

"Latvijas Gāze" joint stock company

Unaudited interim condensed financial statements

for the 9 months period ended 30 September 2015

Contents

Information on the Company	3
Report of the Board of Directors	5
Statement of Management responsibility	8
Balance sheet	9
Income statement	10
Statement of comprehensive income	10
Statement of cash flows	11
Statement of changes in equity	12
Notes to the financial statements	13

“Latvijas Gāze” joint stock company
Unaudited interim condensed financial statements
for 9 months period ended 30 September 2015

Information on the Company

Name of the Company	JSC Latvijas Gāze
Legal status of the Company	Joint Stock Company
Registration number, venue and date	000300064 Riga, March 25, 1991
Address	Vagonu Street 20 Riga, LV – 1009 Latvia
Major shareholders	E.ON Ruhrgas International GmbH (47.2 %) Gazprom PJSC (34.0 %) ITERA Latvija LLC (16.0 %)
Reporting period	January 1 – September 30, 2015

Board members (term of office of the Board – August 16, 2015 to August 15, 2018, for Mario Nullmeier term is January 1, 2014 to December 31, 2016) - names, surnames, posts, recent professional experience and education

	<p>Aigars Kalvītis – Chairman of the Board</p> <p>Since 2015 Chairman of the Board of the JSC “Latvijas Gāze” 1995 Latvia University of Agriculture Master Degree Economics Does not own shares of the JSC “Latvijas Gāze”</p>		<p>Alexander Frolov (Александр Фролов) - Board member, Vice-Chairman of the Board</p> <p>Since 2015 JSC Latvijas Gāze Member of the Board, Deputy Chairman of the Board 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 Does not own shares of the JSC “Latvijas Gāze”</p>
	<p>Mario Nullmeier – Board member, Vice-Chairman of the Board</p> <p>Since 2005 Head of the Baltic Office of E.ON Ruhrgas International AG in Tallinn, Estonia 2000 Master Degree in Global Business Administration Does not own shares of the JSC “Latvijas Gāze”</p>		<p>Zane Kotāne – Board member</p> <p>Since 2015 Board member of the JSC “Latvijas Gāze” 2014 Riga Business School Master of Business Administration Degree Does not own shares of the JSC “Latvijas Gāze”</p>
	<p>Gints Freibergs – Board member</p> <p>Since 1997 Board member of the JSC “Latvijas Gāze” 1984 Polytechnical Institute of Riga, engineer in industrial heat power Owns 416 shares of the JSC „Latvijas Gāze”</p>	<p>Names, surnames and posts of Council members (before August 16, 2015)</p>	<p>Adrians Dāvis – Chairman of the Board Alexander Frolov (Александр Фролов) – Board member, Vice-Chairman of the Board Mario Nullmeier - Board member, Vice-Chairman of the Board Anda Ulpe - Board member Gints Freibergs - Board member</p>

“Latvijas Gāze” joint stock company
Unaudited interim condensed financial statements
for 9 months period ended 30 September 2015

Council members (term of office of the Council - July 3, 2015 to July 2, 2018) – names, surnames, posts, recent professional experience and education

	<p>Kirill Seleznev (Кирилл Селезнев) – Chairman of the Council</p> <p>Since March 20, 2003 Head of the Gas and Liquid Hydrocarbon Sales and Processing Department, OJSC Gazprom; Member of Management Committee, PJSC Gazprom</p> <p>2002 Graduated from St. Petersburg State University – Credit Theory and Finance Management</p> <p>Does not own shares of the JSC “Latvijas Gāze”</p>		<p>Juris Savickis –Deputy Chairman of the Council</p> <p>Since 1996 LLC “ITERA Latvija”, president</p> <p>1970 – 1972 Polytechnical Institute of Riga, Graduate school</p> <p>1983 - 1984 University of Qualification Raising for Executives, Faculty of International Relations</p> <p>Does not own shares of the JSC “Latvijas Gāze”</p>
	<p>Oliver Giese – Deputy Chairman of the Council</p> <p>Since 2011 Senior Vice President Infrastructure Management E.ON Global Commodities SE/E.ON Ruhrgas MBA (Dipl.-Kfm.)</p> <p>Does not own shares of the JSC “Latvijas Gāze”</p>		<p>Matthias Kohlenbach – Council member</p> <p>Since July 2012 Member of the Board of Management of E.ON Ruhrgas International GmbH</p> <p>2009 – 2012 Head of Corporate Law Department of E.ON Ruhrgas</p> <p>Degree of doctor in Law</p> <p>Does not own shares of the JSC “Latvijas Gāze”</p>
	<p>Jörg Tumat - Council member</p> <p>Since 2013 Member of the Board of E.ON Russia</p> <p>2001 – 2004 the University of Hagen, Diploma in Business Administration (Dipl.-Betriebswirt)</p> <p>Does not own shares of the JSC “Latvijas Gāze”</p>		<p>Uwe H. Fip – Council member</p> <p>Since 2002 E.ON Ruhrgas AG – Senior Vice-President, Head of Eastern Department of Gas Supplies</p> <p>Master in Oil Engineering, Degree in Business Management (Diploma – Merchant)</p> <p>Does not own shares of the JSC “Latvijas Gāze”</p>
	<p>Damian Bunyan – Council member</p> <p>Since 2013 Chief Process Officer, E.ON Global Commodities SE</p> <p>Combined Honours in Business Administration & Society and Government, Aston University</p> <p>Does not own shares of the JSC “Latvijas Gāze”</p>		<p>Vlada Rusakova (Влада Русакова) – Council member</p> <p>Since 2013 Vice president of OJSC Rosneft, Head of gas business development department</p> <p>1977 Graduated from the Moscow Oil and Gas Industry Institute named after I. M. Gubkin and obtained the qualifications of engineer in design, planning and operation of oil and gas pipelines, gas storage facilities and oil tanks</p> <p>Does not own shares of the JSC “Latvijas Gāze”</p>
	<p>Nikolay Dubik (Николай Дубик) – Council member</p> <p>Since 2008 Member of Management Committee of JSC “Gazprom”, Head of legal Department</p> <p>MBA degree at the Academy of National Economy under the Russian Federation Government</p> <p>Graduated from Lomonosov Moscow State University in majoring law</p> <p>Does not own shares of the JSC “Latvijas Gāze”</p>		<p>Elena Karpel (Елена Карпель) – Council member</p> <p>Since 2004 Gazprom’s Council Member by the resolution of the Company’s Shareholders’ Meeting</p> <p>1968 Korotchenko Kiev Institute of National Economy getting specialty in Industry Planning</p> <p>Does not own shares of the JSC “Latvijas Gāze”</p>
	<p>Elena Mikhaylova (Елена Михайлова) - Council member</p> <p>Since 2012 Member of the Gazprom Management Committee, Head of the Asset Management and Corporate Relations Department of Gazprom</p> <p>MBA degree at the Academy of National Economy under the Russian Federation Government</p> <p>Law degree at the Moscow State Industrial University</p> <p>Does not own shares of the JSC “Latvijas Gāze”</p>	<p>Names, surnames and posts of Council members (before July 3, 2015)</p>	<p>Kirill Seleznev (Кирилл Селезнев) – Chairman of the Council</p> <p>Juris Savickis – Vice-Chairman of the Council</p> <p>Achim Saul - Vice-Chairman of the Council</p> <p>Matthias Kohlenbach – Council member</p> <p>Jörg Tumat - Council member</p> <p>Uwe H. Fip – Council member</p> <p>Rainer Link – Council member</p> <p>Vlada Rusakova (Влада Русакова) – Council member</p> <p>Nikolay Dubik (Николай Дубик) – Council member</p> <p>Elena Karpel (Елена Карпель) – Council member</p> <p>Elena Mikhaylova (Елена Михайлова) – Council member</p>

Report of the Board of Directors

The Joint Stock Company “Latvijas Gāze” (hereinafter – the Company) is vertically integrated natural gas transmission, storage, distribution and sales operator in Latvia. The Company supplies natural gas to 442.6 thousand customers in Latvia, and in winter – also to Estonia, the Northwestern part of Russia and Lithuania from the Inčukalns Underground Gas Storage Facility (hereinafter – Inčukalns UGS).

The main goal of the Company in 2015 is to ensure a safe and continuous natural gas supply to the existing customers in the volume and quality specified in the contracts. The main task to that end is a successful supervision and implementation of capital investments.

1. Operation of the Company in the reporting period

In 9 months of the year 2015, the Company sold to the consumers 863.4 million m³ of natural gas. In comparison with the respective period of 2014 the natural gas sales remained at the same level.

Gas consumption early in the year was adversely affected by the unusually warm winter. The replacement of natural gas with renewable energy resources for district heating purposes also took its toll, as has been trending in recent years.

The gas injection season at the Inčukalns UGS began on May 27, 2015. Upon starting natural gas injection, the reserves of active gas at the Inčukalns UGS were 448.2 million m³. The injection season at the Inčukalns UGS was completed on September 21, 2015, with 1 550.0 million m³ of natural gas injected over the season and 1 996.5 million m³ of active gas present at the end of the season.

Over 9 months of 2015, the consumers were sold natural gas and provided services for EUR 308.1 million, which is by 7.6 % less than in the respective period of 2014.

The decrease of income year-on-year stems from the lower natural gas sales volume and fact that during 9 months of 2015, due to changes in oil product quotations and currency rates, the residential and industrial customers were applied differential natural gas sale end-user tariffs corresponding to a natural gas sale price 10.7 % below that of the 9 months of 2014. The income saw decrease both in the industrial and household sector.

The EBITDA over 9 months of 2015 is 49.4 million EUR yielding an EBITDA profitability of 16.1%, up from 15.1% in 9 months of 2014. The Company completed 9 months of 2015 with a net profit of 19.6 million EUR, which is 8.0 % less than in the respective period of 2014 when 21.3 million EUR was profited.

Within the framework of the capital investment programme, EUR 20.4 million of investment funds was spent over 9 months of 2015, mostly on the renovation of gas transmission and distribution pipelines, the modernization of technological equipment and the reconstruction of wells.

“Latvijas Gāze” joint stock company
Unaudited interim condensed financial statements
for 9 months period ended 30 September 2015

The key indices of the Company:

	2015 9M	2014 9M
	EUR'000	EUR'000
Net turnover	308 103	333 622
EBITDA*	49 458	50 383
EBITDA %	16.1	15.1
Profit of reporting period	19 582	21 346
Profitability of operational activity (%)	6.4	6.4
Total liquidity	3.1	2.0
Total assets	750 799	803 761
Equity	601 153	593 100
Return on assets (ROA), %	2.5	2.5
Return on equity (ROE), %	3.3	3.6
Number of shares	39 900	39 900
Profit per share	0.491	0.535
P/E	18.71	17.57
BV	15.07	14.86
P/BV	0.61	0.63
Share price at the end of the period	9.18	9.40

* Profit before income tax, interest, depreciation and amortization

2. Shares and shareholders

The composition of shareholders of the Company¹ as of June 26, 2015 and previous 2 periods:

Akcionārs	26.06.2015.	31.12.2014.	31.12.2013.
“E.ON Ruhrgas International” GmbH	47.2%	47.2%	47.2%
“Gazprom” PJSC	34.0%	34.0%	34.0%
“Itera Latvija” LLC	16.0%	16.0%	16.0%
Others	2.8%	2.8%	2.8%
TOTAL	100.0 %	100.0 %	100.0 %

As from February 15, 1999, the shares of the Company are quoted at the NASDAQ OMX Riga exchange, and their trading code as from August 1, 2004 is GZE1R. The total number of securities has not changed since 1999.

ISIN	LV0000100899
Exchange code	GZE1R
List	Second list
Nominal value	1.40 EUR
Total number of securities	39 900 000
Number of securities in public trading	25 328 520
Guaranteers of liquidity	None

¹ Shareholders owning at least 5 % of capital

“Latvijas Gāze” joint stock company
Unaudited interim condensed financial statements
for 9 months period ended 30 September 2015

	2011 9M	2012 9M	2013 9M	2014 9M	2015 9M
Share price (EUR):					
First	6.83	8.39	8.69	9.40	9.14
Highest	9.96	9.04	9.86	10.40	10.40
Lowest	6.55	7.66	8.58	8.90	9.11
Average	7.41	8.33	8.98	9.51	9.60
Last	7.61	8.34	9.63	9.40	9.18
Change	11.42%	-0.60%	10.82%	0.11%	0.44%
Number of transactions	1 009	1 392	1 152	1 005	1 004
Number of shares traded	162 762	145 232	102 420	90 002	111 256
Turnover (million EUR)	1.208	1.209	0.919	0.856	1.068
Capitalization (million EUR)	303.733	332.687	384.350	375.060	366.282

Source: NASDAQ OMX Riga

The capitalization value of the Company in 9 months of 2015 reached EUR 366.3 million - by EUR 8.8 million less than in 9 months of the previous reporting period. By share market capitalization the Company took the 1st place among companies quoted at Nasdaq Riga and the 5th place among companies quoted at Nasdaq Baltic (2014 9M: accordingly 1st and 5th).

The dynamics of the Company share price and indexes. The shares of the Company are included in the following index baskets OMXBGI, OMXBPI, OMXRGI. OMX Baltic - an index of all shares, Baltic-wide. Its basket consists of the shares of the Official and Second list of the Baltic exchanges. The index reflects the current situation and changes in the Baltic market overall. OMX Riga - an index of all shares, local. Its basket consists of the shares of the Official and Second list of the NASDAQ Riga exchange. The index reflects the current situation and changes in the NASDAQ Riga exchange. The Company share price and changes of OMX Riga GI and OMX Baltic GI (01.01.2013. - 30.09.2015.)



Indexes/shares	01.01.2013.	30.09.2015.	Changes
OMX Riga	395.91	571.39	+44.32%
OMX Baltic GI	401.82	528.18	+31.45%
GZE1R (EUR)	8.551	9.180	+7.35%

Chairman of the Board

A. Kalvītis

Board meeting minutes No. 50 (2015)
Riga, November 24th, 2015

Statement of Management responsibility

The management of the Joint Stock Company “Latvijas Gāze” (hereinafter – the Company) is responsible for preparing the unaudited condensed interim financial statements of the Company.

The unaudited interim condensed financial statements for the 9 months period ended September 30, 2015, including a management report, have been prepared in compliance with the international financial reporting standards approved in the European Union and in all material aspects give a true and fair view of the Company’s financial position, operating performance and cash flows.

The unaudited interim condensed financial statements of the Joint Stock Company „Latvijas Gāze” for the 9 months period ended September 30, 2015 were approved by the Board of Directors on November 24, 2015.

On behalf of the Board of Directors

Aigars Kalvītis
Chairman of the Board

“Latvijas Gāze” joint stock company
Unaudited interim condensed financial statements
for 9 months period ended 30 September 2015

Balance sheet

	Note	30.09.2015. EUR'000	31.12.2014. EUR'000
ASSETS			
<u>Non-current assets</u>			
Property, plant and equipment		556 205	561 675
Intangible assets		1 944	2 229
Trade receivables		8	8
Total non-current assets		558 157	563 912
<u>Current assets</u>			
Inventories	2	154 108	80 253
Trade receivables		13 083	51 659
Other current assets		6 629	1 022
Cash and cash equivalents		18 822	51 124
Total current assets		192 642	184 058
TOTAL ASSETS		750 799	747 970
EQUITY AND LIABILITIES			
<u>Equity</u>			
Share capital		55 860	55 860
Share premium		20 376	20 376
Revaluation reserve		375 601	376 348
Post-employment benefits and other employee benefits revaluation reserve		(80)	(80)
Other reserves		116 504	115 676
Retained earnings		32 892	42 002
Total equity		601 153	610 182
<u>Liabilities</u>			
<u>Non-current liabilities</u>			
Deferred income tax liabilities		54 645	54 644
Accruals for post employment benefits and other employee benefits		4 486	4 179
Deferred income		27 919	28 339
Total non-current liabilities		87 050	87 162
<u>Current liabilities</u>			
Trade payables		21 346	3 785
Corporate income tax payable		4 606	-
Deferred income		1 203	1 187
Other current liabilities		35 441	45 654
Total current liabilities		62 596	50 626
Total liabilities		149 646	137 788
TOTAL EQUITY AND LIABILITIES		750 799	747 970

Income statement

(for 9 months period)

	Note	01/01- 30/09/2015 EUR'000	01/01- 30/09/2014 EUR'000
Revenue	3	308 103	333 622
Cost of sales	4	(274 924)	(304 710)
Gross profit		33 179	28 912
Administrative expenses	5	(8 132)	(5 564)
Other operating income	6	2 580	3 011
Other operating expenses	7	(3 477)	(1 292)
Operating profit		24 150	25 067
Finance income		38	159
Profit before income tax		24 188	25 226
Income tax expense		(4 606)	(3 880)
Profit for the period		19 582	21 346

Statement of comprehensive income

(for 9 months period)

	01/01- 30/09/2015 EUR'000	01/01- 30/09/2014 EUR'000
Profit for the period	19 582	21 346
Revaluation of property, plant and equipment, gross	118	162
Total comprehensive income for the period	19 700	21 508

Statement of cash flows

(for 9 months period)

	01/01- 30/09/2015 EUR'000	01/01- 30/09/2014 EUR'000
Cash flow from operating activities		
Cash generated from operations	21 802	36 312
Interest received	117	317
Income tax paid	(5 256)	(4 434)
Net cash generated from operating activities	16 663	32 195
Cash flow from investing activities		
Purchase of property, plant and equipment	(19 822)	(20 009)
Purchase of intangible assets	(529)	(348)
Proceeds from sale of property, plant and equipment	114	43
Received term deposits	-	14 000
Net cash used in investing activities	(20 237)	(6 314)
Dividends paid	(28 728)	(28 728)
Net cash (used in) / generated from financing activities	(28 728)	(28 728)
Net (decrease) / increase in cash and cash equivalents	(32 302)	(2 847)
Cash and cash equivalents at the beginning of the year	51 124	33 554
Cash and cash equivalents at the end of the year	18 822	30 707

“Latvijas Gāze” joint stock company
Unaudited interim condensed financial statements
for 9 months period ended 30 September 2015

Statement of changes in equity

	Share capital	Share premium	Revalua tion reserve	Liability reserve	Other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2013	56 773	20 376	378 103	-	113 887	39 582	608 721
Revaluation of property, plant and equipment, gross	-	-	239	-	-	-	239
Deferred income tax, net	-	-	310	-	-	(346)	(36)
Disposal of revalued property, plant and equipment	-	-	(2 304)	-	-	2 304	-
Revaluation for the period	-	-	-	(80)	-	-	(80)
Profit for the year	-	-	-	-	-	30 069	30 069
Conversion of the share capital into EUR	(913)	-	-	-	913	-	-
Transfers to reserves	-	-	-	-	876	(876)	-
Dividends for 2013	-	-	-	-	-	(28 728)	(28 728)
Rounding differences	-	-	-	-	-	(3)	(3)
31 December 2014	55 860	20 376	376 348	(80)	115 676	42 002	610 182
Revaluation of property, plant and equipment, gross	-	-	118	-	-	-	118
Disposal of revalued property, plant and equipment	-	-	(865)	-	-	865	-
Profit for the year	-	-	-	-	-	19 582	19 582
Transfers to reserves	-	-	-	-	828	(828)	-
Transfers to reserves	-	-	-	-	-	(28 728)	(28 728)
Dividends for 2014	-	-	-	-	-	(1)	(1)
30 September 2015	55 860	20 376	375 601	(80)	116 504	32 892	601 153

* Liability reserve refer to revaluation reserves of post-employment and other employee benefits

Notes to the financial statements

1 MOST IMPORTANT PRINCIPLES OF ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. When preparing the unaudited interim condensed financial statements of the Joint Stock Company „Latvijas Gāze” for the 9 months period ended September 30, 2015, adjustments have been made to the comparative indicators of 2014 so as to ensure comparability of the respective statements.

Segment reporting

The Company has five operating segments: gas transmission (includes transportation of natural gas through high-pressure gas line to deliver it to respective distribution system or directly to a consumer), gas storage (natural gas storage at the Inčukalns Underground Gas Storage Facility), gas distribution (includes transportation of natural gas through high-, moderate- and low-pressure gas line), gas sale (includes purchasing of natural gas for realization and sale to natural gas to consumers) and other services. The information included in the operating segments corresponds to the information used by the person in charge for taking operational decisions.

Property, plant and equipment

Buildings, gas transmission and distribution system and equipment are stated at fair value, based on periodic valuation less subsequent depreciation and impairment charge. Revaluation shall be made with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Revaluation is performed every 5 years using depreciated replacement cost method. All other property, plant and equipment (including land and buffer gas) are stated at historical cost, less accumulated depreciation and impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Assets purchased, but not yet ready for intended use or under installation process are included in Assets under construction.

Subsequent costs are included in the asset's carrying amount or recognized 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 income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of building, 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 income statement. The revaluation surplus is transferred to retained earnings on the retirement or disposal of the asset.

Land, buffer 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 revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings	60 - 100
Gas transmission and distribution system	40 - 50
Machinery and equipment	5 - 20
Furniture and fittings	5 - 10
Computers and equipment	3.33

The Company's policy is to capitalize property, plant and equipment with cost exceeding EUR 250 and useful life exceeding 1 year. The assets' residual values and useful lives are reviewed, and adjusted if 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.

Costs of borrowing to finance assets under construction and other direct charges related to the particular asset under construction are capitalized, during the time that is required to complete and prepare the asset for its intended use, as part of the cost of the asset. Capitalization of the borrowing costs is suspended during extended periods in which active developments are interrupted.

“Latvijas Gāze” joint stock company
Unaudited interim condensed financial statements
for 9 months period ended 30 September 2015

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

Inventories

The cost of natural gas in Inčukalns UGS and in gas transmission pipelines is determined separately using the first-in first-out (FIFO) method based on total natural gas movement. Materials, spare parts, gas meters and other inventories cost is determined using the weighted average method. The cost of natural gas comprises cost of gas purchased which is recognized and charged to the income statement in the period when incurred.

Inventories are recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. When the net realizable value of inventories is lower than its purchase price, provisions are created to reduce the value of inventories to their realizable value.

Trade receivables

Trade receivables are recognized initially at fair value and subsequently carried at amortized 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, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognized in the income statement.

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

Accrued unused annual leave expenses

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

Social security and pension contribution

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. The Company also makes contributions to an external defined contribution pension plan (the Plan). A defined contribution plan is a plan under which the Company pays fixed contributions into the Fund or the Plan and will have no legal or constructive obligations to pay further contributions if the Fund or the Plan does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security and pension contributions are recognized as an expense on an accrual basis and are included within staff costs.

Post-employment and other employee benefits

The Company provides defined benefits upon retirement and in the period of employment for employees whose employment conditions meet defined criteria according to the Employment contract. Amount of benefit liability is calculated based on current salary level and number of employees, which are entitled or may become entitled to receive those payments, as well as based on actuarial assumptions, calculation are performed using the Projected Unit Credit method. The defined benefit obligation is calculated annually using the projected unit credit method.

The present value of the defined 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.

“Latvijas Gāze” joint stock company
Unaudited interim condensed financial statements
for 9 months period ended 30 September 2015

Revenue recognition

The Company recognizes 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.

Sales of natural gas

Sales are recognized upon delivery of gas, net of value added tax and discounts, but including 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 recognized based on invoice issued according to meter reading of customers.

Income of transmission and storage on natural gas

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

Applicable natural gas selling price is calculated based on latest available data. The exchange rate for EUR/USD set by ECB in the last day of the previous month, actual gross calorific value of gas in the previous month as well as planned volume of received and delivered gas are used in the calculation. Actual purchase costs of natural gas are calculated based on methodology approved by the PUC's Council, taking into account the exchange rate of EUR/USD at last day of the month when gas is delivered, actual gas gross calorific value as well as actual volume of gas purchased from suppliers.

Interest income

Interest income is recognized using the effective interest method. Interest income on term deposits is classified as Other income and interest on cash balances is classified as Finance income. Accrual of interest income is ceased, if its recoverability is uncertain.

Penalties income

Penalty income is recognized when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably. Therefore, recognition usually coincides with the receipt of the penalty.

Income from 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 recognized in the income statement over the expected period of the customer relationship of 30 to 40 years.

Other services

Sales of services are recognized in the accounting period in which the services are rendered.

“Latvijas Gāze” joint stock company
Unaudited interim condensed financial statements
for 9 months period ended 30 September 2015

2	INVENTORIES	30.09.2015.	31.12.2014.
		EUR'000	EUR'000
	Materials and spare parts (at net realizable value)	4 939	5 912
	Gas and fuel (at cost)	48 990	74 277
	Advance payments for natural gas	100 169	-
	Advance payments for materials and goods	10	64
		154 108	80 253
		<hr/> <hr/>	<hr/> <hr/>
3	REVENUE	01/01- 30/09/2015	01/01- 30/09/2014
		EUR'000	EUR'000
	Income from natural gas sales to industrial customers	254 584	278 011
	Income from natural gas sales to residential customers	36 838	38 751
	Income from transmission and storage of natural gas	16 050	16 263
	Other services	631	597
		308 103	333 622
		<hr/> <hr/>	<hr/> <hr/>
4	COTS OF SALES		
	Purchase of natural gas	225 048	252 178
	Salaries	10 760	11 862
	Social insurance contributions	2 479	2 716
	Life, health and pension insurance	821	792
	Materials and spare parts	6 073	7 581
	Depreciation and amortization	24 714	24 609
	Other expenses	5 029	4 972
		274 924	304 710
		<hr/> <hr/>	<hr/> <hr/>
5	ADMINISTRATIVE EXPENSES		
	Salaries	5 805	3 021
	Social insurance contributions	1 014	575
	Life, health and pension insurance	203	146
	Maintenance and utilities	610	596
	Real estate tax	921	821
	Depreciation and amortization	519	628
	Bank charges	76	75
	Provisions for impairment of bad and doubtful debts, net	(2 129)	(1 288)
	Other expenses	1 113	990
		8 132	5 564
		<hr/> <hr/>	<hr/> <hr/>

“Latvijas Gāze” joint stock company
Unaudited interim condensed financial statements
for 9 months period ended 30 September 2015

		01/01- 30/09/2015	01/01- 30/09/2014
6	OTHER OPERATING INCOME		
	Penalties from customers	1 043	1 265
	Income from contribution to financing of construction works	693	671
	Reduction of provisions for slow turnover and outdated inventories	10	21
	Other income	785	926
	Net foreign exchange gains	3	1
	Interest income	46	127
		2 580	3 011
		2 580	3 011
7	OTHER OPERATING EXPENSES		
	Materials	37	30
	Salaries	146	149
	Social insurance contributions	24	22
	Depreciation and amortization	75	79
	Sponsorship	112	13
	Loss from sale of fixed assets	831	600
	Other expenses	2 252	399
		3 477	1 292
		3 477	1 292
	EXPENSES BY NATURE		
	Purchase of natural gas	225 048	252 178
	Depreciation and amortization	25 308	25 316
	Employee benefit expenses	21 252	19 283
	Material and spare parts	6 110	7 611
	Net provisions for impaired receivables	(2 129)	(1 288)
	Other expenses	10 945	8 466
		286 534	311 566
		286 534	311 566

“Latvijas Gāze” joint stock company
Unaudited interim condensed financial statements
for 9 months period ended 30 September 2015

8 SEGMENTS

	Gas transmission EUR'000	Gas storage EUR'000	Gas distribution EUR'000	Gas realization EUR'000	Other services EUR'000	TOTAL EUR'000
Period 01/01-30/09/2014						
Revenue from external customers	3 876	12 357	-	316 792	597	333 622
Cross-segment transactions, net	14 052	9 419	32 558	(56 029)	-	-
Total revenue	17 928	21 776	32 558	260 763	597	333 622
Segment profit*	11 744	12 103	15 957	10 244	335	50 383
Non-current assets	187 347	131 925	237 401	3 052	3 655	563 380
Period 01/01-30/09/2015						
Revenue from external customers	4 096	11 925	-	291 451	631	308 103
Cross-segment transactions, net	14 060	9 418	31 900	(55 378)	-	-
Total revenue	18 156	21 343	31 900	236 073	631	308 103
Segment profit*	11 616	12 734	14 970	9 906	232	49 458
Non-current assets	182 927	134 660	233 825	2 908	3 837	558 157

*Segment profit does not include depreciation, finance income and income tax.

Harmonization of profit

	01/01- 30/09/2015 EUR'000	01/01- 30/09/2014 EUR'000
Segment profit	49 458	50 383
Depreciation and amortization	(25 308)	(25 316)
Finance income	38	159
Income tax	(4 606)	(3 880)
Profit for the period	19 582	21 346

*Earnings before interest, depreciation and amortization

9. SUBSEQUESNT EVENTS

Subsequent to the end of reporting period up to the approval of the financial statements there have been no events of substantial influence on the unaudited interim condensed financial statements for the 9 months period ended September 30, 2015.