

“LATVIJAS GĀZE” GROUP CONSOLIDATED AND  
JSC “LATVIJAS GĀZE” ANNUAL REPORT  
FOR YEAR ENDED 31 DECEMBER 2018

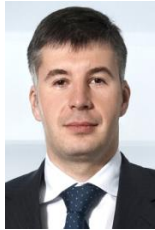
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## COUNCIL OF THE JSC "LATVIJAS GĀZE"

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



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

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



**Juris Savickis,** 1946  
Vice-Chairman of the Council

Since 1996, President of LLC "ITERA Latvija"



**Oliver Giese,** 1967  
Vice-Chairman of the Council

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



**Matthias Kohlenbach,** 1969  
Member of the Council

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



**David Stephen Harrison,** 1970  
Member of the Council

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



**Nicolàs Merigó Cook,** 1963  
Member of the Council

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



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

Since 2014, shareholder and Chief Executive Officer of FLORENGY AG (Essen, Germany)



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

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



**Vitaly Khatkov,**  
(Виталий Хатков), 1969  
Member of the Council

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



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

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



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

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

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

## MANAGEMENT BOARD OF THE JSC "LATVIJAS GĀZE"

(Term of office from August 16, 2018 till August 15, 2021)



**Aigars Kalvītis, 1966**  
Chairman of the Board

Latvian University of Agriculture -  
Master's Degree in Economics



**Sebastian Gröblichhoff, 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 31 December 2018

	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

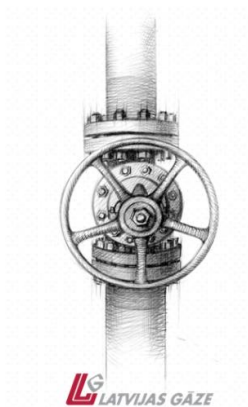
To strengthen the position of Latvijas Gāze group as a leader in the Latvian and Baltic energy market by becoming the natural gas supplier of first choice for customers and by ensuring the most stable supply of natural gas for the Baltic region.

### 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 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.

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

The market capitalization value of the JSC "Latvijas Gāze" in 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

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

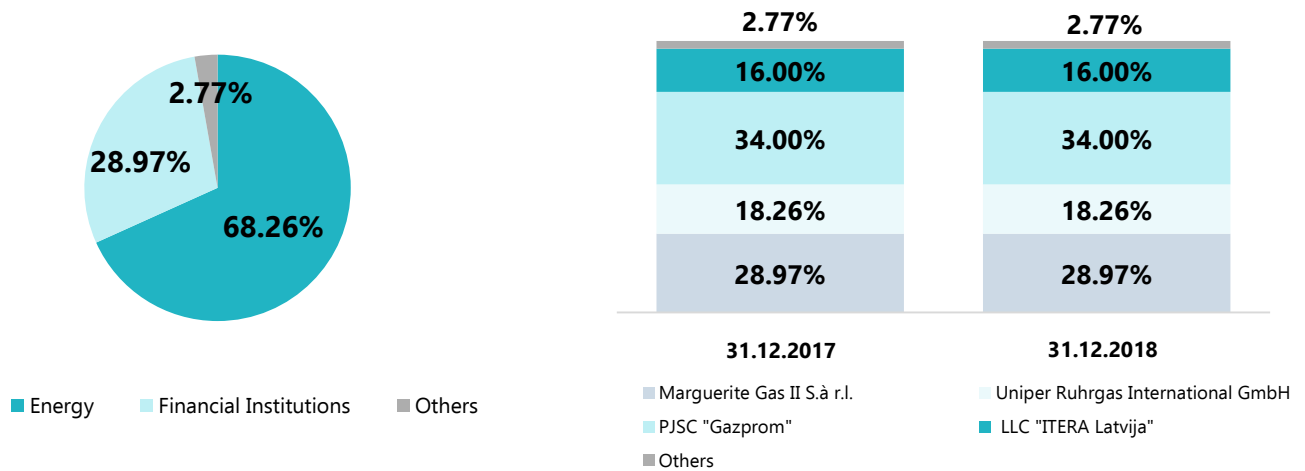


Source: Nasdaq Baltic

## 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)	-10.2%	13.6%	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



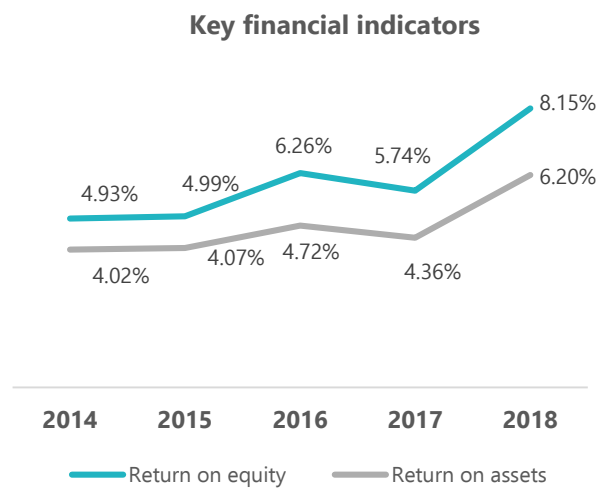
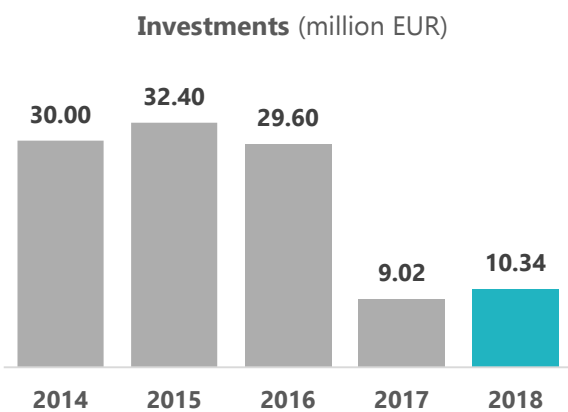
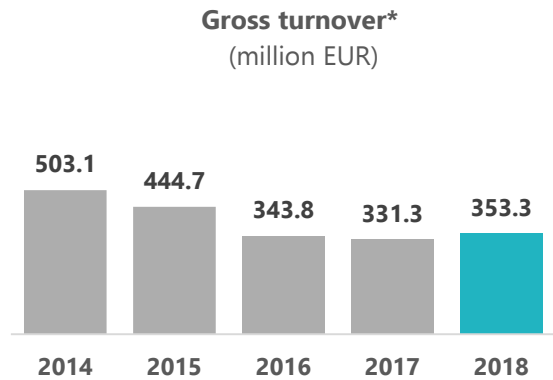
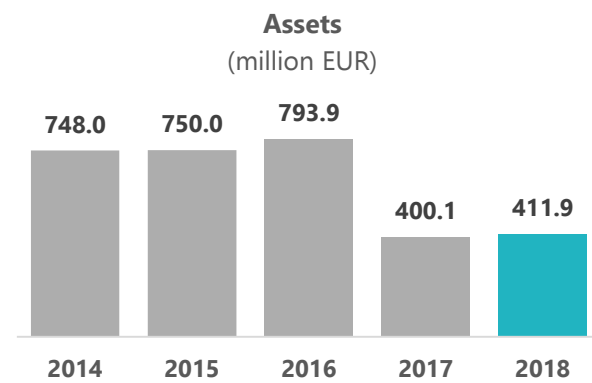
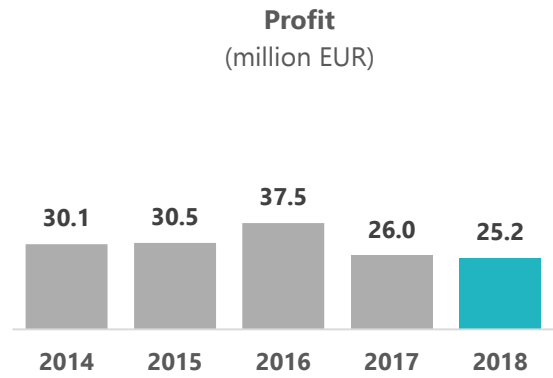
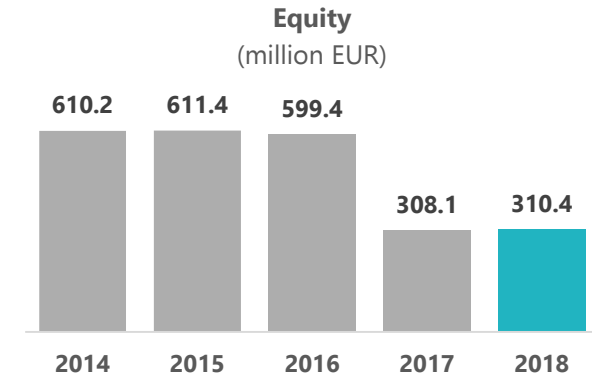
## SHARES OWNED BY MEMBERS OF THE GOVERNING BODIES OF THE JSC "LATVIJAS GĀZE"

		At the date of signing financial statements
		Number of shares
<b>Management Board</b>		
Chairman of the Board	Aigars Kalvītis	None
Deputy Chairman of the Board	Denis Emelyanov	None
Deputy Chairman of the Board	Sebastian Gröbblinghoff	None
Member of the Board	Elita Dreimane	None
<b>Council</b>		
Chairman of the Council	Kirill Seleznev	None
Deputy Chairman of the Council	Juris Savickis	None
Deputy Chairman of the Council	Oliver Giese	None
Member of the Council	David Stephen Harrison	None
Member of the Council	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

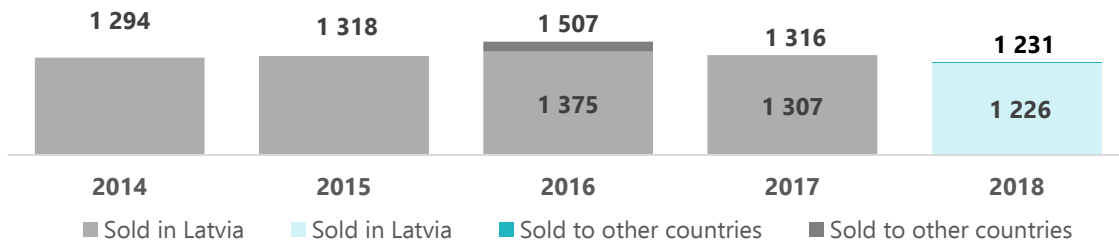
### FINANCIAL INDICATORS



\*Revenue from contracts with customers (including excise duty)

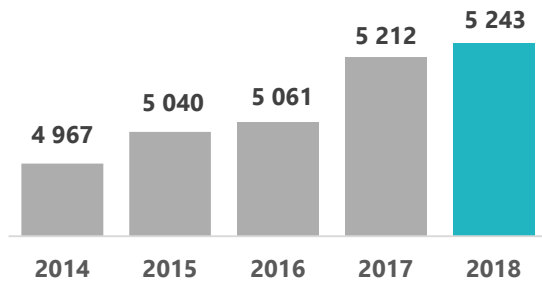
## NATURAL GAS VOLUMES

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

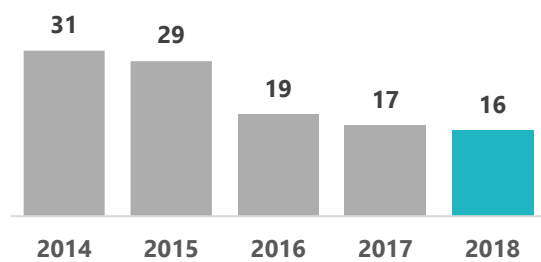


## DISTRIBUTION SYSTEM

Gas distribution pipelines owned  
by Latvijas Gāze Group (km)

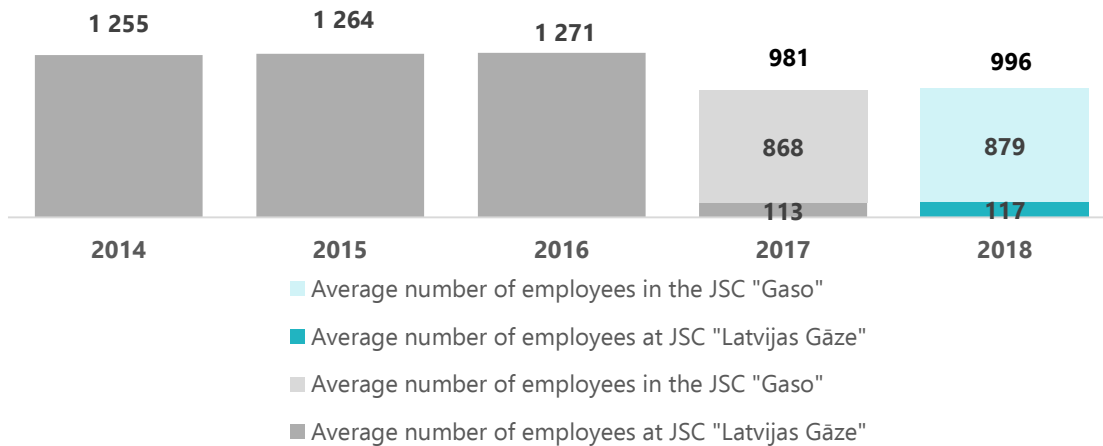


Construction of gas distribution  
pipelines (km)



## 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 "Gasol". 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 "Gasol" 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 8.9% 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

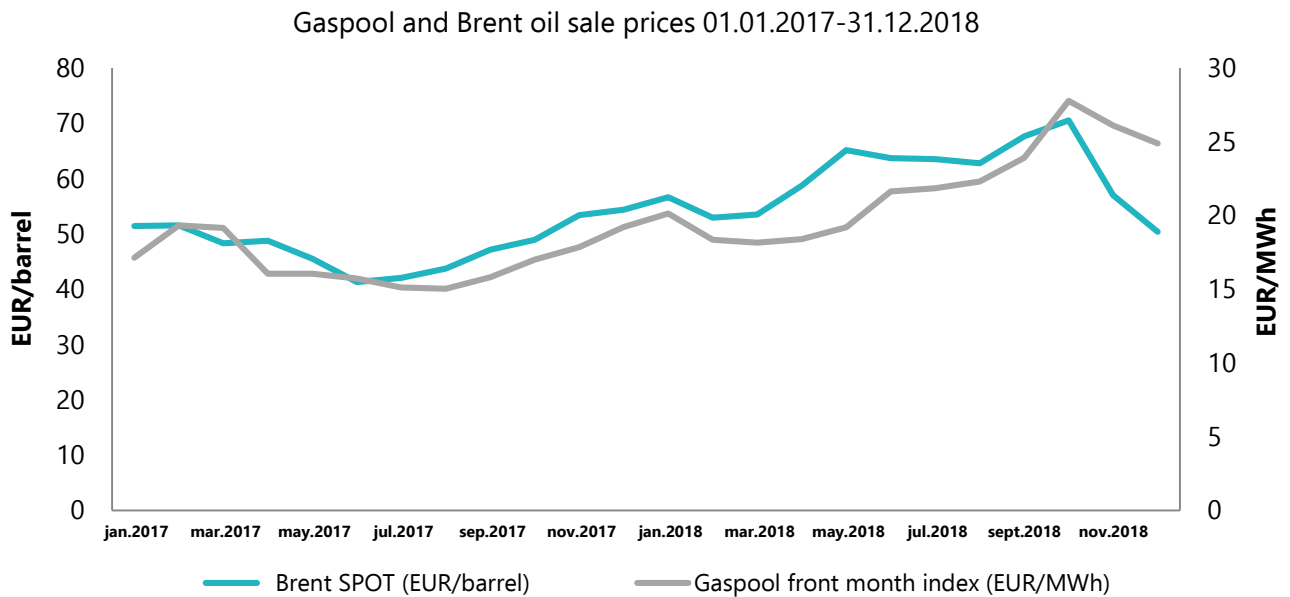
Group`s key financial figures	2018	2017
	EUR'000	EUR'000
Net turnover	344 902	316 789
EBITDA	37 427	36 484
EBITDA, %	10.9	11.5
EBIT	25 882	24 483
EBIT, %	7.5	7.7
Net profit	25 185	26 048
Net profit margin, %	7.3	8.2
Earnings per share, EUR	0.63	0.65
P/E	16.03	15.38

Alternative Performance Measures (APM)	Formulas
EBITDA ( <i>Profit before income tax, interest, depreciation and amortization</i> )	EBITDA = Profit of the year + Corporate income tax + Financial expense- Financial income + Depreciation, amortisation and impairment of property, plant and equipment and intangible assets
EBITDA, % ( <i>or EBITDA margin</i> )	$\text{EBITDA, \%} = \frac{\text{EBITDA}}{\text{Revenue from contracts with customers}} \times 100\%$
EBIT ( <i>Profit before income tax and interest</i> )	EBIT = Profit of the year + Corporate income tax + Financial expense- Financial income
EBIT, % ( <i>or EBIT margin</i> )	$\text{EBIT, \%} = \frac{\text{EBIT}}{\text{Revenue from contracts with customers}} \times 100\%$
Net profitability ( <i>or Commercial profitability</i> ) The indicator reflects how much the company earns from each of the EUR received from customers	$\text{Net profitability, \%} = \frac{\text{Profit of the year}}{\text{Revenue from contracts with customers}} \times 100\%$
P/E Ratio ( <i>Relationship between Share Price and Earnings per Share</i> )	$\text{P/E} = \frac{\text{Share price 31.12.2019}}{\text{Earnings per share for the reporting year}}$
Return on equity (ROE) ( <i>Company's earnings ratio on the company's equity source - shareholders</i> ) The indicator reflects the effective use of equity capital by the company	$\text{Return on equity, \%} = \frac{\text{Profit of the year}}{\text{Average annual equity value*}} \times 100\%$
Return on assets (ROA) ( <i>The amount of profit earned by the company on the assets used</i> ) The indicator reflects how effectively company is profiting from the use of its assets	$\text{Return on assets, \%} = \frac{\text{Profit of the year}}{\text{Average annual asset value**}} \times 100\%$

\* Average equity value is calculated by adding the equity value at the beginning of the financial period and at the end of the financial period and dividing the amount by 2

\*\* Average asset value is calculated by adding the value of assets at the beginning of the financial period and at the end of the financial period and dividing the amount by 2

The above-described alternative performance measures are used by the management of the Company to evaluate Company's performance for a particular financial period as well as to make decisions and allocate resources.



## 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 September, 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 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 September**, the PUC approved the new distribution tariffs. The new tariffs came into force on January 1, 2019.

## OPERATING RESULTS OF BUSINESS SEGMENTS

The distribution segment operated by the JSC "Gasol" 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 256.3 million EUR, which represents 62% of the group's total asset value. In the reporting period, the distribution segment generated a net turnover of 51.1 million EUR (increase by 0.19% compared 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 293.8 million EUR and increased by 10.5% 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. In a table you can see the

## 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

- **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.

share of revenue (in percent) generated by each of the four customer groups.

Customer groups	Share of total turnover in %
Wholesale customers	55.1
Corporate customers	25.3
Small & medium sized customers	8.2
Household customers	11.4
<b>TOTAL</b>	<b>100</b>

EBITDA for the segment amounted to 14.9 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 realised and unrealised gains on derivative financial instruments (natural gas swaps) that are valued at fair value through profit or loss. 1.2 million EUR from those gains are unrealised gains on derivative financial instruments at fair value through profit or loss.

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 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

## 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

## 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.

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 late 2020.

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.



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 2019 until 31 May 2021. The closed transaction strengthens the overall liquidity

## FUTURE PROSPECTS

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

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.

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.

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.

## PROPOSED DISTRIBUTION OF PROFIT FOR THE COMPANY

	2018
	EUR
Profit for the reporting year for the Company	23 192 945
Unrealised gains on derivative financial instruments at fair value through profit or loss	1 195 922
Profit for the reporting year without unrealised gains on derivative financial instruments at fair value through profit or loss	21 997 023
Suggested distribution of profit	
<b>Dividends to shareholders (95%)</b>	<b>21 945 000</b>
<b>Dividends per share (EUR/1 share)</b>	<b>0.55</b>
Transferred to reserves	1 247 945

## TRANSACTIONS WITH RELATED PARTIES

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

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

## 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.

## STATEMENT OF BOARD RESPONSIBILITY

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The Board of the Joint Stock Company "Latvijas Gāze" is responsible for the preparation of the "Latvijas Gāze" Group consolidated and the JSC "Latvijas Gāze" 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 Financial statements were approved by the Board of the JSC "Latvijas Gāze" on April 10, 2019, and they are signed on behalf of the Board by:

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Aigars Kalvītis  
Chairman of the Board

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Sebastian Gröblinghoff  
Deputy Chairman of the Board

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Elita Dreimane  
Member of the Board

## FINANCIAL STATEMENTS

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

## CORPORATE INFORMATION

<b>Company</b>	Latvijas Gāze, Joint Stock Company
<b>LEI code</b>	097900BGMO0000055872
<b>Registration number, place and date of registration</b>	Unified registration number 40003000642 Riga, Latvia, March 25, 1991 re-registered in Commercial Register on December 20, 2004
<b>Address</b>	Vagonu street 20, Riga, LV-1009, Latvia
<b>Corporate management report</b>	<a href="http://www.lg.lv">www.lg.lv</a>
<b>Major shareholders</b>	PAS Gazprom (34,0%) Marguerite Gas I.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
<b>Name and address of the auditor</b>	PricewaterhouseCoopers SIA Kr. Valdemāra street 21-21 Riga, LV-1010, Latvia  Responsible certified auditor: Lolita Čapkeviča Certified auditor Certificate No.120

## STATEMENT OF PROFIT OR LOSS

	Note	Group 2018	Group 2017	Company 2018	Company 2017
		EUR'000	EUR'000	EUR'000	EUR'000
			Restated		Restated
Revenue, including excise duty		353 305	331 286	306 204	281 573
Less excise duty		(8 403)	(15 148)	(8 426)	(15 150)
<b>Revenue from contracts with customers</b>	<b>2</b>	<b>344 902</b>	<b>316 789</b>	<b>297 778</b>	<b>266 423</b>
Other income	3	5 992	3 242	4 945	2 280
Raw materials and consumables used	4	(278 553)	(250 424)	(276 835)	(246 363)
Personnel expenses	5	(25 377)	(23 260)	(5 356)	(4 060)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		(11 545)	(12 001)	(384)	(524)
Other operating expenses	6	(9 537)	(9 863)	(5 484)	(4 993)
Dividends received from subsidiary		-	-	8 977	-
<b>Operating profit</b>		<b>25 882</b>	<b>24 483</b>	<b>23 641</b>	<b>12 763</b>
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

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Aigars Kalvītis  
Chairman of the Board

Sebastian Gröbblinghoff  
Deputy Chairman of the Board

Elita Dreimane  
Member of the Board

## 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>					
Change in revaluation reserve of property, plant and equipment	10	68	10 178	-	-
Deferred income tax	7	-	18 289	-	-
Remeasurement of post-employment benefit obligations	19	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>
Other comprehensive income from discontinued operations	8	-	-	-	28 467
<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>

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Sebastian Gröblichhoff  
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	36 175	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>167 344</b>	<b>153 618</b>	<b>152 790</b>	<b>149 883</b>
<b>TOTAL ASSETS</b>		<b>412 479</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 April 10, 2019, and they are signed on behalf of the Board by:

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Sebastian Gröblichhoff  
Deputy Chairman of the Board

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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>			Restated		Restated
<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>					
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	33 549	28 842	26 692	23 336
<b>Total current liabilities</b>		<b>52 035</b>	<b>37 498</b>	<b>45 006</b>	<b>40 040</b>
<b>Total liabilities</b>		<b>102 124</b>	<b>92 037</b>	<b>45 131</b>	<b>40 319</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>412 479</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 April 10, 2019, and they are signed on behalf of the Board by:

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Chairman of the Board

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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>
<b>Transactions with owners:</b>							
Discontinued operations (Note 22)	-	-	(115 665)	203	(64 433)	(94 191)	(274 086)
Dividends	-	-	-	-	-	(72 219)	(72 219)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>(115 665)</b>	<b>203</b>	<b>(64 433)</b>	<b>(166 410)</b>	<b>(346 305)</b>
Transfers from reserves according to the Board decision	-	-	-	-	(5 812)	5 812	-
Depreciation of revaluation reserve and disposal of revalued assets	-	-	41	-	-	(41)	-
Transfer to reserves / reclassification	-	-	62	(2)	-	-	60
<b>Comprehensive income:</b>							
Profit for the year	-	-	-	-	-	26 048	26 048
Other comprehensive income	-	-	28 467	418	-	-	28 885
<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 (Note 16)	-	-	-	-	-	(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>							
Profit for the year	-	-	-	-	-	25 185	25 185
Other comprehensive income	-	-	68	190	-	-	258
<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>

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Aigars Kalvītis  
Chairman of the Board

Sebastian Gröblichhoff  
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>
<b>Transactions with owners:</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)	-
Dividends	-	-	-	-	-	(72 219)	(72 219)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>(248 400)</b>	<b>90</b>	<b>140 112</b>	<b>(238 107)</b>	<b>(346 305)</b>
Transfers from reserves according to the Board decision	-	-	-	-	(5 812)	5 812	-
Movement of revaluation reserve	-	-	584	-	-	(584)	-
Transfer to reserves / reclassification	-	-	61	(2)	-	-	59
<b>Comprehensive income:</b>							
Profit for the year	-	-	-	-	-	24 217	24 217
Other comprehensive income	-	-	28 467	446	-	-	28 913
<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 (Note 16)	-	-	-	-	-	(23 142)	(23 142)
<b>Comprehensive income:</b>							
Profit for the year	-	-	-	-	-	23 193	23 193
Other comprehensive income	-	-	-	87	-	-	87
<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 April 10, 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

## STATEMENT OF CASH FLOWS

	Note	Group 2018	Group 2017	Company 2018	Company 2017
		EUR'000	EUR'000	EUR'000	EUR'000
<b>Cash flows from operating activities</b>					Restated
<b>Profit before corporate income tax from continuing operations</b>		<b>25 185</b>	<b>22 917</b>	<b>23 193</b>	<b>11 218</b>
<b>Profit before corporate income tax from discontinued operations</b>	<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		77	(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		4 312	(3 389)	4 703	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>21 611</b>	<b>(64 707)</b>	<b>(253)</b>	<b>(64 721)</b>
<b>Cash flow from investing activities</b>					
Payments for property, plant and equipment	10	(6 219)	(6 455)	(173)	(1 199)
Payments for intangible assets	9	(3 166)	(2 798)	(1 578)	(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 transferred in reorganisation	22	-	-	(5 458)	(3 800)
Dividends received	23	-	-	8 977	-
<b>Net cash flow from investing activities</b>		<b>(9 309)</b>	<b>(9 060)</b>	<b>1 797</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 April 10, 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

## 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. 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. JSC "Gasol" holds an exclusive license for the distribution of natural gas on the territory of Latvia. JSC "Gasol" owns and operates all distribution assets.

The information included in the operating segments corresponds to the information used by the Board of JSC Latvijas Gāze for the gas trade segment and the Board of JSC "Gasol" for gas distribution segment in making operational decisions and allocating resources. Given the regulatory requirements provided in the Energy Law, segments are managed separately.

The Board of each company assesses the performance of each respective segment based on EBITDA (adjusted earnings before interest, tax, depreciation and amortisation) and monitors profit before taxes. As the segments are based on legal entities, transactions between entities are eliminated (see Note 2).

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	256 305	156 174	412 479

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 31.12.2018	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	280 767	17 009	49 160	346 936
Inter-segment revenue	(3 949)	-	-	(3 949)
Connection and other service fees recognised as revenue	-	-	1 002	1 002
Other revenue	2	-	911	913
	<b>276 820</b>	<b>17 009</b>	<b>51 073</b>	<b>344 902</b>

Group 2017	Gas trade		Gas distribution	
	Latvia	Other countries	Latvia	TOTAL
Restated	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	259 234	7 189	49 054	315 477
Inter-segment revenue	(618)	-	-	(618)
Connection and other service fees recognised as income	2	-	978	980
Other revenue	5	-	945	950
	258 623	7 189	50 977	316 789

Company 2018	Gas trade		
	Latvia	Other countries	TOTAL
	EUR'000	EUR'000	EUR'000
Segment revenue	280 767	17 009	297 776
Other revenue	2	-	2
	280 769	17 009	297 778

The Company's sales to wholesale and corporate customers comprise 89% and sales to household customers comprise 11% of total sales.

Company 2017	Gas trade		
	Latvia	Other countries	TOTAL
Restated	EUR'000	EUR'000	EUR'000
Segment revenue	259 069	7 190	266 259
Connection and other service fees recognised as income	2	-	2
Other revenue	162	-	162
	259 233	7 190	266 423

### 3. Other income

	Group 2018	Group 2017	Company 2018	Company 2017
	EUR'000	EUR'000	EUR'000	EUR'000
		Restated		Restated
Net fair value gains on financial derivatives	3 196	-	3 196	-
Release of provisions for bad debts, net	-	1 080	-	1 080
Penalties collected from customers	627	624	590	563
Other income	2 169	1 538	1 159	637
	5 992	3 242	4 945	2 280

2 000 thousand EUR from net fair value gains on financial assets at fair value through profit or loss are realised gains and remaining 1 196 thousand EUR are unrealised gains from net changes in fair value of derivative financial instruments. Fair value measurement is described in Note 24, Fair value section.

#### 4. Raw materials and consumables used

	Group 2018	Group 2017	Company 2018	Company 2017
	EUR'000	EUR'000	EUR'000	EUR'000
		Restated		Restated
Natural gas purchase	277 187	247 951*	276 788	245 497*
Costs of materials, spare parts and fuel	1 366	2 473	48	866
	<b>278 553</b>	<b>250 424</b>	<b>276 835</b>	<b>246 363</b>

\*Amounts shown net of excise duty as compared with data reported in "Latvijas Gāze" Group consolidated and JSC "Latvijas Gāze" annual report 2017.

#### 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.

Salaries of the Council and the Board*	Group 2018	Group 2017	Company 2018	Company 2017
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	2 754	2 730	1 623	2 641
State social insurance contributions	531	490	271	477
Life, health and pension insurance	140	95	71	89
Other personnel costs	13	2	-	-
	<b>3 438</b>	<b>3 317</b>	<b>1 965</b>	<b>3 207</b>

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

#### 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
	-	(3 131)	-	2 749

On July 28, 2017, a new Corporate Income Tax Law was adopted, which stipulates that from January 1, 2018, the corporate income tax is levied on profit that arose after 2017 if it is distributed. When the law came into force, there were no longer reason for the existence of a deferred tax asset or liability and in 2017, the Group and the Company eliminated previously recognized deferred tax liability from the balance sheet, transferring reduction in that liability partially to the statement of profit or loss and to the statement of other comprehensive income for the year 2017. See below and Note 25, Income tax section.

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
<i>Tax effect of:</i>		
Reversal of temporary differences	(375)	(385)
Costs not eligible for reduction of taxable income	543	8 120
De-recognition of deferred tax liability	(6 134)	(6 134)
Tax allowance on donations	(603)	(533)
<b>Tax expense</b>	<b>(3 131)</b>	<b>2 749</b>

Deferred tax liability de-recognition	Group 2017	Company 2017
	EUR'000	EUR'000
Deferred tax liabilities at the beginning of the reporting year	24 423	24 423
De-recognition of deferred tax liability in other comprehensive income	(18 289)	(18 289)
De-recognition of deferred tax liability in statement of profit or loss	(6 134)	(6 134)
<b>Deferred tax liability at the end of reporting year</b>	<b>-</b>	<b>-</b>



## 8. Profit from discontinued operations

<b>Company</b>	
<b>2017</b>	
EUR'000	
Revenue	44 140
Other income (incl. connection fees)	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>

<b>Earnings per share from discontinuing operations</b>	
<b>2017</b>	
<b>Net profit attributable to shareholders (a) EUR'000</b>	<b>15 749</b>
Ordinary shares as at 1 January (Number, th.)	39 900
Ordinary shares as at 31 December (Number, th.)	39 900
Weighted average number of ordinary shares outstanding during the year (b) (Number, th.)	39 900
<b>Basic earnings per share during the year (a/b) in EUR</b>	<b>0.395</b>

<b>Statement of comprehensive income</b>	
<b>Company</b>	
<b>2017</b>	
EUR'000	
<b>Profit for the year</b>	<b>15 749</b>
<i>Other comprehensive income - items that will not be reclassified to profit or loss</i>	
Revaluation of property, plant and equipment	10 178
Deferred tax liability from revaluation of property, plant and equipment	18 289
<b>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.

## 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 EUR (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). As at 31 December 2018 the Group has payables for intangible assets for a total of EUR 909 thousand, and the Company has payables for intangible assets for a total of EUR 682 thousand. The above table includes the new billing system of the Company and the Group, MECOMS, which was under development at 31 December 2018 and 31 December 2017. The cost and net book value of the system under development as at 31 December 2018 was EUR 1.5 million (EUR 628 thousand as at 31 December 2017).

## 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	3 822	1 124	1 547	(54)	<b>6 439</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>
<b>Net book value as of 31.12.2018</b>	<b>221 832</b>	<b>11 923</b>	<b>4 317</b>	<b>393</b>	<b>238 465</b>
<b>Net book value as of 31.12.2017</b>	<b>224 944</b>	<b>12 962</b>	<b>4 123</b>	<b>447</b>	<b>242 476</b>

As at 31 December 2018 the Group has payables for property, plant and equipment for a total of EUR 152 thousand.

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	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

As at 31 December 2018 the Company has payables for property, plant and equipment for a total of EUR 13 thousand.

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.

Included in the tables above within "Land, buildings, constructions" is the freehold land owned by the Group with the cost and net book value of EUR 1,5 million, as at 31.12.2016, 31.12.2017 and 31.12.2018. The land is not subjected to 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 tariffs for services cover all revalued amount.

In valuation exercise, both the cost and accumulated depreciation are revalued. The asset's physical, functional and technical depreciation are taken into account as key factors.

As a result of the revaluation, in 2017, 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, in 2017, 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.

The table below presents the approximate estimated carrying amounts for the revalued asset groups if the assets were carried at their historic cost basis:

Revaluated assets at net book value	31.12.2018	31.12.2017
	EUR'000	EUR'000
Buildings	96 560	95 288
Machinery and Equipment	8 648	8 853

## 11. Investment in subsidiary

	Company
	EUR'000
Invested during reorganisation 1.12.2017	194 534
Balance sheet value as at 31.12.2018 and 31.12.2017	194 534

Shares held	31.12.2018	31.12.2017
JSC "Gasol"	100%	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 (nominal value)	26	10	6	10
Allowance for impairment of long-term receivables	-	(3)	-	(3)
	26	7	6	7
Short-term receivables (nominal value)	44 303	44 614	43 071	43 840
Allowance for impairment of short-term receivables	(8 128)	(8 581)	(8 107)	(8 581)
	36 175	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>
Expense included in profit or loss statement from continuing operations	321	1 551	300	1 551
Release of allowance as a result of recovery of previously provided doubtful debts	-	(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	-
	6 843	4 101	86 311	(81 306)	7 810	63

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	3 193	2 972	3 193	2 972
Derivative financial instruments	1 616	-	1 616	-
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>

As at 31 December 2018 derivative financial instruments consist of natural gas swap agreements.

## 16. Shares and shareholders

	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 and 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. At the Annual General Meeting in 2019 the management will propose a dividend in respect to 2018 amounting to EUR 0.55 per share. 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). In 2017, total dividends paid out to shareholders amounted to EUR 72 219 thousand (EUR 1.81 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.

Changes of borrowings	Group	Group	Company	Company
	2018	2017	2018	2017
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Balance at the beginning of the year</b>	<b>38 361</b>	-	<b>3 361</b>	-
Borrowings received	5 025	38 361	5 025	38 361
Borrowings transferred to subsidiary in reorganisation (Note 22)	-	-	-	(35 000)
Borrowings repaid	(2 333)	-	-	-
<b>Balance at the end of the year</b>	<b>41 053</b>	<b>38 361</b>	<b>8 386</b>	<b>3 361</b>

## 18. Deferred income

	Group	Group	Company	Company
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Connection fees:</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 decrease by	0.03%	0.01%	6.60%	0.02%
Employee rotation rate	+ 0.5%	Accruals decrease by	0.19%	0.18%	0.07%	0.28%
Employee retirement age	+1 years	Accruals decrease by	3.26%	1.73%	1.26%	1.43%
Wage growth	+0.5%	Accruals decrease by	0.18%	0.16%	6.67%	0.25%
Contributions to private pension fund	+0.5%	Accruals increase by	0.02%	0.02%	0.37%	0.02%
Compulsory social security contributions	+0.5%	Accruals increase 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 increase by	0.03%	0.01%	7.35%	0.02%
Employee rotation rate	-0.5%	Accruals increase by	0.19%	0.18%	0.07%	0.28%
Employee retirement age	-1 year	Accruals increase by	3.19%	1.47%	2.99%	0.23%
Wage growth	-0.5%	Accruals decrease by	0.18%	0.15%	6.06%	0.25%
Contributions to private pension fund	-0.5%	Accruals decrease by	0.02%	0.02%	0.37%	0.02%
Compulsory social security contributions	-0.5%	Accruals decrease by	0.09%	0.08%	0.39%	0.09%

Accruals 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 (Note 23)	113	10	6 165	12 476
Payables to third parties	5 468	1 383	3 763	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	4 302	6 268	1 159	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
Derivative financial instruments	421	-	421	-
Personnel income tax	313	310	40	91
Other current liabilities	679	83	11	21
Natural resource tax	6	5	-	5
	<b>33 549</b>	<b>28 842</b>	<b>26 692</b>	<b>23 336</b>

## 22. Reorganisation

### 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>

\*- EUR 3 800 thousand were transferred in 2017 and EUR 5 458 thousand were transferred in 2018.

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	17	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	17	2 625
Deferred income		991
Other liabilities		3 253
<b>Total current liabilities</b>		<b>6 869</b>
<b>Total liabilities</b>		<b>61 046</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>255 580</b>

### Assets and liabilities transferred to JSC "Conexus Baltic Grid"

	31.12.2016
	EUR'000
<b>Total assets</b>	<b>351 668</b>
<b>Equity</b>	
Share capital	39 786
Revaluation reserve of property, plant and equipment	115 665
Employee benefits revaluation reserve	(203)
Other reserves	24 647
Retained earnings	94 191
<b>Total equity</b>	<b>274 086</b>
<b>Total liabilities</b>	<b>77 582</b>
<b>Total equity and liabilities</b>	<b>351 668</b>

According to the Commercial law of Republic of Latvia, in the case of reorganization, the incumbent company bears solidary responsibility together with the newly established company with regard to the liabilities that originated prior to reorganisation and were transferred to the newly established company, and whose settlement date occurs within five years after the reorganization date. As at 31 December 2018, the Company and the Group is not aware of any existing liabilities that it would be liable for in relation to the above.

### 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). JSC "Latvijas Gāze" subsidiary JSC "Gasol" was established in 2017.

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 (incl. balancing services, gas storage, natural gas for own use and other)</b>				
JSC "Gasol"	-	-	4 344	1 982
JSC "Conexus Baltic Grid"	-	5 612	-	5 612
<b>Dividend income</b>				
JSC "Gasol"	-	-	8 977	-
<b>Purchases of natural gas</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"	-	36 775	-	36 775
<b>Expenses on natural gas distribution and other related services</b>				
JSC "Gasol"	-	-	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 "Gasol"	-	-	811	2 392
<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 "Gasol"	-	-	6 052	12 466*

\*- include also liability to transfer cash in reorganisation of EUR 5 458.

## 24. Financial risk management

Financial assets and liabilities	Level	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	3	36 175	36 033	34 964	35 259
Accrued income	3	3 193	2 972	3 193	2 972
Derivative financial instruments	2	1 616	-	1 616	-
Cash and cash equivalents	2	16 280	24 817	4 845	21 558
<b>Financial assets</b>		<b>57 264</b>	<b>63 822</b>	<b>44 618</b>	<b>59 789</b>
Borrowings	3	41 053	38 361	8 386	3 361
Accrued expenses	3	4 302	6 268	1 159	3 789
Derivative financial instruments	2	421	-	421	-
Trade payables	3	6 182	1 393	9 928	13 338
<b>Financial liabilities</b>		<b>51 958</b>	<b>46 022</b>	<b>19 894</b>	<b>20 488</b>

### Fair value

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for derivative financial assets and liabilities held by the Group are based on observable market data including current bid and ask prices, that are estimated by trading counterparties. Natural gas derivatives are classified in level 2.

Description of fair value measurement for buildings, constructions and equipment and machinery is disclosed in Note 25., Revaluation of buildings, constructions and equipment and machinery section.

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

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

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

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

### Quoted market prices - Level 1

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

### Valuation techniques using observable inputs - Level 2

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

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

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

The 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.

Financial assets of the Group fall under Level 3, except cash and cash equivalents and derivative financial instruments, which fall under Level 2.

### Offsetting financial assets and financial liabilities

Agreements between the Group and the counterparties allows for offsetting in concrete single transaction based on delivery date/month. The following financial assets are subject to offsetting:

Offsetting financial assets and financial liabilities	Group and Company 31.12.2018
	EUR'000
Financial assets	
Gross amounts of recognised financial assets	1 896
Gross amounts of recognised financial liabilities set off in the statement of financial position	(280)
<b>Net amounts of financial assets presented in the balance sheet</b>	<b>1 616</b>
Financial liabilities	
Gross amounts of recognised financial assets	701
Gross amounts of recognised financial liabilities set off in the statement of financial position	(280)
<b>Net amounts of financial liabilities presented in the balance sheet</b>	<b>421</b>

As at 31 December 2017, the Company or Group were not involved in similar transactions.

## 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	102 124	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	66 167	47 304	40 286	18 756
Total equity and liabilities	412 479	400 091	351 519	346 569
<b>Borrowed capital proportion to total capital</b>	<b>16.04%</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.

### Concentration of credit risk

Trade receivables and accrued 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
Impaired	8 013	8 552	7 998	8 552
Not overdue	36 927	36 366	35 739	35 592
Overdue less than 90 days, but not impaired	2 251	2 286	2 222	2 286
Overdue more than 90 days, but not impaired	305	353	305	353
<b>Trade receivables and accrued income, gross</b>	<b>47 496</b>	<b>47 557</b>	<b>46 264</b>	<b>46 783</b>
Allowance for impairment of bad and doubtful debts	(8 128)	(8 552)	(8 107)	(8 552)
<b>Trade receivables and accrued income, net</b>	<b>39 368</b>	<b>39 005</b>	<b>38 157</b>	<b>38 231</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) from which one largest customer accounted for more than 20%. Customer concentration with regard to receivables is not high.

### 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. Credit risk of subsidiary relates mainly to its largest customers. Major part of subsidiary’s trade debtors as at 31 December 2018 paid their



debts in January 2019. Receivables from natural gas wholesales and distribution services to the gas traders who sell the natural gas to end users have history of timely debt settlement, therefore expected credit loss, hereinafter – ECL, rate of 0.04% was applied based on the lowest probability of delayed payment. Receivables that are not individually assessed for impairment are classified into groups of receivables based on days overdue and are collectively assessed for impairment. ECL rate of 1.14% is applied for households, 1.25% is applied to distribution receivables overdue for 1-90 days, ECL rate of 100% is applied to receivables overdue for more than 90 days and 0.11% for all other receivables based on the payment profiles of sales.

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 of the Group represented only current account balances with credit institutions.

As a part of internal assessment, the Group 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):



The Company's cash and cash equivalents can be summarised as follows (grouped by long-term rating):



### Liquidity risk

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

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

Division of financial liabilities by maturity date, as at 31 December 2018, Group:

	2019	2020	2021- 2022	Total	Carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Borrowings	12 406	3 696	25 675	41 777	41 053
Trade payables and accrued costs	6 332	-	-	6 332	6 332
Derivative financial liabilities	421	-	-	421	421
	<b>19 159</b>	<b>3 696</b>	<b>25 675</b>	<b>48 530</b>	<b>47 806</b>

Division of financial liabilities by maturity date, as at 31 December 2017, Group:

	2018	2019	2020- 2022	Total	Carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Borrowings	6 251	4 020	29 371	39 642	38 361
Trade payables and accrued costs	4 643	-	-	4 643	4 643
	<b>10 894</b>	<b>4 020</b>	<b>29 371</b>	<b>44 285</b>	<b>43 004</b>

### 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 Inčukalns 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 mitigates price risk by entering into derivative transactions.

Other financial assets and liabilities are non-interest bearing or interest rates are fixed, except for borrowings. 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 financial statements in conformity with IFRS requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in the process of applying the Company's and the Group's accounting policies.

This note provides information about the areas that involved higher degree of judgment or complexity which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong.

### Revaluation of buildings, constructions and equipment and machinery

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 when valuation is performed, less subsequent depreciation. The Group's internal policy is to perform the revaluations with sufficient regularity, 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 which could lead to the carrying amount of such assets differing materially from that which would be determined using fair value at the end of the reporting period, but at least once every five years.

At the end of each reporting period, the management update their assessment about the changes in the construction costs of the assets subject to periodic revaluation, taking into account the available information such as official statistics data and prices quoted by construction companies in the procurement process. The management determines whether there are such changes in the market prices that would result into material difference between the relevant asset's carrying amount and its fair value. All resulting fair value estimates are included in level 3 (see also Note 24).

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 asset value will increase, too. If the cost of construction or materials decreases, the value of the assets will decrease accordingly.

### Impairment of trade receivables and accrued income

The loss allowance for financial assets, including trade receivables and accrued income, are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based in the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. 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. Details of the key assumptions and inputs used to estimate expected credit losses are disclosed in Note 24, Credit risk section.

### Determination whether the entity acts as a principal or an agent in provision of certain services

The management has determined that the Group acts as an agent for natural gas transmission services and the Company acts as an agent for natural gas transmission and distribution services as they do not control the respective services before they are transferred to the customer. The following arguments support the above-mentioned conclusion:

- the Company (in relation to transmission and distribution services) and the Group (in relation to transmission services) neither owns nor operates any of the assets necessary to provide respective services;
- The customers do not perceive getting the different elements/services from different providers. From the customer's perspective, there is no other value added apart from the only one benefit, i.e. a supply of gas (including its transmission and distribution), in particular, there are no alternative service providers, and all gas trading companies must enter into agreements with transmission and distribution operators;

- Any issues related to the physical transportation of natural gas through the distribution or transmission network, the measurement of natural gas transported through the systems, and repairing or modernizing pipes is fully under the control of distribution and transmission operators and cannot be influenced by gas trading companies.
- The moment of the transmission & distribution and the sale and transfer to the end-user are not separated due to the nature of business. Nevertheless, only the providers of transmission and distribution services are capable to track the quantities delivered and they reconcile the quantities between themselves as the infrastructure is fully under the control of transmission and distribution operators.
- Transmission and distribution services are subject to a regulated non-discriminatory tariff approved by a local regulatory body. Any expenditure incurred in providing these services including the volume of capital expenditure which may impact future tariffs, are the responsibility of transmission and distribution operators.
- The end-users are charged with a transmission and distribution fixed fee calculated based on a formula: regulated tariff for distribution/transmission x quantity delivered. The Company passes on the costs for distribution and transmission services to the customers without adding any additional fees or charges.

### Determination whether the entity acts as a principal or agent in collecting and paying excise duty

The management has determined that with regard to excise duty, the Company acts as an agent by collecting the excise duty on behalf of the government. As a result, the excise tax is deducted from the net revenue (similar to other sales taxes) rather than included in both revenue and cost of sales as such a presentation reflects the substance of the arrangements.

The following considerations support the judgements made by the management:

- Although the "production" and "sale" (a transfer to the end-user) are not really separated due to the nature of business, the triggering event to pay the excise tax is a "delivery" to the end user. This indicates that the excise duty is paid close to the transfer to end customer and therefore it is closer in nature to a sales tax.
- The excise duty is clearly separate from the selling price and it is shown separately on the invoices to commercial clients. A change in the tax would result in an equivalent change in the amount passed through to the customer. Even in a non-typical situation when the gas would be given to end-user free of charge, the excise tax needs to be calculated as it follows from the requirement of the law. This is considered a strong indicator that the entity is collecting the tax on behalf of the government.
- One may argue that there are indicators which may support a gross treatment (e.g. the pricing is based on physical quantity, not tied to value of revenue/the selling price or a failure by customer to pay does not provide the rights to claim the tax back). Nevertheless, in the view of management, in the context of the arrangements they do not have to be regarded as superior and decisive in order to conclude on an accounting treatment with respect to the excise duty.

However, for the presentation purposes, the management has decided to disclose on the face of statement of profit or loss the revenue including excise duty, but excluding VAT, amount of excise duty deducted from the revenue above, and resulting amount of revenue from contracts with customers. The management has made a decision of disclosing non-GAAP measures of revenue including excise duty and the deducted excise duty on the face of the statement of profit and loss following industry practice adopted by a number of leading international companies based on the consideration that such presentation is useful for stakeholders.

### Non-recognition of deferred tax liability

Deferred tax liability is not recognised in the consolidated financial statements of the Group in relation to the taxable temporary differences associated with investment in subsidiary (arising from existence of untaxed retained earnings in subsidiary, arisen after 1 January 2018) as the management has determined that subsidiary's profit for the year ended 31 December 2018 will not be distributed in the foreseeable future. The management exercised significant judgement in interpreting the longevity of the period described as "foreseeable future". In the management's opinion, in the current business environment, it is not possible to develop reliable business plans and forecasts for a period of time exceeding 3-5 years, despite the fact that the subsidiary in question operates in a regulated industry with regulated tariffs and is a monopoly provider of natural gas transmission services in Latvia, therefore, the period of foreseeable future cannot exceed 5 years or even less. Management's judgement is based also on the following considerations:

- The subsidiary will first distribute the retained earnings accumulated till 31 December 2017 to take an advantage of new corporate income tax regime which permits the tax payers to distribute the said retained earnings without levying tax on such distributions (as these retained profits have been taxed under previous tax regime);
- It is estimated that the time period while the "previous" retained earnings are fully distributed will exceed 5 years;
- It is assumed that in the consecutive years, after the distribution of "previous" retained earnings, the subsidiary will distribute dividends from current earnings not exceeding annual profit amount.

### Control over subsidiary

While JSC "Gasol" is given a statutory independence in terms of running the gas distribution business, the overall corporate control by JSC "Latvijas Gāze", in its capacity as a parent entity, is fully retained. The normal corporate control rights by the parent group entity over the distribution subsidiary are expressly acknowledged in Art 45(3)(3) of the Latvian Energy Law (which provision, in its turn, transposes a rule specified in Art.26(2)(c) of the Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC). Particularly, in the context of IFRS 10 "Consolidated financial statements", the critical aspect of control is ensured by the fact that the power to appoint the Council of JSC "Gasol" lies with the Board of the JSC "Latvijas Gāze" (with the consent of the Council of the Company) acting in its capacity as sole shareholder of JSC "Gasol". Council of JSC "Gasol", in its turn, appoints the Board of JSC "Gasol", which is in charge of operational activities that significantly affect the subsidiary's returns.

## 26. Summary of significant 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.

### Basis of preparation

The consolidated and separate financial statements (financial statements) of AS "Latvijas Gāze" are prepared in accordance with the International Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted for use in the European Union, and are presented together in one document.

The financial statements are prepared on a historical cost basis, except for derivative financial instruments that are measured at fair value and certain classes of property, plant and equipment that are carried at revalued amount, as disclosed in the notes 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.

### Restatements of 2017 due to reclassification in 2018

#### Excise duty

The management decided in 2018 to change the accounting policy for excise tax in the statement of profit or loss where it is now deducted from the net revenue. Comparative information for the year ended 31 December 2017 is adjusted retrospectively. The impact of restatement was as follows:

	Group 2017 EUR'000			Company 2017 EUR'000		
	As originally reported	Restated	Change	As originally reported	Restated	Change
Revenue, net	331 286	316 789	(15 148)	281 573	266 423	(15 150)
Raw materials and consumables used	(265 572)	(250 424)	15 148	(261 513)	(246 363)	15 150

### *Presentation of retained earnings and reserves in the balance sheet and statement of changes in equity of the Company and the Group*

The Group has changed the presentation of the equity line items in the balance sheet of the Company and Group as of 31 December 2018 and also restated the comparative balance sheet of 31 December 2017. Presentation of retained earnings and other equity items was also changed on the statement of changes in equity of the Company and Group. Statement of changes in equity was restructured to provide more clarity, where the information previously presented in the notes was brought to the statement of changes in equity for greater prominence. Equity section of the balance sheet was restructured accordingly. Given that information now presented in the primary statements was available elsewhere in the notes in the financial statements for the year ended 31 December 2017, the management concluded that it is not necessary to present the third balance sheet with original presentation used in financial statements for 2017.

### **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: Classification and Measurement*

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

#### *IFRS 15, Revenue from Contracts with Customers*

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

### *Amendments to IFRS 15, Revenue from Contracts with Customers*

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The impact of the standards that first came into effect on 1 January 2018 is disclosed in Note 25, Changes in Accounting policies section.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2018 that would be expected to have a material impact to the Group and/or Company.

### **New Accounting Pronouncements**

Certain new or revised standards and interpretations have been issued that are mandatory for the Company's and the Group's annual periods beginning on or after 1 January 2019, and which the Company and the Group has not early adopted:

#### *IFRS 16, Leases*

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

After December 2017 reorganisation, when subsidiary JSC "Gasol" was established and a series of rent agreements was concluded between JSC "Latvijas Gāze" and JSC "Gasol", application of IFRS 16 "Leases" could have an effect on the total assets and liabilities of JSC "Latvijas Gāze". However, as all rent agreements are short term, the management of the Company has concluded that there is no effect on the financial statements of JSC "Latvijas Gāze". From the Group perspective, the standard has no significant impact on the consolidated financial statements.

#### *Definition of materiality – Amendments to IAS 1 and IAS 8*

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments may have an effect on the extent of the information disclosed by the Group.

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.

### **Changes in accounting policies**

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's and Company's financial statements.

#### *IFRS 9 Financial Instruments*

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies, although no adjustments were recognised to the amounts in the financial statements. The new accounting policies are set out in Note 25, Adoption of new and revised standards and interpretations section. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and the Company and has classified its financial instruments into the appropriate IFRS 9 categories. On the date of initial application, 1 January 2018, the financial instruments of the Group and Company were as follows, with any reclassifications noted (the reclassifications of the financial instruments on adoption of IFRS 9 did not result in any changes to measurements):

	Measurement category		Carrying amount in EUR'000		
	Original (loans and receivables)	New (IFRS 9)	Original	New	Difference
<b>Financial assets</b>					
Trade and other receivables (Group / Company)	Amortised cost	Amortised cost	39 005 / 38 231	39 005 / 38 231	-
Cash and cash equivalents (Group / Company)	Amortised cost	Amortised cost	24 817 / 21 558	24 817 / 21 558	-

#### *Impairment of financial assets*

The Company and the Group have the following types of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of goods and from the provisions of services,
- bank deposits,
- cash and cash equivalents.

The Company and the Group were required to revise its impairment methodology under IFRS 9 for each of these classes of assets. As a result of the change in of the change in impairment methodology there was no material increase of the loss allowance on 1 January 2018, thus no adjustments were made to the Group's and Company's retained earnings and equity.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 1 January 2018 and as at 31 December 2018.

The estimated increase of loss allowance was not material, i.e., it was 109 thousand EUR (the Company and the Group) as at 1 January 2018, therefore no cumulative adjustment was recorded in the opening balance sheet on 1 January 2018.

#### *IFRS 15 Revenue from contracts with customers*

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 using the modified retrospective application, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). The Group incurs connection fee revenues that have been previously recognised as deferred income and gradually amortised to the profit or loss as Other income under previous accounting policy. With implementation of IFRS 15, it was determined that such revenues fall under revenues from contracts with customers and deferral remains to be appropriate under IFRS 15. Reclassification was made in comparative information for the year ended 31 December 2017 to report these revenues consistently as in the year ended 31 December 2018.



As a result of the application the following adjustments were recognised to the amounts in the financial statements at 1 January 2018.

	Group 2017 in EUR'000			Company 2017 in EUR'000		
	Original (previous accounting policy)	New (IFRS 15)	Difference	Original (previous accounting policy)	New (IFRS 15)	Difference
Revenue	330 956	331 937	981	281 571	281 573	2
Other income	4 223	3 242	(981)	2 282	2 280	(2)

## Financial instruments: Accounting policies from 1 January 2018

### Financial assets Classification

The Company and the Group classify their financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Company's and Group's business model for managing the financial assets and the contractual terms of the cash flows.

### Recognition and de-recognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company and the Group commit to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company and the Group has transferred substantially all the risks and rewards of ownership.

### Measurement

At initial recognition, the Company and Group measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

### Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. All Group's and Company's debt instruments are classified in amortised cost measurement category.

### Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/ (expenses). Foreign exchange gains and losses and impairment losses are presented within other income /(expenses) in the statement of profit or loss.

As at 1 January 2018 and 31 December 2018, the following financial assets of the Company and Group were classified in this category:

- trade receivables;
- accrued income;
- bank deposits;
- cash and cash equivalents.

### *Equity instruments*

The Group and the Company have no investments in equity instruments.

### *Derivative financial instruments*

Derivative financial instruments are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Company and the Group do not apply hedge accounting.

### *Impairment*

The Company and the Group assess on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes,
- time value of money and
- all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables and accrued income without a significant financing component the Company and the Group apply a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the 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.

Accounting principles until the 31 December 2017 are disclosed in Note Financial assets.

### **Revenue from contracts with customers: Accounting policies from 1 January 2018**

Revenue is income arising in the course of the Company's and Group's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Company and the Group expect to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Company and the Group recognises revenue when it transfers control of a good or service to a customer.

### *Sale of natural gas – wholesale*

The Company and the Group sell natural gas in the wholesale market. Revenue is recognized at the point in time when the product (natural gas) is delivered to the wholesaler (buyer) and he has full discretion as to the place and price of the products, and the wholesaler (buyer) has no claim for performance of the contract that could affect the acceptance of the products from the wholesaler (buyer). Delivery takes place when products are delivered to a particular location, the prescription and limitation risks are passed on to the wholesaler (buyer), and the Company and the Group have objective evidence that all acceptance-transfer criteria are met.

It is considered that there is no financing element here, because the sale is made with a credit term of 10-30 days, which corresponds to the market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

### *Sale of natural gas to end users – commercial customers and households*

The Company and the Group sell natural gas to end users – corporate customers and households. These sales meet over the time recognition criteria as the customer receives and uses the benefits simultaneously as the gas is delivered. Revenue is recognised based on the actual quantities delivered up to the end of the reporting period, normally one month, as the gas sold is priced on a per quantity basis.

Households settle their debts according to equalized payment schedules with end-dates not necessarily coinciding with calendar year-end, based on the actual consumption during previous settlement year. Management exercises judgement when estimating revenue for quantities delivered but not yet billed to these customers. This is determined using an established methodology within the Group.

If the contract includes variable consideration, revenue is recognised only to the extent that it is highly probable that there will be no significant reversal of such consideration.

### *Excise duty*

The excise duty is levied on the natural gas delivered to the end user and is calculated on the basis of fixed rate per quantity delivered depending upon purpose of use of natural gas by the end user. The Company and Group acts as an agent in collecting the excise duty from customers, and paying it to the government, therefore revenue is recognised net of excise tax levied on the customers.

### *Sale of services – natural gas distribution*

The Group provides natural gas distribution services to the gas traders who sell the natural gas to end users. Revenue from providing services is recognised over time in the period in which the services are rendered. The management exercises judgement related to the quantity of natural gas delivered to the household end-customers of the Group, as explained in the policy "Sale of natural gas to end users – commercial customers and households" above.

### *Connection fees*

When connecting to the gas network, the clients must pay a connection fee based on the actual costs of infrastructure to be built in order to connect them to the network. The management has concluded that the connection fees do not represent a separate performance obligation from the ongoing provision of network distribution services, and thus the revenue from connection fees is deferred and recognised as revenue over the estimated customer relationship period which, in management's view, approximates 30 years. Connection fees received from customers are carried in the statement of financial position as "Deferred income" within long-term liabilities.

### *Contract assets and contract liabilities related to contracts with customers*

Due to equalised invoicing and settlement arrangements with household customers, these customers routinely are in the position of over-payment in relation to their actual consumption. It is also common for households to make an advance payment for the whole year ahead, based on the actual consumption of prior settlement year. There are also corporate customers who have overpaid to the Company and Group for the goods and services received. The balances of overpaid amounts that represent contract liabilities are offset against future consumption. They are reported within other liabilities as prepayments received. Reported as accrued income within other current assets is contract asset that relates to contract with the natural gas transmission and storage operator, where the Company and the Group has undertaken commitment to store the agreed quantity of natural gas in the underground storage for particular period of time. The revenue is receivable when all the conditions of the contract are fulfilled.

### *Financing component*

The Company and the Group do not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Company and the Group do not adjust any of the transaction prices for the time value of money.

Accounting principles until the 31 December 2017 are disclosed in Note 25 Revenue recognition section.

## 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 recognised at fair value as determined under the policy of revaluation of fixed assets approved by the Board, less accumulated depreciation and impairment loss. 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. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is reclassified from the property, plant and equipment revaluation reserve to retained earnings.

Land and assets under construction are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued 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

The assets' useful lives are reviewed, and adjusted as appropriate, at the end of each reporting period. 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.

## 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 and impairment loss.

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, except for land, have a finite useful life. 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 – accounting policies applied until 31 December 2017

The Company and the Group has applied IFRS 9 starting from 1 January 2018. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. As a result, the comparative information provided continues to be accounted for in accordance with the Company's and the Group's previous accounting policy.

#### *Classification*

Until 31 December 2017, the Group and the Company classified its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables.

The classification depends on the purpose for which the financial assets were acquired.

#### *Subsequent measurement*

The measurement at initial recognition did not change on adoption of IFRS 9.

Subsequent to initial recognition, loans and receivables were carried at amortised cost using the effective interest method. 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. The Group's loans and receivables are classified as 'trade receivables' and 'other receivables' in the balance sheet.

#### *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

### Impairment of financial assets

#### *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of profit or loss.

#### *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.

#### *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.

Until 31 December 2017, 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 statement of profit or loss.

#### **Inventories**

Inventories are stated in the balance sheet at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. The cost of natural gas is composed of the gas purchase price and is determined using FiFo (first in first out) method. The cost of other materials, spare parts and other inventories is determined using the weighted average method.

The value of outdated, slow-moving or damaged inventories has been provisioned for.

#### **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.

#### **Principles of consolidation**

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated in consolidation.

As at 31 December 2018, there is only one subsidiary in the consolidated group – JSC "Gasol" which was established on 1 December 2017 as a result of reorganisation (spun-off of distribution business segment from the parent company JSC "Latvijas Gāze".) The reorganisation was determined to be a transaction among entities under common control and was recorded based on predecessor values. As a result, on the reorganisation date, the assets and liabilities with resulting entries

in equity were transferred to the opening balance sheet of subsidiary based on their predecessor amounts in the books of JSC "Latvijas Gāze". More detailed information about the balance sheet transfer is provided in Note 22 and Note Discontinued operations below. The reorganisation as such did not impact the consolidated financial statements following an establishment of Group as consolidated financial statements continued to report the natural gas trading and distribution business in one consolidated entity.

### Reorganisation and investment in subsidiary

In the separate financial statements of the parent company, investment in subsidiary's capital is accounted at cost less any impairment loss. The cost of investment was determined with the reference to the carrying amount in the predecessor's (i.e., JSC "Latvijas Gāze") books of assets and liabilities that were transferred to subsidiary AS "Gasol" as a result of reorganisation.

Reorganisation was determined to be a transaction between entities under common control and accounted for at predecessor values based on the following:

- In the course of the reorganization process, JSC "Latvijas Gāze" acquired ownership of 100% of JSC "Gasol" shares in exchange for the net assets transferred to JSC "Gasol", thereby acquiring non-monetary assets (shares) in exchange for a combination of non-monetary and monetary assets and liabilities (i.e., JSC "Gasol" transferable assets according to the asset allocation act).
- The assets and liabilities of the new group immediately after the reorganization were the same as assets and liabilities of JSC "Latvijas Gāze" immediately before the reorganization; The absolute and relative participation of JSC "Latvijas Gāze" shareholders in the net assets of the newly created group immediately after the reorganization was the same as their share in the net assets of JSC "Latvijas Gāze" immediately before the reorganization. Dividends from subsidiary are recognised in the separate financial statements of the Company when the right to receive the dividend is established. The dividend is recognised in the profit or loss.

As a result of this reorganisation as well as preceding reorganisation involving establishment of JSC "Conexus Baltic Grid", the Company and the Group recognised reorganisation reserve which arose as a result of difference between the net assets received and transferred within reorganisation process. This reserve may not be used for distribution and can only be offset if there is a future reorganisation between entities under common control resulting in a negative difference.

If there is objective evidence that the carrying amount of investment in subsidiary exceeds its recoverable amount, the impairment loss is calculated as the difference between these two amounts and recognised immediately in profit or loss. The recoverable amount of investment is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from the investment in subsidiary. Impairment loss for the with regard to investment in subsidiary is reversed if the recoverable amount of investment has increased above the previously estimated recoverable amount used in measuring the recognised impairment loss, but reversal should not exceed the initial cost of investment.

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker of each legal entity in the Group (i.e., the parent entity and subsidiary). Although the internal reporting formats are similar for both entities, there is no a single chief operating decision-maker for the whole group, given the legal requirements regarding operational independence of natural gas distribution operator from its vertically integrated parent company – the largest natural gas trading operator in Latvia. Management Board and Supervisory Board of each entity are regarded as chief operating decision-makers who are responsible for allocating resources and assessing performance of each segment.

### Share capital and dividend authorised

Ordinary shares are classified as equity. No preference shares have been issued. 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 Group's parent company's shareholders is recognized as a liability in the Company's and Group's financial statements in the period in which the dividends are approved by the shareholders.

## Trade and other payables

These amounts represent liabilities for goods and services provided to the Company and the Group prior to the end of financial year which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition with an exception of personnel related accruals where the payment terms might be up to 12 months. If the payment is not due within 12 months after the reporting period, such payables are presented as non-current. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 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. Fees paid for establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. Borrowings are classified as current liabilities unless the Company and the Group have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

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. Other borrowing costs are expensed in the period in which they are incurred.

## Provisions

Provisions are recognised when the Company or the Group have 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.

## Employee benefits

### *Wages, salaries and bonus plans*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and bonuses that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The Company and the Group recognise 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 and the Group recognise liability where contractually obliged or where there is a past practice that has created a constructive obligation. The liabilities are presented as current employee benefit obligations in the balance sheet.

### *Social security and pension contributions*

The Company and the Group pay 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 and the Group have to make payments in an amount specified by law. The Company and the Group also pay contributions to an external fixed-contribution private pension plan. The Company and the Group do 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.



### *Vacation pay accrual*

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.

### *Post-employment and other employee benefits*

Under the Collective Agreement, the Company and the Group provide certain defined 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 annually 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, using the projected unit credit method.

The present value of the benefit obligation is determined by discounting the estimated future cash outflows using the market rates on government bonds.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employee benefit expense in the statement of profit or loss.

Re-measurement gains and losses arisen from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they occur within separate reserve "Employee benefits revaluation reserve". They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

### **Income tax**

On July 28, 2017 there was a new Corporate Income Tax Law adopted whereby from January 1, 2018 onwards profit generated after 2017 shall be taxed when 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, hence no deferred income tax assets or liabilities arise in the individual company level.

Starting from the taxation year 2018, the corporate income tax is 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. For this reason, there is no current corporate tax charge in the Company's or Groups statement of profit or loss for the year ended 31 December 2018. Corporate income tax is also paid on conditionally distributed profits (non-business related disbursements, entertainment and donation costs exceeding certain criteria and similar). Such tax is not regarded as income tax in the context of IAS 12 as it is calculated on the gross rather than net amounts, and recognised in the statement of profit and loss as other operating cost.

Given the changes in the tax law as explained above, the Company and Group de-recognised in the year ended 31 December 2017 deferred tax liabilities carried forward from 2016, in the profit or loss or other comprehensive income or directly in equity, as appropriate, depending upon whether they related to the items recognised in other comprehensive income or directly in equity or not.

The Group recognises deferred tax liability for taxable temporary differences associated with investment in subsidiary (arising from existence of untaxed retained earnings arisen after 1 January 2018 in subsidiary) except to the extent that it is probable that the temporary difference will not reverse in the foreseeable future, i.e., the untaxed retained earnings will not be distributed from subsidiary to the parent company in foreseeable future. In the financial year ended 31 December 2018 the management of the Group did not recognise the deferred tax liability in the consolidated financial statement related to the above, after exercising significant judgement which has been described in Note Critical accounting estimates and judgements.

### **Revenue recognition (accounting policy until 31 December 2017)**

The Company and the Group recognise 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 and the

Group's activities as described below. The Company and the Group base their 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*

In the Company's and Groups financial statements, revenue from natural gas trading is recognised upon delivery of gas to the customer, net of value added tax and discounts, and net of the excise tax (change in accounting policy as described in Note 25, section Restatements of 2017 due to reclassification in 2018). Natural gas sales to corporate customers are recognised based on meter readings read by remote counter reading systems, including telemetry, or reported by customers, based on actual consumption. 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, based on the past consumption patterns and weather conditions, where relevant (natural gas used for heating).

#### *Revenue from natural gas distribution*

In the Group's consolidated financial statements, income from the rendering of natural gas distribution 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. With regard to natural gas delivered to households, this includes an estimate of the quantities delivered between the date of the last meter reading and the year-end. Natural gas distribution services are provided to the gas trading companies.

In the Company's separate financial statements, revenue from the natural gas distribution services is shown net, as the Company regards itself as an agent in provision of these services.

#### *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 and the Group. Hence, recognition usually coincides with the receipt of penalty.

#### *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 shareholders with a significant influence and the entities where these shareholders have control or joint control, as well as members of the Council and the Board of the Company or its subsidiary, their close relatives and entities in which they have a significant influence or control.

### **Discontinued operations**

In the financial statements of the Company and the Group 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.

In 2017 the Company had launched the second round of the reorganisation and in December 2017 it transferred the natural gas distribution business, including related assets, liabilities and equity items 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.

### Correction of prior period error

In 2018, an error in the Company's statement of cash flows reported in the financial statements for the year ended 31 December 2017 was discovered related to the presentation of the cash transferred to subsidiary in reorganisation. Originally reported in in financial statements for the year ended 31 December 2017 in a separate line item, outside cash flows from operating, investing or financing activities, was cash outflow of EUR 9 258 thousand described as "Cash to be spun off as a result of discontinued operations". In fact, cash outflow of EUR 3 800 thousand should have been reported within cash flows from investing activities whereas change in accounts payable within cash flows from operating activities should be decreased by EUR 5 458 thousand as the payable of this amount was outstanding as at 31 December 2017. In the Company's financial statements for the year ended 31 December 2018, the comparative statement of cash flows for the year ended 31 December 2017 was restated to correct the error as described above. As a result of restatement, the amount of net cash outflow from operating activities increased by EUR 5 458 thousand and the amount of net cash outflow from investing activities increased by EUR 3 800 thousand.

### 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
Non-audit services	15	12	1	12
	54	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 Commercial law of Republic of Latvia, in the case of reorganization, the incumbent company bears solidary responsibility together with the newly established company with regard to the liabilities that originated prior to reorganisation and were transferred to the newly established company, and whose settlement date occurs within five years after the reorganization date. As at 31 December 2018, the Company and the Group is not aware of any existing liabilities that it would be liable for in relation to the above.

Financial obligations arising from long-term gas purchases are calculated based on the same principles that govern internal budgeting. The resulting long-term obligations as of the balance sheet date amounted to approximately 2.69 billion EUR on 31 December 2018) and to 2.85 billion EUR on December 31 2017.

As a part of financial guarantees SEB banka has reserved EUR 251 500.

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

Commitments	Group 31.12.2018	Group 31.12.2017	Company 31.12.2018	Company 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Contracted and unfinished	1 335	289	845	-

*Contingent liabilities related to the corporate income tax from distributable profit of the Company*

When the net profit for 2018 is distributed, corporate income tax liabilities will arise (20/80 from net amount distributed to shareholders). Dividends received from the subsidiary will not give rise to additional tax liability in the hands of the Company when distributed further to the shareholders of the Company. Assuming a proposed distribution of profit for 2018 as disclosed in Note 16 (EUR 21 945 thousand or EUR 0.55 per share), taking into account the subsidiary's dividends of EUR 8 977 thousand, the resulting corporate income tax charge will be around EUR 2.6 million, to be recognised in the Company's and Group's profit or loss when the decision about distribution is approved by the shareholders.

**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.

Financial statement preparer: \_\_\_\_\_

Madara Pundure  
Head of Finance and accounting division

## INDEPENDENT AUDITOR'S REPORT



Translation from Latvian original\*

### **INDEPENDENT AUDITOR'S REPORT**

**To the shareholders of Joint Stock Company Latvijas Gāze**

#### **Report on the audit of the separate and consolidated financial statements**

##### **Our opinion**

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of AS Latvijas Gāze (the Company) and its subsidiary (the Group) as at 31 December 2018, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

##### ***What we have audited***

The financial statements, which consist of the separate financial statements of the Company and the consolidated financial statements of the Group (together: "the financial statements") comprise:

- the separate and consolidated balance sheet as at 31 December 2018;
- the separate and consolidated statement of profit or loss for the year then ended;
- the separate and consolidated statement of comprehensive income for the year then ended;
- the separate and consolidated statement of changes in equity for the year then ended;
- the separate and consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

##### **Basis for opinion**

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

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

##### ***Independence***

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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiary are in accordance with the applicable law and regulations in Latvia and that we have not provided non-audit services that are prohibited under Article 37.6 of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Company and its subsidiary, in the period from 1 January 2018 to 31 December 2018, are disclosed in Note 27 to the financial statements.



## Our audit approach

### Overview



- Overall Company materiality: EUR 1,159 thousand.
  - Overall Group materiality: EUR 1,259 thousand.
- 
- We conducted a full scope audit of the Company and its subsidiary, both of them are in Latvia.
  - Our audit scope covered 100% of the Group's revenues and 100% of the Group's total assets.
- 
- Revenue recognition

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

### Materiality

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

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

<b>Overall Company and Group materiality</b>	Overall materiality applied to the Company was EUR 1,159 thousand and overall materiality applied to the Group was EUR 1,259 thousand.
<b>How we determined it</b>	5% of profit before tax of the Company and the Group, respectively.
<b>Rationale for the materiality benchmark applied</b>	We chose profit before tax as the base benchmark because, in our view, it is the benchmark against which the performance of the Company and the Group is most commonly measured by users of the financial statements. We chose 5%, as based on our professional judgment this is within the range of acceptable quantitative materiality thresholds.

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We agreed with the Audit Committee that we would report to them the misstatements identified during our audit above EUR 115.9 thousand, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### **Key audit matters**

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

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
-------------------------	---

#### **Revenue recognition**

As disclosed in Note 2, during the year the Group has recognised revenue of EUR 345 million from which EUR 294 million is related to the sale of natural gas, EUR 49 million is derived from regulated natural gas distribution services, and remaining EUR 2 million represents other revenue streams. The Company's revenue from sale of natural gas constituted EUR 298 million. Determining the appropriate accounting policies for recognition of revenue, including implementation of IFRS 15, involves some judgment as explained below.

As disclosed in Note 2 with regard to Company's revenue from sale of natural gas for 2018, approximately 89% are sales to corporate customers and 11% of revenues are derived from households. As described in notes 25 and 26, the Company, a gas trading operator, considers itself as an agent in relation to the supply of natural gas transmission and distribution services to the end customers. The Group is considered to be an agent in respect of natural gas transmission services. In addition, during 2018, the management revised the accounting policy for excise duty after determining that excise duty does not form a part of revenue as the Company and the Group act as a collection agent in collecting the excise duty on behalf of the Government. Management judgments, and changes in the judgments, on whether the Company and Group act as a principal or an agent, significantly affect the determination of the amount of revenue from contracts with customers.

Management also exercises certain degree of judgment when estimating gas trade revenue for quantities delivered but not yet billed to household customers who settle their debts according to equalized payment schedules. Such revenue is

We have compared, on a sample basis, the revenue recognised to amounts invoiced to corporate customers and the subsequent receipt of payment from those customers.

For selected amounts receivable that were outstanding at the end of the year, we confirmed the balance with customers, and where no confirmation was received, reconciled the amounts to subsequent cash receipts.

With respect to unbilled revenue to households, we tested management's assumptions in relation to consumption by reference to historical data as well as specific current year factors, including weather patterns. On a sample basis, we reconciled unbilled revenue to the subsequently billed revenue, and tested billed revenue to subsequent payments.

With regard to significant judgments made by the management in determination of whether the Company or the Group act as an agent or principal, we considered the indicators in the context of updated guidance provided in IFRS 15. As a part of our analysis, we considered the facts and circumstances surrounding the provision of services in question, such as, primary responsibility for fulfilling the promise to provide the specified good or service; bearing of inventory risk before the specified good or service has been transferred to a customer, and discretion in establishing the prices for the specified goods or services.

We also evaluated the adequacy of the financial statement disclosures of key assumptions and

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determined using an established methodology within the Group. The judgment explained above also relates to the distribution revenue derived from the household customers of the Group.

judgments as well as other disclosures as required by IFRS 15.

Revenue recognition requires significant time and resource to audit due to the magnitude, therefore we have determined that revenue recognition is a key audit matter.

#### ***How we tailored our Group audit scope***

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

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

#### **Reporting on other information including the Management Report of the Company**

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

- the Management Report of the Company as set out on pages 11 to 18 of the accompanying Consolidated and Company's Annual Report
- the Statement of the Board Responsibility as set out on page 19 of the accompanying Consolidated and Company's Annual Report,
- the Statement of Corporate Governance, set out in separate statement prepared by the Company's management and available on the Company's website <http://www.lg.lv/> as at the date of this audit report,
- Information on the Composition of the Council and the Board of the Company, as set out on pages 3 to 4 of the accompanying Consolidated and Company's Annual Report,
- Consolidated Non-financial Statement as set out on pages 76 to 92 of the accompanying Consolidated and Company's Annual Report, and
- other disclosed information including Summary Information on the Group, Information on Strategy and Objectives of the Group, Shares and Shareholders of the Company, as set out on pages 5 to 10 of the accompanying Consolidated and Company's Annual Report,

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

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

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

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

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In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in accordance with Article 56.<sup>1</sup>, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.<sup>2</sup>, section 2, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.<sup>2</sup>, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

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

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Management Report of the Company has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports; and
- the Statement of Corporate Governance, available on the Company's website <http://www.lg.lv/> as at the date of this audit report, includes, in all material respects, the information in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section 2, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in Article 56.2, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

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

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

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

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

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

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

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

#### **Auditor's responsibilities for the audit of the financial statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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## Report on other legal and regulatory requirements

### *Appointment*

We were first appointed as auditors of the Company and the Group for the audit of the financial statements for the year ended 31 December 1997. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 22 years. Our appointment for the year ended 31 December 2018 was by resolution of general meeting of shareholders dated 19 June 2018.

PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5

A handwritten signature in blue ink, appearing to read "Ilandra Lejiņa".

Ilandra Lejiņa  
Member of the Board

Riga, Latvia  
10 April 2019

A handwritten signature in blue ink, appearing to read "Lolita Čapkeviča".

Lolita Čapkeviča  
Certified auditor in charge  
Certificate No. 120

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## CONSOLIDATED NON-FINANCIAL REPORT - 2018

### JSC "Latvijas Gāze"

Place of registration	Riga, Latvia
Registration number	40003000642
Address	Vagonu iela 20, Riga, Latvia, LV-1009
Website	<a href="http://www.lg.lv">www.lg.lv</a>

### JSC "Gasol"

Place of registration	Riga, Latvia
Registration number	40203108921
Address	Vagonu iela 20, Riga, Latvia, LV-1009
Website	<a href="http://www.gaso.lv">www.gaso.lv</a>

### Abbreviations

JSC "Latvijas Gāze"	Latvijas Gāze
JSC "Gasol"	Gasol
United Nations	UN
Corporate social responsibility	CSR
Public Utilities Commission	PUC
Distribution system operator (Gasol)	DSO

## INTRODUCTION

Latvijas Gāze and its subsidiary Gaso has been the leading and most reliable natural gas supplier in Latvia for many years and is now actively expanding its presence in other countries of the region in a bid to become the customers' first choice in the Baltic natural gas market.

The consolidated Corporate Social Responsibility Report of Latvijas Gāze for the year 2018 is its second and follows the guidelines of the UN *Global Compact* programme ([www.unglobalcompact.org](http://www.unglobalcompact.org)) insofar as the matters of the guidelines are relevant to the company's actual operation.

This report details the main risks, the measures for prevention or mitigation thereof, and assesses the impact of those measures to the extent possible. Various specialists and trade union representatives were involved in the preparation of the report. We commit to continue improving the performance of the companies covered within the framework of issues discussed in the report.

The report has been prepared in Latvian, English and Russian. The graphic information concerns a five-year period.



**Latvijas Gāze believes that the world should be based on true, equal and socially responsible values.**

By corporate social responsibility we understand a systematic process where the company assesses the impact of its actions upon the environment, employees, customers, business and society and sets the operating principles that follow from the company's impact assessment and values. Furthermore, the company's reputation and employees' satisfaction is enhanced, business risks are reduced, and consequently the company's value is raised. The implementation of the corporate social responsibility goals is an integral part of the company's business strategy.

The report was reviewed and approved at the meeting of the Management Board of Latvijas Gāze on April 10, 2019 as part of the consolidated Annual Report and is signed on behalf of the Board by:

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Aigars Kalvītis  
Chairman of the Board

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Sebastian Gröblichhoff  
Deputy Chairman of the Board

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Elita Dreimane  
Member of the Board

## HUMAN RIGHTS

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**Principle 1**      **Businesses should support and respect the protection of internationally proclaimed human rights; and**

**Principle 2**      **make sure that they are not complicit in human rights abuses.**

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

## STAFF HEALTH AND SAFETY

### OVERALL ASSESSMENT

The Latvian regulatory framework of labour safety is essentially designed to be directly applied within

organisations, and both Latvijas Gāze and Gaso fully meet these requirements.

### RISKS

More than a half of employees at Gaso are tasked with the direct maintenance of the natural gas distribution system, which entails an increased risk

in itself because of the explosiveness and inflammability of gas and the health impact of other harmful working environment factors.

### MEASURES

There is a labour protection system in place, and there have been responsible persons designated for specific duties in labour protection, fire safety and civil protection. Employees are instructed on labour protection and fire safety pursuant to a schedule depending on work specifics. At least once per year there is training held on how to act in the event of fire. An assessment of risks of working and explosive environment is also conducted once per year.

Accidents at work are constantly registered and analysed. Employees undergo mandatory health

checks pursuant to a schedule depending on work specifics. In daily work they are provided with the necessary collective and individual safety equipment. The work equipment and machinery is regularly inspected and serviced in line with the manufacturer requirements. Employees are provided with health insurance.

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

### KEY INDICATORS

#### *Complaints received\**

In 2018 there were no complaints received over labour safety.

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

## HOURS, WAGES AND LEAVE

### OVERALL ASSESSMENT

Employees predominantly have 40 working hours per week. Where necessary, there is work in shifts. The number of overtime hours is limited, employees are given appropriate break and rest time. They also have a paid annual leave and paid off-days for children, for length of service on top

### RISKS

The recruitment policy is implemented so as to avoid the risk of lack of qualified specialists jeopardising compliance with the industry

### MEASURES

Amendments taking effect in 2019 have been made to the Collective Agreements, and new internal rules of procedure have been drafted. Gaso has set up a new standing pension management commission

### KEY INDICATORS

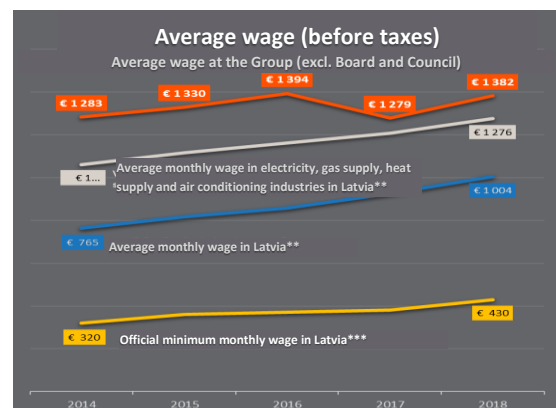
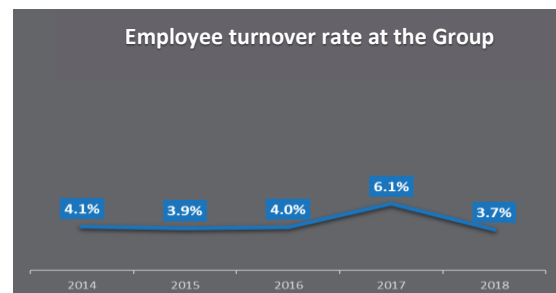
The development of the employee turnover ratio reflects the events at the company and the situation on the labour market. The increase in 2017 stems from the reorganisation process which saw restructuring of functions and jobs (the methodology of calculation has been improved from the previous report).

At Latvijas Gāze, incl. the distribution system, the average wage exceeds the minimum wage by multiple times and is higher than both the official average monthly wage and the wage paid in similar industries.

of those stipulated by the legislation. Under the Latvian laws, employees are allowed incapacity absence. All employees have written employment contracts signed and issued and all taxes related to the employment relationship paid.

standards in respect of the safety and operational continuity of the natural gas distribution system.

and approved a new financial incentive system which also took effect in 2019. Under the new system, employees are systematically evaluated and rewarded based on work quality, initiative, intensity, and contribution.



\* According to the profit or loss statement

\*\* Source: Central Statistics Bureau

\*\*\* Source: Ministry of Welfare

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



### **Complaints received**

In 2018 there were no complaints received over violations of working hours, wages or leave of absence.

## **FAIR TREATMENT AND PRIVACY**

### **OVERALL ASSESSMENT**

Given the substantial number of employees and customers, the company pays special attention to matters of professional ethics.

There is a strict regulatory framework in the field of personal data protection both at national and

EU level. These requirements are met, and there are proportionate and proactive measures taken to streamline processes.

### **RISKS**

With the completion of the first full year after the company's reorganisation, a future vision and understanding of the company's functional objectives and upcoming challenges has stabilised.

Hence,

“

**the risks previously associated with uncertainty in the labour environment – which, in turn, could have caused tense working relationships and employees rotation – have diminished.**

### **MEASURES**

A comprehensive audit of personal data processing has been conducted, and the improvements have been implemented. The internal regulatory enactments governing the processes of personal data processing have been revised, and the relevant processes and mechanisms of control thereof have been implemented. Much attention has been

devoted to the training of employees in the field of personal data protection, explaining the regulatory requirements and analysing examples and cases.

Gasco introduced a Business Code of Conduct, which essentially applies to customer and partner relations, and an Employee Code of Conduct, which contains guidelines of how employees should act when facing various infringements.

### **KEY INDICATORS**

#### **Complaints received**

In 2018 there were no complaints received over infringements or privacy violations.



## IMPACT OF THE DEVELOPMENT OF DISTRIBUTION NETWORKS UPON SURROUNDING RESIDENTS

### OVERALL ASSESSMENT

The field of infrastructure development is subject to extensive regulation, and the DSO complies with all regulatory requirements at both design and construction stages. On a daily basis the DSO

communicates with a broad range of persons involved in development projects, thus gaining support and ensuring the implementation of projects.

### RISKS

When building infrastructure, the DSO is subject to private owners' right to property and usage thereof and may affect natural sites. Hence, it is essential to cooperate with the public, the local governments, and the state authorities in charge of environmental matters. The gasification of new housing estates frequently requires building gas pipelines through areas where there have been no usage restrictions before, with the owners

discontent due to encumbrance. It is therefore of particular importance to involve all landowners, notifying them of the common practical benefits from the infrastructure. Risks associated with the impact of construction upon protected areas, however, are low, as Latvia has a stringent regulatory framework in respect of environmental protection that requires seeking environmentally friendly solutions.

### MEASURES

The prospective system development plans take into account the municipal territorial plans, the wishes of local governments and their residents and businesses, and the national and municipal restrictions on protected areas.

Upon infrastructure reconstruction or repairs, Gaso always timely notifies of planned supply

interruptions and ensures a continuous gas supply as far as possible.

In 2018 work began on an environmental policy that will address the potential environmental impact of network construction and set the core principles of the environmental impact of the development of the DSO system.

### KEY INDICATORS

#### *Complaints received*

In 2018 there were no complaints received from residents of the territories affected.

## DANGER OF NATURAL GAS

### OVERALL ASSESSMENT

If used improperly, natural gas is a dangerous substance. Hence, one of the main tasks of the DSO is to instruct people on how to act in the

event of an accident or threats thereof (for information on the Emergency Service and the measures to avoid emergency situations, see the "Environment" section).

## RISKS

The potential danger of natural gas is one of the key aspects in the operation of the DSO. A lack of knowledge on the physical properties of natural gas and its use may cause adverse effects to the

consumers themselves and their assets, an increase in the number of emergency calls and accidents, and additional expenditures on the Emergency Service.

## MEASURES

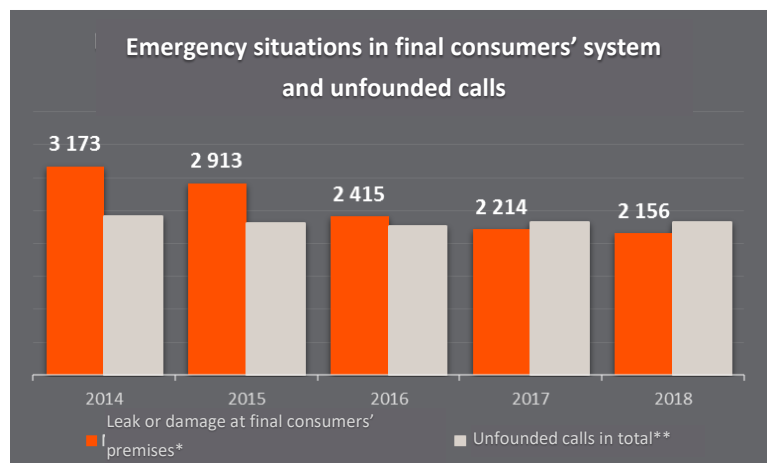
Information on the website and booklets on the safety measures to be taken when using natural gas, guidelines on the proper use of gas appliances, and instructions for emergency situations. Informational materials on the safe use of natural gas. Participation in events held by local governments, public organisations and operational services to educate on the safe use of natural gas. Regular

educational campaigns at schools and events for children. In 2018 – participation in the annual contest for schools “Esi drošs, neesi pādrošs” (‘Be Brave, Not Rash’) and three similar events in Sigulda, Līvāni and Dobele. In partnership with rescue and emergency services, informational materials have been prepared and are publicly distributed.

## KEY INDICATORS

Since 2014 there has been a sharp decrease in the number of emergency calls caused by the consumer’s own action or leakages or damage at the final consumer’s premises. This has a number of reasons, such as a gradual decrease in the number of connections specifically at apartments, consumers upgrading their appliances, being more aware of how to treat natural gas, etc.

The total number of unfounded calls remains steady, but this is not a negative trend, as the DSO is supportive of precautionary calls to the Emergency Service.



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

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

## LABOUR

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

The employees' rights are fully observed in terms of freedom of association and non-discrimination, and this is promulgated to the companies' customers, partners and employees through the CSR report and the regulatory framework of ethical matters.

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

## TRADE UNIONS

### OVERALL ASSESSMENT

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

### RISKS

No substantial risks are seen in this field.

### MEASURES

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

A labour dispute commission has been set up, featuring representatives of the employer and trade unions. Premises are made available for holding

trade union meetings, as are permanent premises and means of communication for the head of the trade union. At the trade union's request, the required information about the company's operation is provided. The trade union also takes part in the selection of health insurance policy for employees.

Amendments to the Collective Agreements were made in 2018 and took effect in 2019.

### KEY INDICATORS

#### *Complaints received*

In 2018 the trade union was involved in the settlement of a disagreement on one occasion.

## PROHIBITION OF DISCRIMINATION

### OVERALL ASSESSMENT

The prohibition of discrimination is observed. No specific groups of people are obstructed. The current staff has been recruited by balancing the required professional competences against supply

on the labour market. It is made sure that decisions in respect of employees be based on appropriate and objective criteria.

### RISKS

Overall, the risks associated with discrimination are low. Given the specific nature of the business

of the DSO, there is a relatively low proportion of women amongst employees.

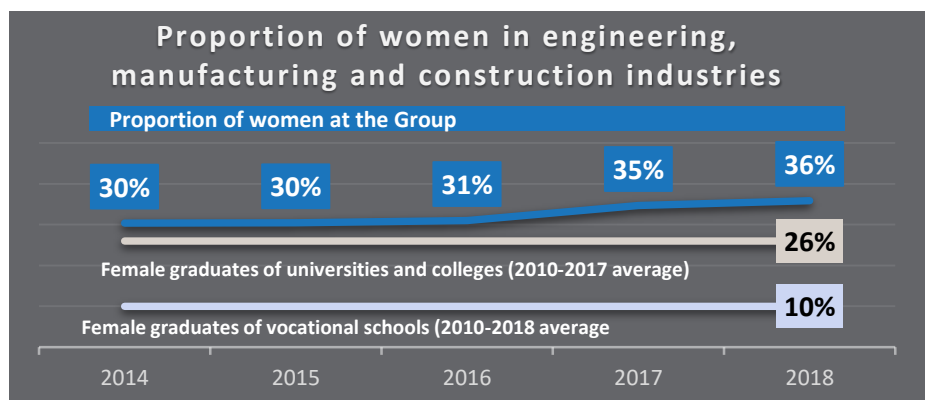
### MEASURES

Job advertisements set out specific requirements for employees based on the professional competences required for the company and are worded in a non-discriminatory way. During the recruitment process,

no sensitive information about applicants, including their religious or political conviction, family status, sexual orientation, ethnic origin, political beliefs etc., is requested.

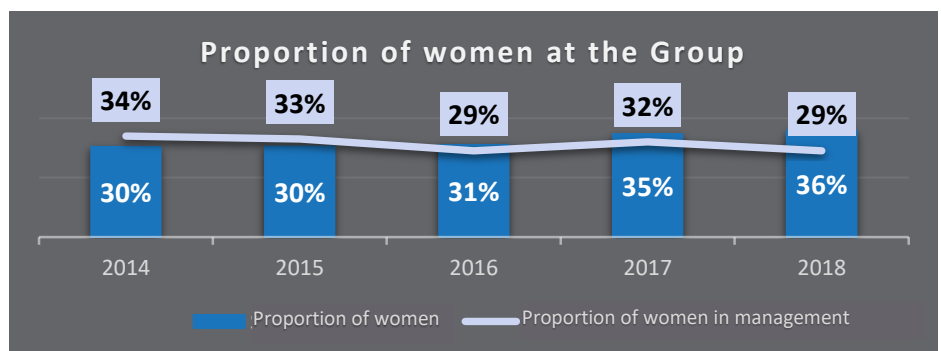
### KEY INDICATORS

The proportion of female employees highly depends on the professional orientation of youth. As shown by the chart, there is a very low proportion of women among graduates in the related industries. Hence, there is a small share of women at Latvijas Gāze and Gaso, in reflection of the labour market.



\*Source: Central Statistics Bureau

The overall proportion of women reflects the specific nature of the industry when it comes to education. While at Gaso there are relatively few women in managerial positions, their proportion is consistent with the overall proportion of women.



### Complaints received

In 2018 there were no complaints received over discrimination at work.

## ENVIRONMENT

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

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

The company both helps others acquire environmentally friendly fuel and itself actively makes use of the benefits of developing environmentally friendly technologies.

The operation and maintenance of the natural gas system and methane emissions are under strict control, and system safety is taken care of. The operational sphere is highly regulated, and there is a natural resource tax for methane emission into the atmosphere which further incentivises limitation of emissions.

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

## ACCIDENT PREVENTION AND NETWORK SAFETY

### OVERALL ASSESSMENT

Natural gas may be very dangerous in use, inflicting harm on people, property, and the environment. Therefore, the company ensures a

### RISKS

The impact of the product and the services rendered upon people is one of the company's major risks when it comes to CSR, as natural gas is inflammable, explosive and asphyxiant in enclosed spaces. The main risks are associated with outdated infrastructure and gas appliances owned

### MEASURES

At the Riga Unit of Gaso, which is in charge of more than half of consumers, there is a separate emergency service, while other units have separate emergency teams. In addition to the unified emergency phone 112, there is a dedicated natural gas emergency number 114 where calls are forwarded to the call operators of the Emergency Service of Gaso.

safe supply of natural gas, the education of people, and a prompt response to emergency situations.

by consumers and human action both when consuming natural gas and making unwarranted manipulations of gas appliances.

The most severe losses to the DSO are caused by bursts of underground pipelines resulting from third-party activity.



**Emergency calls and solution of emergency situations are free of charge for consumers.**

The Emergency Service and units of Gaso are under contract with the operational services and communication holders on cooperation in emergency situations. Where there is disruption to

a centralised natural gas supply to multiple consumers at a time, Gaso notifies the customers.

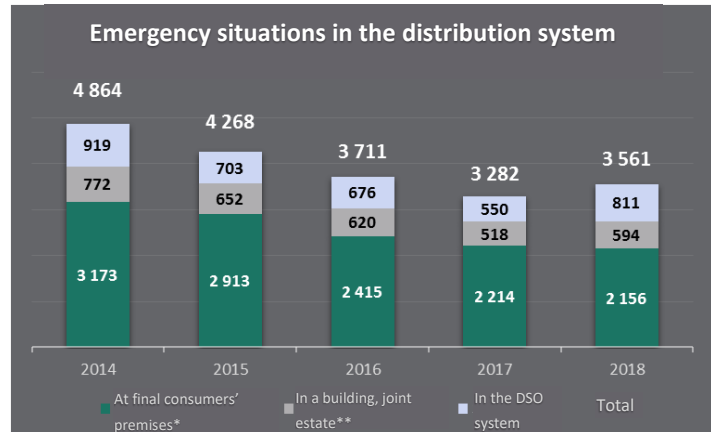
The employees of the Emergency Service and teams regularly undergo certification. Every year there are

approximately 400 test calls made that include training together with other operational services. The employees are equipped with modern devices for the detection of gas leakages and the elimination of consequences.

## KEY INDICATORS

Since 2014 the number of final consumers has not changed much, yet the number of emergency calls has substantially dropped.

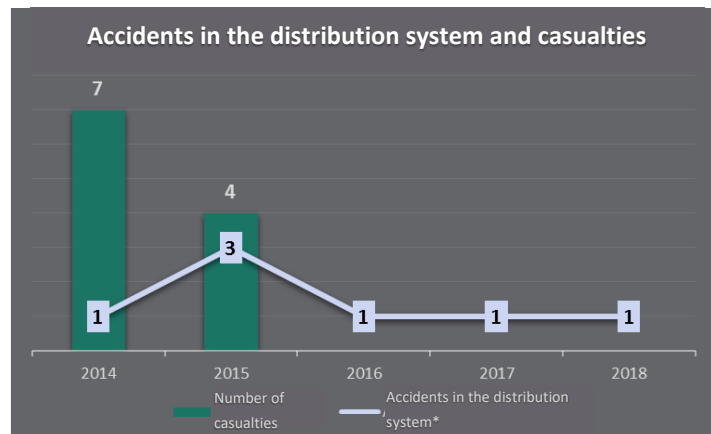
The most part of emergency situations are damages to the equipment owned by final consumers, so it is extremely important to instruct people on how to act in the event of leakage or equipment damage.



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

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

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



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

## ENVIRONMENTAL IMPACT

### OVERALL ASSESSMENT

The group constantly monitors and takes action to limit the emission of substances causing the greenhouse effect and improve energy efficiency. Particular attention is devoted to the possible emission of methane into the atmosphere and energy efficiency in the company's electricity consumption, vehicles and premise heating.

The contribution of the main component of natural gas – methane – to the greenhouse effect over a 100-year stretch is estimated as 25-34 times that of carbon dioxide (CO<sub>2</sub>), which is why its emission into the atmosphere must be limited to the extent possible. However, the total emissions from the distribution system in the European Union account for just 0.2-0.3% of the total impact of human-generated greenhouse gas emissions.

The operation of the natural gas distribution system within the meaning of the law "On Pollution" is not a polluting activity and does not require a pollution license of category A, B or C or a greenhouse gas emission permit. The DSO has

### RISKS

Main environmental risk is associated with methane emissions during pipeline repairs, during operation, and as a result of accidents. While during natural gas distribution and repairs the expected amount of emissions is known and may be limited long-term through processes and

### MEASURES

In 2018, as part of responsible care for the environmental impact of the company's operations, work began on the DSO Environmental Policy.

A person in charge of monitoring the environmental issues has been appointed. A report on the release of greenhouse gases contained by natural gas (primarily methane) into the atmosphere is made on a quarterly basis.

three environmental pollution permits of category C for the boiler houses heating the premises of the company's regional units in Riga, Bauska and Ogre.

The distribution system does not use high-capacity equipment, unlike, for instance, natural gas transmission systems or storages. Hence, Gaso emits CO<sub>2</sub> primarily through heating its premises and driving vehicles. In order to reduce the environmental impact and boost the economic efficiency of its business, Gaso devotes effort towards increasing the share of natural gas in its own consumption by purchasing natural gas powered cars and installing a natural gas cogeneration plant.

There are no harmful chemicals used, no natural resources used, and no material amounts of waste generated in the operation of the distribution system. Gas pipeline leakage tests use nitrogen, which is lighter than air and therefore vented out.

technologies, accidents are unpredictable and uncontrollable with an increased risk of emissions.

As concerns CO<sub>2</sub> emissions, the risks are low, as the company has no high-capacity manufacturing equipment and boiler houses.

Since 2016 there is an energy management system compliant with the LVS EN ISO 5001 standard in place, and both Latvijas Gāze and Gaso continue applying this standard. An internal energy audit takes place once per year.



**More than 30 energy efficiency measures have been implemented,**

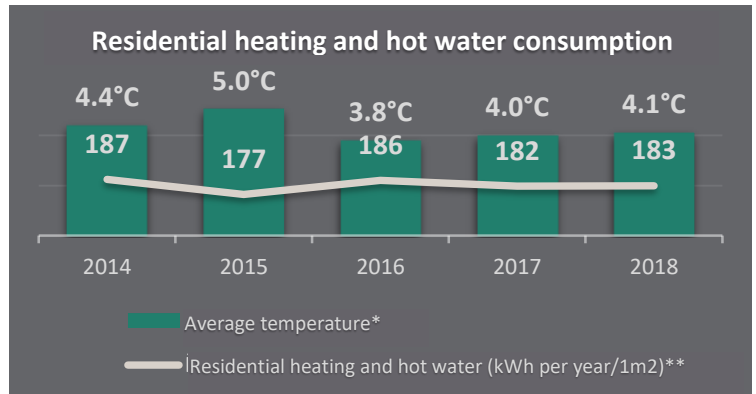
## leading to a decrease in the total energy consumption by 363 MWh.

Part of its vehicle fleet is systematically upgraded every year, ensuring an overall compliance with the current environmental requirements.

Scrap metal, construction materials and tyres are sorted and disposed of separately. The majority of units of Gaso also sort and separately dispose of paper, plastic, lamps and batteries.

### KEY INDICATORS

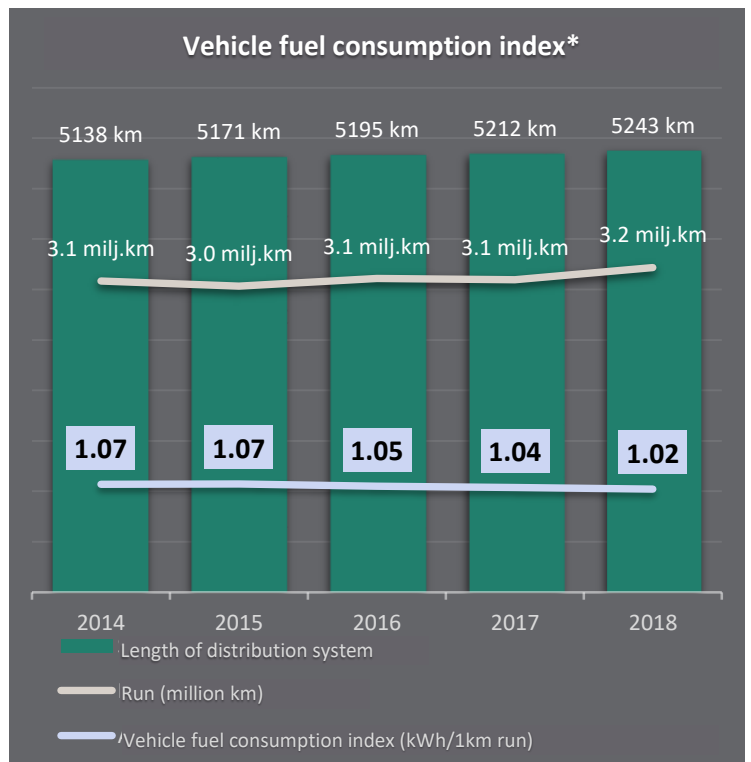
A key role in residential heating and hot water consumption is played by thermal energy in the heating season. Data suggests that there is a correlation between the air temperature and the total consumption, characteristic of Northern countries (the calculation methodology has been improved from the previous report).



\*The average air temperature in Latvia during the heating season (Jan-May and Sep-Dec); source: Central Statistics Bureau.

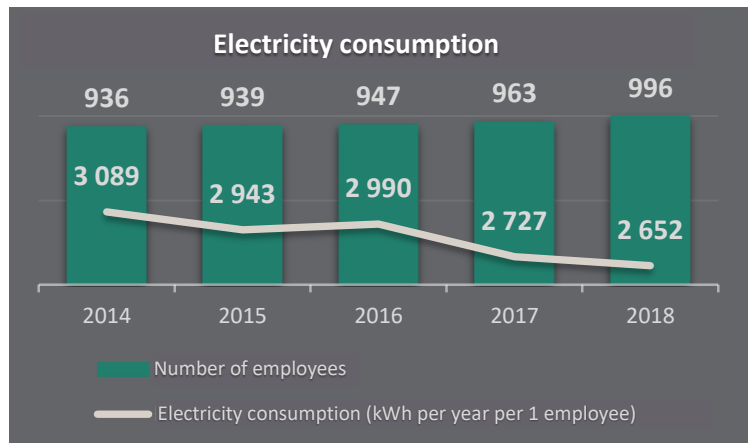
\*\*The heat purchased in 2014-2015 has been calculated on the basis of the average consumptions of 2016-2018.

Overall, the vehicle fuel consumption index has not much changed (the calculation methodology has been improved from the previous report). The natural gas trader's fleet, included in the calculations, accounts for about 10% of all vehicles.





Despite an increase in the total number of employees, the set of energy efficiency measures taken has yielded a decrease in the consumption of electricity.



### Complaints received

In 2018 there were no complaints received over environmental impact caused.

## TECHNOLOGIES

### OVERALL ASSESSMENT

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

Furthermore, technologies take an increasing role in both notification of the public and business partners over the company's activities and communication with customers.

### RISKS

Given the technologies and processes used in the natural gas distribution system, the overall

emission risks associated with technologies are low.

### MEASURES

#### Distribution system operation

For many years the company has been using technologies that allow installation and repairs of natural gas connections with a negligible release of natural gas into the atmosphere. Advanced gas leakage detectors are used, such as car-mounted laser gas detectors for inspecting gas distribution system pipelines.

over several years, thus making energy supply efficient. At the Vagonu Street complex, control electricity meters are installed for each individual building to implement monitoring and assess consumption. In 2018 there were four *Gridlink* power monitoring devices installed at 20 Vagonu Street. They allow sending the measurement data to an online analysis and visualisation system. There were also heat flow meters installed in two buildings.

#### Housekeeping

In Riga and at almost all regional units of Gaso, the environment-friendly natural gas is used for heating. Riga and most units have individual heating boiler houses that have been gradually upgraded

59 of 244 cars use natural gas as fuel. This is not only efficient from the cost viewpoint, but also positive from the emission viewpoint. The cars of Gaso are

equipped with GPS and fuel metering devices which has enabled savings of around one third in terms of fuel consumption.

### Communication

In order to provide extensive and up-to-date information to customers, investors, potential employees and anyone interested, the company continues expanding the use of modern technologies. Such information for customers and

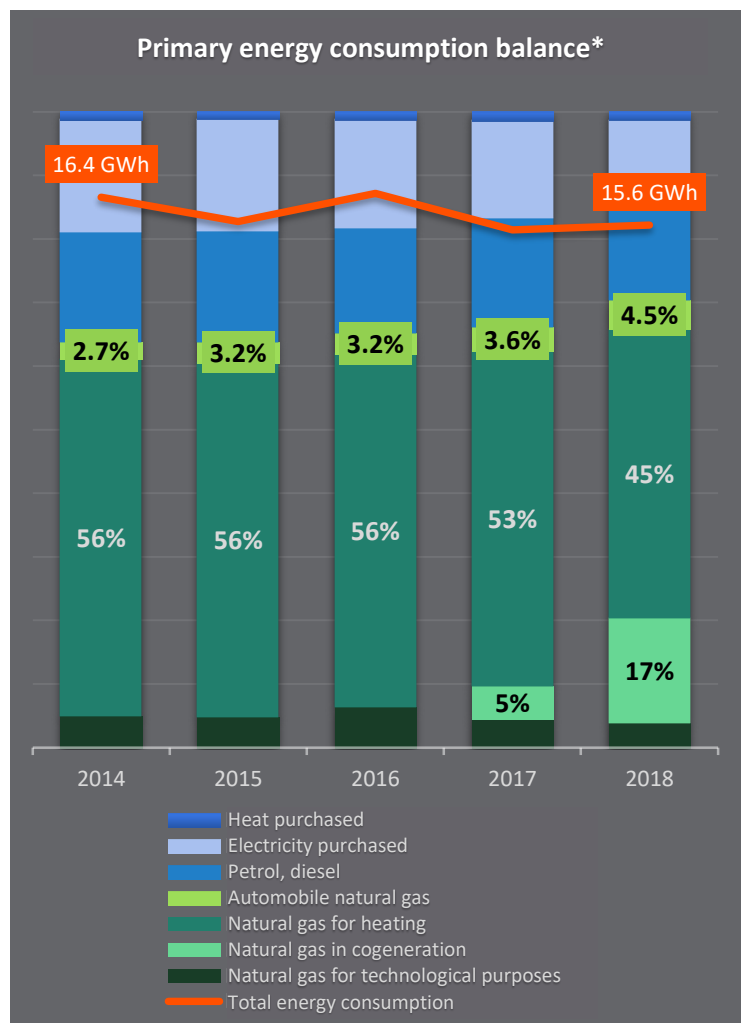
on the financial performance, shares and corporate governance of Latvijas Gāze is available on the Latvijas Gāze website [www.lg.lv](http://www.lg.lv) (in Latvian, English and Russian) and on the Gaso website [www.gaso.lv](http://www.gaso.lv). Information on the company's activities, job vacancies and events is also posted on social media.

The year 2018 saw the introduction of an option of remote contract signing, further simplifying and streamlining communication with our household customers.

### KEY INDICATORS

The company sees natural gas as a resource for a green and financially efficient housekeeping and therefore purposefully increases the share of natural gas in its primary energy consumption basket. It also invests in the energy efficiency of buildings and equipment, which, in turn, facilitates a decrease in the total consumption and efficiency.

The total energy consumption has dropped since 2014, yet it should be noted that the outdoor air temperature may substantially affect the total consumption and an a cold winter may increase the consumption of energy resources (the calculation methodology has been improved from the previous report)



\*The primary energy consumption balance shows the energy amount consumed, so the electricity and heat generated by the cogeneration plant is represented by the natural gas quantity consumed by the cogeneration plant. The DSO accounts for over 90% of consumption.

## ANTI-CORRUPTION AND BRIBERY

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

In 2018 Latvia was ranked 41st in the Corruption perception index by *Transparency International*. The company does not engage in corruptive activities and bribery, fully condemns such actions, and makes a clear statement thereof to its customers, partners and employees through the CSR report and the Employees' Code of Conduct and the Business Code of Conduct of Gaso.

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

## COMPANY'S CULTURE, PROCEDURES AND MEASURES

### OVERALL ASSESSMENT

Special procedures and requirements have been implemented to substantially mitigate the risks of corruption. As part of a good corporate governance, special attention is paid to removing any possibility of corruption and bribery in business in respect of services rendered and received.

Both Latvijas Gāze and Gaso are public service providers and comply with the requirements of the Law On Procurements of Public Service Providers in respect of announcement of public procurements. Procurements that do not reach the threshold set by the law are held in compliance with detailed internal regulations. The status of public service provider also means that the company's conduct is judged not only by the company itself, but also the Public Utilities Commission and general public.

The companies' general approach envisages no use of intermediaries, while agents are only hired

for clear purposes defined in mutual contracts (debt collection etc.).

Gaso applies an internal regulatory framework whereby multiple people are involved in decision-making, thus reducing the risks of corruption in procurements and in the rendering of service. Being the only provider of natural gas distribution system service for now, Gaso is aware of the risks associated with building the infrastructure necessary for customers, giving permissions etc. Hence, Gaso actively works against bribery and extortion in the communication of the company's employees with customers, notably in technical services.

There are no active legal proceedings against Latvijas Gāze and Gaso over anti-competitive or competition-restrictive activities.

### RISKS

In general, the potential risks of corruption are present in two areas – services and procurements.

As concerns natural gas distribution services and natural gas sale to households, it is important to note that these services are fully regulated by the

state, i.e., through common service tariffs. The risks of corrupt dealings in the provision of these services are therefore very low.

There are risks in the provision of technical services of the natural gas distribution system, but again there are no decisions taken by one person, there are specific procedures and documentation in respect of service provision and cost

## MEASURES

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

In 2018 both Latvijas Gāze and Gaso newly drafted the procedure of entering into contract, Gaso – also the procedure of holding procurements.

Gaso has set up standing and non-standing procurement commissions. Open tenders are announced on the relevant company's website and

determination, and internal control mechanisms. In order for a poor bid selection not to adversely affect the company's reputation, efficiency and service prices, the field of procurements has always been subject to detailed regulation, incl. the Articles of Association, and the measures taken substantially reduce the risks of corruption.

in the Procurement Supervision Bureau's system. An outsourced electronic procurement system is now being tested and set to be used as one of the options for future procurements. The system will give more transparency and an electronic control of stages of tenders and information flows, mitigating the risks of unwarranted intervention in procurements.

A new procedure of handling of complaints and proposals has been drawn up and approved. It details the registration and review of complaints concerning specific areas of CSR.

## KEY INDICATORS

### *Complaints received*

In 2018 there were no complaints received over corruption, competition infringements, or manipulations on the wholesale natural gas market.