-	53,946	2,220	-	-	56,166
Reclassified	-	799	(1,716)	1,805	(888)	-
Disposals	-	(2,547)	(661)	(889)	-	(4,097)
31.12.2017	**1,534**	**540,868**	**31,784**	**14,436**	**447**	**589,069**
Depreciation						
31.12.2016	**-**	**264,970**	**19,247**	**8,809**	**-**	**293,026**
Calculated	-	7,968	1,902	1,155	-	11,025
Revaluated	-	46,667	(600)	-	-	46,067
Reclassified	-	-	(1,114)	1,114	-	-
Disposals	-	(2,147)	(613)	(765)	-	(3,525)
31.12.2017	**-**	**317,458**	**18,822**	**10,313**	**-**	**346,593**
Net book value as of 31.12.2017	**1,534**	**223,410**	**12,962**	**4,123**	**447**	**242,476**
Net book value as of 31.12.2016	**1,534**	**220,754**	**11,622**	**3,146**	**463**	**237,519**

Company	Land	Buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount						
31.12.2016	**1,534**	**485,724**	**30,869**	**11,955**	**463**	**530,545**
Additions	-	2,935	1,065	1,484	613	6,097
Revaluated	-	53,946	2,220	-	-	56,166
Reclassified		-	(1,799)	1,799	-	-
Disposals	-	(1,424)	(631)	(882)	-	(2,937)
Assets, transferred during reorganisation	(1,534)	(541,181)	(31,724)	(13,158)	(1,076)	(588,673)
31.12.2017	**-**	**-**	**-**	**1,198**	**-**	**1,198**
Depreciation						
31.12.2016	**-**	**264,970**	**19,247**	**8,809**	**-**	**293,026**
Calculated	-	7,413	1,722	1,065	-	10,200
Revaluated	-	46,667	(600)	-	-	46,067
Reclassified	-	-	(1,114)	1,114	-	-
Disposals	-	(1,172)	(608)	(761)	-	(2,541)
Assets, transferred during reorganisation	-	(317,878)	(18,647)	(9,955)	-	(346,480)
31.12.2017	**-**	**-**	**-**	**272**	**-**	**272**
Net book value as of 31.12.2017	**-**	**-**	**-**	**926**	**-**	**926**
Net book value as of 31.12.2016	**1,534**	**220,754**	**11,622**	**3,146**	**463**	**237,519**

Group and Company	Land	Buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000
Cost or revalued amount						
31.12.2015	**11,961**	**1,077,534**	**135,018**	**20,961**	**12,482**	**1,257,956**
Additions	-	307	1,137	1,200	24,554	27,198
Reclassified	-	20,558	8,818	(5,225)	(24,151)	-
Revaluated	-	16,749	(5,469)	-	-	11,280
Disposals	-	(4,585)	(2,976)	(650)	(3)	(8,214)
Intangible assets held for distribution	(10,427)	(624,839)	(105,659)	(4,331)	(12,419)	(757,675)
31.12.2016	**1,534**	**485,724**	**30,869**	**11,955**	**463**	**530,545**
Depreciation						
31.12.2015	**-**	**607,880**	**77,319**	**15,307**	**-**	**700,506**
Additions	-	21,308	7,001	2,153	-	30,462
Revaluated	-	3,618	(9,587)	-	-	(5,969)
Disposals	-	(3,436)	(2,789)	(640)	-	(6,865)
Reclassified	-	1,726	3,297	(5,023)	-	-
Intangible assets held for distribution	-	(366,126)	(55,994)	(2,988)	-	(425,108)
31.12.2016	**-**	**264,970**	**19,247**	**8,809**	**-**	**293,026**
Net book value as of 31.12.2016	**1,534**	**220,754**	**11,622**	**3,146**	**463**	**237,519**
Net book value as of 31.12.2015	**11,961**	**469,654**	**57,699**	**5,654**	**12,482**	**557,450**

The fixed assets include fully depreciated fixed assets with a total historical cost of EUR 5,861 thousand (the Group) and 100 thousand EUR (the Company) (at 31.12.2016: EUR 11,725 thousand).
In 2017 the Company carried out the revaluation of Buildings, Constructions and Machinery and equipment. Assets were revaluated as at June 1, 2017. It was performed by an external expert using the depreciated replacement cost method. This is a repeated revaluation, and the level of data used in the assumptions has not changed.

Revaluation effect

In 2017 the Company carried out the revaluation of Buildings, Constructions and Machinery and equipment of the Distribution segment. In 2016 the Company carried out the revaluation of Buildings, Constructions and Machinery and equipment of Transmission and Storage segment. Considering the unique nature and use of the assets, revaluation was based on Level 3 data, meaning that the data are not freely observable for the relevant type of assets. This is a repeated revaluation, and the level of data used in the assumptions has not changed.

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

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

The classification of financial assets in the fair value hierarchy is a two-step process:
1. Classifying each input used to determine the fair value into one of the three levels;
2. Classifying the entire financial instrument based on the lowest level input that is significant to the fair value in its entirety.

Quoted market prices - Level 1

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

Valuation techniques using observable inputs - Level 2

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

Valuation technique using significant unobservable inputs - Level 3

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

The revaluation was performed by an external expert using the depreciated replacement cost method. According to this method, the initial value of assets is determined according to the prices, requirements and applied materials at the time of the valuation. The key assumptions during the revaluation process are associated with the materials cost and the cost of the average construction prices at the time of revaluation. For the determination of values, data available to the Company about similar constructions of facilities in recent years is used. A significant section of the revaluation consists of the revaluation of gas distribution pipelines (2017) and underground gas pipelines (2016). In case of an increase in the average construction cost in the country or a significant increase in the cost of materials, the asset value will increase, too. If the cost of construction or materials decreases, the value of the assets will decrease accordingly.

The Company’s and Group’s financial assets fall under Level 3, except cash and cash equivalents which fall under Level 2.

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

As a result of the revaluation, the gross asset amount was increased by 56,166 thousand EUR (in 2016: 11,280 thousand EUR) and the accumulated depreciation was increased by 46,067 thousand EUR (in 2016: reduced by 5,969 thousand EUR). As a result of the revaluation, a gain of 10,178 thousand EUR (in 2016: 18,061 thousand EUR) was recognised in the statement of other comprehensive income, while a net loss of 153 thousand EUR (in 2016: 812 thousand EUR) was included in the profit and loss account.

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

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

11. Investment in subsidiary

	Company
	EUR'000
Invested during reorganisation 1.12.2017	194,534
Balance sheet value 31.12.2017	**194,534**

Company's investment in subsidiary

Shares held	31.12.2017
JSC "Gaso"	**100%**

	Subsidiary's equity 31.12.2017	Subsidiary's equity 1.12.2017*	Subsidiary's profit 2017
	EUR'000	EUR'000	EUR'000
JSC "Gaso"	**196,338**	**194,534**	**1,831**

See Note 22.

12. Inventories

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

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

13. Trade receivables

Trade receivables	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
	EUR'000	EUR'000	EUR'000
Long-term receivables at book value	10	10	11
Allowance for impairment of long-term receivables	(3)	(3)	(3)
	7	**7**	**8**
Short-term receivables at book value	44,614	43,840	41,379
Allowance for impairment of short-term receivables	(8,581)	(8,581)	(10,131)
Assets held for distribution	-	-	(2,963)
	36,033	**35,259**	**28,285**

Allowance for impairment of bad and doubtful receivables	Group 2017	Company 2017	Group and Company 2016
	EUR'000	EUR'000	EUR'000
Allowance at the beginning of the year	**10,224**	**10,224**	**10,190**
Costs included in profit or loss statement from continuing operations	1,551	1,551	1,567
Release of allowance in profit or loss statement from discontinued operations	(2,631)	(2,631)	(1,496)
Net changes included in profit or loss statement	**(1,080)**	**(1,080)**	**71**
Bad debts written off	(563)	(563)	(37)
Allowance at the end of the year	**8,581**	**8,581**	**10,224**

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

14. Taxes

Group Tax movement	Liabilities 31.12.2016	Receivable 31.12.2016	Calculated 2017	Paid 2017	Liabilities 31.12.2017	Receivable 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	7,852	-	62,903	(66,255)	4,500	-
Excise tax	2,636	-	15,182	(16,551)	1,267	-
Social security contributions	1,553	-	5,881	(6,952)	482	-
Corporate income tax	-	988	3,005	(5,839)	279	4,101
Personal income tax	898	-	3,429	(4,017)	310	-
Real estate tax	-	-	280	(280)	-	-
Natural resource tax	36	-	6	(37)	5	-
	12,975	**988**	**90,686**	**(99,931)**	**6,843**	**4,101**

Company Tax movement	Liabilities 31.12.2016	Receivable 31.12.2016	Calculated 2017	Paid 2017	Liabilities 31.12.2017	Receivable 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	7,852	-	61,898	(66,255)	3,495	-
Excise tax	2,636	-	15,182	(16,551)	1,267	-
Social security contributions	1,553	-	5,499	(6,952)	100	-
Corporate income tax	-	988	2,726	(5,839)	-	4,101
Personal income tax	898	-	3,209	(4,017)	90	-
Real estate tax	-	-	280	(280)	-	-
Natural resource tax	36	-	6	(37)	5	-
	12,975	**988**	**88,800**	**(99,931)**	**4,957**	**4,101**

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

* See Note 20.

15. Other current assets

Other current assets	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
	EUR'000	EUR'000	EUR'000
Deferred charges	352	137	424
Accrued income	2,972	2,972	-
Other receivables	214	2,012	223
Assets held for distribution	-	-	(18)
	3,538	**5,121**	**629**
Allowance for impairment of bad and doubtful debts	(56)	(56)	(89)
	3,482	**5,065**	**540**

16. Shares and shareholders

Equity	31.12.2017 % of total share capital	31.12.2017 Number of shares	31.12.2016 % of total share capital	31.12.2016 Number of shares
Share capital				
Registered (closed issue) shares	36.52	14,571,480	36.52	14,571,480
Bearer (public issue) shares	63.48	25,328,520	63.48	25,328,520
	100.00	**39,900,000**	**100.00**	**39,900,000**
Shareholders				
Uniper Ruhrgas International GmbH *(including registered (closed issue) shares 7,285,740)*	18.26	7,285,740	18.26	7,285,740
Marguerite Gas I S. à r.l.	-	-	28.97	11,560,645
Marguerite Gas II S. à r.l.	28.97	11,560,645	-	-
Itera Latvija SIA	16.00	6,384,001	16.00	6,384,001
PJSC "Gazprom" *(including registered (closed issue) shares 7,285,740)*	34.00	13,566,701	34.00	13,566,701
Bearer (public issue) shares	2.77	1,102,913	913	1,102,913
	100.00	**39,900,000**	**100.00**	**39,900,000**

On March 23, 2017, Marguerite Gas II S.à r.l. received all the shares owned by Marguerite Gas I S.à r.l., thus becoming the holder of 28.97% of the Company’s shares. Both companies have the same chain of controlling owners – "MARGUERITE HOLDINGS S.à.r.l." and "2020 European Fund for Energy, Climate Change and Infrastructure". Until December 30, 2017 The Company is jointly controlled by PJSC Gazprom, Itera Latvija SIA un Uniper Ruhrgas International GmbH.

As at December 31, 2017 and as at December 31, 2016, the registered, signed and paid share capital consists of 39,900,000 shares with a par value of EUR 1.40 each. All shares have equal voting rights and rights to dividends.

Earnings per share/ Group	Earnings per share		Earnings per share from continuing operations	
	2017	2016	2017	2016
Net profit attributable to shareholders (a) EUR’000	**26,048**	**37,506**	**26,048**	**32,423**
Ordinary shares as at 1 January (Number, th.)	39,900	39,900	39,900	39,900
Ordinary shares as at 31 December (Number, th.)	39,900	39,900	39,900	39,900
Weighted average number of ordinary shares outstanding during the year (b) (Number, th.)	39,900	39,900	39,900	39,900
Basic earnings per share during the year (a/b) in EUR	**0.653**	**0.940**	**0.653**	**0.813**

Earnings per share / Company	Earnings per share		Earnings per share from continuing operations	
	2017	2016	2017	2016
Net profit attributable to shareholders (a) EUR’000	**24,217**	**37,506**	**8,469**	**19,213**
Ordinary shares as at 1 January (Number, th.)	39,900	39,900	39,900	39,900
Ordinary shares as at 31 December (Number, th.)	39,900	39,900	39,900	39,900
Weighted average number of ordinary shares outstanding during the year (b) (Number, th.)	39,900	39,900	39,900	39,900
Basic earnings per share during the year (a/b) in EUR	**0.607**	**0.940**	**0.212**	**0.481**

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

Reserves	**Group 31.12.2017**	**Company 31.12.2017**	**Group and Company 31.12.2016**
	EUR'000	EUR'000	EUR'000
Revaluation reserve	132,193	-	176,564
Employee benefits revaluation reserve	(87)	(172)	(503)
Reorganization reserve	-	204,545	-
Other reserves and retained earnings	73,664	1,424	35,477
Reserves of discontinued operations	-	-	*274,086*
	205,770	**205,797**	**485,624**

Movement in reserves Company	**Revaluation reserve**	**Employee benefits revaluation reserve**	**Reorganisation reserve and other reserves**	**Retained earnings (with current profits)**
	EUR'000	EUR'000	EUR'000	EUR'000
31.12.2015- As stated before	**373,517**	**(815)**	**105,357**	**57,108**
Transfer of accrued depreciation of revaluation reserve to retained earnings	**(148,396)**	**-**	**-**	**148,396**
31.12.2015 - Restated	**225,121**	**(815)**	**105,357**	**205,504**
Dividends	-	-	-	(30,324)
Transferred to unpaid dividend	-	-	(35,112)	-
Revaluation of PPE	18,061	-	-	-
Deferred income tax	(2,709)	-	-	-
Disposal of revalued PPE	(2,882)	-	-	2,882
Deffered income tax from disposal of revalued PPE	432	-	-	-
Depreciation of revaluation reserve in 2016, incl. adjustment to revaluation reserve's accrued depreciation during revaluation and deduction of disposed accrued revalued depreciation	(18,735)	-	-	18,735
Remeasurement of post-employment benefit obligations	-	109	-	-
Profit for the year	-	-	-	37,506
31.12.2016 -Restated	**219,288**	**(706)**	**70,245**	**234,303**
Spin off of CBG	(115,665)	203	(64,433)	(94,191)
Disposal of revalued PPE	(659)			659
Spin off of GASO	(132,735)	(113)	204,545	(71,697)
Transfer of reserves to retained earnings	-	-	(5,812)	5,812
Dividends	-	-	-	(72,219)
Revaluation of PPE	10,239	-	-	-
Depreciation of revaluation reserve in 2017, incl. adjustment to revaluation reserve's accrued depreciation during revaluation and deduction of disposed accrued revalued depreciation	1,243	-	-	(1,243)
Deferred income tax	18,289	-	-	-
Remeasurement of post-employment benefit obligations	-	444	-	-
Profit for the year	-	-	-	24,217
31.12.2017	**-**	**(172)**	**204,545**	**25,641**

Movement in reserves Group	Revaluation reserve	Employee benefits revaluation reserve	Other reserves	Retained earnings (with current profits)
	EUR'000	EUR'000	EUR'000	EUR'000
31.12.2015-As stated before	**373,517**	**(815)**	**105,357**	**57,108**
Transfer of accrued depreciation of revaluation reserve to retained earnings	**(148,396)**	**-**	**-**	**148,396**
31.12.2015 - Restated	**225,121**	**(815)**	**105,357**	**205,504**
Dividends	-	-	-	(30,324)
Transferred to unpaid dividend	-	-	(35,112)	-
Revaluation of PPE	18,061	-	-	-
Deferred income tax	(2,709)	-	-	-
Disposal of revalued PPE	(2,882)	-	-	2,882
Depreciation of revaluation reserve in 2016, incl. adjustment to revaluation reserve's accrued depreciation during revaluation and deduction of disposed accrued revalued depreciation	(18,735)	-	-	18,735
Remeasurement of post-employment benefit obligations	-	109	-	37,506
Profit for the year	-	-	-	37,506
31.12.2016- Restated	**219,288**	**(706)**	**70,245**	**234,303**
Spin off of CBG	(115,665)	203	(64,433)	(94,191)
Disposal of revalued PPE	(659)	-	-	659
Transfer of reserves to retained earnings	-	-	(5,812)	5 812
Dividends	-	-	-	(72,219)
Revaluation of PPE	10,239	-	-	-
Depreciation of revaluation reserve in 2017, incl. adjustment to revaluation reserve's accrued depreciation during revaluation and deduction of disposed accrued revalued depreciation	701	-	-	(701)
Deferred income tax	18,289	-	-	-
Remeasurement of post-employment benefit obligations	-	416	-	-
Profit for the year	-	-	-	26,048
31.12.2017	**132,193**	**(87)**	**-**	**99,711**

17. Interest-bearing loans and borrowings

Loans	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
	EUR'000	EUR'000	EUR'000
Loan from JSC "SEB banka"			
- Long-term part of the loan	32,375	-	-
- Short-term part of the loan	2,625	-	-
Overdraft from "OP Corporate Bank" plc Branch in Latvia	3,361	3,361	-
	38,361	**3,361**	**-**

In 2017 the Company received a long term year loan of 35,000 thousand for 5 years. Under the reorganisation, the Joint Stock Company "Latvijas Gāze" transferred this loan to the newly established acquiring Joint Stock Company "Gaso". The loan is due for repayment starting in April 2018.

18. Deferred income

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

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

19. Employment and post-employment benefit obligations

Employment and post-employment benefit obligations	Group 2017	Company 2017	Group and Company 2016
	EUR'000	EUR'000	EUR'000
Obligations at the beginning of the reporting year	**3,731**	**3,731**	**5,233**
Recognised in profit or loss statement from continuing operations	48	(154)	39
Recognised in profit or loss statement from discontinued operations	-	100	328
Paid	(115)	(85)	(222)
Revaluations due to changes in actuarial assumptions - directly in equity	(418)	(446)	(108)
Transferred during reorganisation	-	(2,867)	-
Liabilities held for distribution	-	-	(1,539)
Obligations at the end of the reporting year	**3,246**	**279**	**3,731**

Assumptions used in calculations of obligations	2017	2016
Discount rate, %	0.205%	0.24%
Employee rotation rate,%	3.93%	3.40%
Employee retirement age, years	64.93	62.75
Wage growth,%	4.00%	4.00%
Contributions to private pension fund,%	5.00%	5.00%
Compulsory social security contributions (employees),%	24.09%	23.59%
Compulsory social security contributions (retired),%	21.31%	19.90%

Assumptions used in calculations of obligations		Assumption changes effect on accruals			
			Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
	Changes in assumptions				
Discount rate	+ 0.5%	Accruals reduces by	0.01%	0.02%	5.30%
Employee rotation rate	+ 0.5%	Accruals reduces by	0.18%	0.28%	4.78%
Employee retirement age	+1 gads	Accruals reduces by	1.73%	1.43%	2.40%
Wage growth	+0.5%	Accruals increases by	0.16%	0.25%	4.46%
Contributions to private pension fund	+0.5%	Accruals increases by	0.02%	0.02%	0.34%
Compulsory social security contributions	+0.5%	Accruals increases by	0.08%	0.07%	0.34%

Assumptions used in calculations of obligations		Assumption changes effect on accruals			
			Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
	Changes in assumptions				
Discount rate	-0.5%	Accruals increases by	0.01%	0.02%	5.88%
Employee rotation rate	-0.5%	Accruals increases by	0.18%	0.28%	5.24%
Employee retirement age	-1 gads	Accruals increases by	1.47%	0.23%	2.20%
Wage growth	-0.5%	Accruals reduces by	0.15%	0.25%	4.08%
Contributions to private pension fund	-0.5%	Accruals reduces by	0.02%	0.02%	0.34%
Compulsory social security contributions	-0.5%	Accruals reduces by	0.08%	0.09%	0.34%

Provisions were calculated on the assumption that the discount rate in 2017 is 0.205%, i.e., equal to the average annual rate of return of treasury securities with the initial maturity of five years and more, effective in the last two issues of such securities (source: State Treasury).

The 3.93% assumption of employee turnover rate, in turn, resulted from a calculation methodology based on the proportion between the number of employees having left the company (on their own initiative) and the number of employees in the reporting period.

The assumption of employee retirement age is based on Article 8.1 of the transitional provisions of the law "On State Pensions" (hereinafter – the Law) adopted on November 2, 1995 whereby the age of eligibility for retirement pension as per Section 11 Paragraph one of the Law, – 62 to 65 years – shall increase gradually and is specified for each year individually. As of January 1, 2017, it is 63 years.

The assumption of salary increase corresponds to the estimated inflation figure for the next year, which, according to the forecasts by the Bank of Latvia, will fluctuate between 2.9% and 3.5%. It is also assumed as only variable for up to six years and constant afterwards. In the last few years the company has kept it at 4%.

The 5% assumption of contributions to private pension fund is based on Company's employee agreement

The assumptions of mandatory state social security contributions for employees and pensioners have been made pursuant to the general provisions of the calculation methodology using the next year's rates of mandatory state social security contributions as per Cabinet Regulations No.786 "Regulations on the distribution of the rate of mandatory state social security contributions among types of state social security" approved on 19.12.2017 – 24.09% and 21.31% respectively.

20. Other liabilities

Other liabilities	**Group 2017**	**Company 2017**	**Group and Company 2016**
	EUR'000	EUR'000	EUR'000
Prepayments received	14,198	14,198	12,273
Value added tax	4,500	3,495	7,852
Accrued costs	6,268	3,790	3,088
Excise tax	1,267	1,267	2,636
Social security contributions	482	100	1,553
Other current liabilities	84	20	1,016
Vacation pay reserve	953	168	1,002
Personnel income tax	310	90	899
Salaries	775	202	828
Natural resource tax	5	5	36
	28,842	**23,335**	**31,183**

21. Assets and liabilities held for distribution

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

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

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

22. Assets and liabilities transferred to Group’s subsidiary JSC “Gaso”

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

Liabilities	Note	1.12.2017
LIABILITIES		EUR'000
Equity		
Transferred reserves and retained earnings		194,534
Total equity		**194,534**
Non-current liabilities		
Interest-bearing loans and borrowings		32,375
Next period income		18,935
Provisions for post employment benefits		2,867
Total non-current liabilities		**54,177**
Current liabilities		
Interest-bearing loans and borrowings		2,625
Deferred income		991
Other liabilities		3,253
Total current liabilities		**6,869**
TOTAL LIABILITIES		**255,580**

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

23. Related party transactions

No individual entity exercises control over the Company. The Company and the Group had following transactions with entities disclosed below, which own or owned more than 20% of the shares that deemed to provide a significant influence over the Company (including spinned off JSC "Conexus Baltic Grid", which was jointly controlled by PJSC Gazprom, Itera Latvija SIA un Uniper Ruhrgas International GmbH until December 30, 2017). Since 2017 JSC "Latvijas gaze" has newly established subsidiary JSC "Gaso".

Income or expenses	Group 2017	Company 2017	Group and Company 2016
	EUR'000	EUR'000	EUR'000
Income from provision of services			
PJSC "Gazprom"	-	-	7,817
JSC "Gaso"	-	1,982	-
JSC "Conexus Baltic Grid"	5,612	5,612	-
Expenses on natural gas purchase			
PJSC "Gazprom"	309,371	309,371	203,034
Expenses on services			
JSC "Conexus Baltic Grid"	36,775	36,775	5,466
Other expenses			
JSC "Gaso"	-	5,792	-

Related party payables and receivables	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
	EUR'000	EUR'000	EUR'000
Receivables from related companies			
PJSC "Gazprom"	-	-	-
JSC "Gaso"	-	2,392	-
JSC "Conexus Baltic Grid"	726	726	-
Advance payments to related entities			
PJSC "Gazprom"	4,292	4,292	1,236
Payables to related companies for natural gas and services			
PJSC "Gazprom"	10	10	1
JSC "Conexus Baltic Grid"	3,120	3,120	-
JSC "Gaso"	-	12,466	-

24. Financial risk management

Financial assets and liabilities	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
	EUR'000	EUR'000	EUR'000
Trade receivables	36,033	35,259	28,285
Accrued income	2,972	2,972	-
Cash and cash equivalents	24,817	21,558	167,630
Financial assets	**63,822**	**59,789**	**195,915**
Borrowings	38,361	3,361	-
Accrued expenses	6,268	3,790	3,008
Trade payables	1,393	13,339	2,392
Financial liabilities	**46,022**	**20,490**	**5,340**

Considerations of fair value

IFRS 13 lays down the hierarchy of valuation techniques based on whether there are observable market data used in the valuation technique or market data are not observable. Observable market data are obtained from independent sources. If no market data are observable, the technique reflects the Company's assumptions on the market situation.

The carrying amount of liquid and short-term financial assets (with a repayment term of three months or less), such as cash and cash equivalents, short-term trade receivables and payables, and short-term loans from credit institutions, approximately corresponds to their fair value.

The fair value of long-term loans from credit institutions is measured by discounting future cash flows with market interest rates. As the interest rates applied to loans from credit institutions are predominantly variable and do not substantially differ from the market rates, the fair value of non-current liabilities approximately corresponds to their carrying amount.

Information on the levels of the hierarchy of fair value is provided in the section "Valuation effects" of Note 10 "Critical accounting estimates and judgments".

Capital risk management

The Group's and Company's objectives when managing capital are to safeguard the Group's the Company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital. The Group and the Company performs management of the capital, based on proportion of borrowed capital against total capital. This indicator is calculated as proportion of total liabilities, less cash and cash equivalents, to the total capital of the Group or the Company. Liabilities include all long term and short-term liabilities, but total capital includes all liabilities of the Company and equity. This indicator is used to evaluate structure of the capital of the Company, as well as its solvency. As at 31.12.2017 the proportion of borrowed capital to total capital was as follows:

	Group 31.12.2017	Company 31.12.2017	Group and Company 31.12.2016
Total liabilities	92,037	40,319	194,592
(Cash and cash equivalents)	(24,817)	(21,558)	(167,630)
(Deferred income)	(19,916)	(5)	(20,169)
Net total liabilities	47,304	18,756	6,793
Total equity and liabilities	400,091	346 569	793,958
Borrowed capital proportion to total capital	**12.45%**	**1.10%**	**0.00%**

Credit risk

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

Concentration of credit risk

Trade receivables	31.12.2017 Group	31.12.2017 Company	31.12.2016 Group and Company
	EUR'000	EUR'000	EUR'000
Impaired	8,552	8,552	10,131
Not overdue	33,394	32,620	28,297
Overdue less than 90 days, but not impaired	2,286	2,286	2,922
Overdue more than 90 days, but not impaired	353	353	29
Trade receivables, gross	**44,585**	**43,811**	**41,379**
Allowance for impairment of bad and doubtful debts	(8,552)	(8,552)	(10,131)
Assets held for distribution	-	-	(2,963)
Trade receivables, net	**36,033**	**35,259**	**28,285**

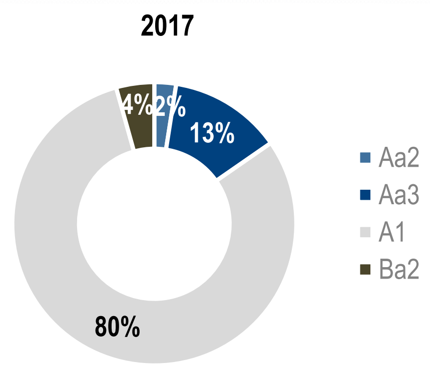
In the reporting year, Latvijas Gāze group remained exposed to a high risk of customer concentration – five customers together accounted for 51% of the sales volume of 2017.

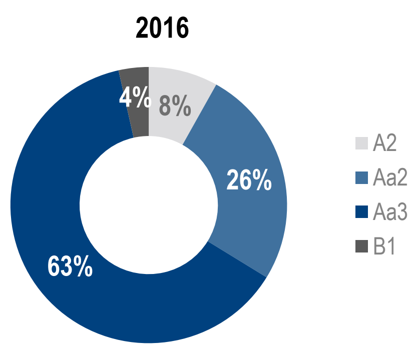
Credit risk management practices

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

For managing the credit risk associated with cash and cash equivalents, the Company has approved a financial asset management policy. Based on internal guidelines all credit institutions with which the Company cooperates are graded once in a quarter, taking into account their financial measures as well as non-financial indicators. Based on the assessment, limits for current accounts with one institution as well as deposit limits are defined and regularly monitored. Due to low interest rates as at December 31, 2017, cash and cash equivalents represented only current account balances with credit institutions.

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





Liquidity risk

Liquidity risk is associated with the ability of the Company and the Group to settle their obligations within the agreed due dates. Due to high seasonality of operations of the Company and the Group, cash inflows are also exposed to high fluctuations within the year and most of revenues are generated during the first and the fourth quarter of the year. At the same time operational costs related to maintenance works are distributed evenly through the year, while dividend payments from prior year are usually done in the third quarter of the year.
The Company and the Group uses cash flow planning tools to manage liquidity risk. The Company and the Group prepares yearly, quarterly and monthly cash flows to identify operational cash flow requirements. In 2017 the Company attracted short term credit line.

Borrowing repayment schedule, Group, 31 December 2017

Repayment amount	2018	2019	2020-2022	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Loan	2,625	3,500	28,875	35,000
Overdraft	3,361	-	-	3,361
Interesent payment	252	252	710	1,214
Other debts	7,661	-	-	-
	13,899	**3,752**	**29,585**	**39,575**

Covenants

Under the terms of the major borrowing facilities, the Company and the Group is required to comply with the following financial covenants:

The equity ratio of the Company (equity to total assets) must be not less than 50%;

The adjusted equity ratio of the subsidiary of the Company (adjusted equity to total assets) must be not less than 50%;

Net debt to EBITDA ratio of the subsidiary of the Company must be not more than 3;

Not less than 70% of payments for natural gas maintenance should be paid by the Company though certain bank.

The Company and the Group has complied with these covenants throughout the reporting period.

Market risk

Market risk is the risk that changes due to market factors, such as changes in foreign exchange rates, interest rates and commodity prices can affect the Company's or Group's profits. . At 31.12.2017 The Group and the Company had a cash balance of 20,198 thous. USD (16,834 thous. EUR), in 2016 – 13 thous. USD (13 thous. EUR). The Group and the Company have no other assets or liabilities. All the Group's and the Company's borrowings are with a variable interest rate comprised of a fixed part and a fixed period EURIBOR rate.

Company's activity faces market risk that arises from accumulation of significant gas amount during injection season for sale during heating period (calendar spread risk) and mismatch between purchase and sales pricing concepts. Latvijas gāze prioritizes internal market risk mitigation by negotiating supply agreement terms and working with its sales portfolio to the extent it is possible.

Other financial assets and liabilities are non-interest bearing or interest rates are fixed. As the Group and the Company accounts for all financial assets and liabilities at amortized cost, they are not subject to fair value interest rate risk.

25. Critical accounting estimates and judgements

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

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

Revaluation of property, plant and equipment

The management determines the fair value and the remaining useful life of buildings and constructions and equipment and machinery based on valuations performed by independent certified valuators in accordance with real estate valuation standards and based on the average construction costs relevant for the reporting year. The Group's internal policy is to perform the revaluations when there are indications that the average construction costs and/or purchase prices related to the buildings, gas distribution system, and equipment have changed significantly.

Recoverable amount of trade receivables

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

Inventory valuation

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

Revenue recognition

The Management Board of the Company performed evaluation and considers that rerding natual gas transmission and distribution, which are included in the invoices issued to the customers, the Company acts as an agent nor principle. In the case of gas transmission and gas distribution services, natural gas traders are not able to choose service providers - all natural gas traders are subject to regulated tariffs. The Company, as a natural gas trader, do not have an option to control the amount of these tariffs. Revenues from invoices to customers for gas transmission and gas distribution are offset against the corresponding expenses and presented in the financial statement in the net amount.

26. Key accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. To ensure that the reports are comparable in preparation of the 2017 Statement of Profit or Loss and Balance Sheet, the reclassification is made in comparative figures for 2016.

Basis of preparation

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

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

All amounts shown in these financial statements are presented in thousands of Euros (EUR), unless identified otherwise. Euros (EUR) is the functional and presentational currency of the Group and Company.

Adoption of new and revised standards and interpretations

The following new and amended IFRS and interpretations became effective in 2017, but have no significant impact on the operations of the Company and the Group and these financial statements:

Amendments to IAS 7 “Statement of Cash Flows” – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2018 or later periods or are not yet endorsed by the EU:

IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 10 "Consolidated financial statements", IAS 28 "Investments in associates and joint ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB, not yet endorsed in the EU).

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Amendments to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
Annual improvements to IFRS's 2016. The amendments include changes that affect two standards:

- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU), and
- IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Amendments to IFRS 9 "Financial instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Annual improvements to IFRS's 2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). The amendments include changes that affect standard IAS 23 - "Borrowing costs".
The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Company and the Group in the period of initial application, except:

- IFRS 9 "Financial instruments" – the Company and the Group adopted the standard since 1 January 2018.

As the new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39, then the Group believes that impairment losses are likely to become more volatile for assets in scope of IFRS 9 impairment. The Group expects to have the most significant impact from impairment calculations for Trade receivables. New Group's policy divides client related risks by client category, so that each customer segment would bear similar credit characteristics and determines that provisions are provided for revenue generated from higher risk customer groups immediately when unsettled revenue is recognised.
When calculating ECL, the Group will take into consideration historical loss rates for each receivables age band, calculated based on customer payment behavior during past 3 years.

The Group expects to use the same customer segmentation and rates as applied to Trade receivables not yet due.

With regards to the new impairment methodology (from incurred to expected credit losses), the Group has preliminarily estimated that if the IFRS 9 methodology had already been implemented in the 2017 reporting period, the overall result at last year end would have been as follows:

Group and Company	As reported in 2017 Financial Statement	If IFRS 9 had been applied to the same balances
	EUR'000	EUR'000
Expected credit losses on trade receivables	8,521	8,630

- IFRS 16 "Leases" – after December 2017 reorganisation, when subsidiary JSC "GASO" was established and a serie of rent agreements was concluded between JSC "Latvijas Gāze" and JSC "GASO", application of IFRS 16 "Leases" can have a material effect on the total assets and liabilities of JSC "Latvijas gāze". The management of the Company is evaluating the effect. From the Group perspective the standard has no mateial impact on the financial statements.

Property, plant and equipment

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

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

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

Upon revaluation of property, plant and equipment, the accumulated depreciation is changed in proportion to changes in the gross value of the property, plant and equipment revalued. Increases in the carrying amount arising on revaluation of buildings, gas distribution system and equipment are credited to Revaluation reserve in shareholders’ equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; any further decreases are charged to the profit or loss statement. The revaluation surplus is transferred to retained earnings on the retirement or disposal of the asset. In 2017 the Group changed the accounting policy for the fixed asset revaluation reserve and began to calculate the depreciation of revaluation reserve so that the costs of depreciation of fixed assets in the profit or loss statement correspond to changes in the revaluation reserve.Total effect of change in accounting policy is disclosed in Note 16. The third balance sheet is not presented in these financial statements as all reserves and prior year retained earnings are presented in column in the balance sheet as well as statement of changes in equity and there is no effect from accounting policy change on openings.

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

	years
Buildings	20 - 100
Constructions, including gas distribution system	40 - 60
Machinery and equipment	5 - 30
Other fixed assets	3.33 - 10

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

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

Intangible assets

Intangible assets primarily consist of software licences and patents. Intangible assets have a finite useful life and are carried at cost less accumulated amortisation.

Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their useful lives. Generally, intangible assets are amortised over a period of 5 to 10 years.

Impairment of non-financial assets

All the Company's and the Group's non-financial assets have a finite useful life (except land). Assets subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets having suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

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

Inventories

The cost of natural gas is composed of the gas purchase cost. The cost of materials, spare parts and other inventories is determined using the weighted average method.

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

Trade receivables

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

Operating leases

The Company is a lessee. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

Contributions to the group subsidiary’s capital

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

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

Consolidation

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

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

Share capital and dividend authorised

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

Provisions

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

Provisions are measured at the present value according to the management’s best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Vacation pay reserve

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

Employee benefits

Bonus plans

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

Social security and pension contributions

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

Post-employment and other employee benefits

Under the Collective Agreement, the Company / the Group provides certain benefits upon termination of employment and over the rest of life to employees whose employment conditions meet certain criteria. The amount of benefit liability is calculated based on the current salary level and the number of employees who are entitled or may become entitled to receive those payments, as well as based on actuarial assumptions. The benefit obligation is calculated once per year and recognized in income statement of the same year. Expenses arising from post employment benefits are included in income statement, when they are paid.

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

Borrowings and borrowing costs

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are the assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognise in profit or loss in the period in which they are incurred.

The capitalization of borrowing costs occurs only when the borrowing current unfinished construction is financed by borrowing.

Deferred income tax

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

Income tax is assessed for the period in accordance with Latvian tax legislation that has been enacted or substantively enacted by the balance sheet date. The management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

Current income tax

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

Trade payables

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

Revenue recognition

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

Revenue from natural gas trading

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

Revenue from natural gas distribution

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

Interest income

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

Penalties income

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

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

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

Other income

Income from the rendering of services are recognised when the services are rendered.

Related parties

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

Discontinued operations

As described in notes to the Financial Statements and in the management report, in 2016 the Company had launched the reorganisation and in January 2017 it transferred the natural gas transmission and storage activities to the newly established JSC Conexus Baltic Grid. In December 2017 it transferred the natural gas distribution business to the newly established JSC Gaso.

Application of IFRS 5

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

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

27. Remuniration of certified auditors company

Remuniration of certified auditors company	Group 2017	Company 2017	Group and Company 2016
	EUR'000	EUR'000	EUR'000
Statutory audit	59	44	52
Other audit services	5	5	19
Tax services	-	-	6
Non-audit services	12	12	
	76	**61**	**77**

28. Contingent liabilities

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

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

Under Section 20 Paragraph one and Section 351 Paragraphs two and three of the Commercial Law, the Joint Stock Company “Latvijas Gāze” is liable for the obligations (having arisen prior to reorganisation) of the natural gas distribution business, transferred by way of reorganisation to the Joint Stock Company “Gaso”, for 5 years after the effective date of the reorganisation of the Joint Stock Company "Latvijas Gāze". The reorganisation took effect on December 1, 2017 (the day of enrolment with the commercial register).

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

Commitments	Group 2017	Company 2017	Group and company 2016
	EUR'000	EUR'000	EUR'000
Contracted and unfinished	289	-	469

29. Subsequent events

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

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

CONSOLIDATED NON-FINANCIAL REPORT – 2017

This Consolidated non-financial report of Latvijas Gāze concerns the group's operation in 2017.

The corporate social responsibility report is the group's first and follows the guidelines of the UN *Global Compact* programme (www.unglobalcompact.org) insofar as the matters of the guidelines are relevant to the group's actual operation. The report has been prepared using the *Global Compact* self-assessment tool (www.globalcompactselfassessment.org).

BRIEF DESCRIPTION OF THE GROUP'S BUSINESS MODEL

The year 2017 was probably the most significant in the history of Latvijas Gāze, as it presented the challenge of separating business segments that had been a single entity for years. The company dedicated massive intellectual and financial resources for this task. However, the restructuration of the business has enabled Latvijas Gāze to reassess a number of processes and practices, thus giving a new quality to the services provided by the company – now already as a group. It intends to maintain this direction in 2018 with a goal of becoming one of the most efficient and customer-appreciated businesses in Latvia and a competitive and recognised energy enterprise on a Baltic scale.

Formation and structure of the group

From its foundation up to the year 2017, Latvijas Gāze operated as the sole and unified natural gas storage, transmission, distribution and trading operator in Latvia. As of the beginning of 2017, natural gas storage and transmission was spun-off into the JSC "Conexus Baltic Grid", which is currently not associated with Latvijas Gāze (and GASO). The second step of the reorganisation of Latvijas Gāze saw foundation of its subsidiary GASO, which has been transferred the function of natural gas distribution. Since December 1, 2017 GASO operates independently and **Latvijas Gāze** is a natural gas trading company comprising a group with the subsidiary **GASO** which carries out the distribution of natural gas.

However, while both companies make a group, there is a peculiarity about their specific business – natural gas supply to consumers through pipelines – in that GASO as DSO has to be independent from Latvijas Gāze in taking decisions concerning natural gas distribution. Compliance with the independence requirements is supervised by the PUC.

Operating segments and geographical markets

Since the first quarter of 2017 when the Latvian natural gas market was opened, over 30 natural gas traders have enrolled with the Latvian register of natural gas traders, with Latvijas Gāze as a separate company being one of them. In the household segment there remains the option to keep buying natural gas for a regulated price, while the rest of natural gas consumers and/or resellers (the wholesale segment) enter into individual and voluntary agreements on pricing and delivery terms. Although already in 2017 natural gas consumers in Latvia could freely choose their supplier, the decrease in the total sales volume of Latvijas Gāze was just around 10%, which suggests a high degree of customer trust and loyalty and the ability of Latvijas Gāze to adapt to new challenges and offer effective products. In 2017 Latvijas Gāze also obtained licenses for natural gas trading in Lithuania and Estonia.

GASO, in turn, is the only natural gas DSO in Latvia, ensuring the supply of natural gas from the transmission system to the final consumers. GASO ensures the development of the distribution infrastructure, the installation of natural gas connections, the operation of the system and the metering of natural gas, as well as the activity of the emergency service. GASO only operates within Latvia and is a fully regulated company.

For more detailed information on the group's business performance please refer to the Management report section.

CONSOLIDATED CORPORATE SOCIAL RESPONSIBILITY REPORT 2017

The group is fully supportive of the values in respect of human rights, employment rights, environment and anti-corruption encompassed by the UN *Global Compact*. The group also supports the principles contained by the UN *Universal Convention of Human Rights*, the International Labour Organisation's *Declaration of Fundamental Principles and Rights at Work*, and the environmental policies of the European Union. We stand against corruption in the public and private sector.

This report details the main risks, the measures for prevention or mitigation thereof, and assesses the impact of those measures to the extent possible. Various specialists and trade union representatives were involved in the preparation of the report. We commit to continue expanding the scope of the company's operation within the framework of issues covered and further integrate the values of the UN *Global Compact* in the group's decisions and action.

The report has been prepared in Latvian, English and Russian.

The graphic information of the report primarily concerns a five-year period, unless there is data on the reporting period available at the time of drafting the report.

HUMAN RIGHTS

Principle 1	**Businesses should support and respect the protection of internationally proclaimed human rights; and**
Principle 2	**make sure that they are not complicit in human rights abuses.**

Latvijas Gāze and GASO fully comply with the regulatory framework of Latvia and the European Union which meets high standards of human rights. The companies do not in any way get involved in the abuse of human rights and are committed to show an active stance in this regard to customers, partners and employees as well.

STAFF HEALTH AND SAFETY

Overall assessment

The Latvian regulatory framework of labour safety is essentially designed to be directly applied within organisations, and both Latvijas Gāze and GASO fully meet these requirements. Given the specific nature of work at GASO, the health and safety of staff are among priorities of GASO in CSR. GASO provides its employees with a safe and harmless working environment, a proper equipment and training, and involves employees in the performance of health and safety measures.

Risks

More than a half of employees at GASO are tasked with the direct maintenance of the natural gas distribution system, which entails an increased risk in itself because of the explosiveness and inflammability of gas and the health impact of other harmful working environmental factors. Hence, possible accidents pose a substantial risk to both the employees' health and the company's operation. A safe working environment makes for efficient work.

Measures

There is a labour protection system in place, and there have been responsible persons designated for specific duties in labour protection, fire safety and civil protection. Employees are instructed on labour protection and fire safety pursuant to a schedule depending on work specifics and acquainted with civil protection measure plans. At least once per year there is training held on how to act in the event of fire. An assessment of risks of working and explosive environment are also conducted once per year. Based on such assessment, the deficiencies found are either eliminated or mitigated and plans of risk prevention measures are drawn up. Employees have elected trustees who attend events related to labour protection.

Accidents at work are constantly registered and analysed. Employees undergo mandatory health checks pursuant to a schedule depending on work specifics. In daily work employees are provided with the necessary collective and individual safety equipment. The work equipment and machinery is regularly inspected and serviced in line with the manufacturer requirements. Employees are provided with health insurance.

In order to improve accessibility for disabled persons throughout the premises, regular reconstructions and enhancements take place towards this purpose. These requirements have been met at all buildings reconstructed since 2016 and will be met in all further reconstructions.

In 2017 there have been no complaints over labour safety received from employees*.

*Complaints that are registered if the conflict or situation is not settled within a reasonable timeframe or satisfying the parties.

HOURS, WAGES AND LEAVE

Overall assessment

Both companies operate in compliance with the Latvian regulatory framework which meets the requirements of the UN International Labour Organisation. Apart from meeting the minimum state requirements, there are additional measures taken. All the social protection measures set out in the Labour Law are implemented.

Employees predominantly have 40 working hours per week. Where necessary, there is work in shifts. The number of overtime hours is limited, employees are given appropriate break and rest time. They also have a paid annual leave and paid off-days for children, for length of service etc. on top of those stipulated by the legislation. Under the Latvian laws, employees are allowed incapacity absence, including one related to pregnancy and birth, and a maternity leave. All employees have written employment contracts signed and issued and all taxes related to the employment relationship paid.

Risks

The recruitment policy is implemented so as to avoid the risk of the lack of qualified specialists jeopardising compliance with the industry standards in respect of the safety and operational continuity of the natural gas distribution system. A fully recruited staff ensures a balanced regime of work and rest, which results in an improved overall performance.

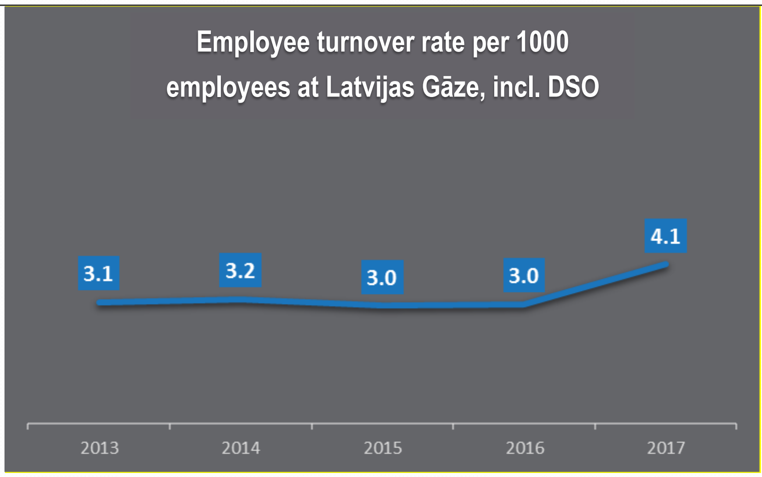
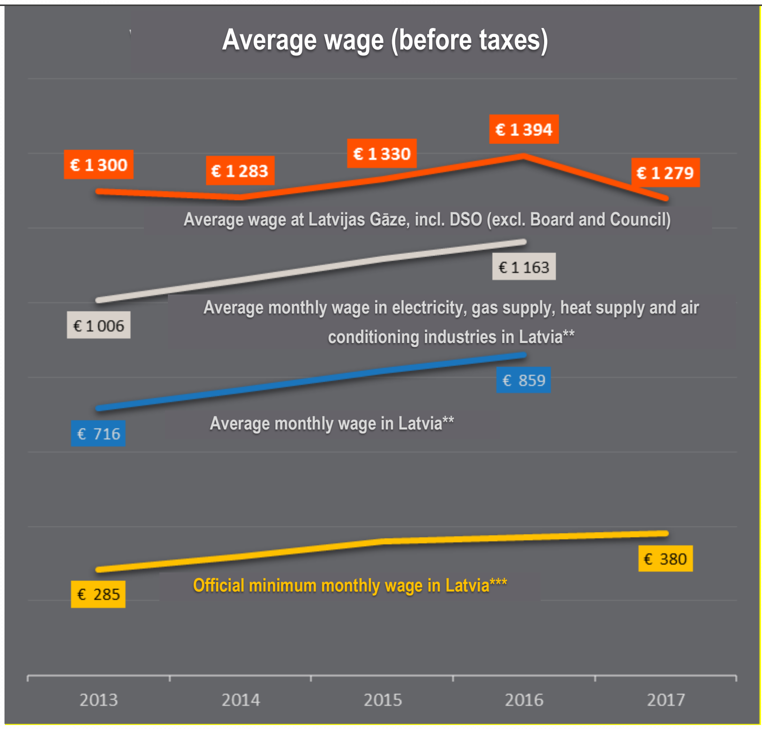
Measures

The personnel management function is entrusted to professional structural units, with a centralised management of this function, review of and advising on employment relationship matters.

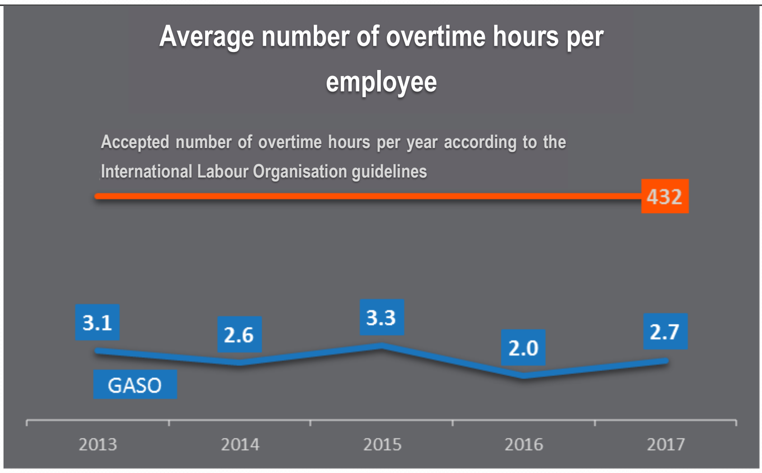
There have been labour dispute commissions set up including representatives of the employer and trade unions. An appropriate number of trustees have been elected who can be contacted on labour-related matters. Relevant matters are reviewed and discussed at collective agreement meetings. Membership in the Latvian Association of Personnel Management contributes to the development of labour rights and the implementation of various measures. Once per quarter, the financial and operational efficiency of GASO employees is analysed in detail to avoid potential risks and assess the current situation.

In 2018 it is planned to revise and separate Rules of Procedure from the (single) Collective Agreement at both companies. This would make any future improvements in labour procedural matters easier. Work has begun on a new Collective Agreement in response to the reorganisation in compliance with the provisions of the Labour Law applicable to such documents (including in respect of statutory requirements on the procedure of amendments to previously effective regulations).

Key indicators

The employee turnover rate is generally steady and low. The increase in 2017 stems from the reorganisation process which saw restructuration of functions and jobs.	
At Latvijas Gāze, incl. the distribution system, the average wage exceeds the minimum wage multiple times, is higher than both the official average monthly wage and slightly higher than the wage paid in similar industries.	 *According to profit or loss statement ** Central Statistics Bureau *** Ministry of Welfare (http://www.lm.gov.lv/text/648)

In comparison with the guidelines of the International Labour Organisation, the distribution system operator has a very low number of overtime hours worked. It is a strict policy of GASO to limit overtime hours.



In 2017 there have been no complaints received over violations of working hours, wages or leave of absence that would qualify as infringement of human rights*.

* Complaints that are registered if the conflict or situation is not settled within a reasonable timeframe or satisfying the parties; complaints that would meet the criteria of infringement of human rights, e.g., a disproportionate number of overtime hours, a disproportionately low wage, or a disproportionate refusal of leave of absence etc.

FAIR TREATMENT AND PRIVACY

Overall assessment

The companies have an Ethical Code of Conduct that lays down general guidelines for building the working relationship among employees, including the preferable attitude and conduct, as well as models of action for handling possible disagreements and conflicts at work.

There is a strict regulatory framework in the field of personal data protection both at national and European Union level. These requirements are met, and there are proportionate and proactive measures taken to streamline processes.

Risks

Given the reorganisation process stretching over multiple years and resulting in the foundation of GASO, employees are surveyed on a regular basis to make sure that GASO operates independently and the group's employees are capable of performing their duties properly under the new circumstances.

Risks in the field of personal data protection are low, as there is a clear regulatory framework which both companies comply with. Appropriate technical and organisational measures are taken to mitigate the risks.

Measures

The Ethical Code of Conduct sets out the core principles of interpersonal relationship in the working environment and includes specific directions on how employees should act in the event of various infringements.

IT resources may be used for work purposes only.

Both companies have appointed certified personal data protection specialists. Employees are notified of processing of their personal data. The year 2017 saw extensive training of employees on personal data protection and a compliance assessment for all purposes of personal data processing.

Due for revision in 2018 is the Ethical Code of Conduct applied at GASO and there will be further work done on the personal data protection system given the new regulatory framework.

In 2017 there have been no complaints received over infringements or privacy violations*.

* Complaints that are registered if the conflict or situation is not settled within a reasonable timeframe or satisfying the parties.

IMPACT OF THE DEVELOPMENT OF DISTRIBUTION NETWORKS UPON SURROUNDING RESIDENTS

Overall assessment

The field of infrastructure development is subject to extensive regulation, and GASO complies with all regulatory requirements at both design and construction stages. On a daily basis GASO communicates with a broad range of persons involved in development projects, thus gaining support and ensuring the implementation of projects.

Risks

When building infrastructure, GASO is subject to private owners' right to property and usage thereof and may affect natural sites. Hence, it is essential to cooperate with the public, the local governments, and the state authorities in charge of environmental matters. The gasification of new housing estates frequently requires building gas pipelines through areas where there have been no usage restrictions before, with the owners discontent due to encumbrance. It is therefore of particular importance to involve all landowners, notifying them of the common practical benefits from the infrastructure. Risks associated with the impact of construction upon protected areas, however, are low, as Latvia has a stringent regulatory framework in respect of environmental protection.

Measures

The prospective system development plans take into account the municipal territorial plans, the wishes of local governments and their residents and businesses, and the national and municipal restrictions on protected areas. Before launching design for gas supply in new areas, there are notification measures taken, i.e., informational outdoor advertisements, individual letters to all the residents and businesses whose property gas pipelines are to be built along, thus enabling them to both apply for connections and have their say on the development. If necessary, public meetings are held with the residents and businesses of areas where it is planned to develop a natural gas distribution system.

If an infrastructure development stretches into private property, negotiations are held with the landowners and, where it is necessary to cross the land property, the parties make a written agreement, including material compensation in some cases. In Latvia there is a forced expropriation envisaged if required for building objects of national importance. During the reporting period, however, such procedure has not been applied in respect to the distribution system operator's infrastructure.

Upon infrastructure reconstruction or repairs, GASO always timely notifies of planned supply interruptions and ensures a continuous gas supply as far as possible.

In 2017 GASO has not received complaints from residents of the territories affected.

* Complaints that are registered if the conflict or situation is not settled within a reasonable timeframe or satisfying the parties.

NOTIFICATION OF PEOPLE ON PRECAUTIONARY MEASURES WHEN USING NATURAL GAS

Overall assessment

If used improperly, natural gas is a dangerous substance. Hence, one of the main tasks of both companies is to instruct people on how to act in the event of an accident or threats thereof (for information on the Emergency service of GASO and the measures to avoid emergency situations, see the "Environment" section).

Risks

The potential danger of natural gas is one of the key aspects in the operation of GASO. A lack of knowledge on the physical properties of natural gas and its use may cause adverse effects to the consumers themselves and their assets, an increase in the number of emergency calls and accidents, and additional expenditures on the Emergency service.

Measures

Information on the website of GASO on the usage of natural gas and emergency situations. Informational materials in the major Latvian media and participation in the exhibition “Māja” and events held by local governments to educate on the safe usage of natural gas. Informational booklets for adults and children on the usage of natural gas and emergency situations.

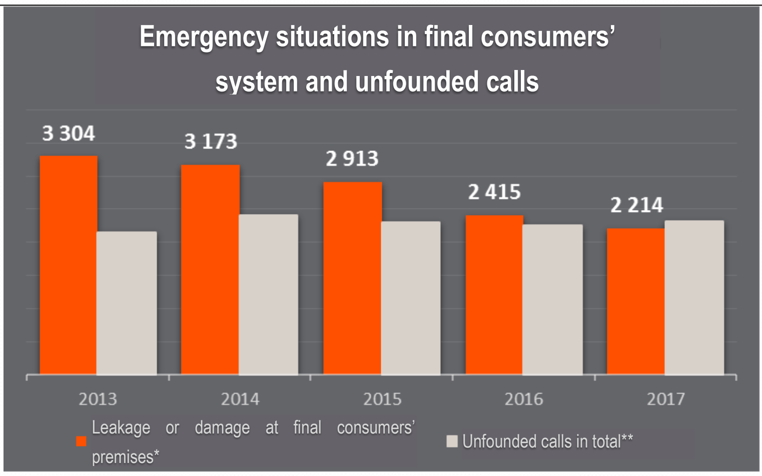
In 2017 the Training Centre of GASO held five classes of “Gas school” for everyone interested to learn about the physical properties of gas and the proper daily use of hardware. Educational events have taken place at 22 schools, with children explained the danger of natural gas, the proper use thereof, and the adverse effects of illegal and improper actions. Participation in the annual contest for schools “Esi drošs, neesi pārdrošs” (‘Be Brave, Not Rash’) and “Superpuika” (‘Superboy’).

In 2018 GASO intends to continue regular safety-themed educational activities at schools, youth contests, public state and municipal events. It is planned to make a new information booklet on the safe usage of natural gas for adults – “Kas jāzina dabasgāzes lietotājam” (‘What Natural Gas Consumers Should Know’), and for children – “Gatis, es un Gāzēns” (‘Gatis, Me and Gāzēns’). Video stories on the past “Gas school” will be prepared for publishing.

Key indicators

Since 2013 there has been a sharp decrease in the number of emergency calls caused by the consumer’s own action or leakages or damage at the final consumer’s premises. This has a number of reasons, such as a gradual decrease in the number of connections specifically at apartments, consumers upgrading their appliances, being more aware of how to treat natural gas.

On the other hand, the total number of unfounded calls remains steady, but this is not a negative trend, as GASO is supportive of precautionary calls to the emergency service.



*Emergency situations include consumer action and equipment whose operation falls under the final consumer’s responsibility – the natural gas consumption meter, shut-off devices, natural gas hardware and pipelines within the final consumer’s premises.

**Unfounded calls are calls where there is no relevance to the natural gas system or there proves to be no emergency situation.

LABOUR

Principle 3	**Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;**
Principle 4	**the elimination of all forms of forced and compulsory labour;**
Principle 5	**the effective abolition of child labour; and**
Principle 6	**the elimination of discrimination in respect of employment and occupation.**

Both companies fully observe the employees’ rights in terms of freedom of association and non-discrimination and promulgate this to their customers, partners and employees through the CSR report and the Ethical Code of Conduct.

In line with the legislation, forced or compulsory work or child labour is not conceivable within the group. Hence, these matters are not further discussed in the report.

TRADE UNIONS

Overall assessment

Employees are enabled and encouraged to join trade unions and collectively discuss collective agreements.

Risks

No substantial risks are seen in this field.

Measures

There are collective agreement discussion meetings held, attended by representatives of the company’s management, employees and trade unions. Once per year there is a joint report made on the performance of the obligations due under the Collective Agreement.

A labour dispute commission has been set up, featuring representatives of the employer and trade unions.

Premises are made available for holding trade union meetings, as are permanent premises and means of communication for the head of the trade union. At the trade union’s request, the required information about the company’s operation is provided. The trade union uses the company’s IT resources for distributing its information to the union members. The trade union also takes part in the selection of health insurance policy for employees.

In 2017 the trade union was involved in the settlement of a disagreement on one occasion*.

*These may be various kinds of disagreements, including ones not concerning infringements of human rights; the trade union only gets involved in matters of its members.

PROHIBITION OF DISCRIMINATION

Overall assessment

The prohibition of discrimination is observed. No specific groups of people are obstructed. The current staff has been recruited by balancing the required professional competences against supply on the labour market. It is made sure that decisions in respect of employees be based on appropriate and objective criteria.

Risks

Overall, the risks associated with discrimination are low. Given the specific nature of the business of GASO, there is a relatively low proportion of women amongst employees.

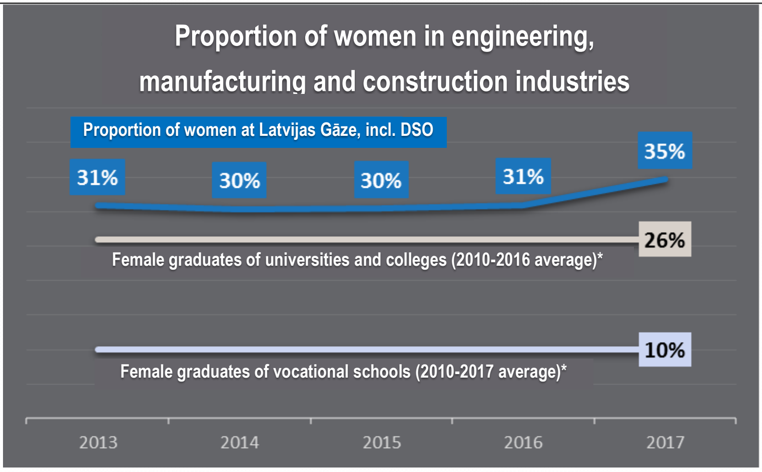
Measures

Job advertisements set out specific requirements for employees based on the professional competences required for the company and are worded in a non-discriminatory way. During the recruitment process, no sensitive information about applicants, including their religious or political conviction, family status, sexual orientation, ethnic origin, political beliefs etc., is requested and no external features, like skin colour, gender, age, are taken into consideration.

The Ethical Code of Conduct prohibits discrimination of individuals based on external features, beliefs, or social standing.

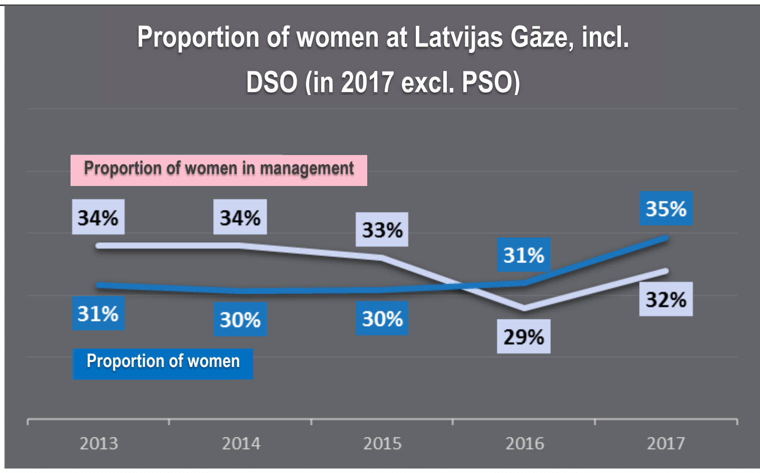
Key indicators

The proportion of female employees highly depends on the professional orientation of youth. As shown by the chart, in this decade (and, while older data is not available, very likely in the previous decades as well) there is a very low proportion of women among graduates in the related industries. Hence, there is a small share of women at Latvijas Gāze, in reflection of the labour market.



*Central Statistics Bureau

Despite the low proportion of women at Latvijas Gāze compared with the overall supply of the labour market across all industries, at managerial level the share of woman is as large as at the company overall.



During the reporting period of 2017 there have been no complaints received over discrimination at work.

ENVIRONMENT

Principle 7	**Businesses should support a precautionary approach to environmental challenges;**
Principle 8	**undertake initiatives to promote greater environmental responsibility; and**
Principle 9	**encourage the development and diffusion of environmentally friendly technologies.**

The product – natural gas – is the most environment friendly fuel that emits the least amount of greenhouse gases in the combustion process. Hence, this business has sustainable foundations and contributes substantially to environmental protection.

GASO strictly controls the operation and maintenance of the natural gas system and methane emissions and takes care of system safety. The operational sphere is highly regulated, there is a natural resource tax for methane emission into the atmosphere which further incentivises limitation of emissions.

GASO both helps others acquire environment-friendly fuel and related technologies and itself actively makes use of the benefits of the technologies involving natural gas – cogeneration and vehicle gas.

Overall, the greatest concern of GASO is the limitation of methane emissions. In other fields though, the environmental impact of GASO is rather low, especially from the viewpoint of potential risks.

ACCIDENT PREVENTION AND NETWORK SAFETY

Overall assessment

Natural gas may be very dangerous in use, inflicting harm on people, property, and the environment. Therefore, GASO ensures a safe supply of natural gas, the education of people, and a prompt response to emergency situations.

Latvia has the peculiarity of having just one distribution system operator in charge of system operation and accident prevention. There are several benefits to this. Firstly, there is a single emergency phone number for natural gas consumers throughout the country. Secondly, all processes are managed on a centralised basis which simplifies cooperation with various services and local governments in emergency situations. Thirdly, this enables an efficient planning of daily activities, such as those related to maintenance, equipment, vehicles etc.

Risks

The impact of the product and the services rendered upon people is one of the major risks of GASO when it comes to CSR, as natural gas is inflammable, explosive and asphyxiant in enclosed spaces. The main risks are associated with outdated infrastructure and gas appliances owned by consumers and human action both when consuming natural gas and making unwarranted manipulations of gas appliances. However, the most severe losses are caused to GASO by bursts of underground pipelines resulting from third-party activity.

Measures

At the Riga Unit of GASO, which is in charge of more than half of consumers, there is a separate emergency service, while other units have separate emergency teams. In addition to the unified emergency phone 112, there is a dedicated natural gas emergency number 114 where calls are forwarded to the call operators of the Emergency Service of GASO. Emergency calls and solution of emergency situations is free of charge, so there is no financial burden put on consumers. The employees of the Emergency Service and teams regularly undergo certification and are equipped with modern devices for the detection of gas leakages and the elimination of consequences. The Emergency service and units of GASO are under contract with the operational services of state and administrative areas and other communication holders on cooperation in emergency situations. In 2017 there have been 404 test calls that include training together with other operational services. Where there is disruption to a centralised natural gas supply to multiple consumers at a time, GASO notifies the customers.

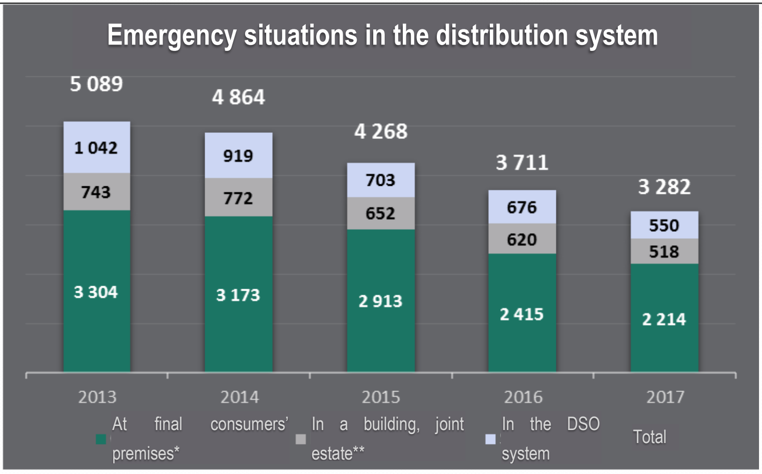
GASO regularly performs the technical monitoring of the natural gas distribution system and the audit and leakage test of internal gas pipelines in compliance with laws and state standards.

Key indicators

Since 2013 the number of final consumers has not changed much, yet the number of emergency calls has substantially dropped, including a double decrease in the number of calls to facilities owned by GASO.

As shown by the chart, the most part of emergency situations are damages to the equipment owned by final consumers, so it is extremely important to instruct people on how to act in the event of leakage or equipment damage.

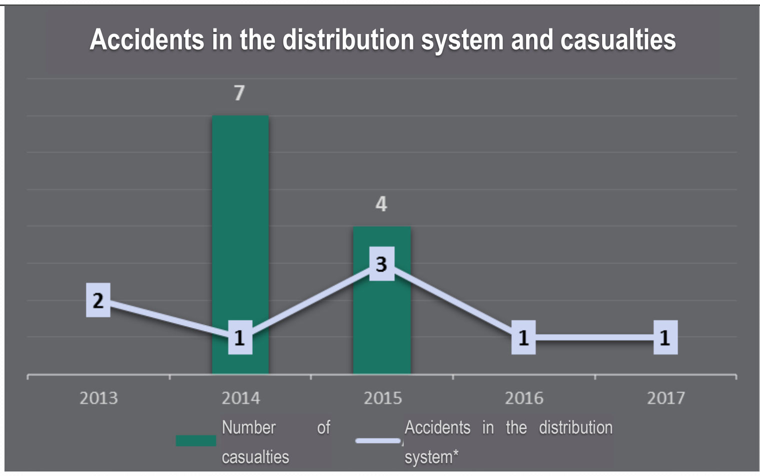
In 2017, there were 9 emergency calls per day received on average.



*Includes equipment whose operation falls under the final consumer's responsibility – the natural gas consumption meter, shut-off devices, natural gas hardware and gas pipelines within the final consumer's premises.

**Includes facade gas pipelines at individual and apartment houses, as well as riser and internal pipes up to the meter at apartment houses.

Overall in the distribution system there are very few accidents that qualify as emergency situations with severe consequences.



*Accidents are understood as situations where natural gas has caused a fire, an explosion, where there have been substantial supply disruptions, a substantial harm to the environment, where premises have been filled with gas above the lower threshold of explosion hazard or there are human casualties.

ENVIRONMENTAL IMPACT

Overall assessment

The group constantly monitors and takes action to limit the emission of substances causing the greenhouse effect and improve energy efficiency. Waste sorting and disposal for processing takes place as well.

The distribution system has two operational aspects with a substantial environmental impact – the emission of methane (natural gas) and the environmental impact of economic activity or energy efficiency in residential heating, electricity consumption, and vehicles.

The contribution of the main component of natural gas – methane – to the greenhouse effect over a 100-year stretch is estimated as 25 times that of carbon dioxide[1], which is why its emission into the atmosphere must be limited to the extent possible. However, calculations suggest that the total emissions from the distribution system in the European Union account for just 0.21% of the total amount of greenhouse gas emissions[2]. In order to motivate businesses to reduce emissions, the Latvian Natural Resources Tax Law envisages a natural resources tax for methane emission into the atmosphere.

The distribution system does not use high-capacity equipment, unlike, for instance, natural gas transmission systems or storages where internal combustion engines or turbines provide pressure. Hence, GASO emits CO_2 primarily through heating its premises and driving vehicles. In order to reduce the environmental impact and boost the economic efficiency of its business, GASO devotes effort to increasing the share of natural gas in its own consumption by purchasing natural gas powered cars and installing a natural gas cogeneration plant.

There are neither harmful chemicals used nor atmosphere-polluting substances generated in the operation of the distribution system. Furthermore, there are no natural resources used and no material amounts of waste generated. Gas pipeline leakage tests use nitrogen, which ousts oxygen under normal conditions and is therefore asphyxiant. However, nitrogen is the predominant gas in the atmosphere and does not cause the greenhouse effect. As nitrogen is slightly lighter than air, it gets vented in an open space.

Risks

The main environmental risk of GASO is associated with methane emissions during pipeline repairs, during operation, and as a result of accidents. While during natural gas distribution and repairs the expected amount of emissions is known and may be limited long-term through processes and technologies, accidents are unpredictable and uncontrollable with an increased risk of emissions. Methane emissions entail not only an environmental impact, but also financial risks from losing the product and the natural resources tax calculated. As concerns CO_2 emissions, the risks are low, as GASO has no high-capacity manufacturing equipment.

Measures

Methane emission

GASO has appointed a person in charge of monitoring the environmental issues. A calculation of natural gas release into the environment is made quarterly.

Business activity

Since 2016 there is an energy management system compliant with the LVS EN ISO 5001 standard in place. An in-depth analysis of the company’s energy resources has been made, resulting in identification of the major energy consumption processes and definition of the main energy indicators. An energy audit takes place once per year. From 2013 till 2017, 27

[1] Intergovernmental Panel on Climate Change; *IPCC Fourth Assessment Report: Climate Change 2007 - Climate Change 2007: Working Group I: The Physical Science Basis - 2.10.2 Direct Global Warming Potentials*; https://www.ipcc.ch/publications_and_data/ar4/wg1/en/ch2s2-10-2.html (accessed on 02.03.2018)

[2] Technical Association of the European Natural Gas Industry MARCOGAZ; Position Paper *CH4 emissions in the European Natural Gas midstream sectors*, 2017; http://www.marcogaz.org/index.php/component/docman/doc_download/5359 (accessed on 02.03.2018)

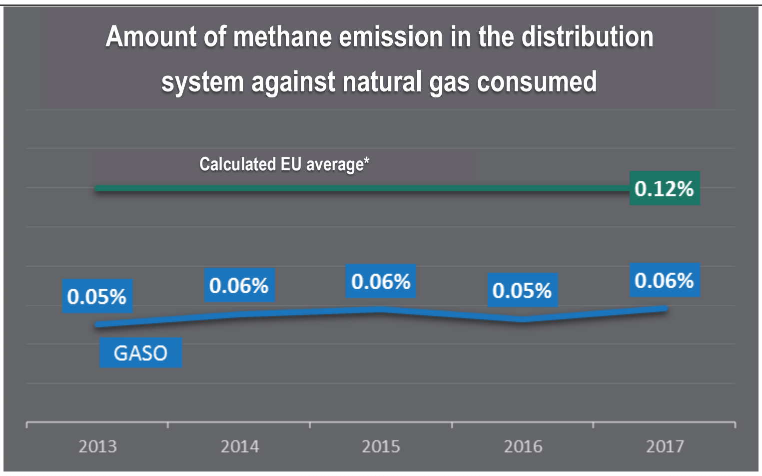
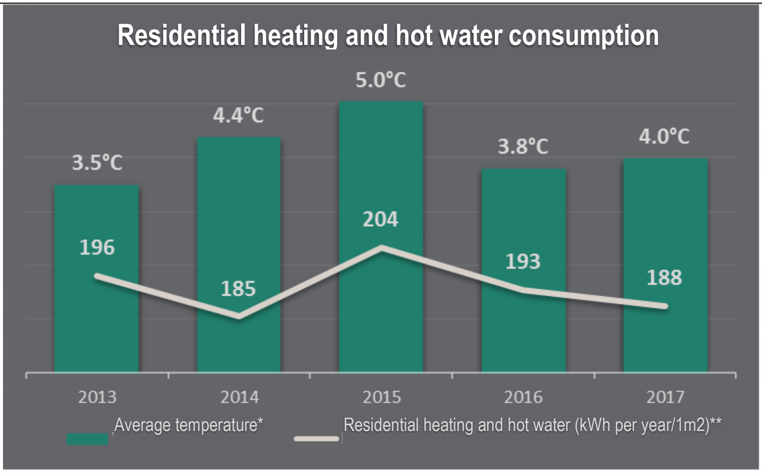
energy efficiency measures were implemented at the company, and the total energy consumption has dropped by 12,585 MWh.

The company systematically upgrades part of its vehicle fleet, ensuring that the current environmental requirements are met.

<u>Waste management</u>

GASO sorts and separately disposes of the following waste: scrap metal, construction materials and tyres. The majority of units of GASO sort and separately dispose of the following waste: lamps, batteries, computer equipment. Some units of GASO sort and separately dispose of the following waste: paper and plastic.

Key indicators

The calculated amount of methane emission in the Latvian natural gas distribution system is approximately twice below the EU average. Natural gas emission from the distribution system is inevitable, so only emissions above the EU average could be considered a bad result.	 *MARCOGAZ; Position Paper *CH4 emissions in the European Natural Gas midstream sectors*, 2017 (marcogaz.org)
There is little correlation between the energy consumption of GASO in heat supply and the outdoor air temperature due to the volatility of weather and the energy efficiency measures taken in previous years. By all means, the whole set of measures suggests that the consumption of energy at GASO is decreasing.	 *The average air temperature in Latvia during the heating season (Jan-May and Sep-Dec); source: Central Statistics Bureau. **The heat purchased in 2013-2015 has been calculated on the basis of the average consumptions of 2016-2017.

<table>
<tr>
<td>Although the total length of gas pipelines and the number of customers has slightly increased since 2013, the total run of vehicles has barely changed, while the average fuel consumption has slightly decreased.</td>
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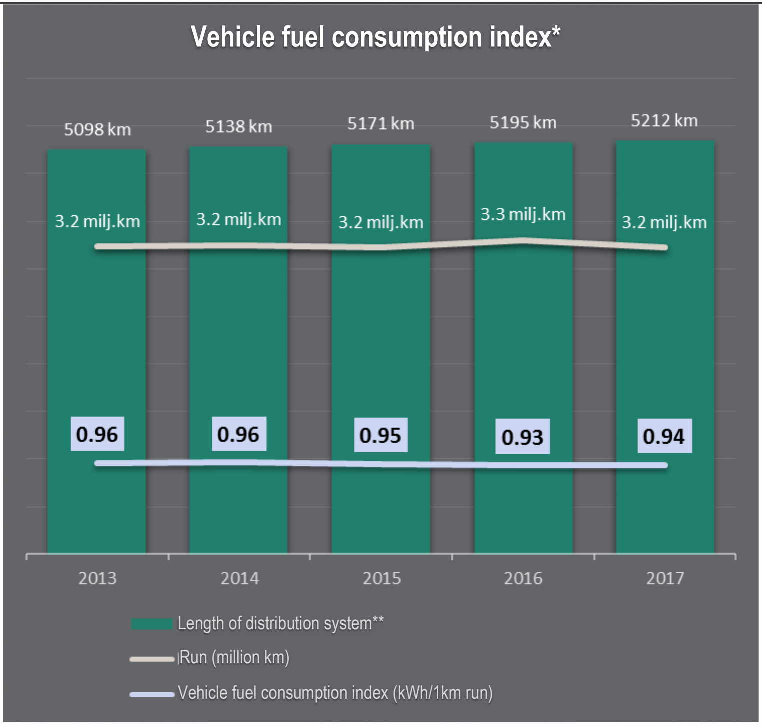

*Up to the year 2017 includes the trader which accounts for about 10% of vehicles.

**The data has been adjusted against the 2016 annual report of Latvijas Gāze.
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<td>Since 2013 the consumption of electricity has decreased by approximately 10%, which proves the effectiveness of the measures referred to in the report.</td>
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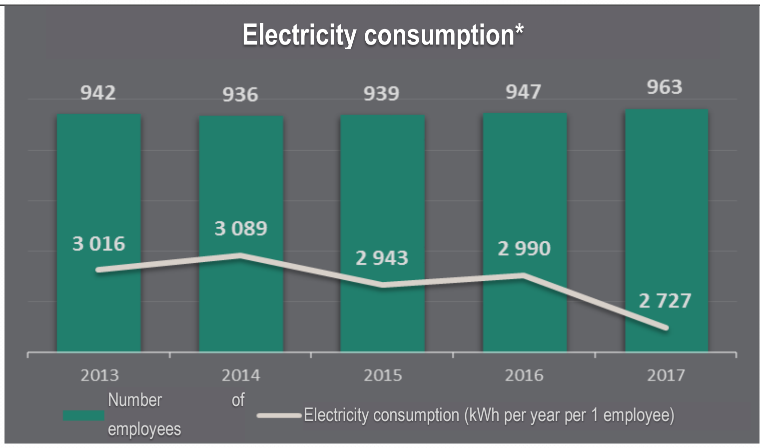

*Latvijas Gāze and GASO together.
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TECHNOLOGIES

Overall assessment

There is support for the use of new and environment-friendly technologies in the natural gas distribution system and in the provision of its functionality.

There are no energy resources used to ensure the supply of natural, as natural gas is received from the transmission system with a sufficient pressure.

Risks

Given the technologies and processes used in the natural gas distribution system, the overall emission risks associated with technologies are low.

Measures

For many years the company has been using technologies that allow installation and repairs of natural gas connections with a negligible release of natural gas into the atmosphere. Gas pressure regulation devices of various categories have been fully reconstructed. Since 2011 there has been a programme for reconstruction of domestic service pipe assemblies, which results in a substantially reduced likelihood of natural gas leakage from service pipe assemblies. Advanced gas leakage detectors are used, such as car-mounted laser gas detectors for inspecting gas distribution system pipelines.

In Riga and at almost all regional units of GASO, the environment-friendly natural gas is used for heating. Most units have individual heating boiler houses that have been gradually upgraded over several years, thus making energy supply efficient. September 2017 saw launch of a natural gas powered cogeneration plant (125 KWel and 189 KWth) at the Vagonu Street complex in Riga. During the heating season it provides electricity for own consumption (about 50% of the total consumption of the complex, with the total electricity purchase of GASO from external sources thus reduced by 30%), and the basic heat load, whereas in summer it is planned to produce electricity and hot water. All the regular lighting within the premises has had bulbs replaced with energy-efficient ones, and there is an ongoing replacement of bulbs throughout the company. At the Vagonu Street complex, control electricity meters are installed for each individual building to implement monitoring and assess consumption. In the long run, GASO gradually heat-insulates buildings and replaces windows and doors to improve energy efficiency.

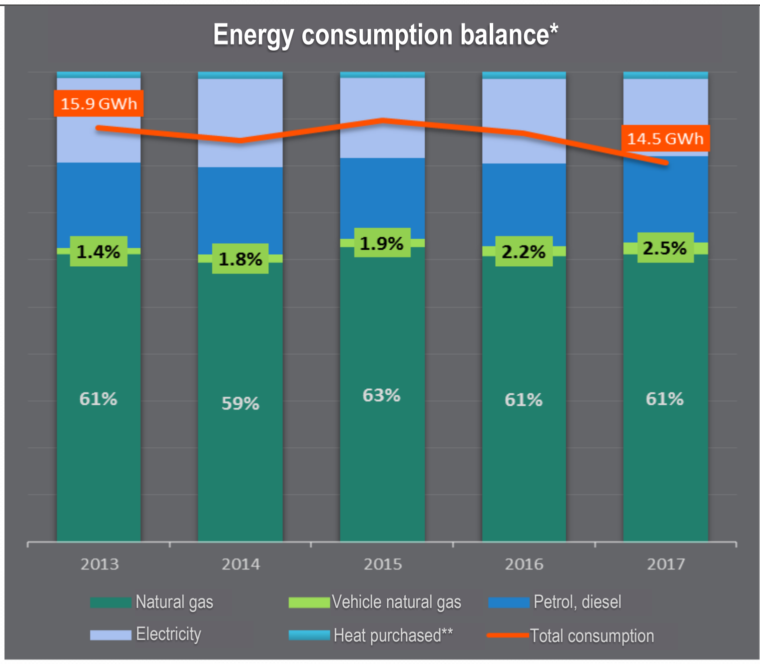
Around ¼ of the companies' cars use natural gas as fuel. This is not only efficient from the cost viewpoint, but also positive from the emission viewpoint. The cars of GASO are equipped with GPS and fuel metering devices which has enabled savings of one third in terms of fuel consumption.

Key indicators

GASO sees natural gas as a resource for a green and financially efficient housekeeping and therefore purposefully increases the use of natural gas for its own needs.

GASO also invests in the energy efficiency of buildings and buildings and equipment which, in turn, reduces the proportion of natural gas consumption.

The total energy consumption has dropped by 8% since 2013, while the share of natural gas has slightly risen due to purchasing natural gas powered vehicles.



*Energy consumption at Latvijas Gāze and GASO together. Following the reorganisation, almost the entire balance remains with GASO.

	** The heat purchased in 2013-2015 has been calculated on the basis of the average consumptions of 2016-2017.

ANTI-CORRUPTION

Principle 10	**Businesses should work against corruption in all its forms, including extortion and bribery.**

Latvia is ranked 40th in the Corruption perception index by *Transparency International*[3]. Although the index refers to corruption in the public sector, it also gives a glimpse into the overall public perception towards corruption.

Latvijas Gāze and GASO do not engage in corruptive activities and bribery and make a clear statement thereof to its customers, partners and employees through the CSR report and the Ethical Code of Conduct.

As a company quoted at stock exchange, Latvijas Gāze is subject to and strictly observes a number of requirements in respect of transparency and openness of corporate governance[4], circulation and disclosure of inside information etc.

Currently being the sole DSO, GASO is aware of the risks associated with decisions in respect of construction of the infrastructure necessary for customers, granting permits etc. and is actively working to prevent bribery or extortion in the employees' dealings with customers.

COMPANY'S CULTURE, PROCEDURES AND MEASURES

Overall assessment

The companies have implemented specific procedures and requirements that prevent the risks of corruption. As part of a good corporate governance, the companies pay a special attention to removing any possibility of corruption and bribery in business in respect of services rendered and received by both companies.

As public service providers, both companies comply with the requirements of the Law On Procurements of Public Service Providers in respect of announcement of public procurements and selection of bids. Procurements that do not reach the threshold set by the law are held in compliance with detailed internal regulations.

The companies' general approach envisages no use of intermediaries, while agents are only hired for clear purposes defined in mutual contracts (debt collection etc.).

There are no active legal proceedings against the companies over anti-competitive or competition-restrictive activities.

Measures

Under the Articles of Association of Latvijas Gāze, the company shall be represented by the Chairman of the Board or by at least two Members of the Board together. In the case of GASO, at least two Board members are required for representation.

The Articles of Association, the Regulations of the Council, and the Regulations of the Board specify the officials and institutions which, based on the contract price in the procurement, decide upon entering into contracts. In the process of

[3] Transparency International Corruption Perceptions Index 2017.
https://www.transparency.org/news/feature/corruption_perceptions_index_2017
[4] For further details see the Corporate governance report of Latvijas Gāze published on the company's website and on the NASDAQ Riga website together with the audited Annual report for the previous year, as well as the announcement of key events at the company published through the same channels.

negotiation of business contracts, there are always multiple persons involved. Regular and ad-hoc procurement commissions have been set up. Open tenders are published on the respective company’s website and in the system of the Procurement Supervision Bureau.

In 2018 GASO implements a Business Code of Conduct, which covers the commitments and requirements of GASO towards partners, and intends to revise the Ethical Code of Conduct to describe the requirements for employees. There is an assessment of corruption risks planned as well. Also in the works is the procedure of submission and review of natural gas consumers’ and employees’ complaints over corruptive situations specifically in respect of interaction between employees of GASO and final consumers. GASO has set up a division tasked with the prevention of corruption in communication with customers.

In 2017 there have been no complaints received over bribery at either company and no investigations launched over such activities or violations of competition law by the companies.

INDEPENDENT AUDITOR'S REPORT

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Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Latvijas Gāze

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the accompanying separate and consolidated financial statements set out on pages 16 to 58 of the accompanying Consolidated and Annual Report give a true and fair view of the separate and consolidated financial position of AS Latvijas Gāze (the Company) and its subsidiary (the Group) as at 31 December 2017, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The separate financial statements of the Company and the consolidated financial statements of the Group comprise:

- the separate and consolidated balance sheets as at 31 December 2017;
- the separate and consolidated statements of profit or loss for the year then ended;
- the separate and consolidated statements of comprehensive income for the year then ended;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated statements of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and the Group and their related entities are in accordance with the applicable law and regulations in Latvia and that we have not provided non-audit services that are prohibited under Article 37.[6] of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Company and its subsidiaries, in the period from 1 January 2017 to 31 December 2017, are disclosed in Note 27 to the separate and consolidated financial statements.

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Our audit approach

Overview

- Overall Company materiality: € 561 thousand.
- Overall Group materiality: € 1,145 thousand.

- We conducted audit work at two reporting units, both of them are in Latvia.
- Our audit scope covered 100% of the Group's revenues and 100% of the Group's total assets.

- Assessment whether the carrying value of property, plant and equipment is measured in accordance with IAS 16.

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

Materiality

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

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

Overall Company and Group materiality	Overall materiality applied to the Company was € 561 thousand and overall materiality applied to the Group was € 1,145 thousand.
How we determined it	5% of profit before tax from continuing operations of the Company and the Group, respectively.
Rationale for the materiality benchmark applied	We chose profit before tax as the base benchmark because, in our view, it is the benchmark against which the performance of the Company and the Group is most commonly measured by users of the financial statements, and it is a generally accepted benchmark. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented public interest entities in this sector.

* 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.

We agreed with the Audit Committee that we would report to them the misstatements identified during our audit above € 56 thousand, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Assessment whether the carrying value of property, plant and equipment (PPE) is measured in accordance with IAS 16 Buildings, constructions, equipment and machinery of the natural gas distribution segment are accounted for using the revaluation method, as described in Note 26. As at 31 December 2017 the respective assets are carried within property, plant and equipment of the Group in the amount of EUR 236,372 thousand (Note 10). The Group performs revaluations when there are indications that the fair value of assets can materially differ from their carrying amount. The management determines the fair value of buildings, constructions, equipment and machinery based on valuations performed by independent certified appraiser in accordance with real estate valuation standards, using the depreciated replacement cost model where the most significant input is the estimated acquisition or construction cost of the assets. On 1 June 2017 the Group performed the revaluation of property, plant and equipment related to natural gas distribution segment of the Company that was transferred to the wholly owned subsidiary AS GASO as a part of reorganisation on 1 December 2017. Revaluation was done based on the valuation performed by a certified independent appraiser and resulted in an increase of net carrying amount of the assets in the amount of EUR 10 099 thousand, as disclosed in Note 10. Due to the magnitude, complex calculations and related estimation uncertainty, valuation of property, plant and equipment of the natural gas distribution segment is considered a key audit matter.	Our audit procedures included, among others: • We engaged our internal experts knowledgeable in valuation matters, given the inherent subjectivity involved in the valuation of property, plant and equipment and the need for deep market knowledge and valuation expertise, for the purpose of reviewing appropriateness and consistency of methods and assumptions used by appraiser in the fair valuation of the relevant assets, and performing mark-to-market analysis of the construction prices used as inputs in the calculation. • We considered the expertise of the independent appraiser engaged by the Company, in respect of valuation of pipelines and similar structures. • We assessed the valuation methodology used by the independent appraiser to determine whether the valuation techniques used were in accordance with IFRS requirements. • On a sample basis we verified that appraiser was able to demonstrate supporting valuation documents for individual assets, including technical specifications, in light of available property-specific and market evidence. We found no material exceptions based on the procedures performed. We also read the disclosures provided in respect of inputs used in determining the fair values of property, plant and equipment and assessed if they comply with the requirements of relevant standards. We assessed the disclosures as sufficient taking into account the overall presentation of financial statements.

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How we tailored our Group audit scope

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

We are the statutory auditors of the Group's only subsidiary, AS GASO. For the purposes of the Group audit, we performed a full scope audit of the Company and AS GASO thus covering 100% of the Group's revenues and total assets.

Reporting on other information including the Management Report of the Company

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

- the Management Report of the Company and the Statement of the Responsibility of the Board of the Company as set out on pages 11 to 15 of the accompanying Consolidated and Annual Report,
- the Statement of Corporate Governance, set out in separate statement prepared by the Company's management and available on the Company's website http://www.lg.lv/ as at the date of this audit report,
- Information on the Composition of the Council and the Board of the Company, as set out on pages 3 to 4 of the accompanying Consolidated and Annual Report,
- Consolidated Non-financial Statement as set out on pages 59 to 75 of the accompanying Consolidated and Annual Report, and
- Other disclosed information including Summary Information on the Group, Information on Strategy and Objectives of the Group, Shares and Shareholders of the Company, as set out on pages 5 to 10 of the accompanying Consolidated and Annual Report,

(but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the separate and consolidated financial statements does not cover the other information identified above.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Management Report of the Company, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report of the Company is prepared in accordance with the requirements of the applicable legislation.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section two, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.2, section two, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

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

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report of the Company has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports; and
- the Statement of Corporate Governance, available on the Company's website http://www.lg.lv/ as at the date of this audit report, includes, in all material respects, the

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information in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section two, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in Article 56.2, section two, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report of the Company or other information identified above that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement, our responsibility is to report whether the Group has prepared the Consolidated Non-financial Statement and whether the Consolidated Non-financial Statement is included in the Management Report or prepared as a separate element of the Annual Report.

We hereby report that the Group has prepared a Consolidated Non-financial Statement, and it is prepared as a separate element of the Consolidated Annual Report.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting

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estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company and the Group for the audit of the financial statements for the year ended 31 December 1997. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 21 years. Our appointment for the year ended 31 December 2017 was by resolution of general meeting of shareholders dated 16 June 2017.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Member of the Board

Lolita Čapkeviča
Certified auditor in charge
Certificate No. 120

Riga, Latvia
25 April 2018

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