

**Unaudited interim condensed financial statements
for the 6 months period ended 30 June 2016**

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

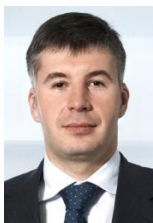
Riga, 2016

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COUNCIL

(Term of office from March 22, 2016 till March 22, 2019)



Kirill Seleznev (Кирилл Селезнев), 1974,
Chairman of the Council
Since March 20, 2003 - Head of
Gas and Liquid Hydrocarbon
Marketing and Processing division
of PJSC "Gazprom"



Juris Savickis, 1946
Deputy Chairman of the Council

Since 1996, President of LLC
"ITERA Latvija"



Oliver Giese, 1967
Deputy Chairman of the Council
Since 2011, Senior Vice President
Infrastructure Management
E.ON Global Commodities SE/E.ON
Ruhrgas, Düsseldorf/Essen,
Germany



Guillaume Rivron, 1972
Council member

Since 2010, Investment Director
Marguerite Adviser S.A. (France)



Jörg Tumat, 1969
Council member

Since 2013, Member of the Board of
E.ON Russia



Nicolás Merigó Cook, 1963
Council member

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



Hans-Peter Floren, 1961
Council member

Since 2014, CEO FAKT Energy AG
(Essen, Germany)



Oleg Ivanov (Олег Иванов), 1974
Council member

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



Nikolay Dubik (Николай Дубик), 1971
Council member

Since 2008, Member of Management
Committee of PJSC "Gazprom", Head
of legal Department



Vitaly Khatkov (Виталий Хатьков),
1969
Council member

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



Elena Mikhaylova (Елена
Михайлова), 1977 Council member
Since 2012, Member of the Gazprom
Management Committee, Head of the
Asset Management and Corporate
Relations Department of PJSC
"Gazprom"

MANAGEMENT BOARD

(Term of office from August 16, 2015 to August 15, 2018)



Aigars Kalvītis, 1966
Chairman of the Board

In 1995, Latvia University of
Agriculture Master Degree
Economics



Alexander Frolov (Александр
Фролов), 1980
Deputy Chairman of the Board
In 2014, MBA of Applied
Administration under the
programme „Administration of Oil
and Gas Corporation in Global
Environment”, graduated from the
St. Petersburg State University of
Economics (Higher School of
Economics), St. Petersburg, Russia



Mario Nullmeier, 1964
Deputy Chairman of the Board
(from January 1, 2014 till September 01, 2016)

In 2000, Master degree in global
Business Administration



Gints Freibergs, 1959
Member of the Board

In 1984, Riga Polytechnic Institute,
Engineer, heat power industry



Zane Kotāne, 1977
Member of the Board

In 2014, Riga Business School
Master of Business Administration
Degree

MANAGEMENT REPORT

Key Figures

The Joint Stock Company "Latvijas Gāze" (hereinafter – the Company) is a vertically integrated natural gas transmission, storage, distribution and sale operator in Latvia. The Company ensures natural gas supply to 443.6 thousand customers in Latvia and during heating season also to Estonia, the Northwestern part of Russia,

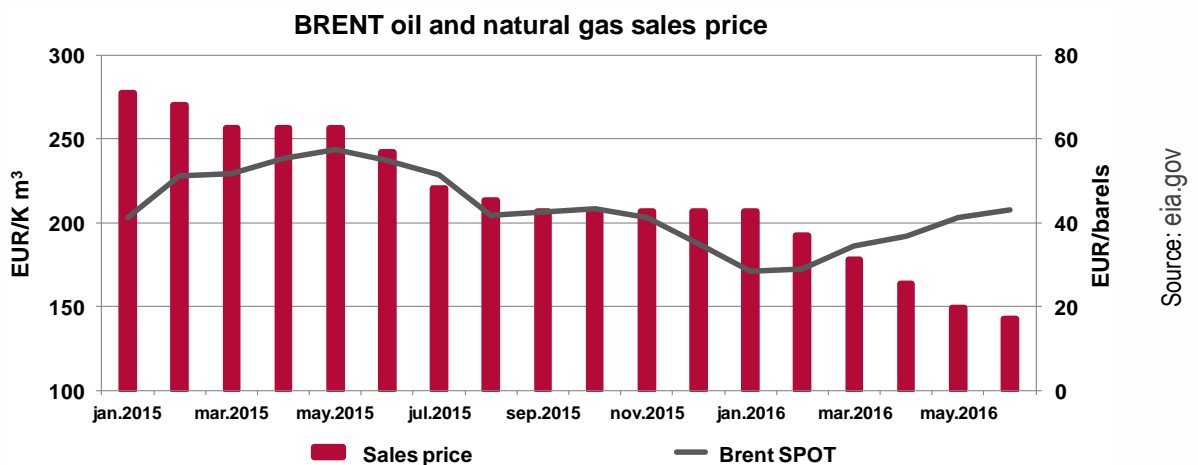
| Key performance figures (mio m ³ unless specified otherwise) | 2016 6M | 2015 6M |
|--|------------|------------|
| Natural gas sales in Latvia | 728 | 629 |
| Number of customers (addresses), thousand | 444 | 443 |
| Number of employees, average | 1271 | 1262 |
| Length of distribution lines, km | 5047 | 4977 |
| Length of transmission lines, km | 1193 | 1242 |

and Lithuania from the Inčukalns Underground Gas Storage Facility.




The Company's main goal in 2016 is to carry out arrangements for unbundling of the Company by separation of the operating segments according to the provisions of the Energy Law with the shareholders' interests protected.

| Key financial figures (thous. EUR) | 2016 6M | 2015 6M |
|---------------------------------------|---------|---------|
| Revenues | 211,637 | 235,418 |
| EBITDA | 49,938 | 48,278 |
| EBITDA, % | 23.6 | 20.5 |
| EBIT | 31,513 | 31,387 |
| EBIT, % | 14.9 | 13.3 |
| Profit for the year | 26,824 | 26,684 |
| Net profit margin, % | 12.7 | 11.3 |
| Earnings per share, EUR | 0.67 | 0.67 |
| P/E | 15.92 | 14.92 |

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortisation
 EBIT – Earnings Before Interest, Taxes
 P/E – price over earnings ratio



Description of operation environment

-  The year 2016 saw low prices on the global oil markets, with influence on both the average natural gas purchase price and the income of Latvijas Gāze in 6M 2016.
-  The sales volume is 15.7% higher than in 6M 2015 reaching 0.73 billion m³.
-  Despite the decrease in income caused by the price drop, the EBITDA of 6M 2016 have improved against the respective period of the previous year and amount to 49.9 million EUR.

**THE SEPARATION OF THE JSC
 "LATVIJAS
 GĀZE" INTO TWO COMPANIES
 CONTINUES, AS THE RESULT A NEW
 JOINT STOCK COMPANY „CONEXUS
 BALTIC GRID" WILL BE ESTABLISHED**

Operational results of segments

The Company has four operating segments: gas transmission (includes the transmission of natural gas through high-pressure pipelines to deliver it to a distribution system or directly to consumers), gas storage (the storage of natural gas at the Inčukalns Underground Gas Storage Facility), gas distribution (includes the transmission of natural gas through high-, mid- and low-pressure pipelines) and gas trade (includes the purchase of natural gas for sale and the sale of natural gas to consumers). The information included in the operating segments corresponds to the information used by the person in charge of making operational decisions.

In 6M 2016 the EBITDA were 49.9 million EUR, which, under a declining turnover, ensures a growth in the EBITDA margin – it reached 23.6%, up from the previous year's 20.5%.

In terms of carrying value of assets, the largest operating segment is distribution, with its assets comprising 238.4 million EUR. Distribution is also the segment with the largest number of people employed, as its staff comprises 55% of the Company's employees. In 6M 2016 the segment's EBITDA were 17.5 million EUR constituting the highest EBITDA proportion in the Company – 34.5% of the Company's total EBITDA of

2016. The distribution segment's turnover and profitability is affected by the volume of natural gas sold in Latvia and the spread of customers across consumption tiers.

The transmission segment earns income from both natural gas consumption in Latvia and international natural gas deliveries, as well as from natural gas movement upon injection into or withdrawal from the Inčukalns Underground Gas Storage. The transmission segment's EBITDA in 6M 2016 were 9.6 million EUR accounting for 18.9% of the Company's total EBITDA. The transmission segment is the second largest in terms of carrying value of assets. At 6M 2016 the segment's assets amount to 181.8 million EUR.

The EBITDA of storage segment in 6M 2016 was 12.4 million EUR and this segment is the third largest by this criterion.

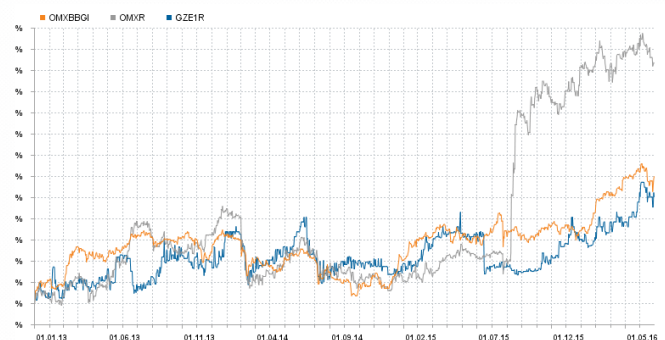
The natural gas trade segment is the largest in terms of net turnover. The segment's revenue is 154.2 million EUR, which makes 72.9% of the Company's total revenues. Following a drop in the natural gas sale price, the segment's revenue fell by 14.5% against 6M 2015. The segment's EBITDA, however, increased by 0.4 million EUR against 6M 2015 owing to an increase in the volume of natural gas sold.

Shares and shareholders

The Company's shares have been listed on the NASDAQ OMX Riga stock exchange since February 15, 1999, and its ticker code has been 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 (01.01.2013-30.06.2016)

| | |
|---|--------------|
| ISIN | LV0000100899 |
| Ticker code | GZE1R |
| List | Second list |
| Nominal value | 1.40 EUR |
| Total number of securities | 39,900,000 |
| Number of securities in public offering | 25,328,520 |
| Liquidity provider | None |



Source: Nasdaq Riga

The Company's shares are included in the baskets of the following indexes: OMXBBGI, OMXBBCAPGI, OMXBGI, OMXRGI. OMX Baltic is 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 at NASDAQ OMX Riga.

The Company's capitalisation value in 6 months of 2016 reached 426.9 million EUR – 28.7 million EUR more than in 6 months of the previous reporting period. In terms of stock market capitalisation, the Company ranked number one among companies listed on Nasdaq Riga and number four among companies listed on Nasdaq Baltic.

Changes in the Company's share price and turnover (01.01.2013-30.06.2016)



Source: Nasdaq Riga

Share trading information (01.01.2014-30.06.2016)

| | 2014 6M | 2015 6M | 2016 6M |
|-------------------------------|---------|---------|---------|
| Share price (EUR): | | | |
| First | 9.390 | 9.140 | 9.790 |
| Highest | 10.400 | 10.400 | 11.100 |
| Lowest | 8.900 | 9.130 | 9.650 |
| Average | 9.515 | 9.666 | 10.230 |
| Last | 10.000 | 9.980 | 10.700 |
| Change | 6.50% | 9.19% | 9.30% |
| Number of transactions | 655 | 709 | 792 |
| Number of shares traded | 62,235 | 76,085 | 70,832 |
| Turnover (million EUR) | 0.592 | 0.735 | 0.725 |
| Capitalisation (million EUR) | 399.000 | 398.202 | 426.930 |

Source: Nasdaq Riga

Subsequent events

Implementing provisions of the Energy Law in order to spin-off unified natural gas transmission and storage system operator from the Company, on the July 1, 2016 the Council of the Company passed the decision to accept the Prospectus of Reorganization of the Company, the Spin-Off Decision, as well as the Asset Distribution Deed. The Spin-off Decision and the Asset Distribution Deed were submitted to the Enterprise Register and published on the Latvijas Gāze web page. The Board of the Company has announced extraordinary Shareholders meeting to be held on September 2, 2016 in the relation to the reorganization where decisions concerning reorganization of the Company and amendments the Charter will be passed.

On July 28, 2016 the Board of Nasdaq Riga decided to apply observation status to AS "Latvijas Gāze". Observation status will be applied according to Nasdaq

Riga Listing and Disclosure rules Article 20.1.2, Subarticle 9, which stipulates that the Issuer shall be placed on observation status if other circumstances influencing the Issuer's activity have occurred which may materially threaten the interests of the investors, and in cases when it is important to turn the attention of market participants to a substantial circumstance related to the relevant financial instrument or its Issuer. Exchange apply surveillance status to AS "Latvijas Gāze" shares to draw additional attention from the shareholders to the planned AS "Latvijas Gāze" reorganization process and the actions the shareholders must take within the framework of the planned reorganization process.

Taking into account that Board member Mario Nullmeier, according to his initiative, will leave his position as of September 1, 2016, starting with the September 1, 2016, as the new Board member and vice-chairman of the Board is elected Sebastian Greblinghof.

STATEMENT OF BOARD RESPONSIBILITY

The management of the Joint Stock Company "Latvijas Gāze" (hereinafter – the Company) is responsible for the preparation of the Company's financial statements.

The unaudited interim condensed financial statements for the 6 months period ended June 30, 2016, have been prepared in compliance with the International Financial Reporting Standards as adopted by the European Union and provide a true and fair view of the Company's financial position, operational results and cash flows in all key aspects.

The unaudited interim condensed financial statements of the Company for the 6 months period ended June 30, 2016 were approved by the Board of Directors on August 9, 2016.

The financial statements were approved by the Board of the JSC "Latvijas Gāze" on August 9, 2016 and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Zane Kotāne
Member of the Board

CORPORATE INFORMATION

| | |
|---|---|
| Company | JSC Latvijas Gāze, Joint Stock Company |
| Registration number, place and date of registration | 000300064 Riga, March 25, 1991 Reregistered in Commercial Register December 20, 2004 with common registration number No 40003000642 |
| Address | Vagonu street 20, Riga LV-1009, Latvia www.lg.lv |
| Major shareholders | PJSC "Gazprom" (34,0%) Marguerite Gas I.S.a.r.l. (28,97%) Uniper Ruhrgas International GmbH (18,26%) ITERA Latvija SIA (16,0%) |
| Corporate Governance Report | www.lg.lv |
| Financial Year | January 1 - June 30, 2016 |

STATEMENT OF PROFIT OR LOSS

| | Note | 01.01.2016- 30.06.2016 | 01.01.2015- 30.06.2015 (Restated) |
|--|------|---------------------------|---|
| | | EUR'000 | EUR'000 |
| Revenue | 2 | 211,637 | 235,418 |
| Other income | 3 | 3,638 | 3,419 |
| Raw materials and consumables used | 4 | (144,766) | (173,769) |
| Personnel expenses | 5 | (14,076) | (11,922) |
| Depreciation, amortisation and impairment of property, plant and equipment | | (18,425) | (16,891) |
| Other operating expenses | 6 | (6,495) | (4,868) |
| Operating profit | | 31,513 | 31,387 |
| Financial income, net | | 63 | 37 |
| Profit before taxes | | 31,576 | 31,424 |
| Corporate income tax | | (4,752) | (4,740) |
| Profit for the period | | 26,824 | 26,684 |

STATEMENT OF OTHER COMPREHENSIVE INCOME

| | 01.01.2016- 30.06.2016 | 01.01.2015- 30.06.2015 |
|--|---------------------------|---------------------------|
| | EUR'000 | EUR'000 |
| Profit for the period | 26,824 | 26,684 |
| Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods | | |
| Revaluation of property, plant and equipment | 7,616 | 94 |
| Net (income) or expenses recognised as other comprehensive income | 7,616 | 94 |
| Total comprehensive income for the period | 34,440 | 26,778 |

The Notes on pages 14-26 are integral part of these Financial Statements.

The financial statements were approved by the Board of the JSC "Latvijas Gāze" on August 9, 2016 and they are signed on behalf of the Board by:

 Aigars Kalvītis
 Chairman of the Board

 Zane Kotāne
 Member of the Board

BALANCE SHEET

| | Note | 30.06.2016 EUR'000 | 31.12.2015 EUR'000 |
|--------------------------------------|------|-----------------------|-----------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | | 2,635 | 2,282 |
| Property, plant and equipment | 7 | 557,531 | 557,450 |
| Trade receivables | | 8 | 8 |
| Total non-current assets | | 560,174 | 559,740 |
| Current assets | | | |
| Inventories | 8 | 6,162 | 56,519 |
| Advances for inventories | | - | 24,228 |
| Trade receivables | | 20,053 | 27,873 |
| Current income tax receivable | | 5,963 | 1,956 |
| Other current assets | | 1,482 | 492 |
| Term deposits | | - | - |
| Cash and cash equivalents | | 194,134 | 79,207 |
| Total current assets | | 227,794 | 190,275 |
| TOTAL ASSETS | | 787,968 | 750,015 |
| LIABILITIES | | | |
| Equity | | | |
| Share capital | 11 | 55,860 | 55,860 |
| Share premium | | 20,376 | 20,376 |
| Reserves | 11 | 485,570 | 478,059 |
| Retained earnings | | 84,037 | 57,108 |
| Total equity | | 645,843 | 611,403 |
| Non-current liabilities | | | |
| Deferred income | 9 | 27,654 | 27,948 |
| Employee benefit obligations | | 5,233 | 5,233 |
| Deferred tax liabilities | | 52,398 | 52,398 |
| Total non-current liabilities | | 85,285 | 85,579 |
| Current liabilities | | | |
| Trade payables | | 14,745 | 11,794 |
| Deferred revenues | 9 | 1,224 | 1,213 |
| Other liabilities | 10 | 40,871 | 40,026 |
| Total current liabilities | | 56,840 | 53,033 |
| TOTAL LIABILITIES | | 787,968 | 750,015 |

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The financial statements were approved by the Board of the JSC "Latvijas Gāze" on August 9, 2016 and they are signed on behalf of the Board by:

 Aigars Kalvītis
 Chairman of the Board

 Zane Kotāne
 Member of the Board

STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Reserves | Retained earnings | Total |
|---|---------------|---------------|----------------|-------------------|-----------------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| December 31, 2014 | 55,860 | 20,376 | 491,944 | 42,002 | 610,182 |
| Transactions with owners: | | | | | |
| Dividends | - | - | - | (28,728) | (28,728) |
| Total transactions with owners | - | - | - | (28,728) | (28,728) |
| Transfers to reserves | - | - | 828 | (828) | - |
| Reclassification | - | - | (11,350) | 11,350 | - |
| Property, plant and equipment disposed | - | - | (3,288) | 3,288 | - |
| Deferred tax for property, plant and equipment disposed | - | - | 493 | (493) | - |
| Other comprehensive income: | | | | | |
| Other comprehensive income | - | - | (568) | - | (568) |
| Profit for the year | - | - | - | 30,517 | 30,517 |
| Total other comprehensive income | - | - | (568) | 30,517 | 29,949 |
| December 31, 2015 | 55,860 | 20,376 | 478,059 | 57,108 | 611,403 |
| Reclassification | - | - | (1) | 1 | - |
| Property, plant and equipment disposed | - | - | (104) | 104 | - |
| Other comprehensive income: | | | | | |
| Other comprehensive income | - | - | 7,616 | - | 7,616 |
| Profit for the year | - | - | - | 26,824 | 26,824 |
| Total other comprehensive income | - | - | 7,616 | 26,824 | 34,440 |
| June 30, 2016 | 55,860 | 20,376 | 485,570 | 84,037 | 645,843 |

The Notes on pages 14-26 are integral part of these Financial Statements.

STATEMENT OF CASH FLOW

| | 30.06.2016 | 30.06.2015 |
|---|-----------------|-----------------|
| | EUR'000 | EUR'000 |
| Cash flows from operating activities | | |
| Profit before corporate income tax | 31,576 | 31,424 |
| <i>Adjustments:</i> | | |
| - depreciation of property, plant and equipment | 17,048 | 16,332 |
| - amortization of intangible assets | 483 | 559 |
| - provisioning (except provisions for doubtful debts) | 348 | - |
| - income from participating interests | (607) | (593) |
| - losses on sale of property, plant and equipment | 110 | 62 |
| <i>Changes in working capital:</i> | | |
| - to accounts receivable | 6,830 | 26,609 |
| - to advances for inventories | 24,228 | (35,616) |
| - to inventories | 50,359 | 72,060 |
| - to accounts payable | (978) | 1,907 |
| Corporate income tax paid | (4,007) | (3,601) |
| Net cash flow from operating activities | 125,390 | 109,143 |
| Cash flow from investing activities | | |
| Payments for property, plant and equipment | (9,653) | (11,686) |
| Proceeds from sale of property, plant and equipment | 26 | 76 |
| Payments for intangible assets | (836) | (243) |
| Term deposits withdrawn | - | (74,400) |
| Net cash (outflow)/inflow from investing activities | (10,463) | (86,253) |
| Cash flow from financing activities | | |
| Dividends paid | - | - |
| Net cash outflow from financing activities | - | - |
| Net cash flow | 114,927 | 22,890 |
| Cash and cash equivalents at the beginning of the reporting period | 79,207 | 51,124 |
| Cash and cash equivalents at the end of the reporting period | 194,134 | 74,014 |

The Notes on pages 14-26 are integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Segment reporting

The Company has four operating segments: gas transmission (includes the transmission of natural gas through high-pressure pipelines to deliver it to a distribution system or directly to consumers), gas storage (the storage of natural gas at the Inčukalns Underground Gas Storage Facility), gas distribution (includes the transmission of natural gas through high-, mid- and low-pressure pipelines) and gas trade (includes the purchase of natural gas for sale and the sale of natural gas to consumers).

All revenues of the Company are from regulated activities. Based on regulatory framework for Latvian consumers invoices are issued at end user tariff which includes fees

for all services provided without further specification of revenues for each service. As invoices are issued by trading segment, external revenues are allocated to the trading segment and subsequently internally reclassified to the segment which has provided relevant service. The external revenues for gas transmission and storage represent revenues from clients outside Latvia.

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

1. Segment reporting

| 30.06.2016 | Gas transmission | Gas storage | Gas distribution | Gas sale | TOTAL |
|---|------------------|-------------|------------------|----------|---------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Revenue from external customers | 1,643 | 8,222 | 388 | 26 | 10,279 |
| Internal revenue/expenses | 11,815 | 8,056 | 27,260 | 154,227 | 201,358 |
| Segment profit before taxes | 1,804 | 7,966 | 11,572 | 10,845 | 32,187 |
| Segment assets | 181,804 | 150,035 | 238,445 | 23,550 | 593,834 |
| Depreciation and amortisation | 7,779 | 4,442 | 5,897 | 307 | 18,425 |
| Purchase of property, plant and equipment and intangible assets | 2,706 | 5,826 | 1,875 | 117 | 10,524 |
| EBITDA | 9,583 | 12,407 | 17,470 | 11,152 | 50,612 |

| 30.06.2015 (Restated) | Gas transmission | Gas storage | Gas distribution | Gas sale | TOTAL |
|---|------------------|-------------|------------------|----------|---------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Revenue from external customers | 2,369 | 9,199 | 401 | 24 | 11,993 |
| Internal revenue/expenses | 10,199 | 6,938 | 25,829 | 180,459 | 223,425 |
| Segment profit before taxes | 1,875 | 8,725 | 10,338 | 10,449 | 31,387 |
| Depreciation and amortisation | 7,096 | 3,617 | 5,866 | 312 | 16,891 |
| Purchase of property, plant and equipment and intangible assets | 4,403 | 4,997 | 2,422 | 106 | 11,928 |
| EBITDA | 8,971 | 12,342 | 16,204 | 10,761 | 48,278 |
| Segment assets 31.12.2015 | 187,301 | 146,068 | 251,130 | 86,308 | 670,807 |

Segment information comparison

| | 01.01.2016- 30.06.2016 | 01.01.2015- 30.06.2015 |
|------------------------------------|---------------------------|---------------------------|
| | EUR'000 | EUR'000 |
| Segment profit | 32,187 | 31,387 |
| Costs not attributable to segments | (674) | - |
| Financial income, net | 63 | 37 |
| Profit before taxes | 31,576 | 31,424 |
| Segment assets | 593,834 | 670,807 |
| Cash | 194,134 | 79,207 |
| Total assets | 787,968 | 750,015 |

Statement of profit or loss

2. Revenues

| Revenues | 01.01.2016- 30.06.2016 | 01.01.2015- 30.06.2015 |
|--|---------------------------|---------------------------|
| | EUR'000 | EUR'000 |
| Natural gas trade | 201,358 | 223,425 |
| Natural gas storage and transportation | 9,890 | 11,592 |
| Other revenue | 389 | 401 |
| | 211,637 | 235,418 |

3. Other income

| Other income | 01.01.2016- 30.06.2016 | 01.01.2015- 30.06.2015 |
|---|---------------------------|---------------------------|
| | EUR'000 | EUR'000 |
| Other income | 2,247 | 1,966 |
| Penalties | 782 | 858 |
| Income from construction of service lines | 609 | 595 |
| | 3,638 | 3,419 |

4. Raw materials and consumables used

| Costs of materials | 01.01.2016- 30.06.2016 | 01.01.2015- 30.06.2015 |
|--|---------------------------|---------------------------|
| | EUR'000 | EUR'000 |
| Natural gas purchase | 141,772 | 169,364 |
| Costs of materials, spare parts and fuel | 1,721 | 2,830 |
| Natural gas for technological purposes | 1,273 | 1,575 |
| | 144,766 | 173,769 |

5. Personnel expenses

| Personnel expenses | 01.01.2016- 30.06.2016 | 01.01.2015- 30.06.2015 |
|--------------------------------------|---------------------------|---------------------------|
| | EUR'000 | EUR'000 |
| Wages and salaries | 10,608 | 8,971 |
| State social insurance contributions | 2,542 | 2,072 |
| Life, health and pension insurance | 753 | 637 |
| Other personnel costs | 173 | 242 |
| | 14,076 | 11,922 |

6. Other operating expenses

| Other operating expenses | 01.01.2016- 30.06.2016 | 01.01.2015- 30.06.2015 |
|--|---------------------------|---------------------------|
| | EUR'000 | EUR'000 |
| Expenses for maintenance of premises and other services | 2,213 | 1,664 |
| Office and other administrative costs | 1,384 | 471 |
| Taxes and duties | 994 | 1,140 |
| Sale and advertising costs | 888 | 496 |
| Costs of IT system maintenance, communications and transport | 543 | 527 |
| Other costs | 473 | 570 |
| | 6,495 | 4,868 |

Balance sheet

7. Property, plant and equipment

| | Land | Cushion gas | Buildings, constructions | Machinery and equipment | Other fixed assets | Costs of items under construction | TOTAL |
|--|--------------|--------------|--------------------------|-------------------------|--------------------|-----------------------------------|------------------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| 31.12.2015 | 2,584 | 9,377 | 1,077,534 | 135,018 | 20,961 | 12,482 | 1,257,956 |
| Additions | - | - | 160 | 385 | 497 | 8,611 | 9,653 |
| Reclassified | - | - | 798 | 386 | (1) | (1,183) | - |
| Revaluated | - | - | 6,850 | (2,038) | 127 | - | 4,939 |
| Disposals | - | - | (338) | (208) | (301) | (3) | (850) |
| 30.06.2016 | 2,584 | 9,377 | 1,085,004 | 133,543 | 21,283 | 19,907 | 1,271,698 |
| Depreciation | | | | | | | |
| 31.12.2015 | - | - | 607,880 | 77,319 | 15,307 | - | 700,506 |
| Calculated | - | - | 11,742 | 3,887 | 1,162 | - | 16,791 |
| Revaluated | - | - | 2,625 | (4,679) | (368) | - | (2,422) |
| Disposals | - | - | (209) | (204) | (295) | - | (708) |
| Reclassified | - | - | 44 | (42) | (2) | - | - |
| 30.06.2016 | - | - | 622,082 | 76,281 | 15,804 | - | 714,167 |
| Net book value as at 30.06.2016 | 2,584 | 9,377 | 462,922 | 57,262 | 5,479 | 19,907 | 557,531 |
| Net book value as at 31.12.2015 | 2,584 | 9,377 | 469,654 | 57,699 | 5,654 | 12,482 | 557,450 |

| | Land | Cushion gas | Buildings, constructions | Machinery and equipment | Other fixed assets | Costs of items under construction | TOTAL |
|--|--------------|--------------|--------------------------|-------------------------|--------------------|-----------------------------------|------------------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| 31.12.2014 | 2,584 | 9,377 | 1,054,386 | 133,904 | 20,956 | 16,739 | 1,237,946 |
| Additions | - | - | - | - | - | 31,543 | 31,543 |
| Reclassified | - | - | 32,069 | 2,507 | 1,212 | (35,788) | - |
| Revaluated | - | - | 195 | 2 | - | - | 197 |
| Disposals | - | - | (9,116) | (1,395) | (1,207) | (12) | (11,730) |
| 31.12.2015 | 2,584 | 9,377 | 1,077,534 | 135,018 | 20,961 | 12,482 | 1,257,956 |
| Depreciation | | | | | | | |
| 31.12.2014 | - | - | 589,655 | 71,954 | 14,662 | - | 676,271 |
| Calculated | - | - | 24,205 | 6,655 | 1,837 | - | 32,697 |
| Disposals | - | - | (5,980) | (1,290) | (1,192) | - | (8,462) |
| 31.12.2015 | - | - | 607,880 | 77,319 | 15,307 | - | 700,506 |
| Net book value as at 31.12.2015 | 2,584 | 9,377 | 469,654 | 57,699 | 5,654 | 12,482 | 557,450 |
| Net book value as at 31.12.2014 | 2,584 | 9,377 | 464,731 | 61,950 | 6,294 | 16,739 | 561,675 |

8. Inventories

| Inventories | 30.06.2016 | 31.12.2015 |
|-------------------------------------|--------------|---------------|
| | EUR'000 | EUR'000 |
| Materials and spare parts | 5,011 | 4,348 |
| Natural gas and fuel | 1,564 | 52,592 |
| Allowance for slow-moving inventory | (413) | (421) |
| | 6,162 | 56,519 |

| Allowance for impairment of slow-moving and obsolete inventories | 30.06.2016 | 31.12.2015 |
|--|------------|------------|
| | EUR'000 | EUR'000 |
| Allowance at the beginning of the year | 421 | 438 |
| Costs included in profit or loss statement | - | 3 |
| Released in profit or loss statement | (8) | (11) |
| Written down | - | (9) |
| Allowance at the end of the period | 413 | 421 |

9. Deferred income

| Deferred income | 30.06.2016 | 31.12.2015 |
|---|---------------|---------------|
| | EUR'000 | EUR'000 |
| Income from residential and corporate customers' contributions to construction of gas pipelines | | |
| Long-term part | 19,185 | 19,344 |
| Short-term part | 956 | 946 |
| | 20,141 | 20,290 |
| Income from EC co-financing | | |
| Long-term part | 8,469 | 8,604 |
| Short-term part | 268 | 267 |
| | 8,737 | 8,871 |
| Total deferred revenues | | |
| Long-term part | 27,654 | 27,948 |
| Short-term part | 1,224 | 1,213 |
| Changes of deferred income | | |
| Balance at the beginning of the year | 29,161 | 29,526 |
| Received from residential and corporate customers during reporting period | 323 | 827 |
| Included in income of reporting year | (606) | (1,192) |
| Total transfer to next period | 28,878 | 29,161 |

10. Other liabilities

| Other liabilities | 30.06.2016 | 31.12.2015 |
|-------------------------------|---------------|---------------|
| | EUR'000 | EUR'000 |
| Accrued costs | 10,806 | 5,877 |
| Prepayments received | 10,319 | 12,153 |
| Other current liabilities | 6,877 | 6,897 |
| Provision for taxes | 4,752 | - |
| Value added tax | 3,859 | 9,066 |
| Vacation pay reserve | 1,245 | 1,245 |
| Excise tax | 920 | 2,519 |
| Social security contributions | 634 | 888 |
| Real estate tax | 578 | 17 |
| Salaries | 506 | 781 |
| Personnel income tax | 326 | 554 |
| Natural resource tax | 49 | 29 |
| | 40,871 | 40,026 |

Other information

11. Shares and shareholders

| Equity | 30.06.2016 % of total share capital | 30.06.2016 Number of shares | 31.12.2015 % of total share capital | 31.12.2015 Number of shares |
|---|---|-----------------------------------|---|-----------------------------------|
| Equity | | | | |
| 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 |
| | 100.00 | 39,900,000 | 100.00 | 39,900,000 |
| Shareholders | | | | |
| Uniper Ruhrgas International GmbH (<i>including registered (closed issue) shares 7,285,740</i>) | 47.23 | 18,846,385 | 47.23 | 18,846,385 |
| Itera Latvija LLC | 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 |
| State-owned shares* | 0.00 | 117 | 0.00 | 117 |
| Bearer (public issue) shares | 2.77 | 1,102,796 | 2.77 | 1,102,796 |
| | 100.00 | 39,900,000 | 100.00 | 39,900,000 |

*The state-owned shares are held by the Ministry of Economy of the Republic of Latvia.

As at June 30, 2016, the registered, signed and paid share capital consists of 39,900,000 ordinary shares with a par value of EUR 1.40 each. All shares have equal voting rights and rights to dividends.

| Reserves | 30.06.2016 EUR'000 | 31.12.2015 EUR'000 |
|---------------------------------------|-----------------------|-----------------------|
| Revaluation reserve* | 381,028 | 373,217 |
| Employee benefits revaluation reserve | (815) | (815) |
| Other reserves | 105,357 | 105,357 |
| | 485,570 | 478,059 |

*In order to prepare for reorganization of the Company by spinning-off assets for unified natural gas transmission and storage system operator, the Board of the Company decided to carry out revaluation of the assets, thus securing that the real value of the assets to be transferred does not have substantial difference from their accounting value. Revaluation took place on June 1, 2016.

12. Financial risk management

The Company is exposed to credit risk on its financial assets and to liquidity risk due to high seasonality of natural gas sales. The Company acquires and sells most of the services and goods in Euros, thus there is no significant exposure to foreign exchange risk. All operations of the Company are financed from own funds, thus there is no exposure to interest rate risks. Financial assets and liabilities arise from core business activities of the Company and are all measured at amortised costs. The following table summarises Company financial assets and liabilities.

Credit risk

The Company is exposed to credit risk, which is a risk of material losses arising in a case when counterparty is not able to fulfil its contractual obligations to the Company. The credit risk is critical to the operations of the Company, so it is important to manage this risk effectively. The credit risk arises from cash and cash equivalents, as well as credit exposure to customers, including outstanding receivables and committed transactions.

Concentration of credit risk

Similarly to the fact that the sales of the Company are exposed to high concentration risk, also outstanding

Credit risk management practices

The credit risk management is performed by the trading segment of the Company under supervision of the management board member responsible for commercial operations. For 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 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 required, additional collaterals are required to secure provision of services and sale of natural gas. For smaller customers, the Company has approved detailed credit risk management policies, describing basic steps for

Liquidity risk

Liquidity risk is associated with ability of the Company to settle its obligations within agreed due dates. Due to high seasonality of operations of the Company, 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

13. Critical accounting estimates and judgements

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

The areas involving a higher degree of judgment and thus having significant risk of causing a material adjustments to the carrying amounts of assets and

receivables are exposed to high concentration risk, thus source of credit risk is mainly associated with top five customers of the Company.

monitoring the progress and managing legally mandatory communication with the clients before insolvency procedure can be initiated. In case of customer becoming doubtful, the Company establishes provision and starts legal proceeding to collect the debt.

For managing credit risk associated with cash and cash equivalents, the Company has approved 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 June 30, 2016, cash and cash equivalents represented only current account balances with credit institutions.

distributed evenly through the year, while dividend payments from prior year are usually done in the third quarter of the year.

The Company uses cash flow planning tools to manage liquidity risk. The Company prepares yearly, quarterly and monthly cash flows to identify operational cash flow requirements. The Company has record on attracting short term credit line, in case if such need arises.

liabilities within the next financial year are revaluation of property, plant and equipment, determination of frequency of revaluations, the management assumptions and estimates in determination of useful lives of property, plant and equipment and recoverable amount of accounts receivable and inventories.

Revaluation of property, plant and equipment

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

Recoverable amount of trade receivables

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

14. Changes in presentation and disclosures in the financial statements

During the reporting period, the management has revised the profit and loss statement classification method and changed to the classification using the nature of expenses method. The Company uses such classification also for the internal decision making and in

15. Key accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. Where it is necessary comparatives are reclassified.

Basis of preparation

The financial statements are prepared in accordance with the International Reporting Standards (IFRS) as adopted for use in the European Union.

Inventory valuation

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

Recognition of revenues using the leveraged consumption payment scheme

Customers, who settle payments using the leveraged consumption payment scheme, when paying bills (commercial users and private persons, who perform an operating activity), perform the readings of meters twice a year and determine the leveraged consumption for the winter season (November to April) and summer season. Customers are invoiced on the monthly basis. Customers who are residents (household customers) settle accounts using the leveraged consumption payment scheme in the self-service order. Customers perform the readings of meters (depending on consumption) once a year or when tariffs are changed. All customers of the households are invoiced on a monthly basis by summing the leveraged consumption for which a seasonal rate is applied.

such manner external reporting is more aligned with practices how operations of the Company are actually managed. In order to provide comparative information, also prior year classification is adjusted.

The financial statements are prepared under historical cost convention, as modified by revaluation of property, plant and equipment as disclosed in the note below.

When preparing the unaudited interim condensed financial statements for the 6 months period ended June 30, 2016, adjustments have been made to the comparative indicators of 2015 so as to ensure comparability of the respective statements.

All amounts shown in these financial statements are presented in thousands of Euros (EUR), unless identified otherwise.

Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in supply of goods and services and are expected to be used during more than one period. The key groups within property, plant and equipment for the Company are buildings and constructions, which include gas transmission and distribution pipelines, as well as equipment and machinery, which mostly relates to operations of Incukalna underground storage and technical transmission and distribution of gas.

Buildings and constructions (including gas transmission and distribution system) and equipment and machinery are stated at fair value as determined under the policy of revaluation of fixed assets approved by the Board, less accumulated depreciation and impairment charge. Revaluation shall be made with sufficient regularity to ensure the carrying amount not differs materially from that which would be determined using fair value at the end of the reporting period. All other property, plant and equipment groups (including land and cushion gas) are stated at historical cost, less accumulated depreciation and impairment charge. 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 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 transmission and 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.

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

| | years |
|---|-----------|
| Buildings | 60 - 100 |
| Constructions, including gas transmission and distribution system | 40 - 50 |
| Machinery and equipment | 5 - 20 |
| Other fixed assets | 3.33 - 10 |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the profit or loss statement during the period when they are incurred. When the revaluated assets are sold, the amounts included in Revaluation reserve are transferred to retained earnings.

Intangible assets

Intangible assets primarily consist of software licences and patents. Intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their useful lives. Generally intangible assets are amortised over a period of 5 years.

Impairment of non-financial assets

All Company's non-financial assets have a finite useful life (except land and cushion gas). Assets that are subject to amortization 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 recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

The Company classifies all its financial assets as Loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for assets with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Receivables are classified as 'trade receivables', 'other current assets' and 'cash and cash equivalents' in the balance sheet.

Inventories

The cost of natural gas in the Inčukalns underground storage and in gas transmission pipelines is accounted separately using the first-in first-out (FIFO) method based on the total natural gas movement. The cost of natural gas is composed of the gas purchase cost. The cost of materials, spare parts and other inventories is determined using the weighted average method.

Inventories are recorded at the lowest of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less completion and selling expenses. The value of outdated, slow-moving or damaged inventories has been provisioned for.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of trade receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the allowances are included in the profit or loss statement.

If, in the subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the profit or loss statement.

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 original term less than 90 days and other short-term highly liquid investments.

Share capital and dividend authorised

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issues of new shares, are shown in equity as a deduction, net of tax, from the proceeds. Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Provisions

Provisions for legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of managements best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Vacation pay reserve

The amount of accrual for unused annual leave is determined by multiplying the average daily wage of employees for the last six months of the reporting year by the amount of accrued but unused annual leave at the end of the reporting year.

Employee benefits

Bonus plans

The Company recognises a liability and expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Social security and pension contributions

The Company pays social security contributions for state pension insurance to the state funded pension scheme in compliance with the Latvian legislation. The state funded pension scheme is a fixed-contribution pension plan whereby the Company has to make payments in an amount specified by law. The Company also pays contributions to an external fixed-contribution private pension plan. The Company does not incur legal or constructive obligations to pay further contributions if the state funded pension scheme or private pension plan is unable to meet its liabilities towards employees. The social security and pension contributions are recognised as an expense on an accrual basis and are included within staff costs.

Post-employment and other employee benefits

Under the Collective Agreement, the Company provides certain benefits upon termination of employment and over the rest of life to employees whose employment conditions meet certain criteria. The amount of benefit liability is calculated based on the current salary level and the number of employees who are entitled or may become entitled to receive those payments, as well as based on actuarial assumptions. The benefit obligation is calculated once per year.

The present value of the benefit obligation is determined by discounting the estimated future cash outflows using the market rates on government bonds. Actuarial gains and losses arisen from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the

balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the temporary differences will reverse.

The principal temporary differences arise from different intangible asset amortization and property, plant and equipment depreciation rates, revaluation of property, plant and equipment, as well as provisions for slow-moving inventory, accrued expenses for unused annual leave and bonuses, accruals for post-employment and other employee benefits and provisions for bad and doubtful debts where the management is of the opinion that they will meet the criteria stated in Article 9 of the law "On Corporate Income Tax". Deferred income tax asset is recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Increase in deferred income tax liability that results from revaluation of property, plant and equipment is charged

to other comprehensive income as deduction from respective increase in the Revaluation reserve. Decrease in deferred income tax liability that results from depreciation of revalued property, plant and equipment is charged to the income statement.

Current income tax

Income tax is assessed for the period in accordance with Latvian tax legislation. The tax rate stated by Latvian tax legislation is 15 percent.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Revenue recognition

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from trade of natural gas

Sales are recognised upon delivery of gas, net of value added tax and discounts, but including the excise tax. Sales of natural gas to residential customers are recorded on the basis of meter readings reported by customers. Where relevant, this includes an estimate of the sales volume of gas supplied between the date of the last meter reading and the year-end. Natural gas sales to corporate customers are recognised based on invoice issued according to meter reading of customers.

Revenue from transportation and storage of natural gas

Income from the rendering of services is recognised upon performance of services, net of value added tax and discounts. Income on natural gas transmission and storage is recognised based on the actual amount of transmitted and stored gas, which are determined by meter readings.

Interest income

Interest income is recognised using the effective interest rate method. Interest income on term deposits is classified as Other income and interest on cash balances is classified as Finance income.

Penalties income

Contractual penalties, incl. periodic penalties for late payments for natural gas supplied, are recognised when it is certain that the economic benefits associated with the transaction will flow to the Company. Hence, recognition usually coincides with the receipt of penalty.

Income from residents' and enterprises' contribution to financing of construction works

The income from residents' and enterprises' contribution to financing of construction works of gas pipelines is accounted for as deferred income and gradually included in the profit or loss statement over the useful life of the fixed assets, 30 to 40 years on average.

Other income

Income from the rendering of services are recognised when rendered.

Related parties

Related parties are defined as the Company's major shareholders, members of the Council and the Board, their close relatives and companies in which they have a significant influence or control.

Grants

EC funding related to property, plant and equipment is recognized as deferred income and is credited to the income statement systematically over the expected lives of the related assets.