

# "LATVIJAS GĀZE" GROUP CONDENSED CONSOLIDATED AND JSC "LATVIJAS GĀZE" UNAUDITED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2018

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

## CONTENTS

COUNCIL OF THE JSC "LATVIJAS GĀZE" .....	3
MANAGEMENT BOARD OF THE JSC "LATVIJAS GĀZE" .....	4
LATVIJAS GĀZE GROUP IN SHORT .....	5
STRATEGY AND OBJECTIVES .....	5
LATVIJAS GĀZE GROUP'S FOCUS .....	6
SHARES AND SHAREHOLDERS OF THE JSC "LATVIJAS GĀZE" .....	7
LATVIJAS GĀZE GROUP FACTS AND FIGURES .....	9
MANAGEMENT REPORT .....	11
FINANCIAL STATEMENTS .....	19
CORPORATE INFORMATION .....	19
STATEMENT OF PROFIT AND LOSS .....	20
STATEMENT OF COMPREHENSIVE INCOME .....	20
BALANCE SHEET .....	21
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	23
COMPANY'S STATEMENT OF CHANGES IN EQUITY .....	24
STATEMENT OF CASH FLOW .....	25
NOTES TO FINANCIAL STATEMENTS .....	26

## 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 2014, 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



**Denis Emelyanov, 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

## LATVIJAS GĀZE GROUP IN SHORT

The year 2018 was the first full year with the new Latvijas Gāze group structure in place. In order to meet the requirements of the Energy Law, the JSC "Latvijas Gāze" at the end of 2017 spun-off its distribution business into the newly founded company JSC "Gasol". In early 2018, the Public Utilities Commission ("PUC") confirmed that the JSC "Gasol" fully complies with the requirements of the Energy Law, which foresees a full legal, structural, and operational separation of the distribution business from the sales & trading activities. The JSC "Gasol" has an own Board of Management and Council that are fully independent from the sales & trading business of the JSC "Latvijas Gāze". However, as a 100% subsidiary the JSC "Gasol" remains an essential part of the newly formed Latvijas Gāze group, which currently consists of two segments:

**The natural gas sales & trading segment** comprises the purchase, trade and sale of natural gas. The JSC "Latvijas Gāze" (hereinafter also "Company") operates the sales & trading business, which includes wholesale trading and the sale of natural gas to industrial and commercial customers as well as to households.

**The natural gas 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.

Structure of Latvijas Gāze group as of 1 December 2017

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

## STRATEGY AND OBJECTIVES

### OUR OBJECTIVE

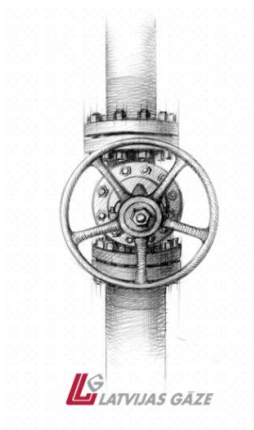
To strengthen the position of Latvijas Gāze group as a leader in the Latvian and Baltic energy market by becoming the natural gas supplier of first choice for customers and by ensuring the most stable supply of natural gas for the Baltic region.

### OUR MISSION

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

### OUR VISION

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



## LATVIJAS GĀZE GROUP'S FOCUS

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

### **1. Price competitiveness**

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

### **2. Quality of product**

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

### **3. Quality of service**

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

### **4. Effective management**

Latvijas Gāze group is governed in compliance with the principles of good corporate governance, ensuring the equality of all shareholders, a professional supervision, and transparency. The group's development and financial management takes place in line with respective risk management policies. A key role in our business is played by IT

systems that facilitate an effective management of both the distribution infrastructure as well as the natural gas sales & trading business.

### **5. Professional personnel**

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

### **6. Safety and security of gas supply**

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

### **7. Sustainable investment**

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

### **8. Network development and customer attraction**

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



## SHARES AND SHAREHOLDERS OF THE JSC "LATVIJAS GĀZE"

### SHARES AND SHAREHOLDERS

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

### COMPANY'S SHARE PRICE, OMX RIGA GI AND OMX BALTIC GI INDEX CHANGES (01.01.2016. – 31.12.2018.)

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

Source: Nasdaq Riga

The shares of the JSC "Latvijas Gāze" are included in four Baltic country industry indexes, which include public utilities - B7000GI, B7000PI, B7500GI,

B7500PI, as well as in several geographical indexes - OMXBGI, OMXBPI, OMXRGI, OMXBBCAPGI, OMXBBCAPPI, OMXBBGI, OMXBBPI.



OMX RIGA (OMXR.) – 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 (OMXB.) – 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 December, 2018, in terms of stock market capitalization, the JSC "Latvijas Gāze" ranked number one among the companies listed on the Nasdaq Baltic Secondary List and number five among the TOP 10 Companies listed by market value in Nasdaq Baltic Regulated market.

The market capitalization value of the JSC "Latvijas Gāze" in the 2018 reached 402.99 million EUR, which was slightly higher than in 2017. Since 2 July 2018, 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 across all

sectors of Nasdaq's listed companies in the Baltic market.

### SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2016.-31.12.2018.)

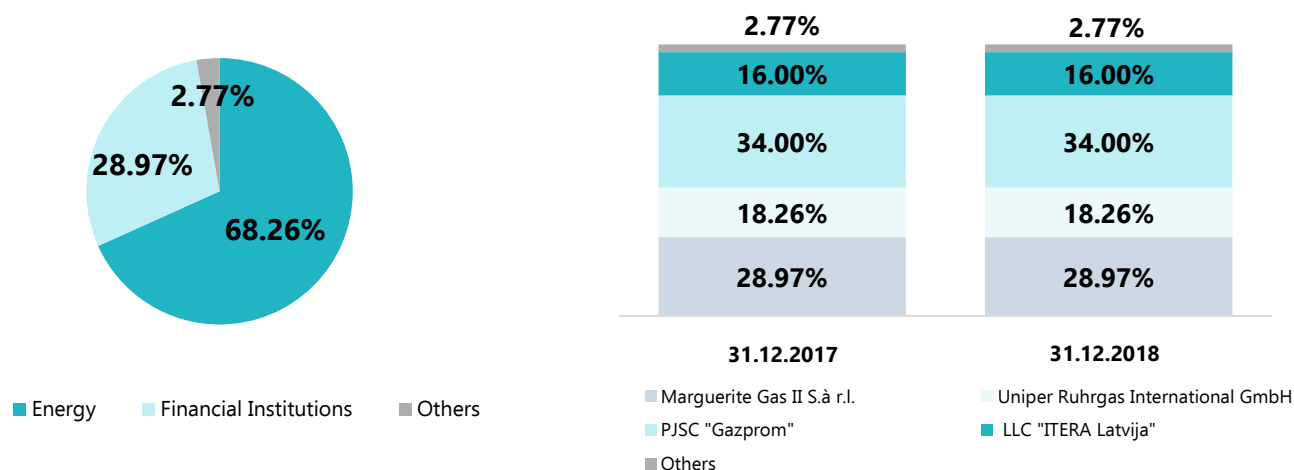


Source: Nasdaq Baltic

## INFORMATION ON SHARE TRANSACTIONS (2016 – 2018)

	2016	2017	2018
Share price (EUR)			
First	9.8	8.8	10.0
Highest	11.1	11.1	13.0
Lowest	5.6	7.8	9.9
Average	9.5	9.1	10.6
Last	8.8	10.0	10.1
Change (From First to Last share price)	-10.1%	13.9%	1.0%
Number of transactions	2 240	1 596	801
Number of shares traded	229 363	171 711	66 262
Turnover (million EUR)	2.17	1.55	0.7
Capitalization (million EUR)	350.32	399.00	402.99

## COMPOSITION OF SHAREHOLDERS AS AT 31.12.2018



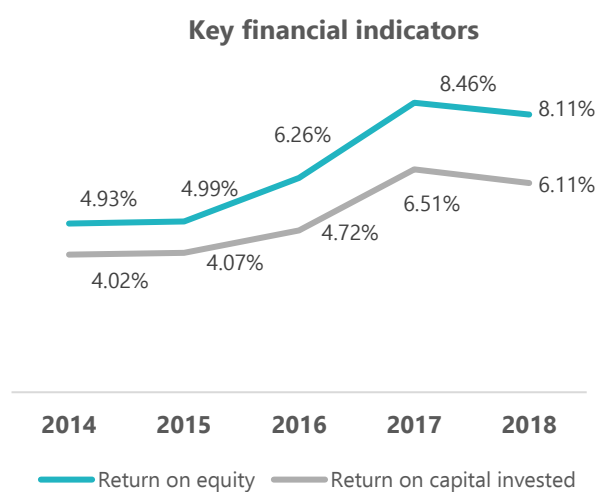
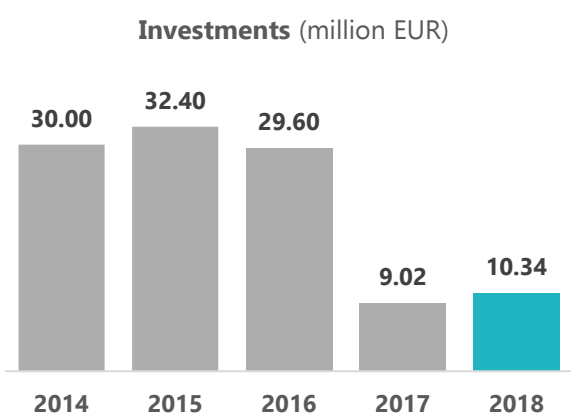
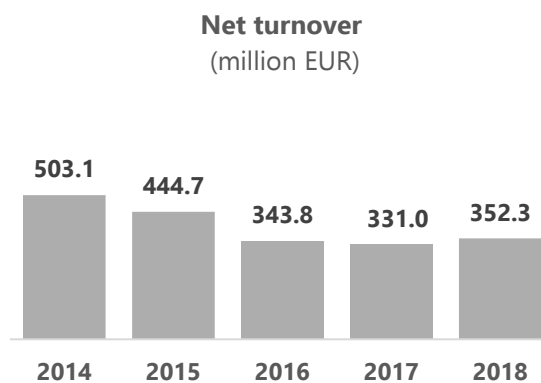
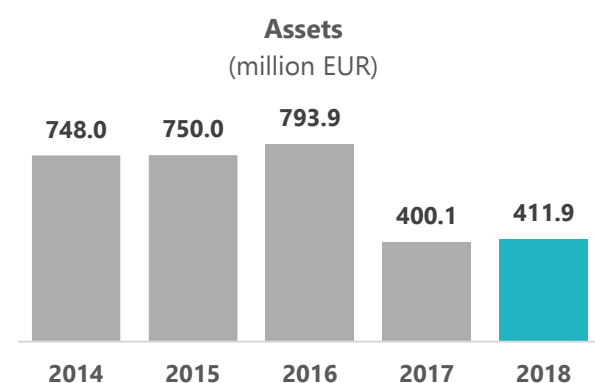
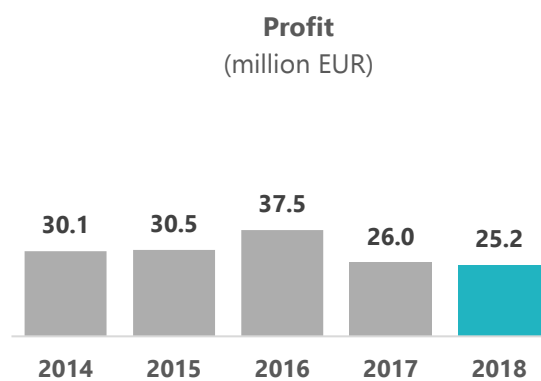
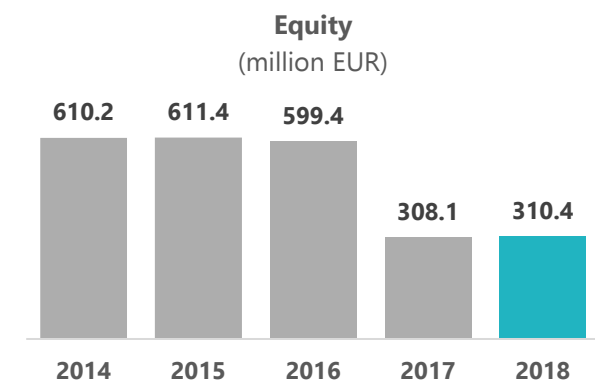
## SHARES OWNED BY MEMBERS OF THE GOVERNING BODIES OF THE JSC "LATVIJAS GĀZE"

		At the date of signing financial statements
Management Board		Number of shares
Chairman of the Board	Aigars Kalvītis	None
Deputy Chairman of the Board	Denis Emelyanov	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	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



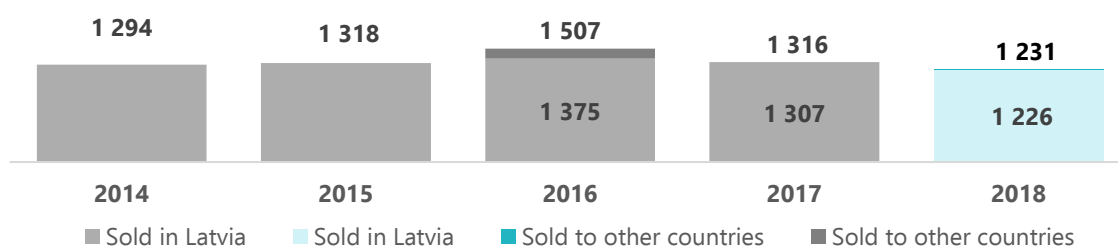
## LATVIJAS GĀZE GROUP FACTS AND FIGURES

### FINANCIAL INDICATORS



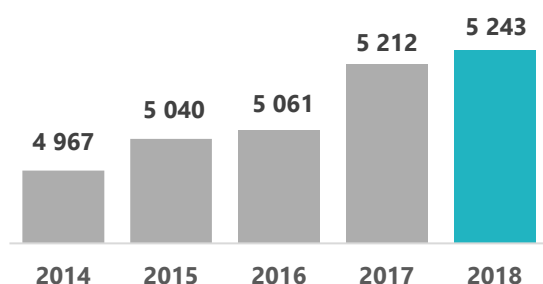
## NATURAL GAS VOLUMES

Natural gas sales (million m<sup>3</sup>)

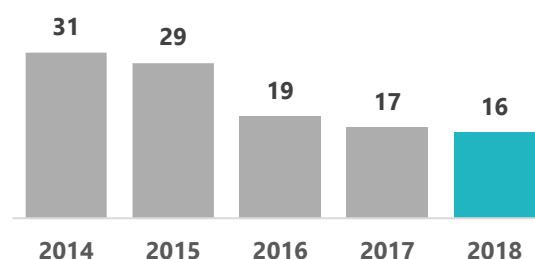


## DISTRIBUTION SYSTEM

Gas distribution pipelines owned by Latvijas Gāze Group (km)

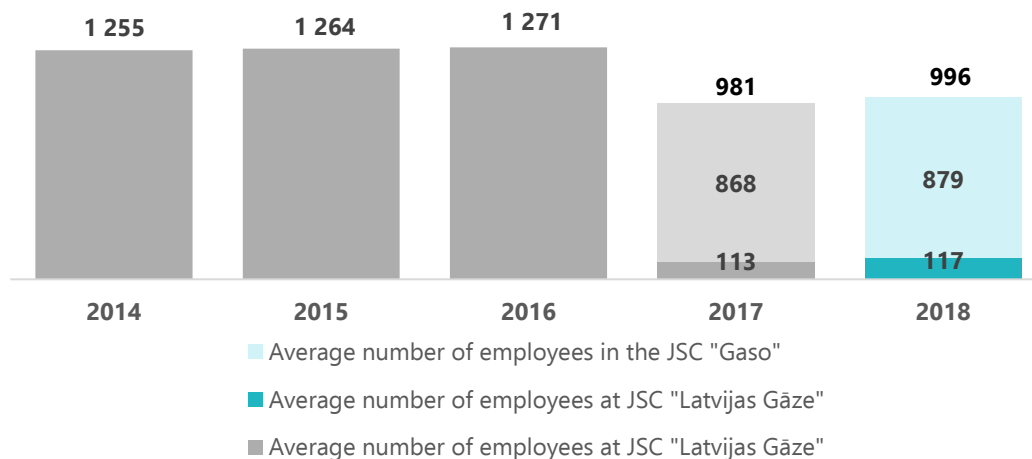


Construction of gas distribution pipelines (km)



## EMPLOYEES

Average Number of Employees at Latvijas Gāze Group



## MANAGEMENT REPORT

The year 2018 was the first full year after the opening of the Latvian natural gas market to competition. At the end of 2018 in total 29 companies were officially registered as gas trading companies in Latvia. In the open market, customers of natural gas can freely choose their supplier and negotiate the pricing terms and conditions for their gas supplies. In 2018, only household customers still received natural gas supplies based on a regulated price set by the Public Utilities Commission (PUC). Therefore, gas traders in the new market environment face an increasing variety of customer requirements with regard to pricing structures, product features and additional services. Particularly price sensitive customers with a significant annual natural gas demand request more advanced pricing options that range from fixed prices to hub-indexations related to the most liquid European natural gas trading hubs. Furthermore, some of the largest gas customers pursue the strategy to buy and store certain quantities of natural gas during the summer months themselves in order to ensure their own winter supplies. Keeping their own gas in storage ensures full independence with regard to the usage of those quantities. At the same time, contracting periods exhibit a constantly changing and heterogeneous pattern. To be able to react better towards price movements in volatile European and international natural gas markets, an increasing number of larger customers has moved away from the traditional one year contracts to shorter contract periods ranging from one to six months. On the other hand, certain customer groups strive for longer contract periods of up to two years in order to reduce the administrative burden of conducting annual public procurement procedures.

The total natural gas quantity supplied by the Company in Latvia in 2018 accounted for over 90% of total Latvian consumption. At the same time, the JSC "Latvijas Gāze" continued with its efforts to expand its gas sales activities into the neighbouring natural gas markets in Lithuania and Estonia. Since

2017, the Company holds natural gas trading licenses for both countries. While the entry into the Lithuanian market remained challenging, the JSC "Latvijas Gāze" in late 2018 signed several gas sales agreements with a number of customers in Estonia.



**Despite the further intensification of competition and the increased complexity in the Latvian natural gas market, the JSC "Latvijas Gāze" managed to keep to a strong market position.**

In October 2018, the PUC approved new distribution tariffs for the use of the Latvian distribution network, owned and operated by the JSC "Gaso". The new tariff system comprises a fixed fee as well as a variable part and entered into force on 1 January 2019. Apart from that, the JSC "Gaso" continued with its activities to promote the use of natural gas and to increase the number of customers connected to the distribution network.

In 2018, Latvijas Gāze group supplied natural gas to more than 400 thousand customers in Latvia and further expanded its presence in the natural gas wholesale segment and natural gas trading abroad. The total natural gas sales in 2018 amounted to 1 231 million m<sup>3</sup> (12 969 GWh), which is a 6.5% decrease in comparison to 2017. The decrease is attributable to the entry of new trading companies after market opening in 2017 and changed purchasing patterns of large customers. On the other hand, higher energy and commodity prices, additional income from the storage auction organized by the JSC "Conexus Baltic Grid" in August 2018, higher than expected sales to the power generation segment as well as positive results from locking in margins via financial hedging activities contributed to delivering a strong financial result. While group net turnover in 2018 was 6.5% higher than a year before, EBITDA increased by 2.6% in comparison to 2017 and reached 37.4 million

EUR. The net profit of Latvijas Gāze group in 2018 amounted to 25.2 million EUR. For the future Latvijas Gāze group remains fully committed to retaining its

position as most reliable natural gas supplier and expanding its sales activities in the Baltic region.

Group's key performance figures	2018	2017
Natural gas sales, million m <sup>3</sup> (GWh)	1 231 (12 969)	1 316 (13 859)
Number of employees, average	996	981
Length of distribution lines, km	5 243	5 212

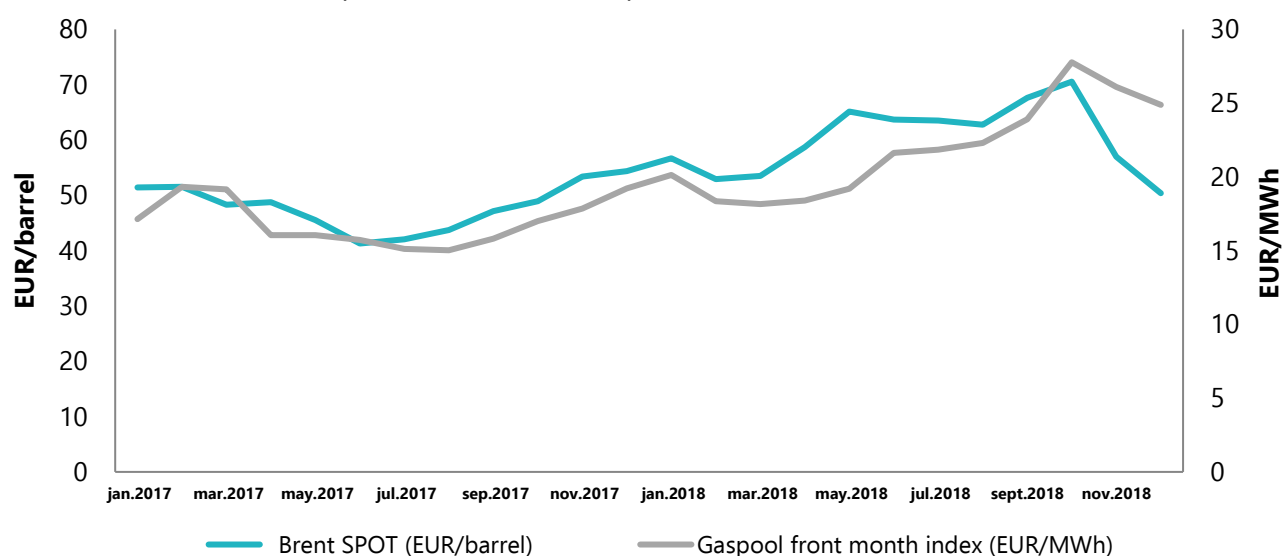
Group's key financial figures	2018	2017
	EUR'000	EUR'000
Net turnover	352 303	330 956
EBITDA	37 427	36 483
EBITDA, %	10.6	11.0
EBIT	25 882	24 483
EBIT, %	7.3	7.4
Net profit	25 185	26 048
Net profit margin, %	7.1	7.9
Earnings per share, EUR	0.63	0.65
P/E	17.11	15.32

EBITDA - Earnings before Interest, Taxes, Depreciation and Amortisation

EBIT - Earnings before Interest and Taxes

P/E - Price per Earnings ratio

Gaspool and Brent oil sale prices 01.01.2017-31.12.2018



## MACROECONOMIC, INDUSTRY AND REGULATORY ENVIRONMENT

Increasing political instability in many regions of the world, uncertainties concerning the development of the global economy as well as fast changing regional gas market dynamics characterized the business environment in 2018. Energy and

commodity prices surged and exhibited a more volatile pattern compared to previous years. As prices for natural gas in the Baltic region closely relate to both oil and oil product prices on the world market as well as to the natural gas prices at liquid

Western European gas hubs (e.g. GASPOOL) global developments also had an impact on the regional gas markets. In comparison to the previous year, natural gas prices in the Baltic region were higher and significantly more volatile in 2018.

As a result of a growth in Latvian GDP, total natural gas consumption in 2018 was slightly higher than in 2017. Nevertheless, the promotion of renewables and energy efficiency in combination with international policies geared towards a decarbonization of the global economy also affects natural gas demand in the Baltic region. Particularly in the district heating segment, competition for natural gas has continuously increased during the past years with biofuels such as woodchips and pellets taking more market share. Higher demand in the power generation segment driven by new electricity interconnection capacities between the Baltic and Nordic countries could compensate the lower gas demand from the district heating industry. However, unlike heat production, the consumption of natural gas for power generation is less consistent and predictable leading to more volatile short-term demand patterns. Overall, Latvian gas demand rather stagnates than exhibits significant growth, which is in line with the developments in the Baltic region as well as in Western Europe. The recently published energy plans of the Lithuanian and Latvian government that aim at reducing the share of fossil fuel in the energy mix will further challenge a quick recovery and the potential return to growth in natural gas consumption in the Baltic region.

Apart from the general economic and market developments, also the regulatory environment remained challenging for gas market players in 2018. On 19 July, new transmission tariffs came into

force leading to higher entry and exit fees at the Latvian border points during the heating season. At the end of the year, the Public Utilities Commission ("PUC") also approved new storage tariffs that became effective on 1 January 2019. The tariff for firm storage capacity increased from 2.95 to 3.52 EUR/MWh. Existing storage tariffs already had led to low storage injection rates in 2018. Therefore, the JSC "Conexus Baltic Grid" ("CBG"), as in the previous year, conducted a storage commitment auction to ensure a sufficient level of gas in the Inčukalns Underground Gas Storage ("IUGS") until the end of February 2019. Without such a minimum quantity of gas in the IUGS, CBG cannot guarantee the integrity of the transmission system and a seamless supply from storage during cold spells. In October, the PUC approved new distribution tariffs. The new tariffs consist of a fixed fee and a variable part depending on effective gas consumption. The various changes in the transmission, storage and distribution tariffs as well as the uncertainty connected with the prolonged revision and approval processes of the tariffs created significant commercial risks for all market players.

During 2018, the establishment of a regional Baltic natural gas market made some progress, albeit at slow pace. Currently, it seems that in the first phase Lithuania might not join the common regional market. However, representatives from Latvia and Estonia continued their talks to remove existing obstacles in order to create a unified natural gas market. Finland also indicated its readiness to join the regional market after the completion and commissioning of the Baltic Connector planned for the end of 2019. With the development of a regional gas market more trading opportunities will open up that eventually benefit customers as well as the regional economy.

## KEY EVENTS IN 2018

- **On 5 February 2018**, the JSC "Latvijas Gāze" became a "Market Maker" at the Latvian market area of the GET Baltic Gas Exchange. As market maker, the JSC "Latvijas Gāze" undertakes the obligation to submit a 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 the GET Baltic gas exchange 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 2018**, the JSC "Gaso" handed in at the Public Utilities Commission ("PUC") the necessary documents for a revision of the existing distribution tariffs.
- Despite increasing competition in the market the JSC "Latvijas Gāze" particularly during the summer months successfully managed to close several larger sales deals.
- **Due to a dry summer** and lower hydro power generation the JSC "Latvijas Gāze" in 2018 sold more natural gas than expected to the power generation segment. In the same period, the sales quantity to retail consumers slightly decreased.
- New transmission tariffs for the use of the high-pressure transmission network owned and operated by the "JSC Conexus Baltic Grid" (JSC) **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 Gas Storage (IUGS).
- As in previous years **during August and September**, the JSC "Latvijas Gāze" injected

## OPERATING RESULTS OF BUSINESS SEGMENTS

The distribution segment operated by the JSC "Gaso" is the largest business segment within Latvijas Gāze group by its asset value. At the end of the year 2018, assets of the segment were worth 255.7 million EUR, which represents 62% of the group's total asset value. In the reporting period, the distribution segment generated a net turnover of 50.0 million EUR (increase by 0.14% compared

significant volumes of natural gas into the IUGS in order to ensure security of supply for its customers during the winter season 2018/2019.

- **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.
- **In October**, the PUC approved the new distribution tariffs. The new tariffs came into force on January 1, 2019.
- **In December**, the Company signed several sales agreements with a number of customers in Estonia.
- **On 13 December 2018**, the PUC approved new tariffs for storage products related to gas injected into the IUGS. The new tariffs came into force on 1 January 2019.
- **In December**, the Lithuanian transmission operator approved new transmission tariffs, which took effect as of January 2019. For some capacity products and entry/exit points the tariff will increase three times in comparison to the old tariff.

to 2017) and EBITDA of 22.6 million EUR. The segment profit before taxes in 2018 amounted to 11.1 million EUR.

At 31 December 2018, the sales & trading segment operated by the JSC "Latvijas Gāze" had an asset value of 156.2 million EUR mainly consisting of natural gas inventories. In the year



2018, the segment generated a net turnover of 302.2 million EUR and increased by 7.6% in comparison to 2017. The sales & trading segment in general distinguishes four key customer segments: wholesale customers, corporate customers, small & medium sized customers and household customers. The following table shows the share of revenue (in percent) generated by each of the four customer groups:

Customer groups	Share of total turnover in %
Wholesale customers	54.5
Corporate customers	25.9
Small & medium sized customers	8.2
Household customers	11.4
<b>TOTAL</b>	<b>100</b>

## LONG-TERM GAS SUPPLIES

In order to ensure the long-term stability of the Latvian and regional gas market, the JSC "Latvijas Gāze" is positioning itself as one of the leading players in the Baltic region with a portfolio consisting of long-term natural gas supplies as well as booked storage and transmission capacities.

The JSC "Latvijas Gāze" procures almost all of its natural gas under a long-term contract with the PJSC "Gazprom". The contract is subject to a take-or-pay obligation that requires the JSC "Latvijas Gāze" to buy a defined amount of natural gas on an annual basis or make a payment for the quantity not taken. Under this type of contracts

## INVESTMENTS

As in previous years, the JSC "Latvijas Gāze" in 2018 continued to make a number of investments to ensure most efficient operations when delivering high-quality products and services to customers. In total, the Company in 2018 spent approximately 2.45 million EUR for investment projects. Out of this amount, the JSC "Latvijas Gāze" invested more than 2.0 million EUR into the first implementation phase of a new billing system and customer portal. Additionally, the Company spent approximately 150 thousand EUR on other

EBITDA for the segment amounted to 14.8 million EUR. The profit before taxes earned in 2018 by the sales & trading segment reached 14.0 million EUR.

It is important to note that 3.2 million EUR of the net profit for 2018 relates to positive results from financial hedging activities. As the JSC "Latvijas Gāze" counts hedges directly into income statement the results from hedging activities include gains of 1.2 million EUR from financial hedges for the calendar year 2019 valued based on a mark-to-market approach as of the balance sheet date. Subsequently, the 2018 net profit includes income that effectively relates to sales in 2019.

prices paid for natural gas usually relate to the prices of competing energy sources (e.g. oil and oil products) and/or market reference prices (e.g. hub prices such as TTF or NBP), as dictated by market conditions. As confirmed in the Commitments accepted by the PJSC Gazprom when settling the EU competition case AT39186 and published by the EU Commission on 24 May 2018 any of the parties in regular intervals (usually every two years) may trigger a review of the contract conditions. In case of no agreement after a defined period, the parties may refer the case to a neutral board of arbitration that will make a binding decision.

IT-related projects and equipment. The modernization of the existing IT infrastructure and the digitalization of the Company's sales processes will play a key role in serving customers with the best products and services at the most competitive price also in the future. Therefore, the Company plans to continue its investments related to the new billing system and customer portal in 2019 with completion of the implementation for all customer segments expected in early 2020.

## FINANCIAL RISK MANAGEMENT

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

As in previous periods, the JSC "Latvijas Gāze" faced a high customer concentration risk with only a few customers accounting for a significant share of overall sales volumes – five customers together accounted for more than 50% of the sales volume in 2018. 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 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. To take account of the increased importance of a systematic and rigorous cash management in a competitive and highly volatile market the Company in 2018 established a dedicated Treasury function.

## FUTURE PROSPECTS

The Company expects that the general market environment will remain challenging for Latvijas

To improve further its operational flexibility at the beginning of August, the JSC "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 other conditions remained unchanged. As the current overdraft agreement will expire in March 2019, the JSC "Latvijas Gāze" in autumn initiated a public procurement procedure in order to attract sufficient financing for the purchase of natural gas during the next two natural gas injection seasons. At the end of December, the Company signed a new agreement with the Latvian branch of OP Corporate Bank plc on a revolving credit facility with a borrowing capacity of up to 50 million Euro. The agreement covers the period from 1 June 2018 until 31 May 2021. The closed transaction strengthens the overall liquidity of the Company and enables the implementation of a more advanced portfolio optimization strategy.

In comparison to the years before the opening of the Latvian natural gas market to competition the natural gas sales & trading segment faces more **market risks**. Particularly the greater variety of pricing structures 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 year 2018. 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 put in place the necessary infrastructure to engage in financial hedging transactions.

Gāze group in 2019. Competition on the supply side is likely to increase further while overall

natural gas demand in Latvia will rather stagnate. In the mid-term, the energy strategies recently presented by the Lithuanian and Latvian government foreseeing a further reduction in the use of fossil fuels will exert additional downward pressure on natural gas consumption. However, despite moving at slow pace, the progress in regional market integration and growing trading activity at the Latvian Virtual Trading Point will also open up new sales and business opportunities for Latvijas Gāze group. With the latest requirement for major Lithuanian gas customers to source at least 50% of their supplies via the GET Baltic Gas exchange that became effective in late 2018 the Company also sees a slightly improved outlook on potential gas sales to Lithuanian customers. Nevertheless, ensuring competitive purchase conditions under the existing long-term supply agreement with the PJSC Gazprom and increasing the flexibility of supplies will remain key to safeguard the leading position of Latvijas Gāze group in the Latvian natural gas market and to enable the further expansion into neighboring markets. To improve further its competitive position in the market the JSC "Latvijas Gāze" successfully started with the implementation of an ambitious cost saving program that will continue during 2019.

## 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

## SUBSEQUENT EVENTS

Since December 31, 2018 up to the signing of these financial statements there have been no events with effect on the financial position or financial results of

At the same time, the Company plans to explore additional markets and analyze opportunities for expanding its business into new segments. In that context the JSC "Latvijas Gāze" already has taken active steps to enter the Finish gas market and strives to have in place first deliveries to Finish customers as of 2020 after the completion of the Baltic Connector. Apart from that, the Company will continue to analyze business opportunities arising around LNG and gas powered technologies in the Baltic region.

With regard to the household segment, the Company expects that competition will start to unfold during 2019. To improve the effectiveness and efficiency of its billing processes as well as to increase customer satisfaction the sales & trading segment will, therefore, continue with the implementation of a new billing system and customer portal.

Overall, Latvijas Gāze group can build on its strong reputation in the Latvian market and remains fully committed to retaining its position as the most reliable natural gas supplier in Latvia and expanding its activities in the Baltic region.

quantities, it may incur financial and legal obligations. The PJSC "Gazprom" holds 34% of the shares in the JSC "Latvijas Gāze". In August 2018, the JSC "Latvijas Gāze" and the PJSC "Gazprom" signed amendments to the existing long-term gas sales and purchase agreement.

the Company and the Group as at the balance sheet date.

## 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 condensed financial statements for the year 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 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 February 27, 2019, 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

## FINANCIAL STATEMENTS

---

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

## CORPORATE INFORMATION

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

## STATEMENT OF PROFIT AND LOSS

	Note	Group 2018	Group 2017	Company 2018	Company 2017
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue from contracts with customers	2	352 303	330 956	306 204	281 571
Other income	3	6 994	4 223	4 945	2 282
Raw materials and consumables used	4	(286 956)	(265 572)	(285 261)	(261 513)
Personnel expenses	5	(25 377)	(23 260)	(5 356)	(4 060)
Depreciation, amortisation and impairment of property, plant and equipment		(11 545)	(12 001)	(384)	(524)
Other operating expenses	6	(9 537)	(9 863)	(5 484)	(4 993)
<b>Operating profit</b>		<b>25 882</b>	<b>24 483</b>	<b>14 664</b>	<b>12 763</b>
Dividends received from subsidiary		-	-	8 977	-
Financial income		40	162	40	162
Financial expense		(737)	(1 728)	(488)	(1 708)
<b>Profit before taxes</b>		<b>25 185</b>	<b>22 917</b>	<b>23 193</b>	<b>11 217</b>
Corporate income tax	7	-	3 131	-	(2 749)
<b>Profit from continuing operations</b>		<b>25 185</b>	<b>26 048</b>	<b>23 193</b>	<b>8 468</b>
Profit from discontinued operations	8	-	-	-	<b>15 749</b>
<b>Profit for the year</b>		<b>25 185</b>	<b>26 048</b>	<b>23 193</b>	<b>24 217</b>

		EUR	EUR	EUR	EUR
Earnings per share (basic and diluted)	16	0.631	0.653	0.581	0.607
Earnings per share from continuing operations (basic and diluted)	16	0.631	0.653	0.581	0.212

## STATEMENT OF COMPREHENSIVE INCOME

	Note	Group 2018	Group 2017	Company 2018	Company 2017
		EUR'000	EUR'000	EUR'000	EUR'000
<b>Profit for the year</b>		<b>25 185</b>	<b>26 048</b>	<b>23 193</b>	<b>24 217</b>
<b>Other comprehensive income - items that will not be reclassified to profit or loss</b>					
Revaluation of property, plant and equipment	10	68	10 178	-	-
Deferred income tax	7	-	18 289	-	-
Remeasurement of post-employment benefit obligations		190	418	87	446
<b>Net income recognised as other comprehensive income from continuing operations</b>		<b>258</b>	<b>28 885</b>	<b>87</b>	<b>446</b>
<b>Net income from discontinued operations</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>28 467</b>
<b>Total other comprehensive income</b>		<b>258</b>	<b>28 885</b>	<b>87</b>	<b>28 913</b>
<b>Total comprehensive income for the period</b>		<b>25 443</b>	<b>54 933</b>	<b>23 280</b>	<b>53 130</b>

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on February 27, 2019 and they are signed on behalf of the Board by:

Aigars Kalvītis  
Chairman of the Board

Sebastian Gröbblinghoff  
Deputy Chairman of the Board

Elita Dreimane  
Member of the Board



## BALANCE SHEET

	Note	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
		EUR'000	EUR'000	EUR'000	EUR'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	9	6 644	3 990	3 341	1 219
Property, plant and equipment	10	238 465	242 476	848	926
Investment in subsidiary	11	-	-	194 534	194 534
Other debtors	13	26	7	6	7
<b>Total non-current assets</b>		<b>245 135</b>	<b>246 473</b>	<b>198 729</b>	<b>196 686</b>
<b>Current assets</b>					
Inventories	12	103 963	80 892	102 442	79 608
Pre-payments for natural gas		5 036	4 293	5 025	4 292
Trade receivables	13	35 574	36 033	34 964	35 259
Income tax receivable	14	63	4 101	63	4 101
Other current assets	15	5 827	3 482	5 451	5 065
Cash and cash equivalents		16 280	24 817	4 845	21 558
<b>Total current assets</b>		<b>166 743</b>	<b>153 618</b>	<b>152 790</b>	<b>149 883</b>
<b>TOTAL ASSETS</b>		<b>411 878</b>	<b>400 091</b>	<b>351 519</b>	<b>346 569</b>

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on February 27, 2019 and they are signed on behalf of the Board by:

Aigars Kalvītis  
Chairman of the Board

Sebastian Gröbblinghoff  
Deputy Chairman of the Board

Elita Dreimane  
Member of the Board

## BALANCE SHEET (continued)

	Note	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
		EUR'000	EUR'000	EUR'000	EUR'000
<b>LIABILITIES AND EQUITY</b>					
<b>Equity</b>					
Share capital	16	55 860	55 860	55 860	55 860
Share premium		20 376	20 376	20 376	20 376
Reserves		127 079	132 106	204 460	204 373
Retained earnings		107 040	99 712	25 692	25 641
<b>Total equity</b>		<b>310 355</b>	<b>308 054</b>	<b>306 388</b>	<b>306 250</b>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	17	29 167	32 375	-	-
Deferred income	18	18 658	18 918	-	-
Employee benefit obligations	19	2 264	3 246	125	279
<b>Total non-current liabilities</b>		<b>50 089</b>	<b>54 539</b>	<b>125</b>	<b>279</b>
<b>Current liabilities</b>					
Trade payables	20	5 581	1 393	9 928	13 338
Interest-bearing loans and borrowings	17	11 886	5 986	8 386	3 361
Deferred income	18	1 019	998	-	5
Corporate income tax		-	279	-	-
Other liabilities	21	32 948	28 842	26 692	23 336
<b>Total current liabilities</b>		<b>51 434</b>	<b>37 498</b>	<b>45 006</b>	<b>40 040</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>411 878</b>	<b>400 091</b>	<b>351 519</b>	<b>346 569</b>

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on February 27, 2019 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	Revaluation reserve	Employee benefits revaluation reserve	Other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>December 31, 2016</b>	<b>55 860</b>	<b>20 376</b>	<b>219 288</b>	<b>(706)</b>	<b>70 245</b>	<b>234 303</b>	<b>599 366</b>
Discontinued operations (Note 22)	-	-	(115 665)	203	(64 433)	(94 191)	(274 086)
Transfers from reserves	-	-	-	-	(5 812)	5 812	-
<b>Transactions with owners:</b>							
Dividends	-	-	-	-	-	(72 219)	(72 219)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(72 219)</b>	<b>(72 219)</b>
Depreciation of revaluation reserve and disposal of revalued assets	-	-	41	-	-	(41)	-
Transfer to reserves / reclassification	-	-	62	(2)	-	-	60
<b>Comprehensive income:</b>							
Other comprehensive income	-	-	28 467	418	-	-	28 885
Profit for the year	-	-	-	-	-	26 048	26 048
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>28 467</b>	<b>418</b>	<b>-</b>	<b>26 048</b>	<b>54 933</b>
<b>December 31, 2017</b>	<b>55 860</b>	<b>20 376</b>	<b>132 193</b>	<b>(87)</b>	<b>-</b>	<b>99 712</b>	<b>308 054</b>
<b>Transactions with owners:</b>							
Dividends	-	-	-	-	-	(23 142)	(23 142)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23 142)</b>	<b>(23 142)</b>
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(5 285)	-	-	5 285	-
<b>Comprehensive income:</b>							
Other comprehensive income	-	-	68	190	-	-	258
Profit for the year	-	-	-	-	-	25 185	25 185
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>68</b>	<b>190</b>	<b>-</b>	<b>25 185</b>	<b>25 443</b>
<b>December 31, 2018</b>	<b>55 860</b>	<b>20 376</b>	<b>126 976</b>	<b>103</b>	<b>-</b>	<b>107 040</b>	<b>310 355</b>

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on February 27, 2019 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	Revaluation reserve	Employee benefits revaluation reserve	Reorganisation and other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>December 31, 2016</b>	<b>55 860</b>	<b>20 376</b>	<b>219 288</b>	<b>(706)</b>	<b>70 245</b>	<b>234 303</b>	<b>599 366</b>
Discontinued operations							
CBG (Note 22)	-	-	(115 665)	203	(64 433)	(94 191)	(274 086)
Discontinued operations							
GASO (Note 22)	-	-	(132 735)	(113)	204 545	(71 697)	-
Transfers from reserves	-	-	-	-	(5 812)	5 812	-
<b>Transactions with owners:</b>							
Dividends	-	-	-	-	-	(72 219)	(72 219)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(72 219)</b>	<b>(72 219)</b>
Movement of revaluation reserve	-	-	584	-	-	(584)	-
Transfer to reserves / reclassification	-	-	61	(2)	-	-	59
<b>Comprehensive income:</b>							
Other comprehensive income	-	-	28 467	446	-	-	28 913
Profit for the year	-	-	-	-	-	24 217	24 217
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>28 467</b>	<b>446</b>	<b>-</b>	<b>24 217</b>	<b>53 130</b>
<b>December 31, 2017</b>	<b>55 860</b>	<b>20 376</b>	<b>-</b>	<b>(172)</b>	<b>204 545</b>	<b>25 641</b>	<b>306 250</b>
<b>Transactions with owners:</b>							
Dividends	-	-	-	-	-	(23 142)	(23 142)
<b>Comprehensive income:</b>							
Other comprehensive income	-	-	-	87	-	-	87
Profit for the year	-	-	-	-	-	23 193	23 193
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>87</b>	<b>-</b>	<b>23 193</b>	<b>23 280</b>
<b>December 31, 2018</b>	<b>55 860</b>	<b>20 376</b>	<b>-</b>	<b>(85)</b>	<b>204 545</b>	<b>25 692</b>	<b>306 388</b>

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on February 27, 2019 and they are signed on behalf of the Board by:

Aigars Kalvītis  
Chairman of the Board

Sebastian Gröblichhoff  
Deputy Chairman of the Board

Elita Dreimane  
Member of the Board

## STATEMENT OF CASH FLOW

	Note	Group 2018	Group 2017	Company 2018	Company 2017
		EUR'000	EUR'000	EUR'000	EUR'000
<b>Cash flows from operating activities</b>					<b>Restated</b>
Profit before corporate income tax from continuing operations		<b>25 185</b>	<b>22 917</b>	<b>23 193</b>	<b>11 218</b>
Profit before corporate income tax from discontinued operations	<b>8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 590</b>
<i>Adjustments:</i>					
- depreciation of property, plant and equipment	10	10 140	11 025	246	10 200
- amortisation of intangible assets	9	1 421	990	138	895
- movement in provisions		(67)	(86)	(67)	(254)
- income from participating interests		-	-	(8 977)	-
- interest expenses		389	76	140	56
- (profit) / loss from sale of property, plant and equipment		235	335	(10)	40
<i>Changes in operating assets and liabilities:</i>					
- in accounts receivable		678	(10 689)	(64)	(11 676)
- in pre-payments for natural gas		(743)	(3 057)	(733)	(3 057)
- in inventories		(23 071)	(76 990)	(22 834)	(76 974)
- in accounts payable		4 738	(3 389)	5 398	1 080
Corporate income tax received back / (paid)		3 733	(5 839)	4 012	(5 839)
<b>Net cash flow from operating activities</b>		<b>22 638</b>	<b>(64 707)</b>	<b>442</b>	<b>(64 721)</b>
<b>Cash flow from investing activities</b>					
Payments for property, plant and equipment	10	(6 326)	(6 455)	(186)	(1 199)
Payments for intangible assets	9	(4 086)	(2 798)	(2 260)	(1 808)
Proceeds from sale of property, plant and equipment		76	193	29	186
Purchase of property, plant, equipment and intangible assets of discontinued operations		-	-	-	(5 704)
Cash spun off as a result of discontinued operations		-	-	(5 458)	(3 800)
Dividends received		-	-	8 977	-
<b>Net cash flow from investing activities</b>		<b>(10 336)</b>	<b>(9 060)</b>	<b>1 102</b>	<b>(12 325)</b>
<b>Cash flow from financing activities</b>					
Overdraft used		5 025	-	5 025	-
Loans received	17	-	38 361	-	3 361
Discontinued operations (loan received)		-	-	-	35 000
Paid loans		(2 333)	-	-	-
Interest paid		(389)	(76)	(140)	(56)
Dividends paid	16	(23 142)	(107 331)	(23 142)	(107 331)
<b>Net cash flow from financing activities</b>		<b>(20 839)</b>	<b>(69 046)</b>	<b>(18 257)</b>	<b>(69 026)</b>
<b>Net cash flow</b>		<b>(8 537)</b>	<b>(142 813)</b>	<b>(16 713)</b>	<b>(146 072)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>24 817</b>	<b>167 630</b>	<b>21 558</b>	<b>167 630</b>
<b>Cash and cash equivalents at the end of the reporting period</b>		<b>16 280</b>	<b>24 817</b>	<b>4 845</b>	<b>21 558</b>

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on February 27, 2019 and they are signed on behalf of the Board by:

Aigars Kalvītis  
Chairman of the Board

Sebastian Gröbblinghoff  
Deputy Chairman of the Board

Elita Dreimane  
Member of the Board

## NOTES TO FINANCIAL STATEMENTS

### 1. Segment information

In 2018 Latvijas Gāze group consists of two segments- natural gas sales & trading segment and distribution segment.

The **natural gas sales & trading segment** comprises the purchase, trade and sale of natural gas. The JSC "Latvijas Gāze" operates the sales & trading business, which 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 JSC "Gaso" owns and operates all distribution assets.

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

Group 2018	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
<b>EBITDA</b>	<b>22 569</b>	<b>14 858</b>	<b>37 427</b>
Depreciation and amortisation	(11 161)	(384)	(11 545)
Financial income	-	40	40
Financial expense	(249)	(488)	(737)
<b>Segment profit before taxes</b>	<b>11 159</b>	<b>14 026</b>	<b>25 185</b>

Group 2017	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
<b>EBITDA</b>	<b>23 344</b>	<b>13 139</b>	<b>36 483</b>
Depreciation and amortisation	(11 477)	(524)	(12 001)
Financial income	-	163	163
Financial expense	(20)	(1 708)	(1 728)
<b>Segment profit before taxes</b>	<b>11 847</b>	<b>11 070</b>	<b>22 917</b>

Company 2018	Gas trade	Total
	EUR'000	EUR'000
<b>EBITDA</b>	<b>24 025</b>	<b>24 025</b>
Depreciation and amortisation	(384)	(384)
Financial income	40	40
Financial expense	(488)	(488)
<b>Segment profit before taxes</b>	<b>23 193</b>	<b>23 193</b>

Company 2017	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
<b>EBITDA</b>	<b>20 148</b>	<b>13 287</b>	<b>33 435</b>
Depreciation and amortisation	(10 558)	(524)	(11 082)
Financial income	-	162	162
Financial expense	-	(1 708)	(1 708)
<b>Segment profit before taxes</b>	<b>9 590</b>	<b>11 217</b>	<b>20 807</b>



Group 2018	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	8 020	2 446	10 466
Segment assets 31.12.2018	255 704	156 174	411 878

Group 2017	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	6 258	2 763	9 021
Segment assets 31.12.2017	250 448	149 643	400 091

Company 2018	Gas trade	Total
	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	2 446	2 446
Segment assets	351 519	351 519

Company 2017	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	5 940	2 763	8 703
Segment assets 31.12.2017	194 534	152 035	346 569

## 2. Revenue from contracts with customers

Group 2018	Gas trade		Gas distribution	
	Latvia	Other countries	Latvia	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	325 714	17 009	49 160	391 883
Inter-segment revenue	(40 493)	-	-	(40 493)
Other revenue	2	-	911	913
	285 223	17 009	50 071	352 303

Group 2017	Gas trade		Gas distribution	
	Latvia	Other countries	Latvia	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	322 215	7 189	49 054	378 458
Inter-segment revenue	(48 452)	-	-	(48 452)
Other revenue	5	-	945	950
	273 768	7 189	49 999	330 956

Company 2018	Gas trade		TOTAL
	Latvia	Other countries	
	EUR'000	EUR'000	EUR'000
Segment revenue	289 193	17 009	306 201
Other revenue	2	-	2
	289 195	17 009	306 204

Company 2017	Gas trade		TOTAL
	Latvia	Other countries	
	EUR'000	EUR'000	EUR'000
Segment revenue	274 220	7 189	281 409
Other revenue	162	-	162
	274 382	7 189	281 571

### 3. Other income

	Group 2018	Group 2017	Company 2018	Company 2017
	EUR'000	EUR'000	EUR'000	EUR'000
Profit from hedging activities	3 196	-	3 196	-
Release of provisions for bad debts, net	-	1 080	-	1 080
Penalties collected from customers	627	624	590	563
Income from construction of service lines	1 002	981	-	2
Other income	2 169	1 538	1 159	637
	6 994	4 223	4 945	2 282

The "Other income" position includes a net amount of 3 196 thousand EUR originating from financial hedging activities. 2 000 thousand EUR out of this profit is attributable to operational activities during the 12 months reporting period. The remaining amount for outstanding derivatives of 1 196 thousand EUR is evaluated on a mark-to-market basis as of the balance sheet date and is attributable to 2019 operational activity.

### 4. Raw materials and consumables used

	Group 2018	Group 2017	Company 2018	Company 2017
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	285 590	263 099	285 213	260 647
Costs of materials, spare parts and fuel	1 366	2 473	48	866
	286 956	265 572	285 261	261 513

## 5. Personnel expenses

	Group 2018	Group 2017	Company 2018	Company 2017
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	19 141	17 840	4 058	3 126
State social insurance contributions	4 641	4 066	904	701
Life, health and pension insurance	1 289	1 063	185	131
Other personnel costs	306	291	209	102
	<b>25 377</b>	<b>23 260</b>	<b>5 356</b>	<b>4 060</b>
Average number of employees	996	981*	117	113*

\*Correction made comparing data with Latvijas Gāze group consolidated and JSC "Latvijas Gāze" annual report 2017.

## 6. Other operating expenses

	Group 2018	Group 2017	Company 2018	Company 2017
	EUR'000	EUR'000	EUR'000	EUR'000
Selling and advertising costs	2 192	2 391	2 006	2 210
Expenses related to premises (rent, electricity, security and other services)	1 444	1 618	501	104
Donations, financial support	742	886	559	643
Office and other administrative costs	1 779	2 001	902	956
Taxes and duties	976	1 005	561	715
Costs of IT system maintenance, communications and transport	1 354	992	576	249
Loss from sale and write off of property, plant and equipment	240	504	-	39
Increase in provisions for bad debts, net	321	-	300	-
Other costs	489	466	79	77
	<b>9 537</b>	<b>9 863</b>	<b>5 484</b>	<b>4 993</b>

## 7. Corporate income tax

	Group 2018	Group 2017	Company 2018	Company 2017
	EUR'000	EUR'000	EUR'000	EUR'000
Corporate income tax	-	3 003	-	1 285
Deferred tax	-	(6 134)	-	1 464
	<b>-</b>	<b>(3 131)</b>	<b>-</b>	<b>2 749</b>

On July 28, 2017 the Parliament adopted the new Corporate Income Tax Law whereby all temporary differences between the carrying amount of assets and liabilities and the tax base are abolished. This means that deferred tax liabilities resulting from temporary differences in fixed assets will no longer be recognised in the Company's and the Group's financial statements. As the result as at 31 December 2017 the Company and the Group partially wrote deferred tax liabilities down in the statement of comprehensive income and partially in the profit or loss statement, recognising them as income.

Reconciliation between profit before taxes and tax expense	Group 2017	Company 2017
	EUR'000	EUR'000
<b>Profit before taxes</b>	<b>22 917</b>	<b>11 218</b>
Tax theoretically calculated at 15% rate	3 438	1 681
Tax effect of:		
Reversal of temporary differences	(375)	(385)
Costs not eligible for reduction of taxable income	543	8 120
Revenue from deferred tax exclusion	(6 134)	(6 134)
Tax reduction on donations	(603)	(533)
<b>Tax expense</b>	<b>(3 131)</b>	<b>2 749</b>

	Group 2017	Company 2017
	EUR'000	EUR'000
Deferred tax liabilities at the beginning of the reporting year	55 109	24 423
Corporate income tax from discontinued operations CBG	(30 686)	-
Change in revaluation reserve as a result of change in Law on Corporate income tax	-	(18 289)
Cancellation of deferred tax due to changes in Law on Corporate income tax:		
Change in revaluation reserve	(18 289)	-
De-recognition of deferred tax liability in statement of profit and loss	(6 134)	(6 134)
	-	-

## 8. Profit from discontinued operations

	Company 2017
	EUR'000
Revenue	44 140
Other income	1 837
Raw materials and consumables used	(3 946)
Personnel expenses	(17 523)
Depreciation, amortisation and impairment of property, plant and equipment	(10 558)
Other operating expenses	(4 360)
<b>Operating profit</b>	<b>9 590</b>
<b>Profit before taxes</b>	<b>9 590</b>
Corporate income tax	6 159
<b>Profit from discontinued operations</b>	<b>15 749</b>

Statement of comprehensive income	Company 2017
	EUR'000
<b>Profit for the year</b>	<b>15 749</b>
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods	
Revaluation of property, plant and equipment	10 178
Deferred tax liability from revaluation of property, plant and equipment	18 289
<b>Net income recognised as other comprehensive income</b>	<b>28 467</b>
<b>Total comprehensive income for the year</b>	<b>44 216</b>

The operations discontinued in 2017 are the function of natural gas distribution, while the transmission and storage functions were discontinued in 2016, which was the last year for the Company as a vertically integrated natural gas transmission, storage, distribution and trading operator. Following the reorganisation, in 2017 the Company operated as a unified natural gas distribution operator and trader, and from December 1, 2017 onwards – as a natural gas trader. See more in Note 22.

In 2017 the average number of employees in the gas distribution segment was 868. See more in Note 22.

## 9. Intangible assets

	Note	Group 2018	Group 2017	Company 2018	Company 2017
		EUR'000	EUR'000	EUR'000	EUR'000
<b>Cost</b>					
<b>As at the beginning of period</b>		<b>13 889</b>	<b>11 306</b>	<b>1 294</b>	<b>11 306</b>
Additions		4 075	2 798	2 260	2 614
Disposals		(406)	(215)	(13)	(215)
Intangibles, transferred during reorganisation	22	-	-	-	(12 411)
<b>As at the end of period</b>		<b>17 558</b>	<b>13 889</b>	<b>3 541</b>	<b>1 294</b>
<b>Amortisation</b>					
<b>As at the beginning of period</b>		<b>9 899</b>	<b>9 124</b>	<b>75</b>	<b>9 124</b>
Amortisation		1 421	990	138	895
Disposals		(406)	(215)	(13)	(215)
Intangibles, transferred during reorganisation	22	-	-	-	(9 729)
<b>As at the end of period</b>		<b>10 914</b>	<b>9 899</b>	<b>200</b>	<b>75</b>
<b>Net book value as at the end of the period</b>		<b>6 644</b>	<b>3 990</b>	<b>3 341</b>	<b>1 219</b>

The intangible assets include fully depreciated intangible assets with a total historical cost of EUR 4 804.8 thousand (Group) and EUR 0.8 thousand (Company) (31.12.2017: EUR 5 184 thousand (Group) and EUR 14 thousand (Company)). The most part of intangible assets of the Group and the Company consists of software. Major intangibles have remaining useful life of 3 years (the Group and the Company).

## 10. Property, plant and equipment

Group	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Cost or revalued amount</b>					
<b>31.12.2017</b>	<b>542 402</b>	<b>31 784</b>	<b>14 436</b>	<b>447</b>	<b>589 069</b>
Additions	3 754	1 124	1 547	(54)	<b>6 371</b>
Revaluation	68	-	-	-	<b>68</b>
Disposals	(1 119)	(288)	(418)	-	<b>(1 825)</b>
<b>31.12.2018</b>	<b>545 105</b>	<b>32 620</b>	<b>15 565</b>	<b>393</b>	<b>593 683</b>
<b>Depreciation</b>					
<b>31.12.2017</b>	<b>317 458</b>	<b>18 822</b>	<b>10 313</b>	-	<b>346 593</b>
Calculated	6 688	2 142	1 310	-	<b>10 140</b>
Disposals	(873)	(267)	(375)	-	<b>(1 515)</b>
<b>31.12.2018</b>	<b>323 273</b>	<b>20 697</b>	<b>11 248</b>	-	<b>355 218</b>
Net book value as of 31.12.2018	221 832	11 923	4 317	393	238 465
Net book value as of 31.12.2017	224 944	12 962	4 123	447	242 476

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Cost or revalued amount</b>					
<b>31.12.2017</b>	-	-	<b>1 198</b>	-	<b>1 198</b>
Additions	-	-	186	-	186
Disposals	-	-	(121)	-	(121)
<b>31.12.2018</b>	-	-	<b>1 263</b>	-	<b>1 263</b>
<b>Depreciation</b>					
<b>31.12.2017</b>	-	-	<b>272</b>	-	<b>272</b>
Calculated	-	-	245	-	245
Disposals	-	-	(102)	-	(102)
<b>31.12.2018</b>	-	-	<b>415</b>	-	<b>415</b>
Net book value as of 31.12.2018	-	-	848	-	848
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
<b>Cost or revalued amount</b>					
<b>31.12.2016</b>	<b>487 258</b>	<b>30 869</b>	<b>11 955</b>	<b>463</b>	<b>530 545</b>
Additions	2 946	1 072	1 565	872	<b>6 455</b>
Revaluation	53 946	2 220	-	-	<b>56 166</b>
Reclassified	799	(1 716)	1 805	(888)	-
Disposals	(2 547)	(661)	(889)	-	<b>(4 097)</b>
<b>31.12.2017</b>	<b>542 402</b>	<b>31 784</b>	<b>14 436</b>	<b>447</b>	<b>589 069</b>
<b>Depreciation</b>					
<b>31.12.2016</b>	<b>264 970</b>	<b>19 247</b>	<b>8 809</b>	-	<b>293 026</b>
Calculated	7 968	1 902	1 155	-	<b>11 025</b>
Revaluation	46 667	(600)	-	-	<b>46 067</b>
Reclassified	-	(1 114)	1 114	-	-
Disposals	(2 147)	(613)	(765)	-	<b>(3 525)</b>
<b>31.12.2017</b>	<b>317 458</b>	<b>18 822</b>	<b>10 313</b>	-	<b>346 593</b>
Net book value as of 31.12.2017	224 944	12 962	4 123	447	242 476
Net book value as of 31.12.2016	222 288	11 622	3 146	463	237 519

Company	Note	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Cost or revalued amount</b>						
<b>31.12.2016</b>		<b>487 258</b>	<b>30 869</b>	<b>11 955</b>	<b>463</b>	<b>530 545</b>
Additions		2 935	1 065	1 484	613	<b>6 097</b>
Revaluation		53 946	2 220	-	-	<b>56 166</b>
Reclassified		-	(1 799)	1 799	-	-
Disposals		(1 424)	(631)	(882)	-	<b>(2 937)</b>
Assets, transferred during reorganisation	22	(542 715)	(31 724)	(13 158)	(1 076)	<b>(588 673)</b>
<b>31.12.2017</b>		<b>-</b>	<b>-</b>	<b>1 198</b>	<b>-</b>	<b>1 198</b>
<b>Depreciation</b>						
<b>31.12.2016</b>		<b>264 970</b>	<b>19 247</b>	<b>8 809</b>	<b>-</b>	<b>293 026</b>
Calculated		7 413	1 722	1 065	-	<b>10 200</b>
Revaluation		46 667	(600)	-	-	<b>46 067</b>
Reclassified		-	(1 114)	1 114	-	-
Disposals		(1 172)	(608)	(761)	-	<b>(2 541)</b>
Assets, transferred during reorganisation	22	(317 878)	(18 647)	(9 955)	-	<b>(346 480)</b>
<b>31.12.2017</b>		<b>-</b>	<b>-</b>	<b>272</b>	<b>-</b>	<b>272</b>
<b>Net book value as of 31.12.2017</b>		<b>-</b>	<b>-</b>	<b>926</b>	<b>-</b>	<b>926</b>
<b>Net book value as of 31.12.2016</b>		<b>222 288</b>	<b>11 622</b>	<b>3 146</b>	<b>463</b>	<b>237 519</b>

The fixed assets include fully depreciated fixed assets with a total historical cost of EUR 8 291 thousand (the Group) and 84 thousand EUR (the Company) (at 31.12.2017: EUR 5,861 thousand (the Group) and 100 thousand EUR (the Company)).

In 2017 the Company carried out the revaluation of Buildings, Constructions and Machinery and equipment. Assets were revaluated as at June 1, 2017. This is a repeated revaluation.

### Revaluation effect

In 2017 the Company carried out the revaluation of buildings, constructions and machinery and equipment of the Distribution segment, which were later transferred to subsidiary undertaking. Considering the unique nature and use of the assets, revaluation was based on Level 3 data, meaning that the data are not freely observable for the relevant type of assets.

The revaluation was performed by an external expert using the depreciated replacement cost method. According to this method, the initial value of assets is determined according to the prices, requirements and applied materials at the time of the valuation. The key assumptions during the revaluation process are associated with the materials cost and the cost of the average construction prices at the time of revaluation. For the determination of values, data available to the Company about similar constructions of facilities in recent years is used. A significant section of the revaluation consists of the revaluation of gas distribution pipelines. In case of an increase in the average construction cost in the country or a significant increase in the cost of materials, the replacement cost will increase, too. If the cost of construction or materials decreases, the replacement cost of the assets will decrease accordingly. No economic obsolescence test was performed as revenue tariffs cover all revaluated amount.

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

As a result of the revaluation, the gross asset amount was increased by 56 166 thousand EUR and the accumulated depreciation was increased by 46 067 thousand EUR. As a result of the revaluation, a gain of 10 178 thousand was recognised in the statement of comprehensive income, while a net loss of 153 thousand EUR was included in the profit and loss account.

## 11. Investment in subsidiary

	Company
	EUR'000
Invested during reorganisation 1.12.2017	194 534
Balance sheet value 31.12.2018	194 534

Shares held	31.12.2018
JSC "Gasol"	100%

	Subsidiary's equity 31.12.2018	Subsidiary's equity 31.12.2017	Subsidiary's profit 2018	Subsidiary's profit 2017
	EUR'000	EUR'000	EUR'000	EUR'000
JSC "Gasol"	198 501	196 338	10 970	1 831

## 12. Inventories

	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	102 442	79 608	102 442	79 608
Materials and spare parts	1 597	1 357	-	-
Allowance for slow-moving inventory	(76)	(73)	-	-
	103 963	80 892	102 442	79 608

## 13. Trade receivables

Trade receivables	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Long-term receivables at book value	26	10	6	10
Allowance for impairment of long-term receivables	-	(3)	-	(3)
	26	7	6	7
Short-term receivables at book value	43 702	44 614	43 071	43 840
Allowance for impairment of short-term receivables	(8 128)	(8 581)	(8 107)	(8 581)
	35 574	36 033	34 964	35 259

Allowance for impairment of bad and doubtful receivables	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Allowance at the beginning of the year</b>	<b>8 581</b>	<b>10 224</b>	<b>8 581</b>	<b>10 224</b>
Costs included in profit or loss statement from continuing operations	321	1 551	300	1 551
Release of allowance in profit or loss statement from discontinued operations	-	(2 631)	-	(2 631)
<b>Net changes included in profit or loss statement</b>	<b>321</b>	<b>(1 080)</b>	<b>300</b>	<b>(1 080)</b>
Bad debts written off	(774)	(563)	(774)	(563)
<b>Allowance at the end of the year</b>	<b>8 128</b>	<b>8 581</b>	<b>8 107</b>	<b>8 581</b>

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

#### 14. Taxes

Group Tax movement	Liabilities 31.12.2017	Receivable 31.12.2017	Calculated 2018	Paid 2018	Liabilities* 31.12.2018	Receivable 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	4 500	-	67 518	(66 286)	5 732	-
Excise tax	1 267	-	8 453	(8 581)	1 139	-
Social security contributions	482	-	6 631	(6 493)	620	-
Corporate income tax	279	4 101	26	3 733	-	63
Personal income tax	310	-	3 494	(3 491)	313	-
Real estate tax	-	-	181	(181)	-	-
Natural resource tax	5	-	8	(7)	6	-
	<b>6 843</b>	<b>4 101</b>	<b>86 311</b>	<b>(81 306)</b>	<b>7 810</b>	<b>63</b>

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

Company Tax movement	Liabilities 31.12.2017	Receivable 31.12.2017	Calculated 2018	Paid 2018	Liabilities* 31.12.2018	Receivable 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	3 495	-	58 905	(57 533)	4 867	-
Excise tax	1 267	-	8 425	(8 555)	1 137	-
Social security contributions	100	-	1 355	(1 364)	91	-
Corporate income tax	-	4 101	26	4 012	-	63
Personal income tax	91	-	858	(909)	40	-
Natural resource tax	5	-	-	(5)	-	-
	<b>4 958</b>	<b>4 101</b>	<b>69 569</b>	<b>(64 354)</b>	<b>6 135</b>	<b>63</b>

Company Tax movement	Liabilities 31.12.2016	Receivable 31.12.2016	Calculated 2017	Paid 2017	Liabilities* 31.12.2017	Receivable 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	7 852	-	61 898	(66 255)	3 495	-
Excise tax	2 636	-	15 182	(16 551)	1 267	-
Social security contributions	1 553	-	5 499	(6 952)	100	-
Corporate income tax	-	988	2 726	(5 839)	-	4 101
Personal income tax	898	-	3 210	(4 017)	91	-
Real estate tax	-	-	280	(280)	-	-
Natural resource tax	36	-	6	(37)	5	-
	<b>12 975</b>	<b>988</b>	<b>88 801</b>	<b>(99 931)</b>	<b>4 958</b>	<b>4 101</b>

\* See Note 21.

## 15. Other current assets

	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Deferred charges	535	352	288	137
Accrued income	4 809	2 972	4 809	2 972
Other receivables	483	214	354	2 012
	<b>5 827</b>	<b>3 538</b>	<b>5 451</b>	<b>5 121</b>
Allowance for impairment of bad and doubtful debts	-	(56)	-	(56)
	<b>5 827</b>	<b>3 482</b>	<b>5 451</b>	<b>5 065</b>

## 16. Shares and shareholders

Equity	31.12.2018 % of total share capital	31.12.2018 Number of shares	31.12.2017 % of total share capital	31.12.2017 Number of shares
<b>Share capital</b>				
Registered (closed issue) shares	36.52	14 571 480	36.52	14 571 480
Bearer (public issue) shares	63.48	25 328 520	63.48	25 328 520
	<b>100.00</b>	<b>39 900 000</b>	<b>100.00</b>	<b>39 900 000</b>
<b>Shareholders</b>				
Uniper Ruhrgas International GmbH <i>(including registered (closed issue) shares 7,285,740)</i>	18.26	7 285 740	18.26	7 285 740
Marguerite Gas II S. à r.l.	28.97	11 560 645	28.97	11 560 645
Itera Latvija SIA	16.00	6 384 001	16.00	6 384 001
PJSC "Gazprom" <i>(including registered (closed issue) shares 7,285,740)</i>	34.00	13 566 701	34.00	13 566 701
Bearer (public issue) shares	2.77	1 102 913	2.77	1 102 913
	<b>100.00</b>	<b>39 900 000</b>	<b>100.00</b>	<b>39 900 000</b>

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

As at December 31, 2018 and as at December 31, 2017, the registered, signed and paid share capital consists of 39,900,000 shares with a par value of EUR 1.40 each. All shares have equal voting rights and rights to dividends.

The Company has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as the basic earnings per share. Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

Dividends payable are not accounted for until they are declared at the Annual General Meeting. These Financial Statements do not reflect any future dividends payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings for 2018. Total dividends paid out to shareholders in 2018 amounted to EUR 23 142 thousand (EUR 0.58 per share).

Earnings per share/ Group	Earnings per share		Earnings per share from continuing operations	
	2018	2017	2018	2017
<b>Net profit attributable to shareholders (a) EUR'000</b>	<b>25 185</b>	<b>26 048</b>	<b>25 185</b>	<b>26 048</b>
Ordinary shares as at 1 January (Number, th.)	39 900	39 900	39 900	39 900
Ordinary shares as at 31 December (Number, th.)	39 900	39 900	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b) (Number, th.)	39 900	39 900	39 900	39 900
<b>Basic earnings per share during the year (a/b) in EUR</b>	<b>0.631</b>	<b>0.653</b>	<b>0.631</b>	<b>0.653</b>

Earnings per share / Company	Earnings per share		Earnings per share from continuing operations	
	2018	2017	2018	2017
<b>Net profit attributable to shareholders (a) EUR'000</b>	<b>23 193</b>	<b>24 217</b>	<b>23 193</b>	<b>8 469</b>
Ordinary shares as at 1 January (Number, th.)	39 900	39 900	39 900	39 900
Ordinary shares as at 31 December (Number, th.)	39 900	39 900	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b) (Number, th.)	39 900	39 900	39 900	39 900
<b>Basic earnings per share during the year (a/b) in EUR</b>	<b>0.581</b>	<b>0.607</b>	<b>0.581</b>	<b>0.212</b>

## 17. Interest-bearing loans and borrowings

Loans	Group	Group	Company	Company
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
<i>Loan from JSC "SEB banka"</i>				
Long-term part of the loan	29 167	32 375	-	-
Short-term part of the loan (i.e. less than 12 months)	3 500	2 625	-	-
<i>Overdraft from "OP Corporate Bank" plc Branch in Latvia</i>	8 386	3 361	8 386	3 361
	<b>41 053</b>	<b>38 361</b>	<b>8 386</b>	<b>3 361</b>

In 2017 the Company received a long term year loan of 35,000 thousand EUR for 5 years. Under the reorganisation, the Company transferred this loan to the newly established acquiring Joint Stock Company "Gasol". The loan is due for repayment starting in April 2018. Loan interest rate is fixed % p.a. plus 6 month EURIBOR. Overdraft interest rate is fixed % p.a. plus 3 month EURIBOR.

## 18. Deferred income

	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Income from residential and corporate customers' contributions to construction of gas pipelines:</b>				
Long-term part	18 658	18 918	-	-
Short-term part	1 019	998	-	5
	<b>19 677</b>	<b>19 916</b>	<b>-</b>	<b>5</b>

### Changes of deferred income

	Note	Group 2018	Group 2017	Company 2018	Company 2017
		EUR'000	EUR'000	EUR'000	EUR'000
<b>Balance at the beginning of the year</b>		<b>19 916</b>	<b>20 169</b>	<b>5</b>	<b>20 169</b>
Received from residential and corporate customers during reporting year		768	726	-	658
Included in income of reporting year		(1 007)	(979)	(5)	(896)
Transferred during reorganisation	22	-	-	-	(19 926)
<b>Total transfer to next years</b>		<b>19 677</b>	<b>19 916</b>	<b>-</b>	<b>5</b>

## 19. Employment and post-employment benefit obligations

Employment and post-employment benefit obligations	Note	Group 2018	Group 2017	Company 2018	Company 2017
		EUR'000	EUR'000	EUR'000	EUR'000
<b>Obligations at the beginning of the reporting year</b>		<b>3 246</b>	<b>3 731</b>	<b>279</b>	<b>3 731</b>
Recognised in profit or loss statement from continuing operations		(496)	48	(38)	(154)
Recognised in profit or loss statement from discontinued operations		-	-	-	100
Paid		(296)	(115)	(29)	(85)
Revaluations due to changes in actuarial assumptions – other comprehensive income		(190)	(418)	(87)	(446)
Transferred during reorganisation	22	-	-	-	(2 867)
<b>Obligations at the end of the reporting year</b>		<b>2 264</b>	<b>3 246</b>	<b>125</b>	<b>279</b>

Assumptions used in calculations of obligations	2018	2017
Discount rate, %	0.5785%	0.205%
Employee rotation rate,%	3.82-6.96%	3.93%
Employee retirement age, years	63.3-65	63-65
Wage growth,%	4.00%	4.00%
Contributions to private pension fund,%	5.00%	5.00%
Compulsory social security contributions (employees),%	24.09%	24.09%
Compulsory social security contributions (retired),%	21.31%	21.31%

Assumptions used in calculations of obligations			Assumption changes effect on accruals			
			Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
<i>Changes in assumptions</i>						
Discount rate	+ 0.5%	Accruals reduces by	0.03%	0.01%	6.60%	0.02%
Employee rotation rate	+ 0.5%	Accruals reduces by	0.19%	0.18%	0.07%	0.28%
Employee retirement age	+1 years	Accruals reduces by	3.26%	1.73%	1.26%	1.43%
Wage growth	+0.5%	Accruals increases by	0.18%	0.16%	6.67%	0.25%
Contributions to private pension fund	+0.5%	Accruals increases by	0.02%	0.02%	0.37%	0.02%
Compulsory social security contributions	+0.5%	Accruals increases by	0.09%	0.08%	0.39%	0.07%

Assumptions used in calculations of obligations			Assumption changes effect on accruals			
			Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
<i>Changes in assumptions</i>						
Discount rate	-0.5%	Accruals increases by	0.03%	0.01%	7.35%	0.02%
Employee rotation rate	-0.5%	Accruals increases by	0.19%	0.18%	0.07%	0.28%
Employee retirement age	-1 year	Accruals increases by	3.19%	1.47%	2.99%	0.23%
Wage growth	-0.5%	Accruals reduces by	0.18%	0.15%	6.06%	0.25%
Contributions to private pension fund	-0.5%	Accruals reduces by	0.02%	0.02%	0.37%	0.02%
Compulsory social security contributions	-0.5%	Accruals reduces by	0.09%	0.08%	0.39%	0.09%

Provisions were calculated on the assumption that the discount rate in 2018 is 0.5785% (2017: 0.205%), i.e., equals to the average annual rate of return of treasury securities with the initial maturity of five years and more, effective in the last two issues of such securities (source: State Treasury).

The 3.82% (the Group) and 6.96% (the Company) (3.93% in 2017 both) assumption of employee turnover rate, in turn, resulted from a calculation methodology based on the proportion between the number of employees having left the company (on their own initiative) and the number of employees in the reporting period.

The assumption of employee retirement age is based on Article 8.1 of the transitional provisions of the law "On State Pensions" (hereinafter – the Law) adopted on November 2, 1995 whereby the age of eligibility for retirement pension as per Section 11 Paragraph one of the Law, – 62 to 65 years – shall increase gradually and is specified for each year individually. As of December 31, 2018, it is 63.5 years.

The assumptions concerning the increase of salaries corresponds to the estimated inflation figure for the next year, which, according to the forecasts by the Bank of Latvia, will fluctuate between 3.0% and 3.6%. It is also assumed as only variable for up to six years and constant afterwards. In the last few years, the Company and the Group kept it at 4%.

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

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



## 20. Trade payables

	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Payables to related parties	3 055	10	9 107	12 476
Payables to third parties	2 526	1 383	821	862
	<b>5 581</b>	<b>1 393</b>	<b>9 928</b>	<b>13 338</b>

## 21. Other liabilities

	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Prepayments received	18 679	14 198	18 652	14 198
Value added tax	5 732	4 500	4 867	3 495
Accrued costs	4 723	6 268	1 580	3 789
Excise tax	1 139	1 267	1 137	1 267
Vacation pay reserve	881	953	137	168
Salaries	777	776	177	202
Social security contributions	620	482	91	100
Personnel income tax	313	310	40	91
Other current liabilities	78	5	11	5
Natural resource tax	6	83	-	21
	<b>32 948</b>	<b>28 842</b>	<b>26 692</b>	<b>23 336</b>

## 22. Assets and liabilities transferred to Group's subsidiary JSC "Gasol"

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

Equity and liabilities	Note	1.12.2017
		EUR'000
<b>Equity</b>		
Share capital		39 900
Reorganisation reserve		(49 911)
Revaluation reserve of property, plant and equipment		132 735
Employee benefits revaluation reserve		113
Retained earnings		71 697
<b>Total equity</b>		<b>194 534</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings		32 375
Deferred income		18 935
Provisions for post-employment benefits		2 867
<b>Total non-current liabilities</b>		<b>54 177</b>
<b>Current liabilities</b>		
Interest-bearing loans and borrowings		2 625
Deferred income		991
Other liabilities		3 253
<b>Total current liabilities</b>		<b>6 869</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>255 580</b>

Under the reorganisation, the newly established Joint Stock Company "Gaso" (unified registration No. 40203108921, legal address: 20 Vagonu Street, Riga, LV-1009) was transferred the natural gas distribution business of the Joint Stock Company "Latvijas Gāze" in its full economic composition comprised of assets and liabilities. The Joint Stock Company "Gaso" has received all the permits and licenses necessary for its natural gas distribution business. Under Section 20 Paragraph one and Section 351 Paragraphs two and three of the Commercial Law, the Joint Stock Company "Latvijas Gāze" is liable for the obligations (having arisen prior to reorganisation) of the natural gas distribution business, transferred by way of reorganisation to the Joint Stock Company "Gaso", for 5 years after the effective date of the reorganisation of the Joint Stock Company "Latvijas Gāze". This liability is not accounted for in these financial statements. The reorganisation took effect on December 1, 2017 (the day of enrolment with the commercial register).

### Assets and liabilities transferred to Group's subsidiary JSC "Conexus Baltic Grid"

	31.12.2016
	EUR'000
Total assets	255 580
Equity	274 086
Liabilities	77 582

## 23. Related party transactions

No individual entity exercises control over the Company. The Company and the Group engaged in the 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 – PJSC "Gazprom" and the companies under its control (including JSC "Conexus Baltic Grid", which was jointly controlled by PJSC Gazprom, Itera Latvija SIA and Uniper Ruhrgas International GmbH until December 30, 2017. As at 31 December 2018 two shareholders of the Company own more than 20% of JSC "Conexus Baltic Grid" shares). Since 2017 JSC "Latvijas Gāze" has newly established subsidiary JSC "Gaso".

Income or expenses	Group 2018	Group 2017	Company 2018	Company 2017
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Income from provision of services</b>				
JSC "Gaso"	-	-	4 344	1 982
JSC "Conexus Baltic Grid"	8 644	5 612	8 644	5 612
<b>Expenses on natural gas purchase</b>				
PJSC "Gazprom"	292 806	309 371	292 806	309 371
<b>Expenses on natural gas transmission, storage and other related services</b>				
JSC "Conexus Baltic Grid"	35 627	36 775	35 627	36 775
<b>Expenses on natural gas distribution and other related services</b>				
JSC "Gaso"	-	-	36 710	5 792

Related party payables and receivables	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Receivables from related companies</b>				
JSC "Gaso"	-	-	811	2 392
JSC "Conexus Baltic Grid"	266	726	266	726
<b>Advance payments to related entities</b>				
PJSC "Gazprom"	5 025	4 292	5 025	4 292
<b>Payables to related companies for natural gas and services</b>				
PJSC "Gazprom"	113	10	113	10
JSC "Conexus Baltic Grid"	2 941	3 120	2 941	3 120
JSC "Gaso"	-	-	6 052	12 466

## 24. Financial risk management

Financial assets and liabilities	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Trade receivables	35 574	36 033	34 964	35 259
Accrued income	4 809	2 972	4 809	2 972
Cash and cash equivalents	16 280	24 817	4 845	21 558
<b>Financial assets</b>	<b>56 663</b>	<b>63 822</b>	<b>44 618</b>	<b>59 789</b>
Borrowings	41 053	38 361	8 386	3 361
Accrued expenses	4 723	6 268	1 580	3 789
Trade payables	5 581	1 393	9 928	13 338
<b>Financial liabilities</b>	<b>51 357</b>	<b>46 022</b>	<b>19 894</b>	<b>20 488</b>

### Considerations of fair value

IFRS 13 lays down the hierarchy of valuation techniques based on whether there are observable market data used in the valuation technique or market data are not observable. Observable market data are obtained from independent sources. If no market data are observable, the technique reflects the Company's and the Group's assumptions on the market situation. The carrying amount of liquid and short-term financial assets and liabilities (with a repayment term of three months or less), such as cash and cash equivalents, short-term trade receivables and payables, and short-term loans from credit institutions, approximately corresponds to their fair value.

The fair value of long-term loans from credit institutions is measured by discounting future cash flows with market interest rates. As the interest rates applied to loans from credit institutions are variable and loans received as recent transactions and

do not substantially differ from the market rates, the fair value of non-current liabilities approximately corresponds to their carrying amount.

The Group's financial assets fall under Level 3, except cash and cash equivalents which fall under Level 2. Information on the levels of the hierarchy of fair value is provided in Note 25 "Critical accounting estimates and judgments".

### Capital risk management

The Group's and the Company's objectives when managing capital are to safeguard the Group's and the Company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital. The Group and the Company performs management of the capital, based on proportion of borrowed capital against total capital. This indicator is calculated as proportion of total liabilities, less cash and cash equivalents, to the total capital of the Group or the Company. Liabilities include all long term and short-term liabilities, but total capital includes all liabilities of the Company and equity. This indicator is used to evaluate structure of the capital of the Company, as well as its solvency. As at 31.12.2018 and 31.12.2017 the proportion of borrowed capital to total capital was as follows:

	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Total liabilities	101 523	92 037	45 131	40 319
(Cash and cash equivalents)	(16 280)	(24 817)	(4 845)	(21 558)
(Deferred income)	(19 677)	(19 916)	-	(5)
Net total liabilities	65 566	47 304	40 286	18 756
Total equity and liabilities	411 878	400 091	351 519	346 569
<b>Borrowed capital proportion to total capital</b>	<b>15.92%</b>	<b>11.82%</b>	<b>11.46%</b>	<b>5.41%</b>

### Credit risk

The Company and the Group is exposed to credit risk, which is a risk of material losses arising in case of a counterparty not being able to fulfil its contractual obligations to the Company and the Group. Credit risks arise from cash and cash equivalents, as well as credit exposure to customers, including outstanding receivables and committed transactions.

#### Concentration of credit risk

Trade receivables	31.12.2018 Group	31.12.2017 Group	31.12.2018 Company	31.12.2017 Company
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Trade receivables, gross</b>	<b>43 702</b>	<b>44 585</b>	<b>43 071</b>	<b>43 811</b>
Allowance for impairment of bad and doubtful debts	(8 128)	(8 552)	(8 107)	(8 552)
<b>Trade receivables, net</b>	<b>35 574</b>	<b>36 033</b>	<b>34 964</b>	<b>35 259</b>

In the reporting year, Latvijas Gāze group remained exposed to a high risk of customer concentration – five customers together accounted for 50% of the sales volume of 2018 (51% of 2017).

#### Credit risk management practices

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

For managing the credit risk associated with cash and cash equivalents, the Company has approved a financial asset management policy. Based on internal guidelines all credit institutions with which the Company cooperates are graded once in a quarter, taking into account their financial measures as well as non-financial indicators. Based on the assessment, limits for current accounts with one institution as well as deposit limits are defined and regularly monitored. Due to low interest rates as at December 31, 2018 and December 31, 2017, cash and cash equivalents represented only current account balances with credit institutions.

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



### Liquidity risk

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

The Company and the Group uses cash flow planning tools to manage liquidity risk. The Company and the Group prepares yearly, quarterly and monthly cash flows to identify operational cash flow requirements. In 2018 and 2017 the Group attracted short term credit line and used long term loan.

### Covenants

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

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

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

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

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

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

### Market risk

Market risk is the risk that changes due to market factors, such as changes in foreign exchange rates, interest rates and commodity prices can affect the Company's or Group's profits. As at 31.12.2018 the Group and the Company had a cash

balance in foreign currencies of 16 thous. USD (14 thous. EUR), as at 31.12.2017 the Group and the Company 20 198 thous. USD (16,834 thous. EUR). The Group and the Company have no other assets or liabilities in foreign currencies. All the Group's and the Company's borrowings are subject to interest rates based on a EURIBOR rate plus a fixed premium.

The Company faces a certain market risk arising from injecting significant gas quantities into the Inchukalns Underground Storage during the injection season for sale during heating period (calendar spread risk) as well as from the mismatch between purchase and sales pricing concepts. Latvijas Gāze prioritizes internal market risk mitigation by negotiating supply agreement terms and working with its sales portfolio to the extent it is possible. In addition, the Company may place hedges by entering into derivative transactions.

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

## 25. Critical accounting estimates and judgements

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

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

### Revaluation of property, plant and equipment

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

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

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

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

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

#### *Quoted market prices - Level 1*

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

#### *Valuation techniques using observable inputs - Level 2*

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

#### *Valuation technique using significant unobservable inputs - Level 3*

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

### **Recoverable amount of trade receivables**

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

### **Inventory valuation**

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

### **Revenue recognition**

The Management Board of the Company performed an 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 amount of these tariffs. Revenues from invoices to customers for gas transmission and gas distribution are offset against the corresponding expenses and presented in the Company's financial statement in the net amount. Revenues from invoices to customers for gas transmission are offset against the corresponding expenses and presented in the Group's financial statement in the net amount.

### **Deferred tax accounting**

Deferred tax liability is not recognised on temporary differences associated with investments in subsidiary as the Company has determined that subsidiary's current year profit will not be distributed in the foreseeable future.

## **26. Key accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied during all years presented, unless otherwise stated.

### **Application of IFRS 5**

In the financial statements of the Company 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.

### **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 or revised standards and interpretations became effective for the Company and the Group from 1 January 2018:

#### **IFRS 9, Financial Instruments** (effective for annual periods beginning on or after 1 January 2018)

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Adoption of the new standard had had an impact on the financial result of the Company and the Group by increase of provisions for doubtful debts and related expenses by 109 thousand EUR (the Company) and 116 thousand EUR (the Group) as at 31 December 2018.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Company or the Group.

#### Property, plant and equipment

Property, plant and equipment are tangibles, which are held for use in the supply of goods and in the provision of services, and used in more than one period. The Company's and the Group's main asset groups are buildings and constructions, 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 does not differ 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. The revaluation reserve is depreciated to retained earnings during the useful life of the related asset.

Land 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 of disposal 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 and 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 and is determined using FiFo (first in first out) method. 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 and 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.

### Investment in subsidiary

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 cost of investment 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 cost of disposal 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 only subsidiary JSC "Gasol" have been consolidated into the Group's financial statements by merging the respective items of assets, liabilities, revenue and expenses. The Group subsidiary's financial statements are included in the consolidated financial statements from the day when control is acquired up during reorganisation 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 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 profit or loss statement of the same year. Expenses arising from post-employment benefits are included in the profit or loss 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 other comprehensive income in the period in which they arise.

#### Hedging instruments

Hedging instruments and any financial asset and financial liability that qualifies as a hedged item are carried at fair value obtained from quoted market prices.

Gains or losses from changes in the fair value of the hedging instruments are included in the profit or loss statement 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. General and specific borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. All other borrowing costs are recognised in the profit or loss statement 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.

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, which can result in Accrued income and Received prepayments in the balance sheet. 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 received for late payments of 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*

Other income includes compensation of losses due to usage of unaccounted natural gas and other compensations. 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. Reorganisation is accounted as transaction between entities under common control.

The Discontinued operations Profit or loss statement is provided in the notes to Financial Statements.

## 27. Remuneration of certified auditors company

	Group 2018	Group 2017	Company 2018	Company 2017
	EUR'000	EUR'000	EUR'000	EUR'000
Statutory audit	39	59	24	44
Other audit services	-	5	-	5
Tax services	-	-	-	-
Non-audit services	1	12	1	12
	40	76	25	61

## 28. Contingent liabilities

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

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

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

## 29. Subsequent events

Since December 31, 2018 up to the signing of these financial statements there have been no events with effect on the financial position or financial results of the Company and the Group as at the balance sheet date.