

**"LATVIJAS GĀZE" GROUP CONSOLIDATED AND JSC "LATVIJAS GĀZE"
UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 6-MONTHS PERIOD ENDED 30 JUNE 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, 2018 till August 15, 2021)



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



Deniss Jemeljanovs, 1979
Vice-Chairman of the Board

Gubkin Russian State University of
Oil and Gas, Faculty of Economics
and Management –
Economist - manager; Economics
and oil and gas enterprises
management



Elita Dreimane, 1968
Member of the Board

University of Latvia Faculty of Law -
Master's Degree of Social Sciences in
Law

Member of the Board – term office till 15 August, 2018: Alexander Frolov

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.

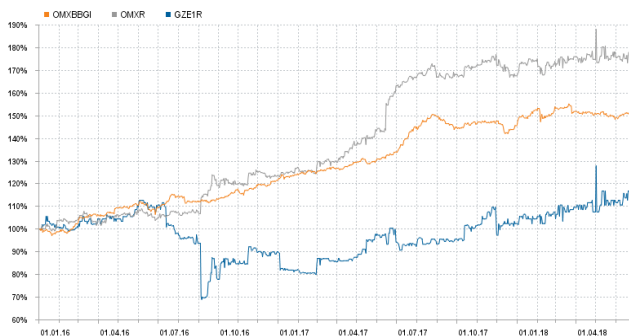
COMPANY'S SHARE PRICE, OMX RIGA GI AND OMX BALTIC GI INDEX CHANGES (01.01.2016. – 31.06.2018.)

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 four geographical indexes - OMXBGI, OMXBPI, OMXRGI, OMXBBCAPGI.



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 capitalization, the JSC "Latvijas Gāze" ranked number one among

companies listed on Nasdaq Baltic Secondary List and number 5 among all companies listed on Nasdaq Baltic Regulated market.

The market capitalization value of the JSC "Latvijas Gāze" in the first half of 2018 reached 458.85 million EUR, which is 91.77 million EUR more than in the 1st half of 2017. The Company's share price rose by 15% during the first six months of the year. Starting from July 2, the JSC "Latvijas Gāze" is included in the OMX Baltic Benchmark. The OMX Baltic Benchmark is a Baltic-level index and its portfolio represents the largest and most actively traded companies that represent all sectors of Nasdaq's listed companies in the Baltic market.

SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2016.-30.06.2018.)

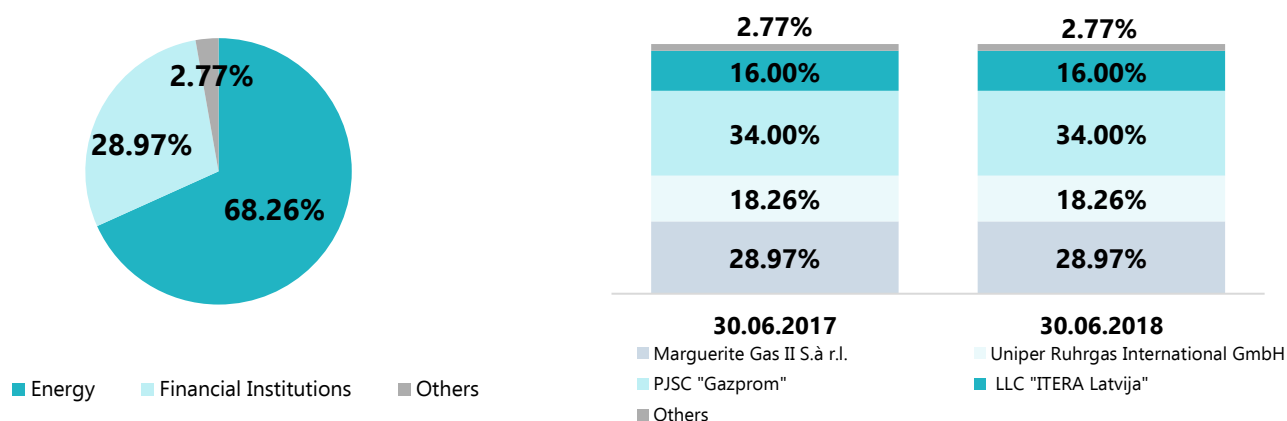


Source: Nasdaq Baltic

INFORMATION ON SHARE TRANSACTIONS (2016 Q2 – 2018 Q2)

	2016 Q2	2017 Q2	2018 Q2
Share price (EUR)			
First	9.79	8.78	10.00
Highest	11.10	9.82	13.00
Lowest	9.65	7.76	9.90
Average	10.19	8.57	10.67
Last	10.70	9.2	11.50
Change (From First to Last share price)	9.3%	4.78%	15.00%
Number of transactions	792	875	413
Number of shares traded	70,832	110,313	33,203
Turnover (million EUR)	0.725	0.954	0.352
Capitalization (million EUR)	426.93	367.08	458.85

COMPOSITION OF SHAREHOLDERS AS AT 30.06.2018



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	Deniss Jemeljanovs	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

MANAGEMENT REPORT

Latvijas Gāze group currently 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 six months of 2018, the JSC "Latvijas Gāze" sold 499 million m³ (5,257 GWh) of natural gas to more than 400 thousand customers. However, the entry of new trading companies after market opening in 2017 and changed purchasing patterns of large customers driven by the free access to the Incukalna Underground Gas Storage, led to a more than 32% lower sales volume in comparison to the same period in the previous year. Although net turnover in the first half 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 six-month period, its assets were worth 243.8 million EUR and net turnover amounted to 28.8 million EUR (increased by 0.4% compared to the first half of 2017).

The trading segment has an asset value of 61.3 million EUR and is the largest segment from perspective of net turnover 111.2 million EUR (decreased by 29.0% compared to the same period in 2017).



Despite an increase in competition the JSC "Latvijas Gāze" during May and June successfully managed to prolong existing sales contracts with a number of key customers.

Higher commodity prices quoted at the major European natural gas hubs, positive effects from the Company's newly established hedging activities, as well as gains from portfolio optimization activities were the key drivers behind the better financial results in comparison with the same period last year. During June higher than expected sales to the power generation segment additionally contributed to the group's strong six months financial result. However during the second half of the year, higher expenses and the further increase of competition in the market might mitigate parts of the positive financial results accumulated in the group's sales & trading segment during the first six months of 2018.

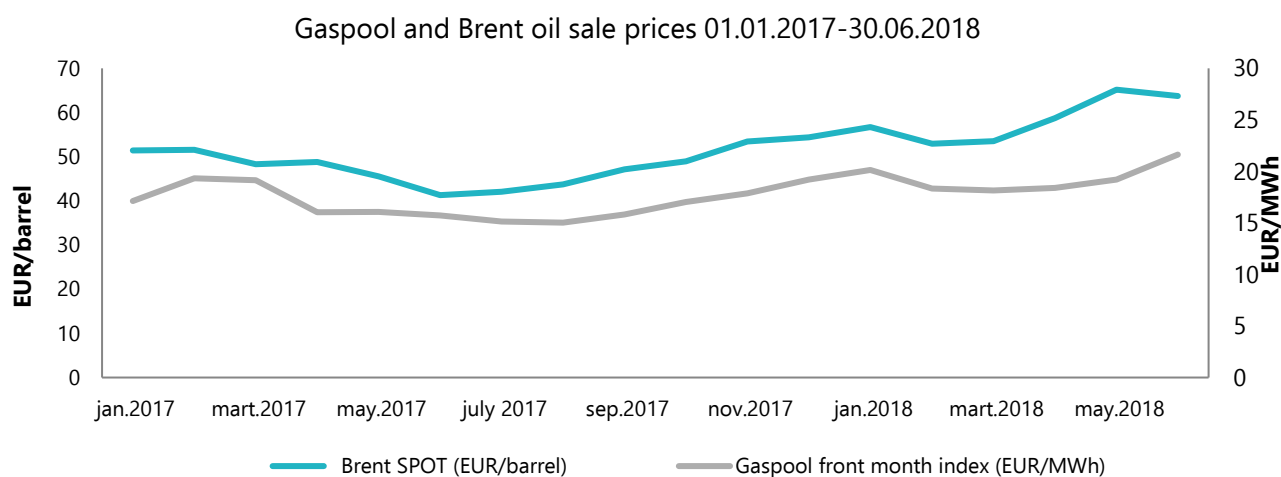
Group's key performance figures	2018 H1	2017 H1
Natural gas sales, million m ³ (GWh)	499 (5 257)	737 (7 752)
Number of employees, average	996	963
Length of distribution lines, km	5 236	5 066

Group's key financial figures	2018 H1	2017 H1
	EUR'000	EUR'000
Net turnover	139 978	185 253
EBITDA	28 100	23 977
EBITDA, %	20.1	12.9
EBIT	22 316	17 423
EBIT, %	15.9	9.4
Net profit	21 768	14 140
Net profit margin, %	15.6	7.6
Earnings per share, EUR	0.5	0.4
P/E	21.1	26.0

EBITDA - Earnings before Interest, Taxes, Depreciation and Amortisation

EBIT – Earnings before Interest and Taxes

P/E – Price per Earnings ratio



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 499 million m³ (5,257 GWh) in the first half of 2018. 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.
- 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 first months of the year. In comparison with the same period in 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. The 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 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,

FINANCIAL RISK MANAGEMENT

The JSC "Latvijas Gāze" is exposed to credit, liquidity as well as market and commodity risks.

As in previous periods, Latvijas Gāze faced a high customer concentration risk with only a few customers accounting for a significant share of overall sales volumes. To mitigate credit default risks major customers are subject to individual credit risk management policies, which include a number of practices, such as an evaluation of credit limits, a detailed supervision of financial figures, and frequent billing cycles to avoid the accumulation of debt. For transactions with smaller customers Latvijas Gāze group has put in place detailed policies and processes that ensure the continuous monitoring of incoming customer payments and trigger respective customer communication and follow-up actions in case of arising credit issues.

The group's liquidity risk mainly stems from the distinct seasonality of the natural gas business. To ensure security of supply for the winter months the Company usually injects significant gas quantities into the Inčukalna Underground Gas Storage ("IUGS") during the injection season starting in early summer. While the Company needs to

functionally and operationally separated from JSC "Latvijas Gāze".

- Despite increasing competition in the market the JSC "Latvijas Gāze" during May and June successfully managed to prolong existing sales contracts with a number of key customers. The term of delivery for most of the contracts extends into the year 2019.
- Due to higher than expected demand driven by low water levels in the river Daugava, the JSC "Latvijas Gāze" sold more natural gas than expected to the power generation segment during June.

ensure the availability of respective cash reserves to finance the injection of natural gas into the storage during the summer months, customers will typically consume and subsequently pay most of the gas only during the winter period. To actively monitor and manage the liquidity risk the Company continuously improves its internal cash planning tools and instruments. 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 agreement does not expose Latvijas Gāze to substantial interest or market risks and was secured via a public procurement.

In comparison to previous years the natural gas sales & trading segment is exposed to more market and commodity price risks. Particularly the greater variety of pricing structures now requested by customers have created new risk positions. To actively manage and mitigate these risks, the Company successfully established an advanced market & commodity risk management during the first six months of the year. Although internal market risk mitigation e.g. through negotiating supply agreement terms and working with the

sales portfolio are the preferred risk mitigation options, the Company also has put in place the

FUTURE PROSPECTS

In the first six months of the year, competition on the supply side further intensified. Also during the second half of 2018 the general market environment is expected to remain challenging for Latvijas Gāze group. 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 the second half of the year the Company started to intensify its activities to get a foothold

necessary infrastructure to engage in financial hedging transactions.

in the Estonian and Lithuanian market. To improve the future effectiveness and efficiency of its billing processes as well as to increase customer satisfaction the sales & trading segment continues with the implementation of a new billing system. Latvijas Gāze group remains fully committed to retaining its position as the most reliable natural gas supplier in Latvia and actively works towards expanding its activities in the Baltic region.

TRANSACTIONS WITH RELATED PARTIES

The JSC "Latvijas Gāze" is party to a long-term natural gas sales and purchase agreement ("the Agreement") with the PJSC "Gazprom". Under the Agreement the Company is obliged to buy a defined annual quantity based on take-or-pay terms. In case Latvijas Gāze fails to offtake the defined minimum quantities, it may incur financial

and legal obligations. The PJSC "Gazprom" holds 34% of the shares in the JSC "Latvijas Gāze".

SUBSEQUENT EVENTS

This section refers to major business transactions or events that occurred after the end of the reporting period on 30 June 2018. At the beginning of August, Latvijas Gāze agreed with the Latvian branch of OP Corporate Bank plc to increase the credit line under the existing overdraft agreement signed on September 22 2017 from 35 million Euro to 55 million Euro. All others terms and conditions of the overdraft

agreement remain in place. The agreement expires in March 2019. The closed transaction strengthens the overall liquidity of the Company and enables the implementation of a more advanced portfolio optimization strategy.

In August, the JSC "Latvijas Gāze" and the PJSC "Gazprom" signed amendments to the existing long-term gas sales and purchase agreement.

STATEMENT OF BOARD RESPONSIBILITY

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 6-months period ended 30 June 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 6-months period ended 30 June 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 August 28, 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

FINANCIAL STATEMENTS

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

CORPORATE INFORMATION

Company	Latvijas Gāze, Joint Stock Company
LEI code	097900BGMO0000055872
Registration number, place and date of registration	Unified registration number 40003000642, Riga, March 25, 1991 re-registered in Commercial Register on December 20, 2004
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 II.S.a.r.l. (28,97%) Uniper Ruhrgas International GmbH (18,26%) ITERA Latvija SIA (16,0%)
Financial period	January 1- June 30, 2018

STATEMENT OF PROFIT AND LOSS

	Note	Group 01.01.- 30.06.2018	Group 01.01.- 30.06.2017 Restated	Company 01.01.- 30.06.2018	Company 01.01.- 30.06.2017 Restated
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue	2	139 978	185 253	113 168	156 570
Other income		2 378	1 857	1 344	1 247
Raw materials and consumables used	3	(97 463)	(149 029)	(96 631)	(146 914)
Personnel expenses	4	(12 431)	(8 976)	(2 305)	1 351
Depreciation, amortisation and impairment of property, plant and equipment		(5 784)	(6 554)	(268)	(297)
Other operating expenses	5	(4 363)	(5 128)	(2 597)	(3 205)
Operating profit		22 316	17 423	12 711	6 051
Dividends received from subsidiary		-	-	1 796	-
Financial income		40	40	40	40
Financial expense		(512)	(802)	(385)	(802)
Profit before taxes		21 843	16 660	14 162	5 288
Corporate income tax		(76)	(2 520)	-	(800)
Profit from continuing operations		21 768	14 140	14 162	4 488
Profit from discontinued operations		-	-	-	9 651
Profit for the year		21 768	14 140	14 162	14 140

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	Group 01.01.- 30.06.2018	Group 01.01.- 30.06.2017 Restated	Company 01.01.- 30.06.2018	Company 01.01.- 30.06.2017 Restated
		EUR'000	EUR'000	EUR'000	EUR'000
Profit for the year		21 768	14 140	14 162	4 488
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods					
Revaluation of property, plant and equipment	7	24	42	-	-
Net income recognised as other comprehensive income from continuing operations		24	42	-	-
Net income from discontinued operations		-	-	-	9 651
Revaluation of property, plant and equipment		-	-	-	42
Total net income		24	42	-	9 693
Total comprehensive income for the period		21 792	14 182	14 162	14 182

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on August 28, 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 30.06.2018	Group 31.12.2017	Company 30.06.2018	Company 31.12.2017
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets	6	4 240	3 990	1 458	1 219
Property, plant and equipment	7	238 804	242 476	833	926
Investment in subsidiary	8	-	-	194 534	194 534
Other debtors		7	7	7	7
Total non-current assets		243 051	246 473	196 832	196 686
Current assets					
Inventories	9	11 735	80 892	10 089	79 608
Advances for inventories		22 873	4 293	22 872	4 292
Trade receivables		21 864	36 033	21 193	35 259
Income tax receivable		4 164	4 101	4 164	4 101
Other current assets		1 454	3 482	913	5 065
Cash and cash equivalents		102 921	24 817	81 742	21 558
Total current assets		165 011	153 618	140 973	149 883
TOTAL ASSETS		408 062	400 091	337 805	346 569

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Aigars Kalvītis
Chairman of the Board

Sebastian Gröbblinghoff
Deputy Chairman of the Board

Elita Dreimane
Member of the Board

BALANCE SHEET (continued)

Note	Group 30.06.2018	Group 31.12.2017	Company 30.06.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
LIABILITIES				
Equity				
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	213 886	205 770	212 059	205 797
Current year's retained earnings	21 768	26 048	14 162	24 217
Total equity	311 890	308 054	302 457	306 250
Non-current liabilities				
Interest-bearing loans and borrowings	30 625	32 375	-	-
Deferred income	18 663	18 918	-	-
Employee benefit obligations	3 300	3 246	279	279
Total non-current liabilities	52 588	54 539	279	279
Current liabilities				
Trade payables	3 606	1 393	4 122	13 338
Interest-bearing loans and borrowings	3 500	5 986	-	3 361
Deferred income	1 006	998	5	5
Dividends unpaid	17 955	-	17 955	-
Corporate income tax	46	279	-	-
Other liabilities	17 471	28 842	12 987	23 336
Total current liabilities	43 584	37 498	35 069	40 040
TOTAL LIABILITIES	408 062	400 091	337 805	346 569

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Aigars Kalvītis
Chairman of the Board

Sebastian Gröbblinghoff
Deputy Chairman of the Board

Elita Dreimane
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, 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
Transfers to reserves / reclassification	-	-	26 048	(26 048)	-
Transactions with owners:					
Transferred to unpaid dividend	-	-	(17 955)	-	(17 955)
Other comprehensive income:					
Other comprehensive income	-	-	24	-	24
Profit for the year	-	-	-	21 768	21 768
Total comprehensive income	-	-	24	21 768	21 792
June 30, 2018	55 860	20 376	213 887	21 768	311 891

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on August 28, 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
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	-	-	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
Transfers to reserves / reclassification	-	-	24 217	(24 217)	-
Transactions with owners:					
Transferred to unpaid dividend	-	-	(17 955)	-	(17 955)
Other comprehensive income:					
Other comprehensive income	-	-	-	-	-
Profit for the year	-	-	-	14 162	14 162
Total comprehensive income	-	-	-	14 162	14 162
June 30, 2018	55 860	20 376	212 059	14 162	302 457

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on August 28, 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

STATEMENT OF CASH FLOW

	Group 30.06.2018	Company 30.06.2018	Group and Company 30.06.2017
	EUR'000	EUR'000	EUR'000
Cash flows from operating activities			
Profit before corporate income tax	21 843	14 162	16 660
<i>Adjustments:</i>			
- depreciation of property, plant and equipment	5 037	121	6 123
- amortisation of intangible assets	747	148	433
- movement in provisions	-	-	(2 810)
- income from participating interests	-	(1 796)	(487)
- losses from long-term asset exclusions	18	-	-
- interest expenses	164	37	-
- proceeds from sale of property, plant and equipment	-	-	24
<i>Changes in operating assets and liabilities:</i>			
- in accounts receivable	23 923	18 218	6 641
- in advances for inventories	(18 580)	(18 580)	1 219
- in inventories	69 157	69 519	(34 854)
- in accounts payable	(17 308)	(19 564)	(1 998)
Corporate income tax paid	(63)	(63)	(3 634)
Net cash (outflow) / inflow from operating activities	84 938	62 202	(12 683)
Cash flow from investing activities			
Payments for property, plant and equipment	(1 375)	(42)	(1 697)
Payments for intangible assets	(998)	(387)	(818)
Proceeds from sale of property, plant and equipment	2	-	42
Net cash outflow from investing activities	(2 371)	(429)	(2 473)
Cash (outflow) / inflow from financing activities			
Interest paid	(164)	(37)	-
Overdraft paid	(3 361)	(3 361)	-
Paid loans	(875)	-	-
Dividends received	-	1 796	-
Dividends paid	-	-	(35 112)
Net cash (outflow) / inflow from financing activities	(4 400)	(1 602)	(35 112)
Net cash flow	78 167	60 171	(50 268)
Cash and cash equivalents at the beginning of the reporting period	24 817	21 558	167 630
Cash and cash equivalents at the end of the reporting period	102 984	81 729	117 362

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on August 28, 2018 and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Sebastian Gröblinghoff
Deputy Chairman of the Board

Elita Dreimane
Member of the Board

NOTES TO FINANCIAL STATEMENTS

1. Segment information

Group 30.06.2018	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
Total revenue:	28 789	111 189	139 978
<i>including Latvia</i>	<i>28 789</i>	<i>102 051</i>	<i>130 840</i>
<i>Other countries</i>	<i>-</i>	<i>9 138</i>	<i>9 138</i>
EBITDA	15 755	12 345	28 100
Depreciation and amortisation	5 516	268	5 784
Segment profit before taxes	10 112	11 731	21 843
Purchase of property, plant and equipment and intangible assets	1 944	429	2 373
Segment assets	243 809	61 331	305 141

Company 30.06.2018	Gas trade	Total
	EUR'000	EUR'000
Total revenue:	113 168	113 168
<i>including Latvia</i>	<i>104 030</i>	<i>104 030</i>
<i>Other countries</i>	<i>9 138</i>	<i>9 138</i>
EBITDA	14 775	14 775
Depreciation and amortisation	268	268
Segment profit before taxes	14 162	14 162
Purchase of property, plant and equipment and intangible assets	429	429
Segment assets	256 063	256 063

Group and Company 30.06.2017	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
Revenue from external customers	615	184 638	185 253
<i>including Latvia</i>	<i>615</i>	<i>183 585</i>	<i>184 199</i>
<i>other countries</i>	<i>-</i>	<i>1 053</i>	<i>1 053</i>
Internal revenue/expenses	8 067	(28 067)	-
Total revenue	28 682	570	185 253
EBITDA	17 629	6 348	23 977
Depreciation and amortisation	6 258	297	6 554
Segment profit before taxes	5 288	11 372	16 660
Purchase of property, plant and equipment and intangible assets	1 875	117	1 992
Segment assets 31.12.2017 (Group)	247 189	128 085	375 274
Segment assets 31.12.2017 (Company)	194 534	130 477	325 011

1. Segment information (continued)

Segment information reconciliation	Group 30.06.2018	Group 31.12.2017	Company 30.06.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Segment assets	305 141	375 274	256 063	325 011
Cash and cash equivalents	102 921	24 817	81 742	21 558
Total assets	408 062	400 091	337 805	346 569

2. Revenue

	Group 01.01.- 30.06.2018	Group 01.01.- 30.06.2017 Restated*	Company 01.01.- 30.06.2018	Company 01.01.- 30.06.2017 Restated*
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas trade and distribution	139 588	184 817	113 167	156 568
Other revenue	390	436	1	2
	139 978	185 253	113 168	156 570

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

3. Raw materials and consumables used

	Group 01.01.- 30.06.2018	Group 01.01.- 30.06.2017 Restated*	Company 01.01.- 30.06.2018	Company 01.01.- 30.06.2017 Restated*
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	96 804	147 994	96 607	146 683
		1		
Costs of materials, spare parts and fuel	659	035	24	231
	97 463	149 029	96 631	146 914

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

4. Personnel expenses

	Group 01.01.- 30.06.2018	Group 01.01.- 30.06.2017	Company 01.01.- 30.06.2018	Company 01.01.- 30.06.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	9 384	6 882	1 716	1 055
State social insurance contributions	2 243	1 600	400	239
Life, health and pension insurance	604	381	77	37
Other personnel costs	200	113	112	20
	12 431	8 976	2 305	1 351

5. Other operating expenses

	Group 01.01.- 30.06.2018	Group 01.01.- 30.06.2017 Restated	Company 01.01.- 30.06.2018	Company 01.01.- 30.06.2017 Restated
	EUR'000	EUR'000	EUR'000	EUR'000
Selling and advertising costs	1 126	1 744	1 071	1 681
Expenses for maintenance of premises and other services	652	769	241	56
Donations, financial support	38	288	1	261
Office and other administrative costs	853	1 092	497	564
Taxes and duties	613	611	412	515
Costs of IT system maintenance, communications and transport	696	458	295	118
Other costs	385	166	80	10
	4 363	5 128	2 597	3 205

6. Intangible assets

	Group 30.06.2018	Group 31.12.2017	Company 30.06.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
As at the beginning of period	13 888	11 306	1 294	11 306
Additions	998	2 798	387	2 614
Disposals	(393)	(215)	-	(215)
Intangibles, transferred during reorganisation	-	-	-	(12 411)
As at the end of period	14 493	13 889	1 681	1 294
Amortisation				
As at the beginning of period	9 899	9 124	75	9 124
Amortisation	747	990	148	895
Disposals	(393)	(215)	-	(215)
Intangibles, transferred during reorganisation	-	-	-	(9 729)
As at the end of period	10 253	9 899	223	75
Net book value as at the end of the period	4 240	3 990	1 458	1 219

7. Property, plant and equipment

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
Cost or revalued amount					
31.12.2017	542 402	31 784	14 436	447	589 069
Additions	61	61	363	891	1 376
Revaluated	24	-	-	-	24
Reclassified	302	102	10	(414)	-
Disposals	(62)	(37)	(141)	-	(240)
30.06.2018	542 727	31 910	14 668	924	590 229
Depreciation					
31.12.2017	317 458	18 822	10 313	-	346 593
Calculated	3 330	1 073	634	-	5 037
Disposals	(45)	(38)	(122)	-	(205)
30.06.2018	320 743	19 857	10 825	-	351 425
Net book value as of 30.06.2018	221 984	12 053	3 843	924	238 804
Net book value as of 31.12.2017	224 944	12 962	4 123	447	242 476

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
Cost or revalued amount					
31.12.2017	-	-	1 198	-	1 198
Additions	-	-	43	-	43
Disposals	-	-	(28)	-	(28)
30.06.2018	-	-	1 213	-	1 213
Depreciation					
31.12.2017	-	-	272	-	272
Calculated	-	-	121	-	121
Disposals	-	-	(13)	-	(13)
30.06.2018	-	-	380	-	380
Net book value as of 30.06.2018	-	-	833	-	833
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
Cost or revalued amount					
31.12.2016	487 258	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	542 402	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	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
Cost or revalued amount					
31.12.2016	487 258	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	(542 715)	(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	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 30.06.2018	194 534

Shares held	30.06.2018
JSC "Gaso"	100 %

	Subsidiary's equity 30.06.2018	Subsidiary's equity 31.12.2017	Subsidiary's profit 30.06.2018
	EUR'000	EUR'000	EUR'000
JSC "Gaso"	203 967	196 338	9 401

9. Inventories

	Group 30.06.2018	Group 31.12.2017	Company 30.06.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	10 089	79 608	10 089	79 608
Materials and spare parts	1 715	1 357	-	-
Allowance for slow-moving inventory	(69)	(73)	-	-
	11 735	80 892	10 089	79 608

10. Deferred income

	Group 30.06.2018	Group 31.12.2017	Company 30.06.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Income from residential and corporate customers' contributions to construction of gas pipelines:				
Long-term part	18 663	18 918	-	-
Short-term part	1 006	998	5	5
	19 669	19 916	5	5

Changes of deferred income

	Group 30.06.2018	Group 31.12.2017	Company 30.06.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Balance at the beginning of the year	19 916	20 169	5	20 169
Received from residential and corporate customers during reporting year	252	726	-	658
Included in income of reporting year	(499)	(979)	-	(896)
Transferred during reorganisation	-	-	-	(19 926)
Total transfer to next years	19 669	19 916	5	5

11. Other liabilities

	Group 30.06.2018	Group 31.12.2017	Company 30.06.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Prepayments received	8 316	14 198	8 316	14 198
Value added tax	3 500	4 500	3 197	3 495
Accrued costs	1 648	6 268	328	3 789
Excise tax	253	1 267	251	1 267
Vacation pay reserve	1 251	953	168	168
Salaries	243	776	140	202
Social security contributions	1 254	482	314	100
Personnel income tax	754	310	234	91
Property tax	88	0	-	0
Other current liabilities	2	5	-	5
Natural resource tax	162	83	40	21
	17 471	28 842	12 988	23 336

12. 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 “Gasos”.

Income or expenses	Group 01.01.- 30.06.2018	Group 31.12.2017	Company 01.01.- 30.06.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Income from provision of services				
PJSC "Gazprom"	-	-	-	-
JSC "Gaso"	-	-	2 184	1,982
JSC "Conexus Baltic Grid"	7 522	5,612	7 522	5,612
Expenses on natural gas purchase				
PJSC "Gazprom"	19 292	309,371	19 292	309,371
Expenses on services				
JSC "Conexus Baltic Grid"	11 777	36,775	11 777	36,775
JSC "Gaso"	-	-	21 585	-
Other expenses				
JSC "Gaso"	-	-	-	5,792

Related party payables and receivables	Group 30.06.2018	Group 31.12.2017	Company 30.06.2018	Company 31.12.2017
Receivables from related companies				
PJSC "Gazprom"	-	-	-	-
JSC "Gaso"	-	2,392	197	-
JSC "Conexus Baltic Grid"	176	726	176	726
Advance payments to related entities				
PJSC "Gazprom"	22 782	4,292	22 782	4,292
Payables to related companies for natural gas and services				
PJSC "Gazprom"	1 394	10	1 394	10
JSC "Conexus Baltic Grid"	824	3,120	824	3,120
JSC "Gaso"	-	-	1 477	12,466

13. 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 6 months period ended 30 June 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 108 thousand EUR as at June 30, 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 "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 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 June 30, 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.