

**"LATVIJAS GĀZE" GROUP CONSOLIDATED AND JSC "LATVIJAS GĀZE"  
UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE 3-MONTHS PERIOD ENDED 31 MARCH 2018**

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

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## 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. (Luxembourg)



**Hans-Peter Floren,** 1961  
Member of the Council

Since 2018, Owner and Chief Executive Officer of FLORENGY 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 Хатков), 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"

## 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 Gröbblinghoff**, 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

## 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.

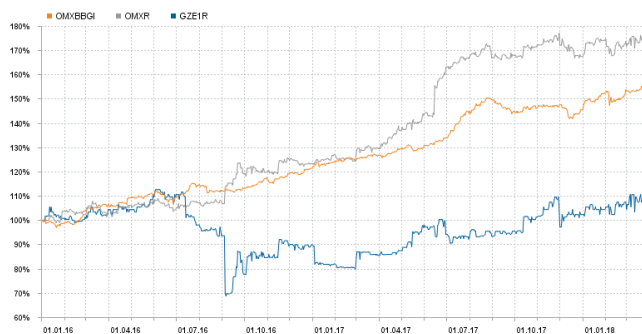
### COMPANY'S SHARE PRICE, OMX RIGA GI AND OMX BALTIC GI INDEX CHANGES (01.01.2016. – 31.03.2018.)

Ticker code	GZE1R
List	Second list
Nominal value	1,40 EUR
Total number of securities	39 900 000

Number of securities in public offering	25 328 520
Liquidity provider	None

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 one among companies listed on Nasdaq Riga and number 4 among companies listed on Nasdaq Baltic.

The Company's market capitalisation value in the first quarter of 2018 reached 426.93 million EUR –

93.37 million EUR more than in the 1st quarter of 2017.

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 2017 at a level of 10 EUR per share. In the first quarter of 2018 in line with market developments the share price exhibited a higher volatility but increased by 7% till 31st of March.

### SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2016.-31.03.2018.)

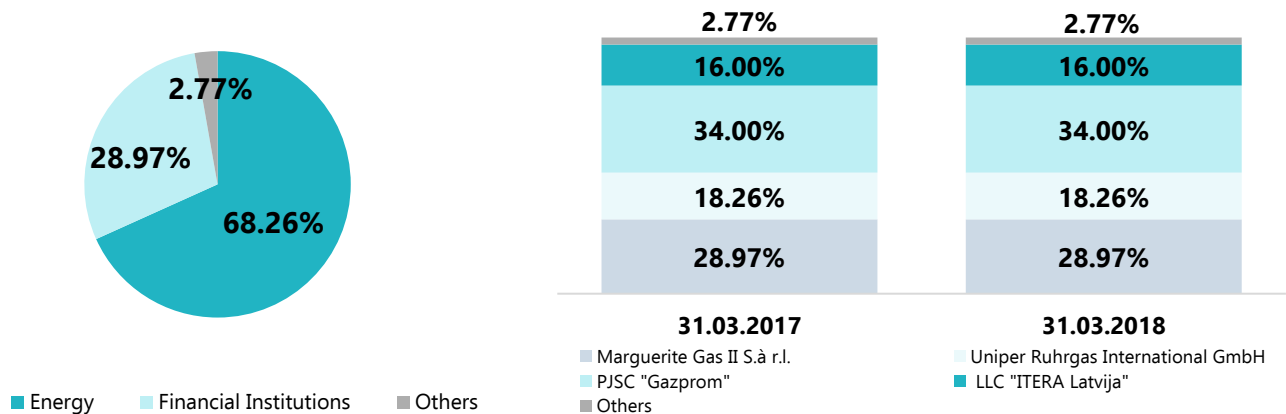


Source: Nasdaq Baltic

## INFORMATION ON SHARE TRANSACTIONS (2016 Q1 – 2018 Q1)

	2016 Q1	2017 Q1	2018 Q1
Share price (EUR)			
First	9.79	8.78	10.00
Highest	10.40	8.79	10.80
Lowest	9.65	7.76	9.90
Average	9.94	8.13	10.37
Last	10.20	8.36	10.70
Change (From First to Last share price)	4.19%	-4.78%	7.00%
Number of transactions	437	462	231
Number of shares traded	33,019	55,360	18,714
Turnover (million EUR)	0.328	0.450	0.193
Capitalization (million EUR)	406.98	333.56	426.93

## COMPOSITION OF SHAREHOLDERS AS AT 31.03.2018



## SHARES OWNED BY MEMBERS OF THE GOVERNING BODIES OF THE JSC "LATVIJAS GĀZE"

		At the date of signing financial statements
<b>Management Board</b>		<b>Number of shares</b>
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
<b>Council</b>		
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



## MANAGEMENT REPORT

The first quarter 2018 was the first full quarter with the new Latvijas Gāze group structure in place. In order to meet the requirements of the Energy Law, at the end of 2017 the JSC "Latvijas Gāze" spun-off its distribution business into the newly founded company JSC "Gasol". However, as a 100% subsidiary with its own and fully independent Board of Management and Council the JSC "Gasol" remains an essential part of the newly formed Latvijas Gāze group. Currently, the group consists of two operating segments:

**The natural gas sales & trading segment** comprises the purchase, trading and sale of natural gas. The business is operated by the JSC "Latvijas Gāze" (hereinafter also "Company") and 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. The JSC "Gasol" holds an exclusive license for the distribution of natural gas on the territory of Latvia. The license is valid until 6 December 2037. The JSC "Gasol" owns and operates all distribution assets necessary to provide the respective services to its more than 400 thousand customers.

### KEY FIGURES

In the first quarter of 2018, the JSC "Latvijas Gāze" sold 355 million m<sup>3</sup> (3,745 GWh) of natural gas to more than 400 thousand customers. However, lower natural gas demand in power generation, changed purchasing patterns of large customers driven by the free access to the Incukalna Underground Gas Storage, and the entry of new trading companies after market opening in 2017 led to a 30% lower sales volume in comparison to the same period in the previous year. Although net turnover in the first quarter of 2018 was lower than a year before, the

Company's EBITDA, EBIT and net profit margins increased.

The distribution segment is the largest segment in the Group by its asset value. At the end of the first quarter its assets were worth 246.4 million EUR and net turnover amounted to 21.5 million EUR (increased by 10% compared to the first quarter of 2017).

The trading segment has an asset value of 71.4 million EUR and is the largest segment from perspective of net turnover 78.3 million EUR (decreased by 28.3% compared to the first quarter of 2017).



**The Public Utilities Commission confirmed that the legal separation of the JSC "Gasol" complies with the requirements of the Energy Law**

The better financial results in comparison with the same period last year were mainly driven by higher commodity prices quoted at the major European gas hubs, a change in tariff structures for the usage of the natural gas transportation network after market opening in the second quarter of 2017 and new gas storage patterns. A significant part of the positive financial results accumulated in the group's natural gas sales & trading segment during the first quarter in 2018 is expected to be mitigated by considerable expenses for the usage of the natural gas transportation and storage infrastructure during the second and third quarter 2018.

Group`s key performance figures	2018 Q1	2017 Q1
Natural gas sales, million m <sup>3</sup>	355	510
Number of employees, average	990	959
Length of distribution lines, km	5 231	5 063

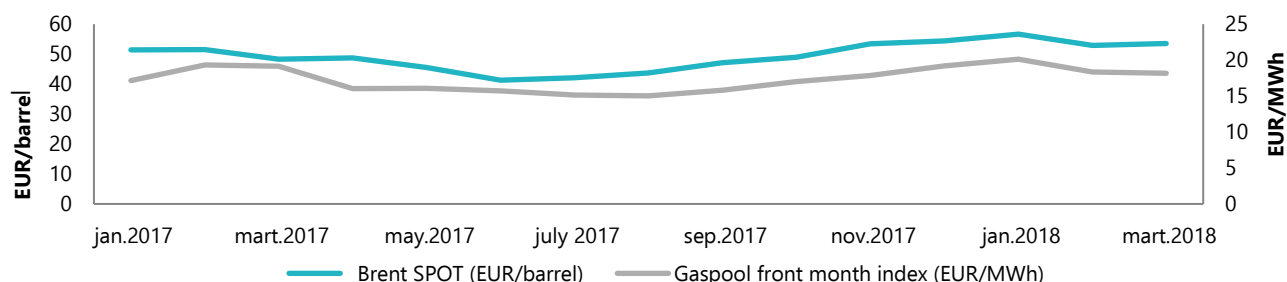
Group`s key financial figures	2018 Q1	2017 Q1 Restated
	EUR'000	EUR'000
Net turnover	99 841	128 804
EBITDA	23 398	17 630
EBITDA, %	23.5	13.7
EBIT	20 517	14 381
EBIT, %	20.6	11.2
Net profit	20 118	12 215
Net profit margin, %	20.2	9.5
Earnings per share, EUR	0.5	0.3
P/E	21.2	27.3

EBITDA - Earnings before Interest, Taxes, Depreciation and Amortisation

EBIT – Earnings before Interest and Taxes

P/E – Price per Earnings ratio

GASPOOL AND BRENT OIL SALE PRICES 01.01.2017-31.03.2018



## DESCRIPTION OF OPERATING ENVIRONMENT

- Although the Company faces an increasingly competitive market environment with new market players offering their products and services in the Latvian natural gas market Latvijas Gāze group reached a total sales quantity of 355 thousand m<sup>3</sup> (3,745 GWh) in the first quarter of 2018. 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 Inčukalna Underground Gas Storage.
- Sales volumes in the first quarter 2018 were positively influenced by lower than expected average temperatures.

- The natural gas purchase price is 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 was the key factor driving the natural gas purchase price during the winter months. In comparison to the first quarter of 2017 the GASPOOL price was slightly higher than in the respective period in 2018.
- On 5 February 2018 the JSC “Latvijas Gāze” became a “Market Maker” at the Latvian market area of the Baltic Gas Exchange. As market maker the JSC “Latvijas Gāze” undertakes the obligation to submit specific volume of buy and sell orders of natural gas products. JSC “Latvijas Gāze” acts as



market maker for the Day-ahead (D+1) product with a daily minimum order volume of 100 MWh. Increased trading activity at GET Baltic will open up new opportunities for all market participants, which finally also benefits customers. Apart from that that a strong regional gas exchange will also contribute to the general development of the sector as well as the Baltic region's economy.

- On 15 February the JSC "Gaso" handed in at the Public Utilities Commission (PUC) the necessary documents for a revision of the existing

distribution tariffs. The tariff was last adjusted in 2008.

- When assessing the separation of the JSC "Gaso" the Public Utilities Commission (PUC) confirmed that the unbundling of the distribution business complies with the requirements of the Energy Law and JSC "Gaso" is legally, structurally, functionally and operationally separated from JSC "Latvijas Gāze".

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## STATEMENT OF BOARD RESPONSIBILITY

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The Board of the Joint Stock Company "Latvijas Gāze" is responsible for the preparation of the "Latvijas Gāze" Group consolidated and the JSC "Latvijas Gāze" unaudited interim condensed financial statements for the 3-months period ended 31 March 2018 (further – Financial statements), which consist of the Company's and the Company's and its subsidiary (further - Group's) financial statements.

Financial statements for the 3-months period ended 31 March 2018 have been prepared in compliance

with the International Financial Reporting Standards adopted by the European Union.

According to the information available to the management of the Company, the 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. The principles of recognition and valuation of items observed in the preparation of financial information were the same as in the annual accounts.

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on May 29, 2018 and they are signed on behalf of the Board by:

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Aigars Kalvītis  
Chairman of the Board

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Sebastian Gröbblinghoff  
Deputy Chairman of the Board

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Elita Dreimane  
Member of the Board

## FINANCIAL STATEMENTS

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

## CORPORATE INFORMATION

<b>Company</b>	Latvijas Gāze, Joint Stock Company
<b>LEI code</b>	097900BGMO0000055872
<b>Registration number, place and date of registration</b>	Unified registration number 40003000642, Riga, March 25, 1991 re-registered in Commercial Register on December 20, 2004
<b>Address</b>	Vagonu street 20, Riga, LV-1009, Latvia
<b>Corporate management report and Non-financial report</b>	<a href="http://www.lg.lv">www.lg.lv</a>
<b>Major shareholders</b>	PAS Gazprom (34,0%) Marguerite Gas II.S.a.r.l. (28,97%) Uniper Ruhrgas International GmbH (18,26%) ITERA Latvija SIA (16,0%)
<b>Financial period</b>	January 1- March 31, 2018

## STATEMENT OF PROFIT AND LOSS

	Note	Group 2018	Group 2017 Restated	Company 2018	Company 2017 Restated
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue	2	99 841	128 804	79 824	109 290
Other income		928	944	439	594
Raw materials and consumables used	3	(68 154)	(104 484)	(67 670)	(103 236)
Personnel expenses	4	(6 523)	(4 489)	(1 187)	(680)
Depreciation, amortization and impairment of property, plant and equipment		(2 881)	(3 250)	(129)	(143)
Other operating expenses	5	(2 694)	(3 145)	(1 734)	(2 100)
<b>Operating profit</b>		<b>20 517</b>	<b>14 381</b>	<b>9 543</b>	<b>3 725</b>
Financial income		40	1	40	1
Financial expense		(431)	(2)	(368)	(2)
<b>Profit before taxes</b>		<b>20 125</b>	<b>14 379</b>	<b>9 215</b>	<b>3 724</b>
Corporate income tax		(7)	(2 164)	(7)	(561)
<b>Profit from continuing operations</b>		<b>20 118</b>	<b>12 215</b>	<b>9 208</b>	<b>3 163</b>
Profit from discontinued operations		-	-	-	9 052
<b>Profit for the period</b>		<b>20 118</b>	<b>12 215</b>	<b>9 208</b>	<b>12 215</b>

## STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	Group 2018	Group 2017 Restated	Company 2018	Company 2017 Restated
		EUR'000	EUR'000	EUR'000	EUR'000
<b>Profit for the period</b>		<b>20 118</b>	<b>12 215</b>	<b>9 208</b>	<b>12 215</b>
<b>Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods</b>					
Revaluation of property, plant and equipment	7	22	12	-	-
<b>Net income recognised as other comprehensive income from continuing operations</b>		<b>22</b>	<b>12</b>	<b>-</b>	<b>-</b>
<b>Net income from discontinued operations</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>9 052</b>
Revaluation of property, plant and equipment		-	-	-	12
<b>Total net income</b>		<b>22</b>	<b>12</b>	<b>-</b>	<b>9 064</b>
<b>Total comprehensive income for the period</b>		<b>20 140</b>	<b>12 227</b>	<b>9 208</b>	<b>21 279</b>

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on May 29, 2018 and they are signed on behalf of the Board by:

Aigars Kalvītis  
Chairman of the Board

Sebastian Gröbblinghoff  
Deputy Chairman of the Board

Elita Dreimane  
Member of the Board

## BALANCE SHEET

	Note	Group 31.03.2018	Group 31.12.2017	Company 31.03.2018	Company 31.12.2017
		EUR'000	EUR'000	EUR'000	EUR'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	6	4 238	3 990	1 423	1 219
Property, plant and equipment	7	240 278	242 476	876	926
Investment in subsidiary	8	-	-	194 534	194 534
Other debtors		7	7	7	7
<b>Total non-current assets</b>		<b>244 523</b>	<b>246 473</b>	<b>196 840</b>	<b>196 686</b>
<b>Current assets</b>					
Inventories	9	24 068	80 892	22 548	79 608
Advances for inventories		112	4 293	96	4 292
Trade receivables		44 412	36 033	42 714	35 259
Current income tax receivable		4 133	4 101	4 133	4 101
Other current assets		717	3 482	265	5 065
Cash and cash equivalents		96 163	24 817	75 187	21 558
<b>Total current assets</b>		<b>169 605</b>	<b>153 618</b>	<b>144 943</b>	<b>149 883</b>
<b>TOTAL ASSETS</b>		<b>414 128</b>	<b>400 091</b>	<b>341 783</b>	<b>346 569</b>

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on May 29, 2018 and they are signed on behalf of the Board by:

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

\_\_\_\_\_  
Sebastian Gröbblinghoff  
Deputy Chairman of the Board

\_\_\_\_\_  
Elita Dreimane  
Member of the Board

## BALANCE SHEET (continued)

	Note	Group 31.03.2018	Group 31.12.2017	Company 31.03.2018	Company 31.12.2017
		EUR'000	EUR'000	EUR'000	EUR'000
<b>LIABILITIES</b>					
<b>Equity</b>					
Share capital		55 860	55 860	55 860	55 860
Share premium		20 376	20 376	20 376	20 376
Reserves and previous years retained earnings		231 840	205 770	230 014	205 797
Current year's retained earnings		20 118	26 048	9 208	24 217
<b>Total equity</b>		<b>328 194</b>	<b>308 054</b>	<b>315 458</b>	<b>306 250</b>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings		32 375	32 375	-	-
Deferred income	10	18 823	18 918	-	-
Employee benefit obligations		3 273	3 246	279	279
<b>Total non-current liabilities</b>		<b>54 471</b>	<b>54 539</b>	<b>279</b>	<b>279</b>
<b>Current liabilities</b>					
Trade payables		4 431	1 393	10 062	13 338
Interest-bearing loans and borrowings		2 625	5 986	-	3 361
Deferred income	10	1 003	998	5	5
Corporate income tax		286	279	7	-
Other liabilities		23 118	28 842	15 972	23 336
<b>Total current liabilities</b>		<b>31 463</b>	<b>37 498</b>	<b>26 046</b>	<b>40 040</b>
<b>TOTAL LIABILITIES</b>		<b>414 128</b>	<b>400 091</b>	<b>341 783</b>	<b>346 569</b>

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on May 29, 2018 and they are signed on behalf of the Board by:

<hr/> Aigars Kalvītis Chairman of the Board	<hr/> Sebastian Gröbblinghoff Deputy Chairman of the Board	<hr/> Elita Dreimane Member of the Board
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## 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
<b>December 31, 2016</b>	<b>55 860</b>	<b>20 376</b>	<b>485 624</b>	<b>37 506</b>	<b>599 366</b>
Reserves of discontinued operations	-	-	(274 086)	-	(274 086)
<b>Transactions with owners:</b>					
Dividends	-	-	(35 112)	(37 107)	(72 219)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>(35 112)</b>	<b>(37 107)</b>	<b>(72 219)</b>
Transfers to reserves / reclassification	-	-	459	(399)	60
<b>Other comprehensive income:</b>					
Other comprehensive income	-	-	28 885	-	28 885
Profit for the year	-	-	-	26 048	26 048
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>28 885</b>	<b>26 048</b>	<b>54 933</b>
<b>December 31, 2017</b>	<b>55 860</b>	<b>20 376</b>	<b>205 770</b>	<b>26 048</b>	<b>308 054</b>
Transfers to reserves / reclassification	-	-	26 048	(26 048)	-
<b>Other comprehensive income:</b>					
Other comprehensive income	-	-	22	-	22
Profit for the year	-	-	-	20 118	20 118
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>20 118</b>	<b>20 140</b>
<b>March 31, 2018</b>	<b>55 860</b>	<b>20 376</b>	<b>231 840</b>	<b>20 118</b>	<b>328 194</b>

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on May 29, 2018 and they are signed on behalf of the Board by:

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

\_\_\_\_\_  
Sebastian Gröbblinghoff  
Deputy Chairman of the Board

\_\_\_\_\_  
Elita Dreimane  
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
<b>December 31, 2016</b>	<b>55 860</b>	<b>20 376</b>	<b>485 624</b>	<b>37 506</b>	<b>599 366</b>
Reserves of discontinued operations	-	-	(274 086)	-	(274 086)
<b>Transactions with owners:</b>					
Dividends	-	-	(35 112)	(37 107)	(72 219)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>(35 112)</b>	<b>(37 107)</b>	<b>(72 219)</b>
Transfers to reserves / reclassification	-	-	458	(399)	59
<b>Other comprehensive income:</b>					
Other comprehensive income	-	-	28 913	-	28 913
Profit for the year	-	-	-	24 217	24 217
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>28 913</b>	<b>24 217</b>	<b>53 130</b>
<b>December 31, 2017</b>	<b>55 860</b>	<b>20 376</b>	<b>205 797</b>	<b>24 217</b>	<b>306 250</b>
Transfers to reserves / reclassification	-	-	24 217	(24 217)	-
<b>Other comprehensive income:</b>					
Other comprehensive income	-	-	-	-	-
Profit for the year	-	-	-	9 208	9 208
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 208</b>	<b>9 208</b>
<b>March 31, 2018</b>	<b>55 860</b>	<b>20 376</b>	<b>230 014</b>	<b>9 208</b>	<b>315 458</b>

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on May 29, 2018 and they are signed on behalf of the Board by:

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Aigars Kalvītis  
Chairman of the Board

\_\_\_\_\_  
Sebastian Gröbblinghoff  
Deputy Chairman of the Board

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Elita Dreimane  
Member of the Board

## STATEMENT OF CASH FLOW

	Group 31.03.2018	Company 31.03.2018	Group and Company 31.03.2017
	EUR'000	EUR'000	EUR'000
<b>Cash flows from operating activities</b>			
<b>Profit before corporate income tax</b>	<b>20 125</b>	<b>9 215</b>	<b>14 379</b>
<i>Adjustments:</i>			
- depreciation of property, plant and equipment	2 525	60	3 051
- amortisation of intangible assets	356	69	199
- income from participating interests	-	-	(243)
- losses from long-term asset exclusions	12	-	-
- interest expenses	83	19	-
- proceeds from sale of property, plant and equipment	-	-	29
<i>Changes in operating assets and liabilities:</i>			
- in accounts receivable	(3 120)	(2 655)	(3 377)
- in advances for inventories	4 181	4 196	1 178
- in inventories	56 824	57 060	304
- in accounts payable	(5 245)	(10 639)	18 878
Corporate income tax paid	(32)	(32)	(1 817)
<b>Net cash (outflow) / inflow from operating activities</b>	<b>75 711</b>	<b>57 293</b>	<b>32 581</b>
<b>Cash flow from investing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
Payments for property, plant and equipment	(318)	(11)	(302)
Payments for intangible assets	(604)	(273)	(401)
Proceeds from sale of property, plant and equipment	1	-	14
<b>Net cash outflow from investing activities</b>	<b>(921)</b>	<b>(284)</b>	<b>(689)</b>
<b>Cash (outflow) / inflow from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest paid	(83)	(19)	-
Overdraft paid	(3 361)	(3 361)	-
Dividends paid	-	-	(35 112)
<b>Net cash (outflow) / inflow from financing activities</b>	<b>(3 444)</b>	<b>(3 380)</b>	<b>(35 112)</b>
<b>Net cash flow</b>	<b>71 346</b>	<b>53 629</b>	<b>(3 220)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>24 817</b>	<b>21 558</b>	<b>167 630</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>96 163</b>	<b>75 187</b>	<b>164 410</b>

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on May 29, 2018 and they are signed on behalf of the Board by:

Aigars Kalvītis  
Chairman of the Board

Sebastian Gröbblinghoff  
Deputy Chairman of the Board

Elita Dreimane  
Member of the Board

## NOTES TO FINANCIAL STATEMENTS

### 1. Segment information

Group 31.03.2018	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
<b>Total revenue:</b>	<b>21 528</b>	<b>78 313</b>	<b>99 841</b>
<i>including Latvia</i>	<i>21 528</i>	<i>69 180</i>	<i>90 708</i>
<i>Other countries</i>	<i>-</i>	<i>9 133</i>	<i>9 133</i>
<b>EBITDA</b>	<b>13 988</b>	<b>9 410</b>	<b>23 398</b>
Depreciation and amortisation	2 752	129	2 881
<b>Segment profit before taxes</b>	<b>11 172</b>	<b>8 953</b>	<b>20 125</b>
Purchase of property, plant and equipment and intangible assets	617	284	901
<b>Segment assets</b>	<b>246 468</b>	<b>71 497</b>	<b>317 965</b>

Company 31.03.2018	Gas trade	Total
	EUR'000	EUR'000
<b>Total revenue:</b>	<b>79 824</b>	<b>79 824</b>
<i>including Latvia</i>	<i>70 691</i>	<i>70 691</i>
<i>Other countries</i>	<i>9 133</i>	<i>9 133</i>
<b>EBITDA</b>	<b>9 672</b>	<b>9 672</b>
Depreciation and amortisation	129	129
<b>Segment profit before taxes</b>	<b>9 215</b>	<b>9 215</b>
Purchase of property, plant and equipment and intangible assets	284	284
<b>Segment assets</b>	<b>266 596</b>	<b>266 596</b>

Group and Company 31.03.2017	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
<b>Revenue from external customers</b>	<b>192</b>	<b>128 612</b>	<b>128 804</b>
<i>including Latvia</i>	<i>189</i>	<i>127 919</i>	<i>128 108</i>
<i>other countries</i>	<i>3</i>	<i>693</i>	<i>696</i>
Internal revenue/expenses	19 322	(19 322)	-
<b>Total revenue</b>	<b>19 514</b>	<b>109 290</b>	<b>128 804</b>
<b>EBITDA</b>	<b>13 762</b>	<b>3 868</b>	<b>17 630</b>
Depreciation and amortisation	3 107	143	3 250
<b>Segment profit before taxes</b>	<b>3 724</b>	<b>10 656</b>	<b>14 380</b>
Purchase of property, plant and equipment and intangible assets	589	121	710
<b>Segment assets 31.12.2017 (Group)</b>	<b>247 189</b>	<b>128 085</b>	<b>375 274</b>
<b>Segment assets 31.12.2017 (Company)</b>	<b>194 534</b>	<b>130 477</b>	<b>325 011</b>

## 1. Segment information (continued)

Segment information reconciliation	Group 31.03.2018	Group 31.12.2017	Company 31.03.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Segment assets	317 965	375 274	266 596	325 011
Cash and cash equivalents	96 163	24 817	75 187	21 558
<b>Total assets</b>	<b>414 128</b>	<b>400 091</b>	<b>341 783</b>	<b>346 569</b>

## 2. Revenue

	Group 2018	Group 2017 Restated*	Company 2018	Company 2017 Restated*
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas trade and distribution	99 676	128 614	79 823	109 289
Other revenue	165	190	1	1
	<b>99 841</b>	<b>128 804</b>	<b>79 824</b>	<b>109 290</b>

\*Corrections between lines in profit and loss in order to align the principles of recognition

## 3. Raw materials and consumables used

	Group 2018	Group 2017 Restated*	Company 2018	Company 2017 Restated*
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	67 801	104 048	67 660	103 229
Costs of materials, spare parts and fuel	353	436	10	7
	<b>68 154</b>	<b>104 484</b>	<b>67 670</b>	<b>103 236</b>

\*Corrections between lines in profit and loss in order to align the principles of recognition

## 4. Personnel expenses

	Group 2018	Group 2017	Company 2018	Company 2017
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	4 944	3 366	856	524
State social insurance contributions	1 183	793	207	120
Life, health and pension insurance	298	237	37	24
Other personnel costs	97	93	86	12
	<b>6 523</b>	<b>4 489</b>	<b>1 187</b>	<b>680</b>

## 5. Other operating expenses

	Group 2018	Group 2017 Restated	Company 2018	Company 2017 Restated
	EUR'000	EUR'000	EUR'000	EUR'000
Selling and advertising costs	1 072	1 330	1 060	1 300
Expenses for maintenance of premises and other services	314	415	122	36
Donations, financial support	9	18	-	8
Office and other administrative costs	466	692	245	364
Taxes and duties	235	362	139	313
Costs of IT system maintenance, communications and transport	330	217	130	70
Other costs	267	112	38	8
	<b>2 694</b>	<b>3 145</b>	<b>1 734</b>	<b>2 100</b>

## 6. Intangible assets

	Group 31.03.2018	Group 31.12.2017	Company 31.03.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Cost</b>				
<b>As at the beginning of period</b>	<b>13 888</b>	<b>11 306</b>	<b>1 294</b>	<b>11 306</b>
Additions	604	2 798	273	2 614
Disposals	-	(215)	-	(215)
Intangibles, transferred during reorganisation	-	-	-	(12 411)
<b>As at the end of period</b>	<b>14 492</b>	<b>13 889</b>	<b>1 567</b>	<b>1 294</b>
<b>Amortisation</b>				
<b>As at the beginning of period</b>	<b>9 899</b>	<b>9 124</b>	<b>75</b>	<b>9 124</b>
Amortisation	355	990	69	895
Disposals	-	(215)	-	(215)
Intangibles, transferred during reorganisation	-	-	-	(9 729)
<b>As at the end of period</b>	<b>10 254</b>	<b>9 899</b>	<b>144</b>	<b>75</b>
<b>Net book value as at the end of the period</b>	<b>4 238</b>	<b>3 990</b>	<b>1 423</b>	<b>1 219</b>

## 7. 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
<b>Cost or revalued amount</b>					
<b>31.12.2017</b>	<b>542 402</b>	<b>31 784</b>	<b>14 436</b>	<b>447</b>	<b>589 069</b>
Additions	44	4	166	104	<b>318</b>
Revaluated	22	-	-	-	<b>22</b>
Reclassified	161	35	9	(205)	-
Disposals	(38)	-	(77)	-	<b>(115)</b>
<b>31.03.2018</b>	<b>542 591</b>	<b>31 823</b>	<b>14 534</b>	<b>346</b>	<b>589 294</b>
<b>Depreciation</b>					
<b>31.12.2017</b>	<b>317 458</b>	<b>18 822</b>	<b>10 313</b>	-	<b>346 593</b>
Calculated	1 665	539	321	-	<b>2 525</b>
Disposals	(29)	-	(73)	-	<b>(102)</b>
<b>31.03.2018</b>	<b>319 094</b>	<b>19 361</b>	<b>10 561</b>	-	<b>349 016</b>
Net book value as of 31.03.2018	223 497	12 462	3 973	346	240 278
Net book value as of 31.12.2017	224 944	12 962	4 123	447	242 476

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
<b>Cost or revalued amount</b>					
<b>31.12.2017</b>	-	-	<b>1 198</b>	-	<b>1 198</b>
Additions	-	-	11	-	<b>11</b>
Disposals	-	-	(1)	-	<b>(1)</b>
<b>31.03.2018</b>	-	-	<b>1 208</b>	-	<b>1 208</b>
<b>Depreciation</b>					
<b>31.12.2017</b>	-	-	<b>272</b>	-	<b>272</b>
Calculated	-	-	60	-	<b>60</b>
<b>31.03.2018</b>	-	-	<b>332</b>	-	<b>332</b>
Net book value as of 31.03.2018	-	-	876	-	876
Net book value as of 31.12.2017	-	-	926	-	926



Group	Land, buildings, construc- tions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Cost or revalued amount</b>					
<b>31.12.2016</b>	<b>487 258</b>	<b>30 869</b>	<b>11 955</b>	<b>463</b>	<b>530 545</b>
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)
<b>31.12.2017</b>	<b>542 402</b>	<b>31 784</b>	<b>14 436</b>	<b>447</b>	<b>589 069</b>
<b>Depreciation</b>					
<b>31.12.2016</b>	<b>264 970</b>	<b>19 247</b>	<b>8 809</b>	<b>-</b>	<b>293 026</b>
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)
<b>31.12.2017</b>	<b>317 458</b>	<b>18 822</b>	<b>10 313</b>	<b>-</b>	<b>346 593</b>
Net book value as of 31.12.2017	224 944	12 962	4 123	447	242 476
Net book value as of 31.12.2016	222 288	11 622	3 146	463	237 519

Company	Land, buildings, construc- tions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Cost or revalued amount</b>					
<b>31.12.2016</b>	<b>487 258</b>	<b>30 869</b>	<b>11 955</b>	<b>463</b>	<b>530 545</b>
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	(542 715)	(31 724)	(13 158)	(1 076)	(588 673)
<b>31.12.2017</b>	<b>-</b>	<b>-</b>	<b>1 198</b>	<b>-</b>	<b>1 198</b>
<b>Depreciation</b>					
<b>31.12.2016</b>	<b>264 970</b>	<b>19 247</b>	<b>8 809</b>	<b>-</b>	<b>293 026</b>
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)
<b>31.12.2017</b>	<b>-</b>	<b>-</b>	<b>272</b>	<b>-</b>	<b>272</b>
Net book value as of 31.12.2017	-	-	926	-	926
Net book value as of 31.12.2016	222 288	11 622	3 146	463	237 519

## 8. Investment in subsidiary

	Company
	EUR'000
Invested during reorganisation 1.12.2017	194 534
Balance sheet value 31.03.2018	194 534

Shares held	31.03.2018
JSC "Gaso"	100 %

	Subsidiary's equity 31.03.2018	Subsidiary's equity 31.12.2017	Subsidiary's profit 31.03.2018
	EUR'000	EUR'000	EUR'000
JSC "Gaso"	207 270	196 338	10 910

## 9. Inventories

	Group 31.03.2018	Group 31.12.2017	Company 31.03.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	22 548	79 608	22 548	79 608
Materials and spare parts	1 593	1 357	-	-
Allowance for slow-moving inventory	(73)	(73)	-	-
	24 068	80 892	22 548	79 608

## 10. Deferred income

	Group 31.03.2018	Group 31.12.2017	Company 31.03.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Income from residential and corporate customers' contributions to construction of gas pipelines:</b>				
Long-term part	18 823	18 918	-	-
Short-term part	1 003	998	5	5
	19 826	19 916	5	5

## Changes of deferred income

	Group 31.03.2018	Group 31.12.2017	Company 31.03.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Balance at the beginning of the year</b>	<b>19 916</b>	<b>20 169</b>	<b>5</b>	<b>20 169</b>
Received from residential and corporate customers during reporting year	159	726	-	658
Included in income of reporting year	(249)	(979)	-	(896)
Transferred during reorganisation	-	-	-	(19 926)
<b>Total transfer to next years</b>	<b>19 826</b>	<b>19 916</b>	<b>5</b>	<b>5</b>

## 11. Other liabilities

	Group 31.03.2018	Group 31.12.2017	Company 31.03.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Prepayments received	9 590	14 198	9 590	14 198
Value added tax	5 214	4 500	3 894	3 495
Accrued costs	4 414	6 268	886	3 789
Excise tax	1 189	1 267	1 193	1 267
Vacation pay reserve	1 151	953	168	168
Salaries	716	776	139	202
Social security contributions	420	482	53	100
Personnel income tax	215	310	39	91
Property tax	132	-	-	-
Other current liabilities	-	5	-	5
Natural resource tax	77	83	10	21
	<b>23 119</b>	<b>28 842</b>	<b>15 972</b>	<b>23 336</b>

## 12. 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 3 months period ended 31 March 2018 Statement of Profit or Loss and Balance Sheet, the reclassification is made in comparative figures for 2017:

### Application of IFRS 5

In the financial statements of the Company 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.

### Revenue recognition

The Management Board of the Company has performed evaluation and considers that regarding natural gas transmission and distribution, which are included in the invoices issued to the customers, the Company acts as an agent not as a 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 the same regulated tariffs. The Company, as a natural gas trader, does not have an option to

control the absolute level 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.

#### 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 2018, and have impact on the operations of the Company and the Group and these financial statements:

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 Company and the Group adopted the IFRS 9 "Financial instruments" 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.

Adoption of new standard had had an impact to the financial result of the Company and the Group by increase of provisions for doubtful debts and related expenses by 206 thousand EUR as at March 31, 2018.

#### 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. Revaluation reserve is depreciated to retained earnings during useful life of related asset.

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

	years
Buildings	20 - 100
Constructions, including gas 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 its 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 "Gasol" 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 the income statement of the same year. Expenses arising from post employment benefits are included in the 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 recognised in profit or loss in the period in which they are incurred.

The capitalization of borrowing costs occurs only when the 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.

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%.

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 20 percent from of the calculated taxable base, which, before applying the tax rate, is divided by a factor of 0.8.

#### 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

In 2017 the Company had launched the second round of the reorganisation and in December it transferred the natural gas distribution business to the newly established JSC Gaso.

## Subsequent events

Since March 31, 2018 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.