

**"LATVIJAS GĀZE" GROUP CONSOLIDATED AND JSC "LATVIJAS GĀZE"
UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 9-MONTHS PERIOD ENDED 30 SEPTEMBER 2018**

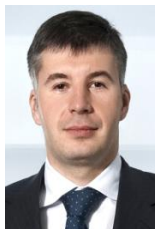
Prepared in compliance with the International Financial
Reporting Standards as adopted by the European Union

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COUNCIL OF THE JSC "LATVIJAS GĀZE"

(Term of office from October 3, 2018 till October 2, 2021)



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



David Stephen Harrison, 1970
Member of the Council

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



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)



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"



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"



Igor Fedorov,
(Игорь Федоров), 1965
Member of the Council

Since 2013, Member of the Board of Directors, Head of the Department at PJSC "Gazprom"

Member of the Council – term office till 2 October, 2018: Nikolay Dubik

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.

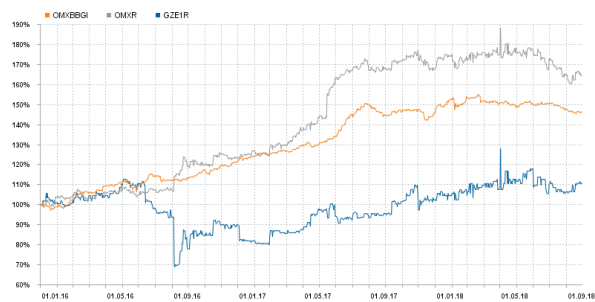
COMPANY'S SHARE PRICE, OMX RIGA GI AND OMX BALTIC GI INDEX CHANGES (01.01.2016. – 30.09.2018.)

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 in September, 2018.

The market capitalization value of the JSC "Latvijas Gāze" in the first nine months of 2018 reached 430.92 million EUR, which is 58.65 million EUR more than in the same period of 2017. The Company's share price rose by 8% during the first nine 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.-30.09.2018.)

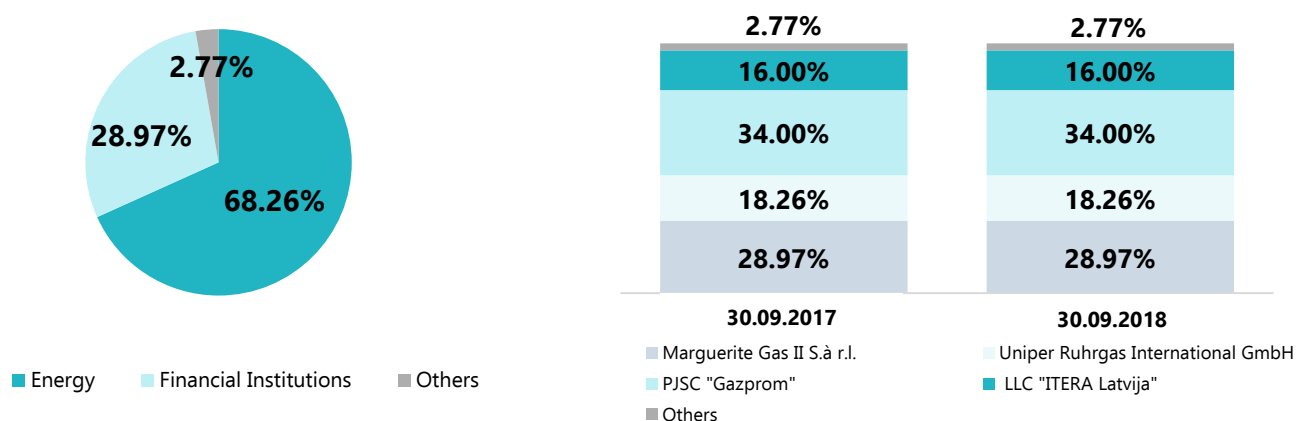


Source: Nasdaq Baltic

INFORMATION ON SHARE TRANSACTIONS (2016 Q3 – 2018 Q3)

	2016 Q3	2017 Q3	2018 Q3
Share price (EUR)			
First	9.79	8.78	10.00
Highest	11.10	9.82	13.00
Lowest	5.55	7.76	9.90
Average	9.63	8.77	10.65
Last	7.60	9.33	10.80
Change (From First to Last share price)	-22.37%	6.26%	8.00%
Number of transactions	1 881	1 144	606
Number of shares traded	193 054	133 081	52 611
Turnover (million EUR)	1.860	1.161	0.557
Capitalization (million EUR)	303.24	372.27	430.92

COMPOSITION OF SHAREHOLDERS AS AT 30.09.2018



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 Jemeljjanovs	None
Deputy Chairman of the Board	Sebastian Gröbblinghoff	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	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
Member of the Council	Igor Fedorov	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 "Gaso" 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 "Gaso" owns and operates all distribution assets necessary to provide the respective services to its more than 400 thousand customers.

KEY FIGURES

In the first nine months of 2018, the JSC "Latvijas Gāze" sold 960 million m³ (10 111 GWh) of natural gas to more than 400 thousand customers. In comparison to the same period in the previous year, sales volumes were 8% lower. The decrease is mainly attributable to the entry of new trading companies after market opening in 2017 and changed purchasing patterns of large customers. However, due to higher energy and commodity prices net turnover of the Group in the first nine months of 2018 was 2.9% higher than a year before. At the same time, net profit increased by 5.7%.

The distribution segment is the largest segment in the Group by its asset value. At the end of the nine-month period, its assets were worth 261 million EUR

and net turnover amounted to 34.8 million EUR (decrease by 0.2% compared to the same period of 2017).

The trading segment at the end of the reporting period had an asset value of 180.4 million EUR that mainly consisted of natural gas in stock and advances for inventories. The segment's net turnover during the first nine months of the year amounted to 226.5 million EUR (increase by 3.4% compared to the same period in 2017).

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Due to a changed purchasing pattern of large customers the natural gas volumes sold by Latvijas Gaze during August and September amounted to more than 40% of the trading segment's total natural gas sales in the first nine months of the year.

Higher commodity prices quoted at the major European natural gas hubs, positive effects from the Company's newly established hedging activities, as well as significantly higher than expected gas sales to the power generation segment were the key drivers behind the better financial results in comparison with the same period last year. For example Other income position includes a net amount of 2 934 thousand EUR origination from hedging activities. However, in the fourth quarter of 2018, higher expenses and lower sales margins due to increased competition will mitigate parts of the positive financial results accumulated in the group's sales and trading segment during nine months period of 2018.

Group's key performance figures	2018 Q3	2017 Q3
Natural gas sales, million m ³ (GWh)	960 (10 111)	1 041 (10 961)
Number of employees, average	993	977
Length of distribution lines, km	5 238	5 206

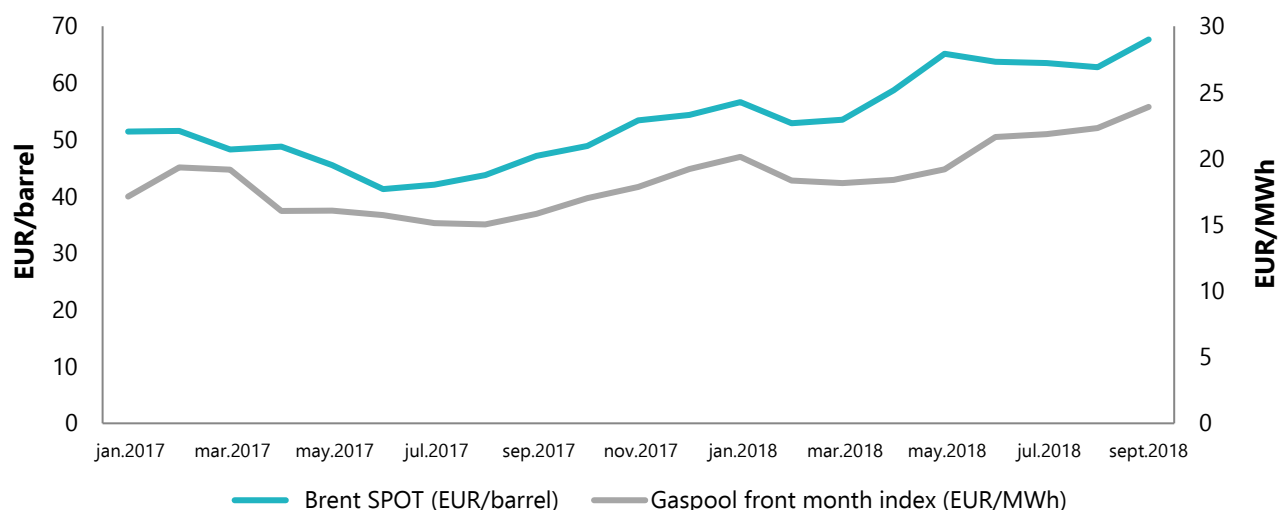
Group's key financial figures	2018 Q3	2017 Q3
	EUR'000	EUR'000
Net turnover	261 251	253 885
EBITDA	27 878	30 091
EBITDA, %	10.7	11.9
EBIT	19 146	14 763
EBIT, %	7.3	5.8
Net profit	18 554	17 551
Net profit margin, %	7.1	6.9
Earnings per share, EUR	0.47	0.44
P/E	23.23	21.21

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 01.01.2017-30.09.2018



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 960 million m³ (10 111 GWh) in the first nine months of 2018.
- 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 2018 the GASPOOL price was higher than in the respective period in 2017.

- 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. In October, the PUC approved the new distribution tariffs. The new tariffs will come into force on January 1, 2019.
- 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".
- Despite increasing competition in the market the JSC "Latvijas Gāze" during June, July and August successfully closed several sales deals with its largest customers.
- Due to a dry summer and lower hydro power generation JSC "Latvijas Gāze" in the first nine months of the year sold more natural gas than expected to the power generation segment. In the same period, sales quantity to retail consumers slightly decreased.
- New transmission tariffs for the use of the high-pressure transmission network owned and

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

operated by the JSC Conexus Baltic Grid came into force on 19 July 2018. The new tariffs foresee a higher entry and exit fee at the Latvian border points of the transmission system during the heating season (from November until April). At the same time, there will no longer be a tariff for injecting into or withdrawing natural gas from the Inčukalns Underground Storage ("IUGS").

- During August, the JSC "Conexus Baltic Grid" ("CBG") held a series of auctions to ensure certain storage quantities in the IUGS until the end of February 2019 with the aim to protect the integrity of the transmission system during the winter season. CBG announced to auction storage commitments totalling 3.15 TWh. In the auctions the JSC "Latvijas Gāze" won several lots and committed to keep natural gas in the IUGS until end of February against a respective financial compensation.

- As in previous years, the JSC "Latvijas Gāze" injected significant volumes of natural gas into the IUGS during August and September in order to ensure security of supply for its customers during the winter season 2018/2019.

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 Inčukalns Underground Gas Storage ("IUGS") during the injection season starting in early summer. While the Company needs to 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. 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 22 September 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.

FUTURE PROSPECTS

In the first nine months of the year, competition on the supply side further intensified. Also during the rest 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.

In the recent months, the Company started to intensify its activities in the Estonian and Lithuanian market and entered into negotiations

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 nine 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 necessary infrastructure to engage in financial hedging transactions.

with several potential customers in these markets. 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 and customer portal.

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". In

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

SUBSEQUENT EVENTS

This section refers to major business transactions or events that occurred after the end of the reporting period on 30 September 2018.

In October, the Company paid out to shareholders retained earnings of previous reporting years of the JSC "Latvijas Gāze" in the amount of 5 187 thous. EUR.

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 9-months period ended 30 September 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 9-months period ended 30 September 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 November 7, 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- September 30, 2018

STATEMENT OF PROFIT AND LOSS

	Note	Group 01.01.- 30.09.2018	Group 01.01.- 30.09.2017 Restated	Company 01.01.- 30.09.2018	Company 01.01.- 30.09.2017 Restated
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue	2	261 251	253 885	229 054	219 014
Other income	3	5 794	2 159	4 184	1 316
Raw materials and consumables used	4	(213 808)	(210 014)	(212 602)	(207 146)
Personnel expenses	5	(18 983)	(14 830)	(3 446)	(2 238)
Depreciation, amortisation and impairment of property, plant and equipment		(8 731)	(9 195)	(428)	(471)
Other operating expenses	6	(6 377)	(7 243)	(3 434)	(4 114)
Operating profit		19 146	14 763	13 328	6 361
Dividends received from subsidiary		-	-	1 796	-
Financial income		40	418	40	418
Financial expense		(632)	(1 703)	(444)	(1 703)
Profit before taxes		18 554	13 478	14 720	5 075
Corporate income tax		-	4 073	-	(1 665)
Profit from continuing operations		18 554	17 551	14 720	3 410
Profit from discontinued operations		-	-	-	14 141
Profit for the year		18 554	17 551	14 720	17 551

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	Group 01.01.- 30.09.2018	Group 01.01.- 30.09.2017 Restated	Company 01.01.- 30.09.2018	Company 01.01.- 30.09.2017 Restated
		EUR'000	EUR'000	EUR'000	EUR'000
Profit for the year		18 554	17 551	14 720	3 410
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods					
Revaluation of property, plant and equipment	8	57	10 178	-	-
Deferred income tax		-	18 289	-	-
Net income recognised as other comprehensive income from continuing operations		57	28 467	-	-
Net income from discontinued operations		-	-	-	14 141
Total net income		57	28 467	-	14 141
Total comprehensive income for the period		18 611	46 018	14 720	17 551

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on November 7, 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 30.09.2018	Group 31.12.2017	Company 30.09.2018	Company 31.12.2017
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets	7	4 713	3 990	2 072	1 219
Property, plant and equipment	8	239 083	242 476	863	926
Investment in subsidiary	9	-	-	194 534	194 534
Other debtors		97	7	44	7
Total non-current assets		243 893	246 473	197 513	196 686
Current assets					
Inventories	10	100 925	80 892	99 294	79 608
Advances for inventories		43 820	4 293	43 820	4 292
Trade receivables		22 901	36 033	21 972	35 259
Income tax receivable		68	4 101	63	4 101
Other current assets		5 393	3 482	4 851	5 065
Cash and cash equivalents		24 415	24 817	7 758	21 558
Total current assets		197 522	153 618	177 758	149 883
TOTAL ASSETS		441 415	400 091	375 271	346 569

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on November 7, 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 30.09.2018	Group 31.12.2017	Company 30.09.2018	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		213 920	205 770	212 059	205 797
Current year's retained earnings		18 554	26 048	14 720	24 217
Total equity		308 710	308 054	303 015	306 250
Non-current liabilities					
Interest-bearing loans and borrowings		29 750	32 375	-	-
Deferred income	11	18 603	18 918	-	-
Employee benefit obligations		3 327	3 246	279	279
Total non-current liabilities		51 680	54 539	279	279
Current liabilities					
Trade payables		13 058	1 393	13 618	13 338
Interest-bearing loans and borrowings		36 627	5 986	33 127	3 361
Deferred income	11	1 008	998	-	5
Corporate income tax		7	279	-	-
Other liabilities	12	30 325	28 842	25 232	23 336
Total current liabilities		81 025	37 498	71 977	40 040
TOTAL LIABILITIES		441 415	400 091	337 805	346 569

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on November 7, 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

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:					
Dividends	-	-	(17 955)	-	(17 955)
Other comprehensive income:					
Other comprehensive income	-	-	57	-	57
Profit for the year	-	-	-	18 554	18 554
Total comprehensive income	-	-	57	18 554	18 611
September 30, 2018	55 860	20 376	213 920	18 554	308 710

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on November 2, 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:					
Dividends	-	-	(17 955)	-	(17 955)
Other comprehensive income:					
Profit for the year	-	-	-	14 720	14 720
Total comprehensive income	-	-	-	14 720	14 720
September 30, 2018	55 860	20 376	221 059	14 720	303 015

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on November 7, 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 30.09.2018	Company 30.09.2018	Group and Company 30.09.2017
	EUR'000	EUR'000	EUR'000
Cash flows from operating activities			
Profit before corporate income tax	18 554	14 720	13 478
<i>Adjustments:</i>			
- depreciation of property, plant and equipment	7 574	182	8 507
- amortisation of intangible assets	1 162	245	692
- movement in provisions	-	-	(1 504)
- income from participating interests	-	(1 796)	-
- interest expenses	284	96	-
- (profit) / loss from sale of property, plant and equipment	61	(4)	86
<i>Changes in operating assets and liabilities:</i>			
- in accounts receivable	18 722	13 427	8 592
- in advances for inventories	(39 720)	(39 528)	(15 516)
- in inventories	(20 033)	(19 686)	(105 216)
- in accounts payable	5 217	2 171	2 347
Corporate income tax prepayment received back / (paid)	4 070	4 075	(40 561)
Net cash outflow from operating activities	(4 109)	(26 098)	(93 095)
Cash flow from investing activities			
Payments for property, plant and equipment	(4 250)	(136)	(4 077)
Payments for intangible assets	(1 885)	(1 098)	(1 155)
Proceeds from sale of property, plant and equipment	65	21	46
Deposits	-	-	(17 038)
Dividends received	-	1 796	-
Net cash inflow / (outflow) from investing activities	(6 070)	583	(22 224)
Cash flow from financing activities			
Overdraft used	29 766	29 766	-
Loans received	-	-	22 813
Paid loans	(1 750)	-	-
Interest paid	(284)	(96)	-
Dividends paid	(17 955)	(17 955)	(72 219)
Net cash inflow / (outflow) from financing activities	9 777	11 715	(49 406)
Net cash flow	(402)	(13 800)	(164 725)
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	24 415	7 758	2 905

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on November 7, 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
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NOTES TO FINANCIAL STATEMENTS

1. Segment information

Group 30.09.2018	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
Total revenue:	34 790	226 461	261 251
<i>including Latvia</i>	<i>34 790</i>	<i>217 311</i>	<i>252 101</i>
<i>other countries</i>	<i>-</i>	<i>9 150</i>	<i>9 150</i>
EBITDA	15 358	12 520	27 878
Depreciation and amortisation	8 303	428	8 731
Segment profit before taxes	6 866	11 688	18 554
Purchase of property, plant and equipment and intangible assets	4 901	1 234	6 135
Segment assets	261 022	180 392	441 415

Company 30.09.2018	Gas trade
	EUR'000
Total revenue:	229 054
<i>including Latvia</i>	<i>219 904</i>
<i>other countries</i>	<i>9 150</i>
EBITDA	15 552
Depreciation and amortisation	428
Segment profit before taxes	14 720
Purchase of property, plant and equipment and intangible assets	1 234
Segment assets	375 271

Group and Company 30.09.2017	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
Revenue from external customers	2 283	251 603	253 885
<i>including Latvia</i>	<i>2 283</i>	<i>250 139</i>	<i>252 422</i>
<i>other countries</i>	<i>-</i>	<i>1 464</i>	<i>1 464</i>
Internal revenue/expenses	32 589	(32 589)	-
Total revenue	34 872	219 014	253 885
EBITDA	17 126	6 832	23 958
Depreciation and amortisation	8 724	471	9 195
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)	250 448	149 643	400 091
Segment assets 31.12.2017 (Company)	194 534	152 035	346 569

2. Revenue

	Group 01.01.- 30.09.2018	Group 01.01.- 30.09.2017 Restated*	Company 01.01.- 30.09.2018	Company 01.01.- 30.09.2017 Restated*
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas trade and distribution	260 645	253 232	229 052	219 009
Other revenue	606	653	2	5
	261 251	253 885	229 054	219 014

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

3. Other income

	Group 01.01.- 30.09.2018	Group 01.01.- 30.09.2017 Restated*	Company 01.01.- 30.09.2018	Company 01.01.- 30.09.2017 Restated*
	EUR'000	EUR'000	EUR'000	EUR'000
Profit from hedging activities	2 934	-	2 934	-
Other income	2 860	2 159	1 250	1 316
	5 794	2 159	4 184	1 316

Other income position includes a net amount of 2 934 thousand EUR originating from hedging activities. 355 thousand EUR from this profit is attributable to this year's 9-month operational activity. The remaining amount for outstanding derivatives of 2 579 thousand EUR is evaluated on mark-to-market basis and is distributed between

following settlements in the future periods: 2 456 thousand EUR for Q4 2018 and 123 thousand EUR for 2019.

After the reporting date, the Company has executed additional hedges for transactions ended in Q1 2019 in order to lock into the margin for floating price sales contracts.

4. Raw materials and consumables used

	Group 01.01.- 30.09.2018	Group 01.01.- 30.09.2017 Restated*	Company 01.01.- 30.09.2018	Company 01.01.- 30.09.2017 Restated*
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	212 829	206 485	212 567	206 421
Costs of materials, spare parts and fuel	979	3 528	35	725
	213 808	210 014	212 602	207 146

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

5. Personnel expenses

	Group 01.01.- 30.09.2018	Group 01.01.- 30.09.2017	Company 01.01.- 30.09.2018	Company 01.01.- 30.09.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	14 451	11 297	2 643	1 740
State social insurance contributions	3 399	2 620	570	393
Life, health and pension insurance	919	780	119	83
Other personnel costs	214	132	114	23
	18 983	14 830	3 446	2 238

6. Other operating expenses

	Group 01.01.- 30.09.2018	Group 01.01.- 30.09.2017 Restated	Company 01.01.- 30.09.2018	Company 01.01.- 30.09.2017 Restated
	EUR'000	EUR'000	EUR'000	EUR'000
Selling and advertising costs	1 279	1 852	1 174	1 777
Expenses for maintenance of premises and other services	1 065	1 202	368	80
Donations, financial support	419	599	345	527
Office and other administrative costs	1 310	1 527	665	724
Taxes and duties	820	876	417	731
Costs of IT system maintenance, communications and transport	1 002	688	417	172
Other costs	482	498	48	103
	6 377	7 243	3 434	4 114

7. Intangible assets

	Group 30.09.2018	Group 31.12.2017	Company 30.09.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
As at the beginning of period	13 889	11 306	1 294	11 306
Additions	1 885	2 798	1 098	2 614
Disposals	(406)	(215)	(13)	(215)
Intangibles, transferred during reorganisation	-	-	-	(12 411)
As at the end of period	15 368	13 889	2 379	1 294
Amortisation				
As at the beginning of period	9 899	9 124	75	9 124
Amortisation	1 162	990	245	895
Disposals	(406)	(215)	(13)	(215)
Intangibles, transferred during reorganisation	-	-	-	(9 729)
As at the end of period	10 655	9 899	307	75
Net book value as at the end of the period	4 713	3 990	2 072	1 219

8. 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
Cost or revalued amount					
31.12.2017	542 402	31 784	14 436	447	589 069
Additions	147	252	1 148	2 755	4 302
Revaluated	57	-	-	-	57
Reclassified	713	175	15	(903)	-
Disposals	(326)	(161)	(292)	-	(779)
30.09.2018	542 993	32 050	15 307	2 247	592 597
Depreciation					
31.12.2017	317 458	18 822	10 313	-	346 593
Calculated	5 008	1 601	965	-	7 574
Disposals	(245)	(155)	(253)	-	(653)
30.09.2018	322 221	20 268	11 025	-	353 514
Net book value as of 30.09.2018	220 772	11 782	4 282	2 247	239 083
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
Cost or revalued amount					
31.12.2017	-	-	1 198	-	1 198
Additions	-	-	136	-	136
Disposals	-	-	(85)	-	(85)
30.09.2018	-	-	1 249	-	1 249
Depreciation					
31.12.2017	-	-	272	-	272
Calculated	-	-	182	-	182
Disposals	-	-	(68)	-	(68)
30.09.2018	-	-	386	-	386
Net book value as of 30.09.2018	-	-	863	-	863
Net book value as of 31.12.2017	-	-	926	-	926

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
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

9. Investment in subsidiary

	Company
	EUR'000
Invested during reorganisation 1.12.2017	194 534
Balance sheet value 30.09.2018	194 534

Shares held	30.06.2018
JSC “Gasol”	100 %

	Subsidiary's equity 30.09.2018	Subsidiary's equity 31.12.2017	Subsidiary's profit 30.09.2018
	EUR'000	EUR'000	EUR'000
JSC “Gasol”	200 229	196 338	5 630

10. Inventories

	Group 30.09.2018	Group 31.12.2017	Company 30.09.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	99 294	79 608	99 294	79 608
Materials and spare parts	1 699	1 357	-	-
Allowance for slow-moving inventory	(68)	(73)	-	-
	100 925	80 892	99 294	79 608

11. Deferred income

	Group 30.09.2018	Group 31.12.2017	Company 30.09.2018	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	18 603	18 918	-	-
Short-term part	1 008	998	-	5
	19 611	19 916	-	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	449	726	-	658
Included in income of reporting year	(754)	(979)	(5)	(896)
Transferred during reorganisation	-	-	-	(19 926)
Total transfer to next years	19 611	19 916	-	5

12. Other liabilities

	Group 30.09.2018	Group 31.12.2017	Company 30.09.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Prepayments received	14 370	14 198	14 370	14 198
Value added tax	8 633	4 500	8 298	3 495
Accrued costs	4 363	6 268	1 842	3 789
Excise tax	282	1 267	278	1 267
Vacation pay reserve	1 251	953	168	168
Salaries	658	776	148	202
Social security contributions	457	482	88	100
Personnel income tax	207	310	31	91
Property tax	44	-	-	-
Other current liabilities	-	5	-	5
Natural resource tax	60	83	9	21
	30 325	28 842	25 232	23 336

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 9 months period ended 30 September 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 an impact to the financial result of the Company and the Group by increase of provisions for doubtful debts and related expenses by 55 thousand EUR as at September 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 2017 it transferred the natural gas distribution business to the newly established JSC Gaso.

Subsequent events

Since September 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.