

# “LATVIJAS GĀZE” GROUP CONSOLIDATED AND JSC “LATVIJAS GĀZE” ANNUAL REPORT FOR 2019

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

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## LETTER TO SHAREHOLDERS

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Dear Shareholders,

In 2019, Latvijas Gāze Group faced a challenging market environment. A mild winter in Europe and Asia triggered a significant drop in natural gas demand around the globe. At the same time, the increase of worldwide production capacities for liquefied natural gas (“LNG”) bolstered the supply of natural gas to the global market. In the wake of these developments, natural gas prices in Europe including the Baltic region dropped at an unprecedented speed. Subsequently, lower natural gas demand, high storage levels at the end of the winter season and customers requesting price adjustments against the background of rapidly falling prices weighed heavily on the Group’s results for the first six months of the year.

During the second half of 2019, the market situation stabilized and prices bottomed out in July. Despite that, prices remained volatile with strong movements on individual trading days. Nevertheless, the sales & trading as well as the distribution segment managed to improve significantly the Group’s financial performance. Strong cost discipline, the skills and ingenuity of our employees as well as our readiness as a team to embrace actively the challenges in the market were key to catching up during the second half of 2019 and closing the business year with a strong financial performance.

Amidst the challenging market environment, we also continued with the implementation of our new billing system and customers portal that will improve the effectiveness and efficiency of our

customer care processes. We are fully committed to upgrade our existing and develop new services and products for our customers in the upcoming months and years.

Despite the various challenges in the reporting period, the financial position of the Group remains strong with a healthy net profit for 2019 as well as a solid balance sheet and liquidity situation. During 2019, the sales & trading segment also delivered on its promise to reduce operating expenses by 15% year-on-year increasing the segment’s competitiveness in the market.

In 2020, we will continue with improving our customer services and our strict approach to managing operating costs. Furthermore, we plan to expand our sales & trading activities in the Baltic region and exploit actively the new opportunities related to the commissioning of the Baltic Connector pipeline between Estonia and Finland and the opening of the Finnish gas market. Apart from that, the sales & trading as well as the distribution business will analyse opportunities for developing new areas of business. As a Group with a strong team of highly skilled and motivated employees, we remain fully committed to retaining our position as the most reliable natural gas supplier in Latvia and expanding our activities in the Baltic region.

We thank our shareholders, customers and partners for their trustful co-operation and support in 2019 and look forward to creating sustainable value together with you and for you in 2020.

Yours sincerely,

Aigars Kalvitis

## COUNCIL OF THE JSC “LATVIJAS GĀZE”

(Term of office from October 9, 2019 till October 8, 2022)



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

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



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

Since 1996, President of LLC “ITERA Latvija”



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

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



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

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



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

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



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

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



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

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



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

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



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

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



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

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



**Sergey Kuznets**  
(Сергей Кузнец), 1970  
Member of the Council

Since 2015, Member of the Board of Directors, Head of the Department at PJSC “Gazprom”

Member of the Council – term office till 8 October, 2019: Igor Fedorov.

## MANAGEMENT BOARD OF THE JSC “LATVIJAS GĀZE”

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



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

Latvian University of Agriculture,  
Master’s Degree in Economics



**Sebastian Gröbblinghoff, 1979**  
Vice-Chairman of the Board  
(term of office till August 31, 2022)

Maastricht University / Netherlands  
Master’s Degree in Economics



**Denis Emelyanov, 1979**  
Vice-Chairman of the Board

Gubkin Russian State University of Oil  
and Gas, Faculty of Economics and  
Management –  
Economist - manager; Economics and  
oil and gas enterprises management



**Elita Dreimane, 1968**  
Member of the Board

University of Latvia Faculty of Law,  
Master’s Degree of Social Sciences in  
Law

## LATVIJAS GĀZE GROUP IN SHORT

Latvijas Gāze group is fully committed to ensuring safe and stable natural gas supplies to its customers as well as to strengthening its position as a leader in the Latvian and Baltic energy market. Latvijas Gāze group consists of two business segments:

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

The **natural gas distribution segment** provides natural gas distribution services in Latvia.

The JSC "Gasol" holds an exclusive license for the distribution of natural gas on the territory of Latvia. The license is valid until 6 December 2037. The JSC "Gasol" owns and operates all distribution assets necessary to provide the respective services to its approximately 400 thousand customers.

The JSC "Gasol" fully complies with the requirements of the Energy Law, which foresees a full legal, structural, and operational separation of the distribution business from the sales & trading activities. The JSC "Gasol" has an own Board of Management and Council that are fully independent from the sales & trading business of the JSC "Latvijas Gāze".

Structure of Latvijas Gāze group as of 31 December 2019

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

## STRATEGY AND OBJECTIVES

### OUR OBJECTIVE

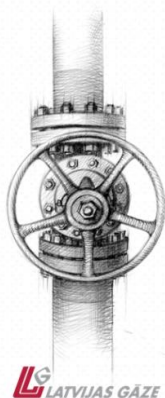
To strengthen the position of Latvijas Gāze group as a leader in the Latvian and Baltic energy market by becoming the natural gas supplier of first choice for customers and by ensuring the most stable supply of natural gas for the Baltic region.

### OUR MISSION

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

### OUR VISION

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



## LATVIJAS GĀZE GROUP`S FOCUS

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

### **1. Price competitiveness**

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

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

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

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

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

### **4. Effective management**

Latvijas Gāze group is governed in compliance with the principles of good corporate governance, ensuring the equality of all shareholders, a professional supervision, and transparency. The group's development and financial management takes place in line with respective risk management policies. A key role in our business is played by IT systems that facilitate an effective management of both the distribution infrastructure as well as the natural gas sales & trading business.

### **5. Professional personnel**

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

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

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

### **7. Sustainable investment**

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

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

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



## SHARES AND SHAREHOLDERS OF THE JSC “LATVIJAS GĀZE”

### SHARES AND SHAREHOLDERS

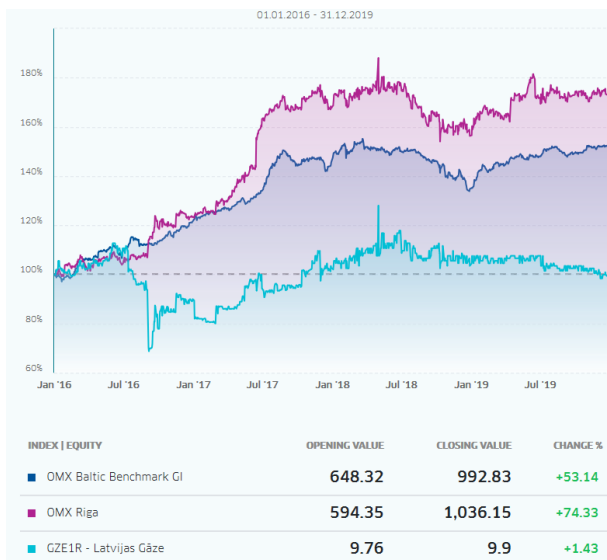
The shares of the JSC “Latvijas Gāze” are listed on the Nasdaq Riga stock exchange since February 15, 1999, and its ticker code is GZE1R since August 1, 2004. The total number of securities has not changed since 1999. The total number of shareholders of JSC “Latvijas Gāze” as of 31.12.2019 was 6 252.

### COMPANY'S SHARE PRICE, OMX RIGA GI AND OMX BALTIC GI INDEX CHANGES (01.01.2016. – 31.12.2019.)

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



Source: Nasdaq Baltic

In December 2019, in terms of stock market capitalization, the JSC “Latvijas Gāze” remained on the first place among the companies listed on the Nasdaq Baltic Secondary List.

At the end of 2019, the market capitalization value of the JSC “Latvijas Gāze” reached 395 million EUR, which was 2% lower than at the end of the year 2018. During 2019, the share price of the Company decreased by 3%.

The shares of the JSC “Latvijas Gāze” are included in four Baltic country industry indexes, which include public utilities - B7000GI, B7000PI, B7500GI, B7500PI, as well as in several geographical indexes - OMXBGI, OMXBPI, OMXRGI.

OMX RIGA (OMXR.) – a domestic index of all shares. Its basket consists of the shares of the Official and Second list of “Nasdaq Riga”. The index reflects the current situation and changes at “Nasdaq Riga”.

OMX BALTIC (OMXB.) – a Baltic-level index of all shares. Its basket consists of the shares of the Official and Second list of Baltic exchanges. The index reflects the current situation and changes on the Baltic market overall.

### SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2016.-31.12.2019.)



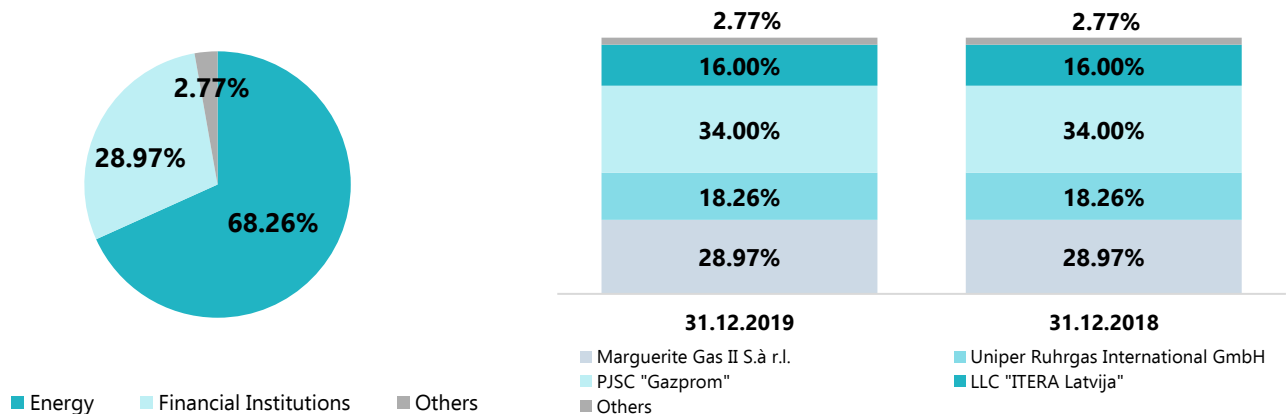
Source: Nasdaq Baltic



## INFORMATION ON SHARE TRANSACTIONS (2017 – 2019)

	2019	2018	2017
Share price (EUR)			
First	10.20	10.00	8.78
Highest	10.60	13.00	11.10
Lowest	9.60	9.90	7.76
Average	10.16	10.60	9.08
Last	9.90	10.10	10.00
Change (From First to Last share price)	-2.94%	1.00%	13.90%
Number of transactions	968	801	1 596
Number of shares traded	85 768	66 262	171 711
Turnover (million EUR)	0.87	0.70	1.55
Capitalization (million EUR)	395	403	399

## COMPOSITION OF SHAREHOLDERS AS AT 31.12.2019



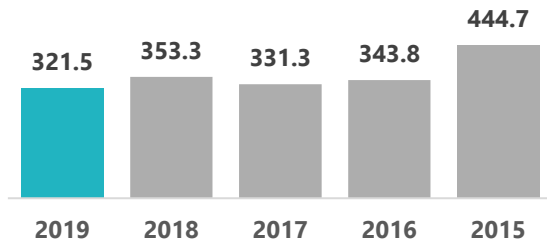
## SHARES OWNED BY MEMBERS OF THE GOVERNING BODIES OF THE JSC "LATVIJAS GĀZE"

		At the date of signing financial statements
<b>Management Board</b>		<b>Number of shares</b>
Chairman of the Board	Aigars Kalvītis	None
Deputy Chairman of the Board	Denis Emelyanov	None
Deputy Chairman of the Board	Sebastian Gröblichhoff	None
Member of the Board	Elita Dreimane	None
<b>Council</b>		
Chairman of the Council	Kirill Seleznev	None
Deputy Chairman of the Council	Juris Savickis	None
Deputy Chairman of the Council	Oliver Giese	None
Member of the Council	David Stephen Harrison	None
Member of the Council	Vitaly Khatkov	None
Member of the Council	Oleg Ivanov	None
Member of the Council	Nicolas Merigo Cook	None
Member of the Council	Matthias Kohlenbach	None
Member of the Council	Hans-Peter Floren	None
Member of the Council	Elena Mikhaylova	None
Member of the Council	Sergey Kuznets	None

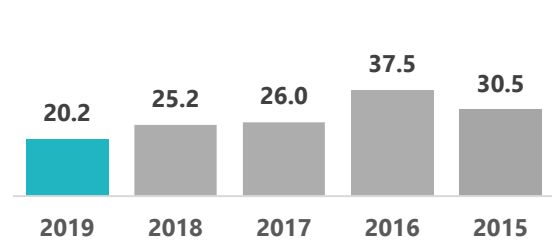
## LATVIJAS GĀZE GROUP FACTS AND FIGURES

### FINANCIAL INDICATORS

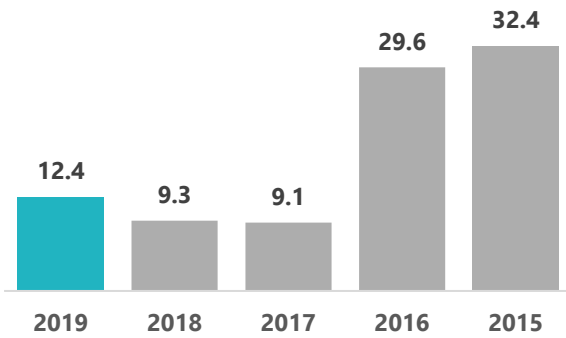
**Gross turnover\***  
(million EUR)



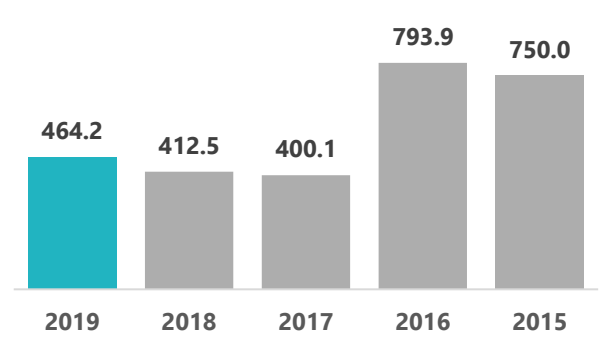
**Profit**  
(million EUR)



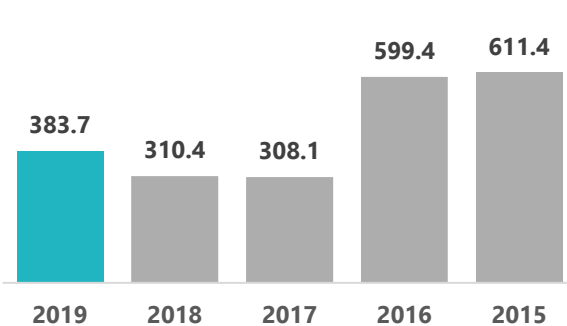
**Investments**  
(million EUR)



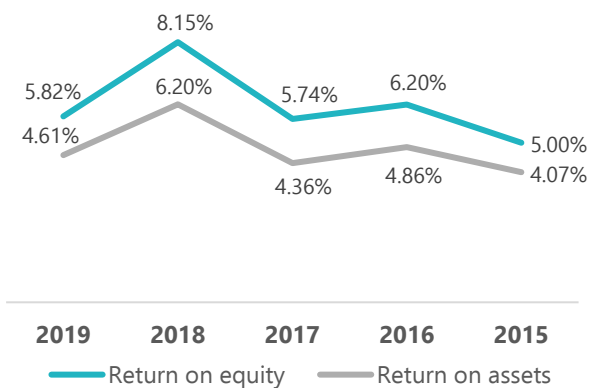
**Assets**  
(million EUR)



**Equity**  
(million EUR)



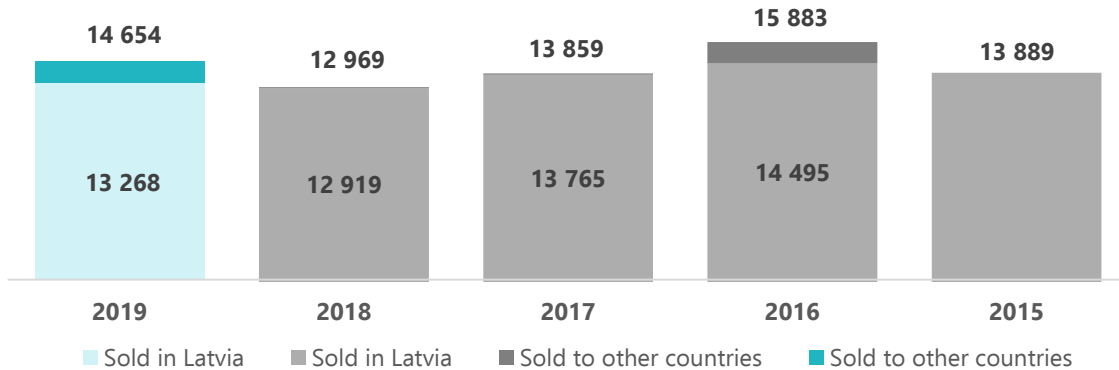
**Key financial indicators**



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

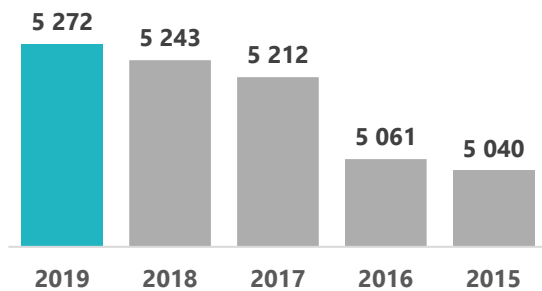
## NATURAL GAS VOLUMES

Natural gas sales (GWh)

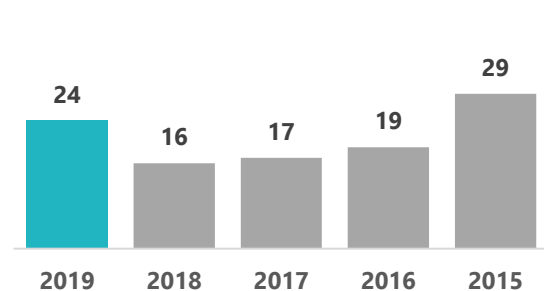


## DISTRIBUTION SYSTEM

Gas distribution pipelines owned by Latvijas Gāze Group (km)

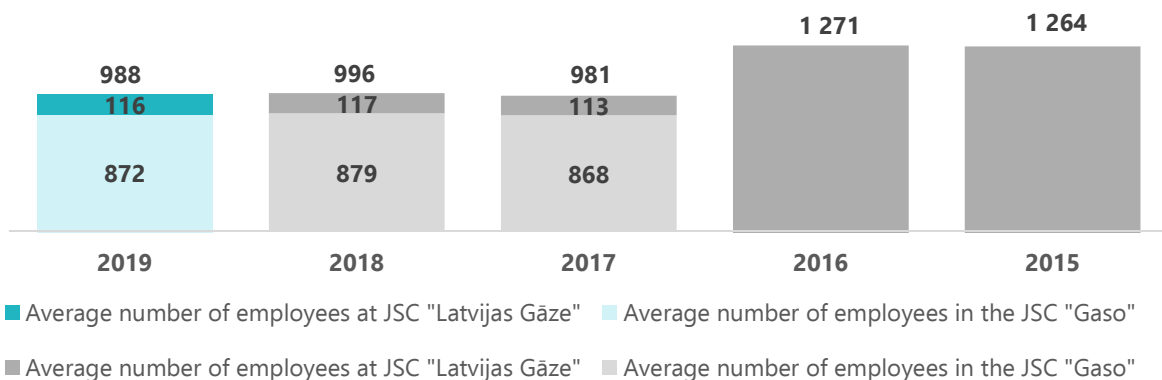


Construction of gas distribution pipelines (km)



## EMPLOYEES

Average Number of Employees at Latvijas Gāze Group



## MANAGEMENT REPORT

During 2019, the JSC “Latvijas Gāze” faced a challenging market and operating environment. After a mild winter and an unexpected steep drop in market prices during the first months of the year the Group’s results for the first six months of 2019 were significantly lower than for the same period in the previous year. The sales & trading business (i.e. the Company) even posted a half-year loss amounting to 4.3 million EUR. However, during the second half of the year, the operating environment stabilized.

While the price for the GASPOOL front month index, which serves as one of the key reference prices in the Baltic region, dropped by more than 40% in the period from January to end of June, it bottomed out during July. However, prices continued to exhibit a strong short-term volatility including days with price movements of more than one Euro per MWh. On the demand side, high gas burn in the power generation segment and large customers buying significant gas quantities for storage injections during the third quarter, as well seasonally higher natural gas offtakes during October, November and December contributed to bolster the Group’s result during the second half of the year.

Due to the stabilization of the market environment and additional efforts to mitigate the depressed operating results from the first half of the year, the Group’s distribution as well as the sales & trading segment managed to improve the financial performance and reach a positive full-year result.

While lower year-on-year total gas consumption in Latvia had led to a decline in the utilization of the gas distribution system and negatively weighed on the net turnover of the distribution segment in the first half of 2019, the situation improved during the second half of 2019. In total, the JSC “Gaso” during 2019 transported 14 153 GWh through its distribution network, which was 5% less than during the same period in 2018. Despite the difficult market environment, the sales & trading segment managed to increase its sales volume by 13% year-on-year.

Due to strong deliveries into the Estonian natural gas market and significantly higher gas demand in the power generation segment during the summer months the JSC “Latvijas Gāze” in total sold 14 654 GWh of natural gas to almost 400 thousand customers.

**“ The sales & trading segment increased its sales volume by 13% year-on-year.**

The Group’s net turnover in 2019 amounted to 314.3 million EUR and was 9% lower than a year before. EBITDA (profit before income tax, interest, depreciation and amortization) reached 35.6 million EUR and decreased by 5% in comparison to 2018. The Group’s net profit at the end of 2019 amounted to 20.2 million EUR, down from 25.2 million EUR in 2018.

Despite the overall positive result for the full year 2019, a combination of several unfavourable factors affecting the Group’s sales & trading segment prevented an even stronger financial performance.

First, despite the strong sales to Estonia during the first quarter 2019 the mild core winter months left the sales & trading business with a significantly higher than planned volume of natural gas in the Inčukalns Underground Gas Storage (“IUGS”) at the end of the winter season. Due to the rapidly falling market prices, the cost of the gas injected into the IUGS during the third quarter 2018 increasingly became a financial burden. At a certain moment margins for gas supplied from the IUGS turned negative. The sales & trading segment’s hedging activities prevented that the losses from this unplanned development were not even higher.

Second, because of the continuously falling market prices several customers of the JSC “Latvijas Gāze” that had signed fixed price contracts required price adjustments or even terminated their contracts. Paying the termination fee and closing a new contract seemed to be commercially more attractive

to those customers than continuing on the existing terms and conditions. The penalties paid by customers, however, were not sufficient to cover the true losses of the JSC “Latvijas Gāze” stemming from the termination of the contracts and, thus, resulted in significant losses.

While mark-to market losses from financial derivatives had put a significant strain on the financial results for the first nine months of the year, physical supplies starting as of November, as expected, during the fourth quarter fully reversed the negative financial effects related to these derivatives. In line with IFRS (international financial reporting standards) accounting rules, the Group recognizes unrealized gains and losses on financial derivatives at fair value through profit and loss. Apart from that, lower costs for storage bookings during the second half of the year mitigated respectively higher costs that resulted from earlier than planned storage bookings during the first six months of the year.

Overall, Latvijas Gāze Group remains fully committed to achieving the best possible financial performance and creating sustainable value for all stakeholders. In that context, the sales & trading segment will continue to maintain a strict approach to cost discipline in its core business. During 2019, the Company successfully implemented a cost savings program initiated in 2018 and managed to bring down operating costs by 15% year-on-year. Apart from that, after the “go-live” of the first module of the sales & trading segment’s new billing system and customer portal the JSC “Latvijas Gāze” started with the implementation of the second module. The new billing system as well as the customer portal will contribute to reducing the cost of core business processes as well as to improving customer service quality.

Group`s key figures	2019	2018	2017
Natural gas sales, GWh	14 654	12 969	13 859
Number of employees, average	988	996	981
Length of distribution lines, km	5 272	5 243	5 212

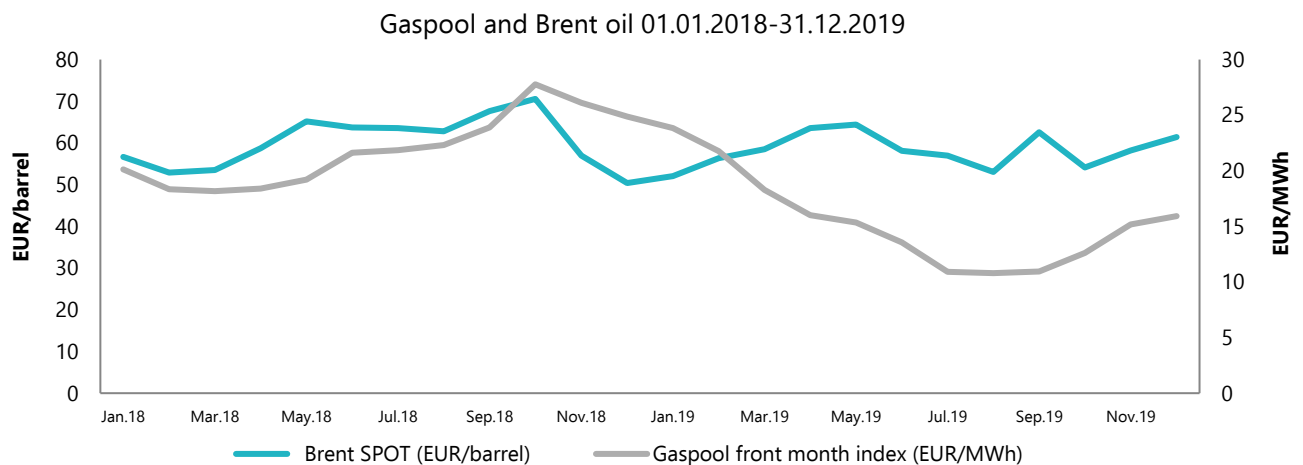
Group`s key financial figures	2019	2018	2017
	EUR'000	EUR'000	EUR'000
Net turnover	314 349	344 902	316 789
EBITDA	35 627	37 427	36 484
EBITDA, %	11.33	10.85	11.52
EBIT	22 857	25 882	24 483
EBIT, %	7.27	7.50	7.73
Net profit	20 190	25 185	26 048
Net profit margin, %	6.42	7.30	8.22
Earnings per share, EUR	0.51	0.63	0.65
P/E	19.41	16.03	15.38
Current ratio	4.16	3.22	4.10

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

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

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

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



## GENERAL MARKET AND INDUSTRY ENVIRONMENT

Unusually warm average temperatures in North West Europe and significantly lower demand for Liquefied Natural Gas (“LNG”) in Asia led to rapidly falling natural gas prices in the world markets during the first months of 2019. High storage levels and the influx of competitively priced LNG to North West European markets pushed prices at the major European gas trading hubs down by more than 50% in comparison to late autumn 2018. At the same time, natural gas prices for the upcoming winter season 2019/2020 quoted above the prices for the summer months of 2019 triggering an early start of the storage injection season across Europe. Although bottoming out in July prices stayed at comparably low absolute levels for the rest of the year. The ample supply of competitively priced LNG in world markets also led to an increase in the number of scheduled LNG deliveries to the Klaipeda LNG Terminal. Increased LNG deliveries further strengthened the competitive dynamics in the region and bolstered short-term security of supply.

Worldwide political discussions on measures against climate change and the transition to carbon-free economies continued. While governments in the Baltic region actively push for a further reduction of fossil fuels in the energy mix until 2030, natural gas will play a key role in balancing electricity supply from intermittent renewable sources. Nevertheless, the promotion of renewables and energy efficiency in combination with international policies geared towards a de-carbonization of the global economy also affects natural gas demand in the Baltic region. Particularly in the district heating segment, competition for natural gas has continuously increased during the past years with biofuels such as woodchips and pellets taking more market share. Higher demand in the power generation segment driven by new interconnection capacities between the Baltic and Nordic countries could partly compensate the lower gas demand from the district heating industry. However, unlike heat production, the consumption of natural gas for

power generation is less consistent and predictable leading to more volatile short-term demand patterns.

Apart from inter fuel competition in the district heating segment gas-to-gas competition further unfolded in 2019. During the year, the intensity of competition amongst natural gas traders in the Latvian and Baltic natural gas market further increased. In February, the first trading companies started competing with the JSC “Latvijas Gāze” in the formerly fully regulated household segment in Latvia. Apart from that, cross-border competition in the Baltic region also became fiercer leading to increasing pressure on sales margins.

With regard to the regulatory environment and the usage of the Inčukalns Underground Gas Storage (“IUGS”) the situation in 2019 remained challenging.

On 1 January 2019, the new distribution tariffs became effective, consisting of a fixed fee as well as a consumption variable part that depends on effective consumption. In April, the Public Utilities Commission (“PUC”) adopted new gas grid connection rules that allow customers to establish a direct connection with the high-pressure transmission system owned and operated by the JSC “Conexus Baltic Grid”. So far, all gas customers in Latvia could only connect to the local gas distribution network owned and operated by the JSC “Gaso”.

Despite the healthy summer winter spreads that became apparent around mid of April the JSC Conexus Baltic Grid (“CBG”), as in the previous year, conducted a storage commitment auction in March to ensure a sufficient level of gas in the IUGS until end of the winter season 2019/2020. Without such a minimum quantity of gas in the IUGS, CBG cannot guarantee the integrity of the transmission system and a seamless supply from storage during cold spells. In total CBG auctioned 2 845 GWh of commitments. The JSC “Latvijas Gāze” successfully participated in the auction and committed to keep a certain quantity of natural



gas in the IUGS until end of February 2020. For this commitment, the Company receives a respective financial compensation.

Considerable uncertainty remains for the JSC "Latvijas Gāze" as well as all other market participants concerning the usage regime of the IUGS in 2020. By 31 December, there was no

information available on the applicable capacity-booking regime. In case of a prolonged lack of clarity natural gas traders will face significant difficulties with regard to structuring supplies for the next winter season in the most economic manner.

## KEY EVENTS DURING THE REPORTING PERIOD

- **On 1 January 2019**, the new distribution network tariffs became effective.
- **In January**, the Finnish, Estonian and Latvian transmission operators agreed to establish a single market area from January 1, 2020, setting common tariffs for the entry points to the gas transmission system in Varska, Korneti, Imatra and Kiemenai.
- **In February**, the first traders started competing with the JSC "Latvijas Gāze" in the formerly fully regulated household segment in Latvia by actively offering natural gas to household customers.
- **In March**, the JSC Conexus Baltic Grid ("CBG") held an "Auction for keeping an active natural gas quantity and ensuring its availability at the storage facility in the winter period 2019-2020". In total 2 845 GWh of commitments were auctioned. The JSC "Latvijas Gāze" successfully participated in the auction and committed to keep a certain quantity of natural gas in the Inčukalns Underground Gas Storage ("IUGS") until end of February 2020.
- **In April**, the JSC "Latvijas Gāze" successfully managed the "Go-Live" for the first module of its new billing system and customer portal.
- **On 18 April**, the Public Utilities Commission ("PUC") adopted new gas grid connection rules that allow customers to establish a direct connection with the high-pressure transmission system owned and operated by the JSC "Conexus Baltic Grid". So far, all gas customers in Latvia could only connect to the local gas distribution network owned and operated by the JSC "Gasol".
- **In May**, the JSC "Conexus Baltic Grid" in line with the existing tariff methodology announced to reduce the tariff for the one-year bundled capacity product from 3.52 EUR/MWh to 1.13 EUR/MWh.
- **On 19 June**, the JSC "Latvijas Gāze" held its Annual Shareholders Meeting".
- **During the summer months** despite increasing competition in the market the JSC "Latvijas Gāze" particularly successfully managed to close several larger sales deals.
- **As of 15 July 2019**, the JSC "Conexus Baltic Grid" curtailed the technically available injection capacity into the Inčukalns Underground Gas Storage (IUGS). Starting from 15 July CBG until the end of the injection season limited the daily maximum injection capacity to 104 GWh.
- **As in previous years during August, September and October**, the JSC "Latvijas Gāze" injected significant volumes of natural gas into the IUGS in order to ensure security of supply for its customers during the winter season.
- **On 11 September 2019**, the JSC "Latvijas Gāze" at the "Vide rītdienai!" event announced to promote actively natural gas as a fuel in transportation.
- **In October**, the administrative functions of the JSC "Latvijas Gāze" moved to the new office building in Aristida Briana iela 6 in Riga.
- **During October, November and December**, the JSC "Latvijas Gāze" signed several contracts with Finnish customers for natural deliveries starting as of 1 January 2020.

- On December 11, 2019, official commissioning of the Finnish-Estonian gas connection Baltic

## OPERATING RESULTS OF THE BUSINESS SEGMENTS

**Distribution segment:** The distribution segment operated by the JSC “Gasol” is the largest business segment within Latvijas Gāze group by its asset value. At the end of the year 2019, assets of the segment were worth 328.6 million EUR, which represents 71% of the group’s total asset value. In the reporting period, the distribution segment generated a net turnover of 50.5 million EUR (decrease by 1% compared to 2018) and EBITDA of 22.0 million EUR. The segment profit before taxes in 2019 amounted to 9.8 million EUR.

**Sales & trading segment:** At 31 December 2019, the sales & trading segment operated by the JSC “Latvijas Gāze” had an asset value of 135.7 million EUR mainly consisting of natural gas inventories and cash reserves. In 2019, the segment generated a net turnover of 263.8 million EUR which is a decrease by 10% in comparison to 2018. The sales & trading segment in general distinguishes four

## LONG-TERM GAS SUPPLIES

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

The JSC “Latvijas Gāze” procures almost all of its natural gas under a long-term contract with the PJSC “Gazprom”. The contract is subject to a take-or-pay obligation that requires the JSC “Latvijas Gāze” to buy a defined amount of natural

## INVESTMENTS

The JSC “Latvijas Gāze” geared its investments in 2019 towards improving the effectiveness and efficiency of core business and customer care processes. In that context, the Company continued

Connector took place. Commercial operations of the pipeline started on January 1, 2020.

key customer segments: wholesale customers, corporate customers, small & medium sized customers and household customers. The table depicted below reflects the share of revenue (in percent) generated by each of the four customer groups.

Customer groups	Share of total turnover in %
Wholesale customers	57
Corporate customers	23
Small & medium sized customers	7
Household customers	13
<b>TOTAL</b>	<b>100</b>

EBITDA for the segment amounted to 13.6 million EUR. The profit before taxes earned in 2019 by the sales & trading segment reached 12.6 million EUR.

gas on an annual basis or make a payment for the quantity not taken. Under this type of contracts prices paid for natural gas usually relate to the prices of competing energy sources (e.g. oil and oil products) and/or market reference prices (e.g. hub prices such as TTF or NBP), as dictated by market conditions. Any of the contract parties in regular intervals (usually every two years) may trigger a review of the contract conditions. In case of no agreement after a defined period, the parties may refer the case to a neutral board of arbitration that will make a binding decision.

to make a number of investments to ensure most efficient operations when delivering high-quality products and services to customers. In total, the JSC “Latvijas Gāze” in 2019 spent approximately

4.5 million EUR for investment projects. Out of this amount, the Company invested more than 1.6 million EUR into the implementation of a new billing system and customer portal. The implementation of both the new billing system as well as the customer portal already started in 2018. In April 2019, the JSC “Latvijas Gāze” successfully managed the “Go-Live” for the first module of the system and the new customer portal. The implementation will continue in 2020 with the system expected to be operational for all customer segments by the end of 2020. Additionally, the Company spent approximately 297 thousand EUR on other IT-related projects and equipment. The modernization of the existing IT infrastructure and the digitalization of the Company’s sales processes will play a key role in serving customers with the best products and services at the most competitive price also in the future.

## FINANCIAL RISK MANAGEMENT

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

As in previous periods, the JSC “Latvijas Gāze” faced a high customer concentration risk with only a few customers accounting for a significant share of overall sales volumes. To mitigate **credit default risks** major customers are subject to individual credit risk management policies, which include a number of practices, such as an evaluation of credit limits, a detailed supervision of financial figures, and frequent billing cycles to avoid the accumulation of debt. For transactions with smaller customers Latvijas Gāze group has put in place detailed policies and processes that ensure the continuous monitoring of incoming customer payments and trigger respective customer communication as well as follow-up actions in case of arising credit issues.

The group’s **liquidity risk** mainly stems from the distinct seasonality of the natural gas business. To ensure security of supply for the winter months the Company usually injects significant gas quantities into the Inčukalns Underground Gas Storage (“IUGS”) during the injection season starting in early summer. While the Company needs to

Apart from the investments into IT systems and infrastructure the JSC “Latvijas Gāze” for roughly 1.8 million EUR acquired a new office building at Aristida Briana iela 6 in Riga. In October, the Company’s administration moved into the new office building abandoning rented office space at Vagonu iela 20. Currently, the JSC “Latvijas Gāze” does not have any plans to acquire additional real estate property in the nearer future.

Apart from its continued investments into upgrading IT systems and infrastructure the Company’s budget for 2020 foresees dedicated funds for the further improvement and modernization of customer care operations. Moreover, the JSC “Latvijas Gāze” plans to make selective investments into exploring and developing new business areas.

ensure the availability of respective cash reserves to finance the injection of natural gas into the storage during the summer months, customers will typically consume and subsequently pay most of the gas only during the winter period. To actively monitor and manage the liquidity risk the Company continuously improves its internal cash planning tools and instruments. To take account of the increased importance of a systematic and rigorous cash management in a competitive and highly volatile market the Company has in place a dedicated treasury function.

On 31 March 2019, the existing overdraft agreement with the Latvian branch of OP Corporate Bank plc expired. Therefore, the JSC “Latvijas Gāze” already in autumn 2018 initiated a public procurement procedure in order to attract sufficient financing for the purchase of natural gas during the next two natural gas injection seasons. At the end of December 2018, the Company signed a new agreement with the Latvian branch of OP Corporate Bank plc on a revolving credit facility with a borrowing capacity of up to 50 million EUR. The agreement covers the period from 1 June 2019 until 31 May 2021. The closed

transaction strengthens the overall liquidity of the Company and enables the implementation of a more advanced portfolio optimization strategy.

In comparison to the years before the opening of the Latvian natural gas market to competition the natural gas sales & trading segment faces more **market risks**. Particularly the greater variety of pricing structures requested by customers have created new risk positions. To actively manage and

## FUTURE PROSPECTS

The JSC “Latvijas Gāze” expects that the currently observed market trends will continue in 2020. Competition within Latvia as well as cross-border competition are likely to increase and exert continuous pressure on sales margins. More players will enter the household segment and try to gain market share. Apart from that, the Company expects that competition for corporate customers as well as for small & medium sized customers will be particularly strong. For 2020, the Company forecasts that the ample supply of highly attractively priced LNG in the global gas markets as well as in the Baltic region will persist. At the same time, the commissioning of the Baltic Connector between Estonia and Finland and the creation of a single market zone consisting of Latvia, Estonia and Finland as of 1 January 2020 created new opportunities for gas traders and customers alike.

Nevertheless, the general market environment will remain challenging going forward. With the Gas Interconnection Poland-Lithuania (“GIPL”) under construction and projects such as the Skulte LNG Terminal in Latvia under development, competition on the supply side is set to increase while overall natural gas demand in Latvia will rather stagnate. In the mid-term, the energy strategies recently presented by the Lithuanian and Latvian government foreseeing a reduction in the use of fossil fuels will exert additional downward pressure on natural gas consumption. On top of that, international climate change policies will require the gradual phase out of fossil fuels on a longer time horizon. Against that background, more market players than in the past will fight for market share in a shrinking overall

mitigate these risks, the Company established a separate Risk Management function. Apart from that, the Company continuously monitors and develops further its risk management policies and strategies. Although internal market risk mitigation, e.g. through negotiating supply agreement terms and working with the sales portfolio, is the preferred risk mitigation option, the Company actively uses financial hedging instruments.

market. At the same time, compliance and regulatory risk are likely to increase going forward. On the supply side, ensuring competitive purchase conditions under the existing long-term supply agreement with the PJSC Gazprom and increasing the flexibility of supplies will remain key to safeguard the leading position of Latvijas Gāze group in the Latvian natural gas market and to enable the further expansion into neighbouring markets. On the demand side, the Company will continue to build on and further grow its customer base and its distinct capabilities in serving customers effectively and efficiently. Starting from 1 January 2020, the JSC “Latvijas Gāze” delivers natural gas to newly acquired customers in Finland.

The JSC “Latvijas Gāze” will continue to invest consequently into the modernization and digitalization of customer care processes as well as into the development of new products and services. Furthermore, to increase the effectiveness and efficiency of its billing processes the sales & trading segment will continue with the implementation of a new billing system and customer portal for household customers.

Finally, the Company plans to explore additional markets and has set up an internal project group to analyse opportunities for expanding its business into new segments. The analysis puts a particular focus on business opportunities arising around LNG and gas powered technologies in the Baltic region.

Despite the above mentioned challenges, the JSC “Latvijas Gāze” in the recent years has proved its

ability to adapt successfully to changing market conditions while delivering value to its shareholders.

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

## PROPOSED DISTRIBUTION OF PROFIT FOR THE COMPANY

	2019
	EUR
Profit for the reporting year for the Company	19 700 247
Suggested distribution of profit	
<b>Dividends to shareholders (89%)</b>	<b>17 556 000</b>
<b>Dividends per share (EUR/1 share)</b>	<b>0.44</b>
Transfer to reserves	2 144 247

## TRANSACTIONS WITH RELATED PARTIES

The JSC “Latvijas Gāze” is party to a long-term natural gas sales and purchase agreement (“the Agreement”) with the PJSC “Gazprom”. Under the Agreement, the Company is obliged to buy a defined annual quantity based on take-or-pay

terms. In case JSC “Latvijas Gāze” fails to offtake the defined minimum quantities, it may incur financial and legal obligations. The PJSC “Gazprom” holds 34% of the shares in the JSC “Latvijas Gāze”.

## SUBSEQUENT EVENTS

On 14 March 2020, the Latvian Cabinet of Ministers issued a “Declaration of Emergency Situation” in Latvia due to the coronavirus pandemic. In light of this, Latvijas Gāze Group has taken several safety measures to protect the health and well-being of its customers and employees. Besides strict internal rules including travelling and business meetings, the JSC “Latvijas Gāze” as well as the JSC “Gasol” have closed their client centers for visitors until further notice. Until re-opening of the client centers services for clients will be available only via phone and electronic forms of communication. Despite that, Latvijas Gāze Group ensures business continuity as well as the uninterrupted supply of natural gas to its customers. Nevertheless, depending on the length of the crisis, the Group’s management cannot fully preclude further limitations to the Group’s operations.

As the situation regarding the coronavirus is developing rapidly, the impact on the regional and European economy is very hard to estimate precisely at this moment. However, at the end of

March the Bank of Latvia publicly announced that it expects the Latvian GDP to decrease by 6.5% in 2020. Although the Group cannot yet exactly quantify the impact of the drop in GDP on natural gas consumption, it is likely that the total gas demand in Latvia will also be lower than initially expected. Lower total gas demand in Latvia as well as in the Baltic region subsequently might result in a decline of the Group’s sales volumes. At the same time, Latvijas Gāze expects that the ample availability of low priced natural gas across Europe including the Baltic region at least in the short-term will further intensify competition and exert additional pressure on sales margins.

Apart from that, the Group assumes that there will be an increase in accounts receivable due to delayed payments by customers suffering from liquidity issues as well as an increase of customers being in default. However, it is not yet possible to estimate reasonably the exact magnitude of the potential liquidity issues of the Group’s customers. To minimize the risks resulting from the potential

liquidity issues of its customers the Group will review and if necessary adjust its credit policies and take additional measures to ensure its own liquidity. Furthermore, the Group will take into account the impact of the virus on macroeconomic forecasts when calculating the expected credit loss for buyers and customers for 2020.

In addition, it should be mentioned that the revaluation of assets recognized in 2019 was based on the precautionary principle. As a result, Latvijas Gāze Group estimates that even in the event of an essential economic downturn, the value of the assets will be close to their market value. Overall, the

Group’s management closely monitors the situation and will if necessary implement further policies to protect the health and safety of employees as well as the Group’s economic integrity. Despite the crisis, the Group based on its balance sheet and liquidity situation at the reporting date remains in a solid financial position.

Other than mentioned, since 31 December 2019 up to the signing of these financial statements there have been no events with effect on the financial position or financial results of the Group and the Company as at the balance sheet date.

## STATEMENT OF BOARD RESPONSIBILITY

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The Board of the Joint Stock Company “Latvijas Gāze” is responsible for the preparation of the “Latvijas Gāze” Group consolidated and the JSC “Latvijas Gāze” financial statements for 2019 (further – Financial statements), which consist of the Company’s and its subsidiary (further - Group’s) and the Company’s financial statements.

Financial statements for year ended 31 December 2019 have been prepared in compliance with the

International Financial Reporting Standards adopted by the European Union.

According to the information available to the management of the Company, the Financial statements provide a true and fair view of the Group’s and the Company’s assets, liabilities, financial position, operational results and cash flows in all key aspects.

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on 1 April 2020, and they are signed on behalf of the Board by:

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Aigars Kalvītis  
Chairman of the Board

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Sebastian Gröblichhoff  
Deputy Chairman of the Board

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Elita Dreimane  
Member of the Board

## FINANCIAL STATEMENTS

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

### CORPORATE INFORMATION

<b>Company</b>	Latvijas Gāze, Joint Stock Company
<b>LEI code</b>	097900BGMO0000055872
<b>Registration number, place and date of registration</b>	Unified registration number 40003000642 Riga, Latvia, 25 March 1991 re-registered in Commercial Register on 20 December 2004
<b>Address</b>	A.Briāna 6, Riga, Latvia, LV-1001 (from 2 October 2019) Vagonu street 20, Riga, Latvia, LV-1009 (until 1 October 2019)
<b>Corporate management report and Non-financial report</b>	<a href="http://www.lg.lv">www.lg.lv</a>
<b>Major shareholders</b>	PJSC Gazprom (34.0%) Marguerite Gas II.S.a.r.l. (28.97%) Uniper Ruhrgas International GmbH (18.26%) ITERA Latvija SIA (16.0%)
<b>Financial period</b>	1 January – 31 December 2019
<b>Name and address of the auditor</b>	PricewaterhouseCoopers SIA Kr. Valdemāra street 21-21 Riga, LV-1010, Latvia  Responsible certified auditor: Terēze Labzova - Ceicāne Certified auditor Certificate No.184



## STATEMENT OF PROFIT OR LOSS

	Note	Group 2019	Group 2018	Company 2019	Company 2018
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue, including excise duty		321 494	353 305	273 163	306 204
Less excise duty		(7 145)	(8 403)	(7 168)	(8 426)
<b>Revenue from contracts with customers</b>	2	<b>314 349</b>	<b>344 902</b>	<b>265 995</b>	<b>297 778</b>
Other income	3	3 513	5 992	1 793	4 945
Raw materials and consumables used	4	(247 263)	(278 553)	(245 588)	(276 835)
Personnel expenses	5	(25 852)	(25 377)	(5 033)	(5 356)
Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets	6	(12 770)	(11 545)	(785)	(384)
Other operating expenses	7	(9 120)	(9 537)	(4 216)	(5 484)
Dividends received from subsidiary		-	-	9 975	8 977
<b>Operating profit</b>		<b>22 857</b>	<b>25 882</b>	<b>22 141</b>	<b>23 641</b>
Financial income		-	40	-	40
Financial expense		(399)	(737)	(173)	(488)
<b>Profit before taxes</b>		<b>22 458</b>	<b>25 185</b>	<b>21 968</b>	<b>23 193</b>
Corporate income tax		(2 268)	-	(2 268)	-
<b>Profit for the period</b>		<b>20 190</b>	<b>25 185</b>	<b>19 700</b>	<b>23 193</b>
		EUR	EUR	EUR	EUR
Earnings per share (basic and diluted)	15	0.506	0.631	0.494	0.581

## STATEMENT OF COMPREHENSIVE INCOME

		Group 2019	Group 2018	Company 2019	Company 2018
		EUR'000	EUR'000	EUR'000	EUR'000
<b>Profit for the period</b>		<b>20 190</b>	<b>25 185</b>	<b>19 700</b>	<b>23 193</b>
<b>Other comprehensive income - items that will not be reclassified to profit or loss</b>					
Revaluation of property, plant and equipment	9	74 540	-	-	-
Change in revaluation reserve of property, plant and equipment		164	68	-	-
Remeasurement of post-employment benefit obligations	18	407	190	34	87
<b>Total other comprehensive income</b>		<b>75 111</b>	<b>258</b>	<b>34</b>	<b>87</b>
<b>Total comprehensive income for the period</b>		<b>95 301</b>	<b>25 443</b>	<b>19 734</b>	<b>23 280</b>

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on 1 April 2020, and they are signed on behalf of the Board by:

Aigars Kalvītis  
Chairman of the Board

Sebastian Gröblinghoff  
Deputy Chairman of the Board

Elita Dreimane  
Member of the Board

## BALANCE SHEET

	Note	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
		EUR'000	EUR'000	EUR'000	EUR'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	8	8 137	6 644	4 799	3 341
Property, plant and equipment	9	312 650	238 465	2 729	848
Right-of-use assets		384	-	384	-
Investment in subsidiary	10	-	-	194 534	194 534
Other debtors	12	32	26	6	6
<b>Total non-current assets</b>		<b>321 203</b>	<b>245 135</b>	<b>202 452</b>	<b>198 729</b>
<b>Current assets</b>					
Inventories	11	50 105	103 963	48 872	102 442
Pre-payments for inventories		5 829	5 036	5 828	5 025
Trade receivables	12	26 955	36 175	23 813	34 964
Income tax receivable		-	63	-	63
Other current assets	14	11 151	5 827	10 758	5 451
Cash and cash equivalents		48 995	16 280	38 487	4 845
<b>Total current assets</b>		<b>143 035</b>	<b>167 344</b>	<b>127 758</b>	<b>152 790</b>
<b>TOTAL ASSETS</b>		<b>464 238</b>	<b>412 479</b>	<b>330 210</b>	<b>351 519</b>

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on 1 April 2020, and they are signed on behalf of the Board by:

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Aigars Kalvītis  
Chairman of the Board

\_\_\_\_\_  
Sebastian Gröbblinghoff  
Deputy Chairman of the Board

\_\_\_\_\_  
Elita Dreimane  
Member of the Board

## BALANCE SHEET (continued)

	Note	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
		EUR'000	EUR'000	EUR'000	EUR'000
<b>LIABILITIES AND EQUITY</b>					
<b>Equity</b>					
Share capital	15	55 860	55 860	55 860	55 860
Share premium		20 376	20 376	20 376	20 376
Reserves		195 597	127 079	204 494	204 460
Retained earnings		111 878	107 040	23 447	25 692
<b>Total equity</b>		<b>383 711</b>	<b>310 355</b>	<b>304 177</b>	<b>306 388</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Borrowings	16	25 667	29 167	-	-
Lease liabilities		292	-	292	-
Deferred income	17	18 434	18 658	-	-
Employee benefit obligations	18	1 757	2 264	57	125
<b>Total non-current liabilities</b>		<b>46 150</b>	<b>50 089</b>	<b>349</b>	<b>125</b>
<b>Current liabilities</b>					
Trade payables	19	5 489	5 581	8 249	9 928
Interest-bearing loans and borrowings	16	3 500	11 886	-	8 386
Lease liabilities		93	-	93	-
Deferred income	17	1 138	1 019	92	-
Other liabilities	20	24 157	33 549	17 250	26 692
<b>Total current liabilities</b>		<b>34 377</b>	<b>52 035</b>	<b>25 684</b>	<b>45 006</b>
<b>Total liabilities</b>		<b>80 527</b>	<b>102 124</b>	<b>26 033</b>	<b>45 131</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>464 238</b>	<b>412 479</b>	<b>330 210</b>	<b>351 519</b>

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on 1 April 2020, and they are signed on behalf of the Board by:

Aigars Kalvītis  
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Sebastian Gröblichhoff  
Deputy Chairman of the Board

Elīta Dreimane  
Member of the Board

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation reserve	Employee benefits revaluation reserve	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>31 December 2017</b>	<b>55 860</b>	<b>20 376</b>	<b>132 193</b>	<b>(87)</b>	<b>99 712</b>	<b>308 054</b>
<b>Transactions with owners</b>						
Dividends (see Note 15)	-	-	-	-	(23 142)	(23 142)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23 142)</b>	<b>(23 142)</b>
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(5 285)	-	5 285	-
<b>Comprehensive income</b>						
Profit for the year	-	-	-	-	25 185	25 185
Other comprehensive income	-	-	68	190	-	258
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>68</b>	<b>190</b>	<b>25 185</b>	<b>25 443</b>
<b>31 December 2018</b>	<b>55 860</b>	<b>20 376</b>	<b>126 976</b>	<b>103</b>	<b>107 040</b>	<b>310 355</b>
<b>Transactions with owners</b>						
Dividends (see Note 15)	-	-	-	-	(21 945)	(21 945)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(21 945)</b>	<b>(21 945)</b>
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(6 593)	-	6 593	-
<b>Comprehensive income</b>						
Profit for the year	-	-	-	-	20 190	20 190
Other comprehensive income	-	-	74 704	407	-	75 111
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>74 704</b>	<b>407</b>	<b>20 190</b>	<b>95 301</b>
<b>31 December 2019</b>	<b>55 860</b>	<b>20 376</b>	<b>195 087</b>	<b>510</b>	<b>111 878</b>	<b>383 711</b>

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\_\_\_\_\_  
Aigars Kalvītis  
Chairman of the Board

\_\_\_\_\_  
Sebastian Gröblichhoff  
Deputy Chairman of the Board

\_\_\_\_\_  
Elīta Dreimane  
Member of the Board

## COMPANY’S STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Employee benefits revaluation reserve	Reorganisation reserve	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>31 December 2017</b>	<b>55 860</b>	<b>20 376</b>	<b>(172)</b>	<b>204 545</b>	<b>25 641</b>	<b>306 250</b>
<b>Transactions with owners</b>						
Dividends (see Note 15)	-	-	-	-	(23 142)	(23 142)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23 142)</b>	<b>(23 142)</b>
<b>Comprehensive income:</b>						
Profit for the year	-	-	-	-	23 193	23 193
Other comprehensive income	-	-	87	-	-	87
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>87</b>	<b>-</b>	<b>23 193</b>	<b>23 280</b>
<b>31 December 2018</b>	<b>55 860</b>	<b>20 376</b>	<b>(85)</b>	<b>204 545</b>	<b>25 692</b>	<b>306 388</b>
<b>Transactions with owners</b>						
Dividends (see Note 15)	-	-	-	-	(21 945)	(21 945)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(21 945)</b>	<b>(21 945)</b>
<b>Comprehensive income</b>						
Profit for the year	-	-	-	-	19 700	19 700
Other comprehensive income	-	-	34	-	-	34
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>34</b>	<b>-</b>	<b>19 700</b>	<b>19 734</b>
<b>31 December 2019</b>	<b>55 860</b>	<b>20 376</b>	<b>(51)</b>	<b>204 545</b>	<b>23 447</b>	<b>304 177</b>

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\_\_\_\_\_  
Elita Dreimane  
Member of the Board

## STATEMENT OF CASH FLOWS

	Note	Group 2019	Group 2018	Company 2019	Company 2018
		EUR'000	EUR'000	EUR'000	EUR'000
<b>Cash flow from operating activities</b>					
<b>Profit before corporate income tax</b>		<b>22 458</b>	<b>25 185</b>	<b>21 968</b>	<b>23 193</b>
<i>Adjustments:</i>					
- depreciation of property, plant and equipment and right-of-use assets	6	10 870	10 140	315	246
- amortisation of intangible assets	6	1 917	1 421	470	138
- movement in provisions		(101)	(67)	(34)	(67)
- income from participating interests		-	-	(9 975)	(8 977)
- losses / (income) from long-term asset exclusions		312	235	3	(10)
- interest expenses		398	389	172	140
<i>Changes in operating assets and liabilities:</i>					
- in accounts receivable		3 903	77	5 857	(64)
- in inventories		53 857	(23 071)	53 570	(22 834)
- in advances for inventories		(793)	(743)	(803)	(733)
- in accounts payable		(10 915)	4 312	(10 637)	4 703
Corporate income tax received back / (paid)		(2 205)	3 733	(2 205)	4 012
<b>Net cash inflow / (outflow) from operating activities</b>		<b>79 701</b>	<b>21 611</b>	<b>58 701</b>	<b>(253)</b>
<b>Cash flow from investing activities</b>					
Payments for property, plant and equipment	9	(9 513)	(6 219)	(2 177)	(173)
Payments for intangible assets	8	(3 304)	(3 166)	(2 328)	(1 578)
Proceeds from sale of property, plant and equipment		83	76	9	29
Cash transferred in reorganisation		-	-	-	(5 458)
Dividends received	21	-	-	9 975	8 977
<b>Net cash inflow / (outflow) from investing activities</b>		<b>(12 734)</b>	<b>(9 309)</b>	<b>5 479</b>	<b>1 797</b>
<b>Cash flow from financing activities</b>					
Overdraft used	16	-	5 025	-	5 025
Overdraft paid		(8 386)	-	(8 386)	-
Loan paid	16	(3 500)	(2 333)	-	-
Leases paid		(25)	-	(37)	-
Interest paid		(396)	(389)	(170)	(140)
Dividends paid	15	(21 945)	(23 142)	(21 945)	(23 142)
<b>Net cash outflow from financing activities</b>		<b>(34 252)</b>	<b>(20 839)</b>	<b>(30 538)</b>	<b>(18 257)</b>
<b>Net cash flow</b>		<b>32 715</b>	<b>(8 537)</b>	<b>33 642</b>	<b>(16 713)</b>
<b>Cash and cash equivalents</b>					
<b>at the beginning of the reporting period</b>		<b>16 280</b>	<b>24 817</b>	<b>4 845</b>	<b>21 558</b>
<b>Cash and cash equivalents</b>					
<b>at the end of the reporting period</b>		<b>48 995</b>	<b>16 280</b>	<b>38 487</b>	<b>4 845</b>

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Elita Dreimane  
Member of the Board

## NOTES TO FINANCIAL STATEMENTS

### 1. Segment information

In 2019 and 2018, Latvijas Gāze group consisted of two segments – the natural gas sales & trading segment and the distribution segment.

The natural gas sales & trading segment comprises the purchase, trade and sale of natural gas. The JSC “Latvijas Gāze” operates the sales & trading business, which includes wholesale trading and the sale of natural gas to industrial and commercial customers as well as to households.

The distribution segment provides natural gas distribution services in Latvia. The JSC “Gasol” holds an exclusive license for the distribution of natural gas on the territory of Latvia. JSC “Gasol” owns and operates all distribution assets.

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

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

Group 2019	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
<b>EBITDA</b>	<b>13 587</b>	<b>22 040</b>	<b>35 627</b>
Depreciation and amortisation	(768)	(12 002)	(12 770)
Financial expense	(173)	(226)	(399)
<b>Profit before taxes</b>	<b>12 646</b>	<b>9 812</b>	<b>22 458</b>

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

Company / Gas trade	2019	2018
	EUR'000	EUR'000
<b>EBITDA</b>	<b>22 926</b>	<b>24 025</b>
Depreciation and amortisation	(785)	(384)
Financial income	-	40
Financial expense	(173)	(488)
<b>Profit before taxes</b>	<b>21 968</b>	<b>23 193</b>



<b>Group 2019</b>	<b>Gas trade</b>	<b>Gas distribution</b>	<b>Total</b>
	EUR'000	EUR'000	EUR'000
Purchase of property, plant, equipment and intangible assets	4 111	10 068	14 179
Segment assets 31.12.2019	135 676	328 562	464 238

<b>Group 2018</b>	<b>Gas trade</b>	<b>Gas distribution</b>	<b>Total</b>
	EUR'000	EUR'000	EUR'000
Purchase of property, plant, equipment and intangible assets	2 446	8 020	10 466
Segment assets 31.12.2018	156 174	256 305	412 479

<b>Company / Gas trade</b>	<b>2019</b>	<b>2018</b>
	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	4 111	2 446
Segment assets 31.12	330 210	351 519

## 2. Revenue from contracts with customers

<b>Group 2019</b>	<b>Gas trade</b>		<b>Gas distribution</b>	<b>Total</b>
	<b>Latvia</b>	<b>Other countries</b>	<b>Latvia</b>	
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	242 156	21 227	49 509	312 892
Inter-segment revenue	(2 184)	-	-	(2 184)
Connection, balancing and other service fees recognised as revenue	1 173	1 439	1 029	3 641
	<b>241 145</b>	<b>22 666</b>	<b>50 538</b>	<b>314 349</b>

<b>Group 2018</b>	<b>Gas trade</b>		<b>Gas distribution</b>	<b>Total</b>
	<b>Latvia</b>	<b>Other countries</b>	<b>Latvia</b>	
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	280 767	17 009	49 160	346 936
Inter-segment revenue	(3 949)	-	-	(3 949)
Connection and other service fees recognised as income	-	-	1 002	1 002
Other revenue	2	-	911	913
	<b>276 820</b>	<b>17 009</b>	<b>51 073</b>	<b>344 902</b>

<b>Company 2019</b>	<b>Gas trade</b>		<b>Total</b>
	<b>Latvia</b>	<b>Other countries</b>	
	EUR'000	EUR'000	EUR'000
Segment revenue	242 156	21 227	263 383
Other revenue (balancing services)	1 173	1 439	2 612
	<b>243 329</b>	<b>22 666</b>	<b>265 995</b>

The Company's sales to legal entities comprised 87% and sales to household customers comprised 13% of total sales.

Company 2018	Gas trade		
	Latvia	Other countries	Total
	EUR'000	EUR'000	EUR'000
Segment revenue	280 767	17 009	297 776
Other revenue	2	-	2
	<b>280 769</b>	<b>17 009</b>	<b>297 778</b>

The Company's sales to legal entities comprised 89% and sales to household customers comprised 11% of total sales.

### 3. Other income

	Group 2019	Group 2018	Company 2019	Company 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Net fair value gains on financial derivatives	276	3 196	276	3 196
Penalties collected from customers	905	627	805	590
Other	2 332	2 169	712	1 159
	<b>3 513</b>	<b>5 992</b>	<b>1 793</b>	<b>4 945</b>

Other income includes gain on net fair value of derivative financial instruments in the amount of 276 thousand EUR originating from financial hedging activities. (5 495) thousand EUR out of this amount is attributable to derivatives in the reporting period (2018: 2 000 thousand EUR). The remainder of 5 771 thousand EUR is attributable to derivative instruments that are still open. They are valued on a mark-to-market at the balance sheet date and relate to year 2020.

### 4. Raw materials and consumables used

	Group 2019	Group 2018	Company 2019	Company 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	245 883	277 187	245 543	276 788
Costs of materials, spare parts and fuel	1 380	1 366	45	47
	<b>247 263</b>	<b>278 553</b>	<b>245 588</b>	<b>276 835</b>

### 5. Personnel expenses

	Group 2019	Group 2018	Company 2019	Company 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	19 544	19 141	3 835	4 058
State social insurance contributions	4 675	4 641	886	904
Life, health and pension insurance	1 319	1 289	178	185
Other personnel costs	314	306	134	209
	<b>25 852</b>	<b>25 377</b>	<b>5 033</b>	<b>5 356</b>
Average number of employees	988	996	116	117

	Group 2019	Group 2018	Company 2019	Company 2018
Salaries of the Council and the Board	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	2 642	2 754	1 232	1 623
State social insurance contributions	549	531	228	271
Life, health and pension insurance	129	140	46	71
Other personnel costs	3	13	-	-
	<b>3 323</b>	<b>3 438</b>	<b>1 506</b>	<b>1 965</b>

## 6. Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets

	Group 2019	Group 2018	Company 2019	Company 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Amortisation of intangibles	1 917	1 421	470	138
Depreciation and impairment of property, plant and equipment	11 716	10 140	290	245
Depreciation of rights to use assets	8	-	25	-
Income from revaluation of property, plant and equipment	(2 617)	-	-	-
Additional depreciation from revaluation of property, plant and equipment	1 763	-	-	-
Capitalised depreciation	(17)	(16)	-	-
Other costs	-	-	-	1
	<b>12 770</b>	<b>11 545</b>	<b>785</b>	<b>384</b>

## 7. Other operating expenses

	Group 2019	Group 2018	Company 2019	Company 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Selling and advertising costs	820	2 192	536	2 006
Expenses related to premises (rent, electricity, security and other services)	1 382	1 444	331	501
Donations, financial support	938	742	753	559
Office and other administrative costs	1 875	1 779	849	902
Taxes and duties	985	976	611	561
Costs of IT system maintenance, communications and transport	1 738	1 354	800	576
Loss from sale and write off of property, plant and equipment	303	240	3	-
Increase in provisions for bad debts, net	541	321	216	300
Other costs	538	489	117	79
	<b>9 120</b>	<b>9 537</b>	<b>4 216</b>	<b>5 484</b>

## 8. Intangible assets

	Group 2019	Group 2018	Company 2019	Company 2018
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Cost</b>				
<b>As at the beginning of period</b>	<b>17 558</b>	<b>13 889</b>	<b>3 541</b>	<b>1 294</b>
Additions	3 410	4 075	1 928	2 260
Disposals	(1)	(406)	(1)	(13)
<b>As at the end of period</b>	<b>20 967</b>	<b>17 558</b>	<b>5 468</b>	<b>3 541</b>
<b>Amortisation</b>				
<b>As at the beginning of period</b>	<b>10 914</b>	<b>9 899</b>	<b>200</b>	<b>75</b>
Amortisation	1 917	1 421	470	138
Disposals	(1)	(406)	(1)	(13)
<b>As at the end of period</b>	<b>12 830</b>	<b>10 914</b>	<b>669</b>	<b>200</b>
<b>Net book value as at the end of the period</b>	<b>8 137</b>	<b>6 644</b>	<b>4 799</b>	<b>3 341</b>

The intangible assets include fully depreciated intangible assets with a total historical cost of 5 017 thousand EUR (Group) and 0.2 thousand EUR (Company) (31.12.2018: 4 805 thousand EUR (Group) and 0.8 thousand EUR (Company)). The most part of intangible assets of the Group and the Company consists of software. As at 31 December 2019 the Group had payables for intangible assets for a total of 1 003 thousand EUR (as at 31 December 2018: 909 thousand EUR), and the Company has payables for intangible assets for a total of 282 thousand EUR (as at 31 December 2018: 682 thousand EUR). The above table includes the new billing system of the Company, MECOMS, which was under development at 31 December 2018. The cost and net book value of the systems under development as at 31 December 2018 amounted to 1 466 thousand EUR.

## 9. Property, plant and equipment

Group	Land, buildings, construc- tions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Cost or revalued amount</b>					
<b>31.12.2018</b>	<b>545 105</b>	<b>32 620</b>	<b>15 565</b>	<b>393</b>	<b>593 683</b>
Additions	6 325	2 236	1 490	718	10 769
Revaluation	100 552	4 900	-	-	105 452
Disposals	(1 053)	(921)	(612)	(32)	(2 618)
<b>31.12.2019</b>	<b>650 929</b>	<b>38 835</b>	<b>16 443</b>	<b>1 079</b>	<b>707 286</b>
<b>Depreciation</b>					
<b>31.12.2018</b>	<b>323 273</b>	<b>20 697</b>	<b>11 248</b>	<b>-</b>	<b>355 218</b>
Calculated	7 206	2 320	1 335	-	10 861
Revaluation	28 913	1 835	-	-	30 748
Disposals	(756)	(854)	(581)	-	(2 191)
<b>31.12.2019</b>	<b>358 636</b>	<b>23 998</b>	<b>12 002</b>	<b>-</b>	<b>394 636</b>
<b>Net book value as of 31.12.2019</b>	<b>292 293</b>	<b>14 837</b>	<b>4 441</b>	<b>1 079</b>	<b>312 650</b>
<b>Net book value as of 31.12.2018</b>	<b>221 832</b>	<b>11 923</b>	<b>4 317</b>	<b>393</b>	<b>238 465</b>

As at 31 December 2019, the Group has payables for property, plant and equipment for a total of EUR 1 395 thousand.

Group	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Cost or revalued amount</b>					
<b>31.12.2017</b>	<b>542 402</b>	<b>31 784</b>	<b>14 436</b>	<b>447</b>	<b>589 069</b>
Additions	3 822	1 124	1 547	(54)	6 439
Disposals	(1 119)	(288)	(418)	-	(1 825)
<b>31.12.2018</b>	<b>545 105</b>	<b>32 620</b>	<b>15 565</b>	<b>393</b>	<b>593 683</b>
<b>Depreciation</b>					
<b>31.12.2017</b>	<b>317 458</b>	<b>18 822</b>	<b>10 313</b>	<b>-</b>	<b>346 593</b>
Calculated	6 688	2 142	1 310	-	10 140
Disposals	(873)	(267)	(375)	-	(1 515)
<b>31.12.2018</b>	<b>323 273</b>	<b>20 697</b>	<b>11 248</b>	<b>-</b>	<b>355 218</b>
Net book value as of 31.12.2018	221 832	11 923	4 317	393	238 465
Net book value as of 31.12.2017	224 944	12 962	4 123	447	242 476

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

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Cost or revalued amount</b>					
<b>31.12.2018</b>	<b>-</b>	<b>-</b>	<b>1 263</b>	<b>-</b>	<b>1 263</b>
Additions	1 811	-	371	1	2 183
Disposals	-	-	(41)	-	(41)
<b>31.12.2019</b>	<b>1 811</b>	<b>-</b>	<b>1 593</b>	<b>1</b>	<b>3 405</b>
<b>Depreciation</b>					
<b>31.12.2018</b>	<b>-</b>	<b>-</b>	<b>415</b>	<b>-</b>	<b>415</b>
Calculated	18	-	272	-	290
Disposals	-	-	(29)	-	(29)
<b>31.12.2019</b>	<b>18</b>	<b>-</b>	<b>658</b>	<b>-</b>	<b>676</b>
Net book value as of 31.12.2019	1 793	-	935	1	2 729
Net book value as of 31.12.2018	-	-	848	-	848

As at 31 December 2019, the Company has payables for property, plant and equipment for a total of 19 thousand EUR.

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Cost or revalued amount</b>					
<b>31.12.2017</b>	-	-	<b>1 198</b>	-	<b>1 198</b>
Additions	-	-	186	-	186
Disposals	-	-	(121)	-	(121)
<b>31.12.2018</b>	-	-	<b>1 263</b>	-	<b>1 263</b>
<b>Depreciation</b>					
<b>31.12.2017</b>	-	-	<b>272</b>	-	<b>272</b>
Calculated	-	-	245	-	245
Disposals	-	-	(102)	-	(102)
<b>31.12.2018</b>	-	-	<b>415</b>	-	<b>415</b>
<b>Net book value as of 31.12.2018</b>	-	-	<b>848</b>	-	<b>848</b>
<b>Net book value as of 31.12.2017</b>	-	-	<b>926</b>	-	<b>926</b>

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

The fixed assets include fully depreciated fixed assets with a total historical cost of 8 803 thousand EUR (the Group) and 78 thousand EUR (the Company) (at 31.12.2018: 8 291 thousand EUR (the Group) and 84 thousand EUR (the Company)).

In 2019, the Group carried out the revaluation of buildings, constructions and machinery and equipment.

Included in the tables above within “Land, buildings, constructions” is the land owned by the Group and the Company with the cost and net book value of 1 680 thousand EUR (the Group) as at 31.12.2019 and 110 thousand EUR (the Company), and the cost and net book value of 1 570 thousand EUR (the Group) as at 31.12.2018. The land is not subject to revaluation.

### Revaluation effect

In 2019, the Group carried out the revaluation of buildings, constructions, machinery and equipment of the Distribution segment. Considering the unique nature and use of the assets, revaluation was based on Level 3 data, meaning that the data are not freely observable for the relevant type of assets.

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

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

As a result of the revaluation, in 2019, the gross asset amount was increased by 105 452 thousand EUR and the accumulated depreciation was increased by 30 756 thousand EUR. As a result of the revaluation, a gain of 74 540 thousand EUR was recognised in the statement of comprehensive income, while a gain of 854 thousand EUR was included in the profit and loss account.

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

Group's revaluated assets at net book value	31.12.2019	31.12.2018
	EUR'000	EUR'000
Buildings	100 886	96 560
Machinery and Equipment	9 604	8 648

## 10. Investment in subsidiary

	Company
	EUR'000
Invested during reorganisation 1.12.2017	194 534
Balance sheet value 31.12.2019 and 31.12.2018	194 534

Shares held	31.12.2019	31.12.2018
JSC “Gasol”	100%	100%

	Subsidiary's equity 31.12.2019	Subsidiary's equity 31.12.2018	Subsidiary's profit 2019	Subsidiary's profit 2018
	EUR'000	EUR'000	EUR'000	EUR'000
JSC “Gasol”	274 067	198 501	10 465	10 970

## 11. Inventories

	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	48 872	102 442	48 872	102 442
Materials and spare parts	1 304	1 597	-	-
Allowance for slow-moving inventory	(71)	(76)	-	-
	50 105	103 963	48 872	102 442

## 12. Trade receivables

Trade receivables	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Long-term receivables (nominal value)	32	26	6	6
	32	26	6	6
Short-term receivables (nominal value)	35 321	44 303	31 833	43 071
Allowance for impairment of short-term receivables	(8 366)	(8 128)	(8 020)	(8 107)
	26 955	36 175	23 813	34 964

Allowance for impairment of bad and doubtful receivables	Group 2019	Group 2018	Company 2019	Company 2018
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Allowance at the beginning of the year</b>	<b>8 128</b>	<b>8 581</b>	<b>8 107</b>	<b>8 581</b>
Expense included in profit or loss statement	547	321	216	300
Income included in profit or loss statement	(6)	-	-	-
<b>Net changes included in profit or loss statement</b>	<b>541</b>	<b>321</b>	<b>216</b>	<b>300</b>
Bad debts written off	(303)	(774)	(303)	(774)
<b>Allowance at the end of the year</b>	<b>8 366</b>	<b>8 128</b>	<b>8 020</b>	<b>8 107</b>

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

### 13. Taxes

Group Tax movement	Liabilities* 31.12.2018	Receivable 31.12.2018	Calculated 2019	Paid 2019	Liabilities* 31.12.2019	Receivable 31.12.2019
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	5 732	-	60 995	(62 888)	3 839	-
Excise tax	1 139	-	7 209	(7 456)	892	-
Social security contributions	620	-	6 904	(6 823)	701	-
Corporate income tax	-	63	2 268	(2 205)	-	-
Personal income tax	313	-	3 572	(3 547)	338	-
Real estate tax	-	-	181	(181)	-	-
Natural resource tax	6	-	8	(8)	6	-
	<b>7 810</b>	<b>63</b>	<b>81 137</b>	<b>(83 108)</b>	<b>5 776</b>	<b>-</b>

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

Company Tax movement	Liabilities* 31.12.2018	Receivable 31.12.2018	Calculated 2019	Paid 2019	Liabilities* 31.12.2019	Receivable 31.12.2019
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	4 867	-	51 872	(53 965)	2 774	-
Excise tax	1 137	-	7 168	(7 418)	887	-
Social security contributions	91	-	1 339	(1 329)	101	-
Corporate income tax	-	63	2 268	(2 205)	-	-
Personal income tax	40	-	798	(805)	33	-
	<b>6 135</b>	<b>63</b>	<b>63 445</b>	<b>(65 722)</b>	<b>3 795</b>	<b>-</b>



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

\* See Note 20.

#### 14. Other current assets

	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Deferred charges	674	535	408	288
Accrued income	2 105	3 193	2 105	3 193
Reserves funds	1 145	-	1 145	-
Derivative financial instruments	7 029	1 616	7 029	1 616
Other receivables	198	483	71	354
	<b>11 151</b>	<b>5 827</b>	<b>10 758</b>	<b>5 451</b>

As at 31 December 2019 and 31 December 2018, derivative financial instruments consist of natural gas swap agreements.

#### 15. Shares and shareholders

	31.12.2019 % of total share capital	31.12.2019 Number of shares	31.12.2018 % of total share capital	31.12.2018 Number of shares
<b>Share capital</b>				
Registered (closed issue) shares	36.52	14 571 480	36.52	14 571 480
Bearer (public issue) shares	63.48	25 328 520	63.48	25 328 520
	<b>100.00</b>	<b>39 900 000</b>	<b>100.00</b>	<b>39 900 000</b>
<b>Shareholders</b>				
Uniper Ruhrgas International GmbH (including registered (closed issue) shares 7 285 740)	18.26	7 285 740	18.26	7 285 740
Marguerite Gas II S. à r.l.	28.97	11 560 645	28.97	11 560 645
Itera Latvija SIA	16.00	6 384 001	16.00	6 384 001
PJSC "Gazprom" (including registered (closed issue) shares 7 285 740)	34.00	13 566 701	34.00	13 566 701
Bearer (public issue) shares	2.77	1 102 913	2.77	1 102 913
	<b>100.00</b>	<b>39 900 000</b>	<b>100.00</b>	<b>39 900 000</b>

As at 31 December 2019 and as at 31 December 2018, the registered, signed and paid share capital consisted of 39 900 000 shares with a par value of 1.40 EUR each. All shares have equal voting rights and rights to dividends.

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

Dividends payable are not accounted for until they are declared at the Annual General Meeting. At the Annual General Meeting in 2020, the management will propose a dividend in respect to 2019 amounting to 0.44 EUR per share. These Financial Statements do not reflect any future dividends payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings for 2019. Total dividends paid out to shareholders in 2019 amounted to 21 945 thousand EUR (0.55 EUR per share). In 2018, total dividends paid out to shareholders amounted to 23 142 thousand EUR (0.58 EUR per share).

Earnings per share/ Group	Earnings per share	
	2019	2018
<b>Net profit attributable to shareholders (a) EUR'000</b>	<b>20 190</b>	<b>25 185</b>
Ordinary shares as at 1 January (number, thousand)	39 900	39 900
Ordinary shares as at 31 December (number, thousand)	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b) (number, thousand)	39 900	39 900
<b>Basic earnings per share during the year (a/b) in EUR</b>	<b>0.506</b>	<b>0.631</b>

Earnings per share / Company	Earnings per share	
	2019	2018
<b>Net profit attributable to shareholders (a) EUR'000</b>	<b>19 700</b>	<b>23 193</b>
Ordinary shares as at 1 January (number, thousand)	39 900	39 900
Ordinary shares as at 31 December (number, thousand)	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b) (number, thousand)	39 900	39 900
<b>Basic earnings per share during the year (a/b) in EUR</b>	<b>0.494</b>	<b>0.581</b>

## 16. Interest-bearing loans and borrowings

	Group	Group	Company	Company
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
<i>Loan from JSC "SEB banka"</i>				
Long-term part of the loan	25 667	29 167	-	-
Short-term part of the loan (i.e. less than 12 months)	3 500	3 500	-	-
<i>Overdraft from "OP Corporate Bank" plc Branch in Latvia</i>	-	8 386	-	8 386
	<b>29 167</b>	<b>41 053</b>	<b>-</b>	<b>8 386</b>

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

Changes of borrowings	Group	Group	Company	Company
	2019	2018	2019	2018
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Balance at the beginning of the year</b>	<b>41 053</b>	<b>38 361</b>	<b>8 386</b>	<b>3 361</b>
Borrowings received	-	5 025	-	5 025
Borrowings repaid	(11 886)	(2 333)	(8 386)	-
<b>Balance at the end of the year</b>	<b>29 167</b>	<b>41 053</b>	<b>-</b>	<b>8 386</b>

## 17. Deferred income

	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Income from residential and corporate customers' contributions to construction of gas pipelines:</b>				
Long-term part	18 434	18 658	-	-
Short-term part	1 138	1 019	-	-
<b>Other deferred income:</b>				
Short-term part	-	-	92	-
	<b>19 572</b>	<b>19 677</b>	<b>92</b>	<b>-</b>

## Changes of deferred income

	Group 2019	Group 2018	Company 2019	Company 2018
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Balance at the beginning of the year</b>	<b>19 677</b>	<b>19 916</b>	-	-
Received from residential and corporate customers during reporting year	924	768	92	-
Included in income of reporting year	(1 029)	(1 007)	-	-
<b>Total transfer to next years</b>	<b>19 572</b>	<b>19 677</b>	<b>92</b>	<b>-</b>

## 18. Employment and post-employment benefit obligations

	Group 2019	Group 2018	Company 2019	Company 2018
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Obligations at the beginning of the reporting year</b>	<b>2 264</b>	<b>3 246</b>	<b>125</b>	<b>279</b>
Recognised in profit or loss statement	80	(496)	(32)	(38)
Paid	(180)	(296)	(2)	(29)
Revaluations due to changes in actuarial assumptions – other comprehensive income	(407)	(190)	(34)	(87)
<b>Obligations at the end of the reporting year</b>	<b>1 757</b>	<b>2 264</b>	<b>57</b>	<b>125</b>

<b>Assumptions used in calculations of obligations</b>	<b>2019</b>	<b>2018</b>
Discount rates, %	0.013-0.0845%	0.5785%
Company's employee rotation rate,%	13.39%	6.96%
Group's employee rotation rate,%	6.31%	3.82%
Employee retirement age, years	63.5-65	63.5-65
Wage growth,%	4.00%	4.00%
Contributions to private pension fund,%	5.00%	5.00%
Compulsory social security contributions (employees),%	24.09%	24.09%
Compulsory social security contributions (retired),%	21.31%	21.31%

Assumptions used in calculations of obligations			Assumption changes effect on accruals			
			Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
<i>Changes in assumptions</i>						
Discount rate	+ 0.5%	Accruals decrease by	0.004%	0.03%	3.38%	6.60%
Employee rotation rate	+ 0.5%	Accruals decrease by	0.29%	0.19%	4.00%	0.07%
Employee retirement age	+1 years	Accruals decrease by	1.39%	3.26%	12.60%	1.26%
Wage growth	+0.5%	Accruals increase by	0.16%	0.18%	3.15%	6.67%
Contributions to private pension fund	+0.5%	Accruals increase by	0.02%	0.02%	0.36%	0.37%
Compulsory social security contributions	+0.5%	Accruals increase by	0.09%	0.09%	0.39%	0.39%

Assumptions used in calculations of obligations			Assumption changes effect on accruals			
			Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
<i>Changes in assumptions</i>						
Discount rate	-0.5%	Accruals increase by	0.004%	0.03%	3.65%	7.35%
Employee rotation rate	-0.5%	Accruals increase by	0.29%	0.19%	4.33%	0.07%
Employee retirement age	-1 year	Accruals increase by	2.89%	3.19%	2.59%	2.99%
Wage growth	-0.5%	Accruals decrease by	0.16%	0.18%	2.94%	6.06%
Contributions to private pension fund	-0.5%	Accruals decrease by	0.02%	0.02%	0.36%	0.37%
Compulsory social security contributions	-0.5%	Accruals decrease by	0.09%	0.09%	0.39%	0.39%

Accruals were calculated on the assumption that the discount rate in 2019 was 0.0845% (the Group) and 0.013% (the Company) (2018: 0.5785% both), i.e., equals to the average annual rate of return of treasury securities with the initial maturity of five years and more, effective in the last two issues of such securities (source: State Treasury).

The 6.31% (the Group) and 13.39% (the Company) (2018: 3.82% (the Group) and 6.96% (the Company)) assumption of employee turnover rate, in turn, resulted from a calculation methodology based on the proportion between the number of employees having left the company (on their own initiative) and the number of employees in the reporting period.

The assumption of employee retirement age is based on Article 8.1 of the transitional provisions of the law “On State Pensions” (hereinafter – the Law) adopted on 2 November 1995 whereby the age of eligibility for retirement pension as per Section 11 Paragraph one of the Law, – 62 to 65 years – shall increase gradually and is specified for each year individually. As of 31 December 2019, it is 63.75 years (as of 31 December 2018, it is 63.5 years).

The assumptions concerning the increase of salaries corresponds to the estimated inflation figure for the next year, which, according to the latest forecasts by the Bank of Latvia, will be around 2.6%. It is also assumed as only variable for up to six years and constant afterwards. In the last few years, the Company and the Group kept it at 4%.

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

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

## 19. Trade payables

	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Payables to related parties (Note 21)	-	113	5 167	6 165
Payables to third parties	5 489	5 468	3 082	3 763
	<b>5 489</b>	<b>5 581</b>	<b>8 249</b>	<b>9 928</b>

## 20. Other liabilities

	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Prepayments received	10 843	18 679	10 793	18 652
Derivative financial instruments	1 258	421	1 258	421
Value added tax	3 839	5 732	2 774	4 867
Accrued costs	4 431	4 302	1 081	1 159
Excise tax	892	1 139	887	1 137
Vacation pay reserve	901	881	141	137
Salaries	839	777	151	177
Social security contributions	701	620	101	91
Personnel income tax	338	313	33	40
Natural resource tax	6	6	-	-
Other current liabilities	109	679	31	11
	<b>24 157</b>	<b>33 549</b>	<b>17 250</b>	<b>26 692</b>

## 21. Related party transactions

No individual entity exercises control over the Company. The Company and the Group engaged in the following transactions with entities disclosed below, which own or owned more than 20% of the shares that deemed to provide a significant influence over the Company – PJSC “Gazprom” and the companies under its control. JSC “Latvijas Gāze” subsidiary JSC “Gasol” was established in late 2017.

Income or expenses	Group 2019	Group 2018	Company 2019	Company 2018
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Income from provision of services (incl. balancing services, natural gas for own use and other)</b>				
JSC “Gasol”	-	-	2 549	4 344
<b>Dividend income</b>				
JSC “Gasol”	-	-	9 975	8 977
<b>Purchases of natural gas</b>				
PJSC “Gazprom”	180 655	292 806	180 655	292 806
<b>Expenses on natural gas distribution and other related services</b>				
JSC “Gasol”	-	-	35 332	36 710

Related party payables and receivables	Group	Group	Company	Company
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Receivables from related companies</b>				
JSC “Gasol”	-	-	-	811
<b>Advance payments to related entities</b>				
PJSC “Gazprom”	5 827	5 025	5 827	5 025
<b>Payables to related companies for natural gas and services</b>				
JSC “Gasol”	-	-	5 167	6 052
PJSC “Gazprom”	-	113	-	113

## 22. Financial risk management

Financial assets and liabilities	Level	Group	Group	Company	Company
		31.12.2019	31.12.2018	31.12.2019	31.12.2018
		EUR'000	EUR'000	EUR'000	EUR'000
Trade receivables	3	26 955	36 175	23 813	34 964
Accrued income	3	2 105	3 193	2 105	3 193
Derivative financial instruments	2	7 029	1 616	7 029	1 616
Reserved funds	2	1 145	-	1 145	-
Cash and cash equivalents	2	48 995	16 280	38 487	4 845
<b>Financial assets</b>		<b>86 229</b>	<b>57 264</b>	<b>72 579</b>	<b>44 618</b>
Borrowings	3	29 167	41 053	-	8 386
Lease liabilities	3	385	-	385	-
Accrued expenses	3	4 431	4 302	1 081	1 159
Derivative financial instruments	2	1 258	421	1 258	421
Trade payables	3	5 489	5 581	8 249	9 928
<b>Financial liabilities</b>		<b>40 730</b>	<b>51 357</b>	<b>10 973</b>	<b>19 894</b>

### Fair value

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

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

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

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

### Quoted market prices - Level 1

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

### Valuation techniques using observable inputs - Level 2

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

The quoted market price used for derivative financial assets and liabilities held by the Group and the Company are based on observable market data including current bid and ask prices, that are estimated by trading counterparties.

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

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

The fair value of long-term loans from credit institutions is measured by discounting future cash flows with market interest rates. As the interest rates applied to loans from credit institutions are variable and loans received as recent transactions and do not substantially differ from the market rates, the fair value of non-current liabilities approximately corresponds to their carrying amount.

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

Description of fair value measurement for buildings, constructions, equipment and machinery is disclosed in Note 24, Revaluation of buildings, constructions, equipment and machinery section.

### Credit risk

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

#### Concentration of credit risk

Trade receivables and accrued income	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Impaired	8 281	8 013	7 935	7 998
Not overdue	27 132	36 927	23 741	35 739
Overdue less than 90 days, but not impaired	1 958	2 251	1 921	2 222
Overdue more than 90 days, but not impaired	341	305	341	305
<b>Trade receivables and accrued income, gross</b>	<b>37 712</b>	<b>47 496</b>	<b>33 938</b>	<b>46 264</b>
Allowance for impairment of bad and doubtful debts	(8 366)	(8 128)	(8 020)	(8 107)
<b>Trade receivables and accrued income, net</b>	<b>29 346</b>	<b>39 368</b>	<b>25 918</b>	<b>38 157</b>

In the reporting year, Latvijas Gāze group remained exposed to a high risk of customer concentration – five largest customers together accounted for 63% of the sales volume of 2019 (50% of 2018), from which the single one largest customer accounted for more than 40%. Despite of that, single customer concentration in receivables is not high, as some of the biggest customers made prepayments.

#### Credit risk management practices

To minimise credit risks the Company has put in place several risk management measures. For the largest customers the Company uses individual credit risk management policies, which include several practices such as initial credit limit assessment, detailed monitoring of financial measures, as well as a regular billing practice to avoid accumulation of current debt. In case of initial doubts, clients are placed for regular monitoring at the Board level, and, if necessary, additional

collaterals are required to secure the provision of services and the sale of natural gas. For smaller customers the Company has approved detailed credit risk management policies, describing the basic steps for monitoring the progress and managing legally mandatory communication with the clients before an insolvency procedure can be initiated. In case of a customer becoming doubtful, the Company establishes provisions and starts legal proceedings to collect the debt. The credit risk of the subsidiary relates mainly to its largest customers. Major part of subsidiary's trade debtors as at 31 December 2019 paid their debts in January 2020. Receivables that are not individually assessed for impairment are classified into groups of receivables based on days overdue and are collectively assessed for impairment.

ECL rate applied	31.12.2019	31.12.2018
Receivables from natural gas wholesales and distribution services to the gas traders	0.04%	0.04%
Households	1.27%	1.14%
Distribution receivables overdue for 1-90 day	1.25%	1.25%
Receivables overdue for more than 90 days	100%	100%
Other recoverable receivables	0.11%	0.11%

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

Due to low or even negative interest rates as at 31 December 2019 and 31 December, 2018, cash and cash equivalents of the Group and the Company represented only current account balances with credit institutions.

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



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





## Liquidity risk

Liquidity risk is associated with the ability of the Group and the Company to settle their obligations within the agreed due dates. Due to the high seasonality of operations of the Group and 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 distributed evenly through the year, while dividend payments from the prior year are usually released in the third quarter of the year.

The Group and the Company use cash flow planning tools to manage liquidity risk. The Group and the Company prepare yearly, quarterly and monthly cash flows to identify operational cash flow requirements. In 2019 and 2018 the Group attracted short term credit line and used long term loan.

Division of financial liabilities by maturity date, as at 31 December 2019, Group:

	2020	2-5 years	Total	Carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000
Borrowings	3 994	25 666	29 660	29 167
Leases	89	299	388	385
Trade payables and accrued costs	9 920	-	9 920	9 920
Derivative financial liabilities	1 258	-	1 258	1 258
	15 261	25 965	41 226	40 730

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

	2019	2-5 years	Total	Carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000
Borrowings	12 406	29 371	41 777	41 053
Trade payables and accrued costs	9 883	-	9 883	9 883
Derivative financial liabilities	421	-	421	421
	22 710	29 371	52 081	51 357

Division of financial liabilities by maturity date, as at 31 December 2019, Company:

	2020	2-5 years	Total	Carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000
Leases	89	299	388	385
Trade payables and accrued costs	9 330	-	9 330	9 330
Derivative financial liabilities	1 258	-	1 258	1 258
	10 677	299	10 976	10 973

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

	2019	2-5 years	Total	Carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000
Borrowings	8 386	-	8 386	8 386
Trade payables and accrued costs	11 087	-	11 087	11 087
Derivative financial liabilities	421	-	421	421
	19 894	-	19 894	19 894

## Covenants

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

- The equity ratio of the Company (equity to total assets) must be not less than 50%;
- Not less than 70% of payments for natural gas procurement should be paid by the Company through a certain bank;
- The adjusted equity ratio of the subsidiary of the Company (adjusted equity\* to total assets) must be not less than 50%;
- Net debt to EBITDA ratio of the subsidiary of the Company must be not more than 3.

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

\* adjusted equity means equity less loans issued to shareholders, management, other related parties less intangibles and goodwill plus subordinated loans with SEB banka.

## Capital risk management

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

As at 31 December 2019 and 31 December 2018 the proportion of borrowed capital to total capital was as follows:

	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Total liabilities	80 527	102 124	26 033	45 131
(Cash and cash equivalents)	(48 995)	(16 280)	(38 487)	(4 845)
(Reserved funds)	(1 145)	-	(1 145)	-
(Deferred income)	(19 572)	(19 677)	(92)	-
<b>Net total liabilities</b>	<b>10 815</b>	<b>66 167</b>	<b>(13 691)</b>	<b>40 286</b>
Total equity and liabilities	464 238	412 479	330 210	351 519
<b>Borrowed capital proportion to total capital</b>	<b>2.33%</b>	<b>16.04%</b>	<b>(4.15%)</b>	<b>11.46%</b>

## Market risk

Market risk is the risk that changes due to market factors, such as changes in foreign exchange rates, interest rates and commodity prices can affect the Group's or Company's profits. As at 31.12.2019 the Group and the Company had a cash balance in foreign currencies of 8 thousand USD (7 thousand EUR), as at 31.12.2018 the Group and the Company 16 thousand USD (14 thousand EUR). The Group and the Company have no other assets or liabilities in foreign currencies. The entire Group's and the Company's borrowings are subject to interest rates based on a EURIBOR rate plus a fixed premium.

Interest rate risk is not material for the Group and the Company.

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

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

## 23. Other risk management

### Compliance risk

Compliance risk is the risk that the Group and the Company may incur losses, be subject to legal obligations, be subject to sanctions, or be in bad standing due to the Group and the Company's failure to comply or violate compliance laws, regulations and standards. The Management Board of the Company and the Management Board of its Subsidiary closely monitor changes in regulatory enactments, as well as the operation of the Company's and its Subsidiary's internal control processes in order to ensure compliance with existing regulatory requirements and timely preparation of necessary future business changes.

The Group and the Company use the following methods to prevent and reduce the compliance risk:

- develop and update regulatory documents in accordance with regulatory enactments of the Republic of Latvia;
- ensure the participation of the Legal Department in the development of the Group's and the Company's regulatory documents;
- if a finding of non-compliance is made, promptly take the necessary measures to remedy the non-compliance;
- use standardized forms and texts for contracts, notices, terms of service and other documents intended for clients in dealings with clients or potential clients;
- where appropriate, train unit staff on compliance risk issues.

## 24. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates, which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in the process of applying the Group's and the Company's accounting policies.

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

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

The management determines the fair value and the remaining useful life of buildings and constructions and equipment and machinery based on valuations performed by independent certified valuers in accordance with real estate valuation standards and based on the average construction costs relevant for the reporting year when valuation is performed, less subsequent depreciation. The Group's internal policy is to perform the revaluations with sufficient regularity, when there are indications that the average construction costs and/or purchase prices related to the buildings, gas distribution system and equipment have changed significantly which could lead to the carrying amount of such assets differing materially from that which would be determined using fair value at the end of the reporting period, but at least once every five years.

At the end of each reporting period, the management update their assessment about the changes in the construction costs of the assets subject to periodic revaluation, taking into account the available information such as official statistics data and prices quoted by construction companies in the procurement process. The management determines whether there are such changes in the market prices that would result into material difference between the relevant asset's carrying amount and its fair value. All resulting fair value estimates are included in level 3 (see also Note 22). As in 2019 the average construction costs have substantially changed against the average construction prices used by an independent certified valuator when revaluating assets in 2017, the management of JSC GASO decided to carry out a revaluation of assets in order to measure the asset replacement values as at 1 August 2019.

The revaluation of property, plant and equipment was carried out by independent certified valuers, measuring the initial and residual cost value of each asset under valuation, as well as the replacement value of accumulated depreciation as at 1 August 2019 for buildings, constructions, technological equipment, and vehicles for core business. Out of these categories, the items not valued were land, compensations for land, electricity installations and assets that were set to be written off in 2019 and 2020. The valuation of assets took place in compliance with the International Valuation Standards 2012 (IVS 300 Valuations for financial reporting) using the cost approach.

The cost approach method used in the valuation of immovable property was based on the average construction and purchase prices in Latvia. The measurement of cost replacement values involved an analysis of the construction cost data of Latvian construction companies, the average pipeline costs for gas pipelines, as well as the information available to JSC GASO regarding the construction works carried out in recent years. The value of basic calculation unit for each specific building or group of buildings depended on its structural design, the quality of works, the degree of improvement, the quality of the construction materials used, the applicability of specific construction conditions, and other factors found on site.

When it came to movable property, a cost approach was used, i.e., obtaining a value indicator based on the economic principle that the buyer will not pay for the asset above the expected acquisition or development costs of an asset of identical utility. This approach is based on the principle that, where there are no issues with the time needed to develop an equivalent asset, inconveniences, risks or other factors, the market price paid by the buyer for the asset under valuation would not be greater than the acquisition or development costs of an equivalent asset.

Technological machinery and equipment were valued on an individual basis, on location, and on a going concern basis as a body of assets inextricably linked with real estate.

The depreciated replacement cost value of buildings and constructions was calculated based on the results of inspection and the construction value in the prices at the time of valuation based on the utility of equivalent items in line with the construction requirements and materials used at the time of valuation and considering the technical and functional loss in value over time. The findings were analysed in light of the construction time of the building or construction and the repairs required and completed.

Also measured were the replacement costs of accumulated depreciation for each asset, with the asset's physical, functional and technical depreciation used as key factors. The overall loss in technical value for buildings and constructions was measured as the sum of losses in value of individual structural elements, expressed as percentage and attributed to the building or construction as a whole. With morally obsolete low-quality buildings and constructions, and constructions where full-fledged practical use is problematic, value adjustment factors were used to determine the extent of functional loss in value.

Physical loss in value reflects the aging of real estate over time manifesting as, for instance, defective structural parts and workmanship or incompleteness of structure. It shows the degree of decay of construction structures and materials and, consequently, the losses in value resulting from various physical factors.

Functional loss in value manifests as a loss in the market value of real estate caused by an inappropriate development plan or non-conformity of its other features to the present-day requirements. It shows the incompatibility of buildings and constructions with the existing real estate market standards and conjuncture.

The replacement value was measured using the cost approach method on the basis of the average construction and purchase costs in Latvia. If the figure of average construction and purchase costs in Latvia used in valuation increased by 1%, the value of the assets revalued would increase by 6 765 thousand EUR. Conversely, if the figure of average construction and purchase costs in Latvia used in valuation decreased by 1%, the asset value would decrease by 6 765 thousand EUR.

### Estimation of remaining useful life

The Group and the Company annually estimate the useful life of property, plant and equipment and make adjustments if the forecasts differ. These estimates are based on the previous experience as well as on the industry practice and revised at the end of every reporting period. In the past, the actual useful life of assets has occasionally exceeded the estimate.

Due to revaluation, all assets under valuation with a remaining life of less than 18 months as at 1 August 2019 had their remaining useful life recalculated pro rata to the new valuation and the accumulated depreciation. For part of these assets, the useful life was assessed individually.

### **Impairment of trade receivables and accrued income**

The loss allowance for financial assets, including trade receivables and accrued income, are based on assumptions about risk of default and the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. As individual assessment is not possible due to the large number of individual balances, only the significant debtors are assessed individually. Receivables that are not individually assessed for impairment are classified into groups of receivables based on days overdue and are collectively assessed for impairment. Details of the key assumptions and inputs used to estimate expected credit losses are disclosed in Note 22, Credit risk section.

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

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

- The Company (in relation to transmission and distribution services) and the Group (in relation to transmission services) neither owns nor operates any of the assets necessary to provide respective services.
- The customers do not perceive getting the different elements/services from different providers. From the customer's perspective, there is no other value added apart from the only one benefit, i.e. a supply of gas (including its transmission and distribution), in particular, there are no alternative service providers, and all gas trading companies must enter into agreements with transmission and distribution operators.
- Any issues related to the physical transportation of natural gas through the distribution or transmission network, the measurement of natural gas transported through the systems, and repairing or modernizing pipes is fully under the control of distribution and transmission operators and cannot be influenced by gas trading companies.
- The moment of the transmission & distribution and the sale and transfer to the end-user are not separated due to the nature of business. Nevertheless, only the providers of transmission and distribution services are capable to track the quantities delivered and they reconcile the quantities between themselves as the infrastructure is fully under the control of transmission and distribution operators.
- Transmission and distribution services are subject to a regulated non-discriminatory tariff approved by a local regulatory body. Any expenditure incurred in providing these services including the volume of capital expenditure which may impact future tariffs, are the responsibility of transmission and distribution operators.
- The end-users are charged with a transmission and distribution fixed fee calculated based on a formula: regulated tariff for distribution/transmission x quantity delivered. The Company passes on the costs for distribution and transmission services to the customers without adding any additional fees or charges.

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

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

The following considerations support the judgements made by the management:

- Although the “production” and “sale” (a transfer to the end-user) are not really separated due to the nature of business, the triggering event to pay the excise tax is a “delivery” to the end user. This indicates that the excise duty is paid close to the transfer to end customer and therefore it is closer in nature to a sales tax.
- The excise duty is clearly separate from the selling price and it is shown separately on the invoices to commercial clients. A change in the tax would result in an equivalent change in the amount passed through to the customer.

Even in a non-typical situation when the gas would be given to end-user free of charge, the excise tax needs to be calculated as it follows from the requirement of the law. This is considered a strong indicator that the entity is collecting the tax on behalf of the government.

- One may argue that there are indicators which may support a gross treatment (e.g. the pricing is based on physical quantity, not tied to value of revenue/the selling price or a failure by customer to pay does not provide the rights to claim the tax back). Nevertheless, in the view of management, in the context of the arrangements they do not have to be regarded as superior and decisive in order to conclude on an accounting treatment with respect to the excise duty.

However, for the presentation purposes, the management has decided to disclose on the face of statement of profit or loss the revenue including excise duty, but excluding VAT, amount of excise duty deducted from the revenue above, and resulting amount of revenue from contracts with customers. The management has made a decision of disclosing non-GAAP (not a general accepted accounting principles) as measures of revenue including excise duty and the deducted excise duty on the face of the statement of profit and loss following industry practice adopted by a number of leading international companies based on the consideration that such presentation is useful for stakeholders.

### Non-recognition of deferred tax liability

Deferred tax liability is not recognised in the consolidated financial statements of the Group in relation to the taxable temporary differences associated with investment in subsidiary (arising from existence of untaxed retained earnings in subsidiary, arisen after 1 January 2018) as the management has determined that subsidiary's profit for the years ended 31 December 2019 and 31 December 2018 will not be distributed in the foreseeable future. The management exercised significant judgement in interpreting the longevity of the period described as “foreseeable future”. In the management's opinion, in the current business environment, it is not possible to develop reliable business plans and forecasts for a period of time exceeding 3-5 years, despite the fact that the subsidiary in question operates in a regulated industry with regulated tariffs and is a monopoly provider of natural gas transmission services in Latvia, therefore, the period of foreseeable future cannot exceed 5 years or even less. Management's judgement is based also on the following considerations:

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

### Control over subsidiary

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

## 25. Summary of significant accounting policies

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

## Basis of preparation

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

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

All amounts shown in these financial statements are presented in thousands of Euros (EUR), unless identified otherwise. Euros (EUR) is the functional and presentational currency of the Group and the Company.

These financial statements have been approved for issue by the Board of Directors of the Company on 1 April 2020. In accordance with the requirements of the Commercial Law, the Company announces the Annual Shareholders' Meeting after receiving the auditor's report and the Supervisory Board's report, simultaneously sending the Annual Report to the Company's shareholders.

## New Accounting Pronouncements

### IFRS 16, Leases

The Company and the Group have adopted IFRS 16 Leases from 1 January 2019, which has resulted in changes in the accounting policies.

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

After December 2017 reorganisation, when subsidiary JSC “Gasol” was established and a series of rent agreements was concluded between JSC “Latvijas Gāze” and JSC “Gasol”, application of IFRS 16 “Leases” could have an effect on the total assets and liabilities of JSC “Latvijas Gāze”. However, as all rent agreements as at 31 December 2018 were short term, the management of the Company had concluded that there was no effect on the financial statements of JSC “Latvijas Gāze”. From the Group perspective, the standard had no significant impact on the consolidated financial statements.

At the second half of 2019, the Company signed the amendments to existing rent agreements, and concluded that now its leases meet the criteria for recognition of the right to use an asset.

### *New Accounting Pronouncements applicable on or after 1 January 2020*

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2020, and which the Group has not early adopted.

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

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

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



## Financial instruments

### *Financial assets Classification*

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

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

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

### *Recognition and de-recognition*

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

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

### *Measurement*

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

### *Debt instruments*

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

### *Amortised cost*

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

As at 31 December 2019 and 31 December 2018, the following financial assets of the Company and Group were classified in this category:

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

### *Equity instruments*

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

### *Derivative financial instruments*

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



### *Impairment*

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

The measurement of ECL reflects:

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

For trade receivables and accrued income without a significant financing component, the Company and the Group apply a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. As individual assessment is not possible due to the large number of individual balances, only the significant debtors are assessed individually. Receivables that are not individually assessed for impairment are classified into groups of receivables based on days overdue and are collectively assessed for impairment.

### **Revenue from contracts with customers**

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

#### *Sale of natural gas – wholesale*

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

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

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

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

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

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

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

### *Excise duty*

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

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

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

### *Connection fees*

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

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

Due to equalised invoicing and settlement arrangements with household customers, these customers routinely are in the position of over-payment in relation to their actual consumption. It is also common for households to make an advance payment for the whole year ahead, based on the actual consumption of prior settlement year. There are also corporate customers who have overpaid to the Group and the Company for the goods and services received. The balances of overpaid amounts that represent contract liabilities are offset against future consumption. They are reported within other liabilities as prepayments received.

Contract asset that relates to contract with the natural gas transmission and storage operator, where the Group and the Company have undertaken commitment to store an agreed quantity of natural gas in the underground storage for particular period of time is reported as accrued income within other current assets. The revenue is receivable when all the conditions of the contract are fulfilled.

### *Financing component*

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

## **Property, plant and equipment**

Property, plant and equipment are tangibles, which are held for use in the supply of goods and in the provision of services, and used in more than one period. The Group’s and the Company’s main asset groups are buildings and constructions, which include distribution gas pipelines, as well as equipment and machinery that is mainly related to technical gas distribution.

The Group’s buildings and constructions (including the gas distribution system) and equipment and machinery are recognised at fair value as determined under the policy of revaluation of fixed assets approved by the Board, less accumulated depreciation and impairment loss. Revaluation shall be made with sufficient regularity to ensure the carrying amount does not differ materially from the one, which would be determined using fair value at the end of the reporting period. All other property, plant and equipment groups (including land) are stated at historical cost, less accumulated depreciation and impairment charge. The historical cost includes expenditure directly attributable to the acquisition of the items.

Assets purchased, but not 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 Group or 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 distribution system and equipment are credited to Revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; any further decreases are charged to the profit or loss statement. The revaluation surplus is transferred to retained earnings on the retirement or disposal of the asset. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is reclassified from the property, plant and equipment revaluation reserve to retained earnings.

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

	years
Buildings	20 - 100
Constructions, including gas distribution system	40 - 70
Machinery and equipment	5 - 30
Other fixed assets	3 - 10

The assets' useful lives are reviewed, and adjusted as appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the profit or loss statement during the period when they are incurred.

### Intangible assets

Intangible assets primarily consist of software licences and patents. Intangible assets have a finite useful life and are carried at cost less accumulated amortisation and impairment loss.

Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their useful lives. Generally, intangible assets are amortised over a period of 5 to 10 years.

### Impairment of non-financial assets

All the Group's and Company's the non-financial assets, except for land, have a finite useful life. Assets subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets having suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### Inventories

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

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

### Leases (accounting policy applied since 1 January 2019)

The Company is a lessee. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease duration used in the calculation is based on signed agreements for external lease and 5 years for intragroup lease.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Discount rate applied to measure lease liabilities as at 31 December 2019 is 3.33%.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the expected lease term on a straight-line basis. If the Group or the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group and the Company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group or the Company.

### Operating leases (accounting policy applied until 31 December 2018)

The Company is a lessee. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the profit or loss account on a straight-line basis over the period of the lease.

### Principles of consolidation

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

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

As at 31 December 2019 and as at 31 December 2018, there is only one subsidiary in the consolidated group – JSC “Gasol” which was established on 1 December 2017 as a result of a reorganisation (spun-off of distribution business segment from the parent company JSC “Latvijas Gāze”). The reorganisation was determined to be a transaction among entities under common control and was recorded based on predecessor values. As a result, on the reorganisation date, the assets and liabilities with resulting entries in equity were transferred to the opening balance sheet of subsidiary based on their predecessor amounts in the books of JSC “Latvijas Gāze”. The reorganisation as such did not impact the consolidated financial

statements following an establishment of Group as consolidated financial statements continued to report the natural gas trading and distribution business in one consolidated entity.

### Reorganisation and investment in subsidiary

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

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

- In the course of the reorganization process, JSC “Latvijas Gāze” acquired ownership of 100% of JSC “Gasol” shares in exchange for the net assets transferred to JSC “Gasol”, thereby acquiring non-monetary assets (shares) in exchange for a combination of non-monetary and monetary assets and liabilities (i.e., JSC “Gasol” transferable assets according to the asset allocation act).
- The assets and liabilities of the new group immediately after the reorganization were the same as assets and liabilities of JSC “Latvijas Gāze” immediately before the reorganization;
- The absolute and relative participation of JSC “Latvijas Gāze” shareholders in the net assets of the newly created group immediately after the reorganization was the same as their share in the net assets of JSC “Latvijas Gāze” immediately before the reorganization.

Dividends from the subsidiary are recognised in the separate financial statements of the Company when the right to receive the dividend is established. The dividend is recognised in the profit or loss statement.

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

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

### Segment reporting

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

### Share capital and dividend authorised

Ordinary shares are classified as equity. No preference shares have been issued. Incremental external costs directly attributable to the issues of new shares are shown in equity as a deduction, net of tax, from the proceeds. Dividend distribution to the Group's parent company's shareholders is recognized as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the shareholders.

## Trade and other payables

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

## Borrowings and borrowing costs

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Fees paid for establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Borrowings are derecognised when the obligation specified in the contract is discharged, cancelled or expired. Borrowings are classified as current liabilities unless the Group and the Company have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

General and specific borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. All other borrowing costs are recognised in the profit or loss statement in the period in which they are incurred.

## Provisions

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

Provisions are measured at the present value according to the management’s best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

## Employee benefits

### *Wages, salaries and bonus plans*

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

### *Social security and pension contributions*

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

### *Vacation pay accrual*

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

### Post-employment and other employee benefits

Under the Collective Agreement, the Group and the Company provide certain defined benefits upon termination of employment and over the rest of life to employees whose employment conditions meet certain criteria. The amount of benefit liability is calculated annually based on the current salary level and the number of employees who are entitled or may become entitled to receive those payments, as well as based on actuarial assumptions, using the projected unit credit method.

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

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

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

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

### Income tax

The corporate income tax is calculated for distributed profits (20/80 from the net amount payable to shareholders). The tax on the distributed profit is recognised when the Company’s shareholders decide upon distribution. Corporate income tax is also paid on conditionally distributed profits (non-business related disbursements, entertainment and donation costs exceeding certain criteria and similar). Such tax is not regarded as income tax in the context of IAS 12 as it is calculated on the gross rather than net amounts, and recognised in the statement of profit or loss as other operating cost.

The Group recognise deferred tax liability for taxable temporary differences associated with investment in subsidiary (arising from existence of untaxed retained earnings arisen after 1 January 2018 in subsidiary) except to the extent that it is probable that the temporary difference will not reverse in the foreseeable future, i.e., the untaxed retained earnings will not be distributed from subsidiary to the parent company in foreseeable future. In the reporting periods ended 31 December 2019 and 31 December 2018 the management of the Group did not recognise the deferred tax liability in the consolidated financial statement related to the above.

### Related parties

Related parties are defined as the Company’s shareholders with a significant influence and the entities where these shareholders have control or joint control, as well as members of the Council and the Board of the Company or its subsidiary, their close relatives and entities in which they have a significant influence or control.

## 26. Remuneration of certified auditors company

	Group 2019	Group 2018	Company 2019	Company 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Statutory audit	41	39	26	24
Non-audit services	1	15	1	1
	42	54	27	25

## 27. Contingent liabilities

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

Financial obligations arising from long-term gas purchases are calculated based on the same principles that govern internal budgeting. The resulting long-term obligations as of the balance sheet date amounted to approximately 2.29 billion EUR on 31 December 2019 and to 2.69 billion EUR on 31 December 2018.



According to the Commercial law of Republic of Latvia, in the case of reorganization, the incumbent company bears solidary responsibility together with the newly established company with regard to the liabilities that originated prior to reorganisation and were transferred to the newly established company, and whose settlement date occurs within five years after the reorganization date. As at 31 December 2019 and 31 December 2018, the Group and the Company are not aware of any existing liabilities that they would be liable for in relation to the above.

As a part of financial guarantees SEB banka has reserved 1 166 thousand EUR (31.12.2018: 251 thousand EUR) and Swedbanka 30 thousand EUR.

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

Commitments	Group	Group	Company	Company
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
<b>Contracted and unfinished</b>	<b>686</b>	<b>1 335</b>	<b>244</b>	<b>845</b>

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

When the net profit for 2019 is distributed, corporate income tax liabilities will arise (20/80 from net amount distributed to shareholders). Dividends received from the subsidiary will not give rise to additional tax liability in the hands of the Company when distributed further to the shareholders of the Company. Assuming a proposed distribution of profit for 2019 as disclosed in Note 15 (17 556 thousand EUR or 0.44 EUR per share), taking into account the subsidiary's dividends of 9 975 thousand EUR, the resulting corporate income tax charge will be around 1.9 million EUR, to be recognised in the Group's and the Company's profit or loss when the decision about distribution is approved by the shareholders.

## 28. Subsequent events

On 14 March 2020, the Latvian Cabinet of Ministers issued a “Declaration of Emergency Situation” in Latvia due to the coronavirus pandemic. In light of this, Latvijas Gāze Group has taken several safety measures to protect the health and well-being of its customers and employees. Besides strict internal rules including travelling and business meetings, the JSC “Latvijas Gāze” as well as the JSC “Gasol” have closed their client centers for visitors until further notice. Until re-opening of the client centers services for clients will be available only via phone and electronic forms of communication. Despite that, Latvijas Gāze Group ensures business continuity as well as the uninterrupted supply of natural gas to its customers. Nevertheless, depending on the length of the crisis, the Group's management cannot fully preclude further limitations to the Group's operations.

As the situation regarding the coronavirus is developing rapidly, the impact on the regional and European economy is very hard to estimate precisely at this moment. However, at the end of March the Bank of Latvia publicly announced that it expects the Latvian GDP to decrease by 6.5% in 2020. Although the Group cannot yet exactly quantify the impact of the drop in GDP on natural gas consumption, it is likely that the total gas demand in Latvia will also be lower than initially expected. Lower total gas demand in Latvia as well as in the Baltic region subsequently might result in a decline of the Group's sales volumes. At the same time, Latvijas Gāze expects that the ample availability of low priced natural gas across Europe including the Baltic region at least in the short-term will further intensify competition and exert additional pressure on sales margins.

Apart from that, the Group assumes that there will be an increase in accounts receivable due to delayed payments by customers suffering from liquidity issues as well as an increase of customers being in default. However, it is not yet possible to estimate reasonably the exact magnitude of the potential liquidity issues of the Group's customers. To minimize the risks resulting from the potential liquidity issues of its customers the Group will review and if necessary adjust its credit policies and take additional measures to ensure its own liquidity. Furthermore, the Group will take into account the impact of the virus on macroeconomic forecasts when calculating the expected credit loss for buyers and customers for 2020.

In addition, it should be mentioned that the revaluation of assets recognized in 2019 was based on the precautionary principle. As a result, Latvijas Gāze Group estimates that even in the event of an essential economic downturn, the value of the assets will be close to their market value. Overall, the Group's management closely monitors the situation and will if necessary implement further policies to protect the health and safety of employees as well as the Group's economic integrity. Despite the crisis, the Group based on its balance sheet and liquidity situation at the reporting date remains in a solid financial position.



Other than mentioned, since 31 December 2019 up to the signing of these financial statements there have been no events with effect on the financial position or financial results of the Group and the Company as at the balance sheet date.

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

Madara Ventere  
Head of Finance and accounting division

## INDEPENDENT AUDITOR’S REPORT



### Independent Auditor’s Report

To the shareholders of Joint Stock Company Latvijas Gāze

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

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##### Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of AS Latvijas Gāze (the Company) and its subsidiary (together - the Group) as at 31 December 2019, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee on 1 April 2019.

##### What we have audited

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

- the balance sheet as at 31 December 2019;
- the statement of profit or loss for the year then ended;
- the statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the Company’s statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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##### Basis for opinion

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

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

##### Independence

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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiary are in accordance with the applicable law and regulations in Latvia and that we have not provided non-audit services that are prohibited under Article 37.<sup>6</sup> of Law on Audit Services of the Republic of Latvia.

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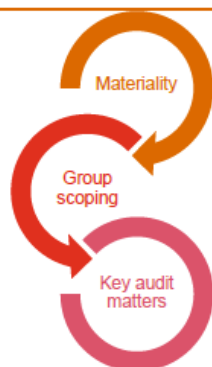
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The non-audit services that we have provided to the Company and its subsidiary, in the period from 1 January 2019 to 31 December 2019, are disclosed in Note 26 to the financial statements.

## Our audit approach

### Overview



- Overall Company materiality: EUR 2,634 thousand.
- Overall Group materiality: EUR 3,143 thousand.
- We conducted a full scope audit of the Company and its subsidiary, both of them are in Latvia.
- Our audit scope covered 100% of the Group's revenues and 100% of the Group's total assets.
- Revenue recognition (the Group and the Company)
- Revaluation of fixed assets (the Group)

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

### Materiality

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

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

<b>Overall Company and Group materiality</b>	Overall materiality applied to the Company was EUR 2,634 thousand and overall materiality applied to the Group was EUR 3,143 thousand.
<b>How we determined it</b>	1% of net turnover of the Company and the Group, respectively.
<b>Rationale for the materiality benchmark applied</b>	We chose net turnover as the base benchmark because, in our view, it is the benchmark against which the performance of the Company and the Group is most commonly measured by users of the financial statements, considering that the Group's profit has significantly fluctuated in recent years and is no longer a

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determining factor in financial performance. We chose 1%, as based on our professional judgment this is within the range of acceptable quantitative materiality thresholds.

We agreed with the Audit Committee that we would report to them the misstatements identified during our audit above EUR 263 thousand for the Company and EUR 314 thousand for the Group, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p><b>Revenue recognition (the Group and the Company)</b></p> <p>As disclosed in Note 2, during the year the Group has recognised revenue of EUR 314 million from which EUR 264 million is related to the sale of natural gas, EUR 50 million is derived from regulated natural gas distribution services, and remaining EUR 1 million represents other revenue streams. The Company's revenue from sale of natural gas constituted EUR 263 million and EUR 3 million represents other revenue streams. Determining the appropriate accounting policies for recognition of revenue involves some judgment as explained below.</p> <p>As disclosed in Note 2 with regard to Company's revenue from sale of natural gas for 2019 approximately 87% are sales to corporate customers and 13% of revenues are derived from households. As described in notes 24 and 25, the Company, a gas trading operator, considers itself as an agent in relation to the supply of natural gas transmission and distribution services to the end customers. The Group is considered to be an agent in respect of natural gas transmission services. In addition, based on management's assessment, the excise tax does not form a part of revenue and, instead, the Company and the Group acts as a collection agent, in collecting the excise duty on behalf of the Government. Management judgments on whether the Company and Group act as a principal or an agent, significantly affect the determination of the amount of revenue from contracts with customers.</p> <p>Management also exercises certain degree of judgment when estimating gas trade revenue for</p>	<p>We assessed the design and operating effectiveness of the controls over revenue recognition.</p> <p>We have compared, on a sample basis, the revenue recognised to amounts invoiced to corporate customers and the subsequent receipt of payment from those customers. As well as compared the prices in corporate client's contracts and in issued invoices. With respect to revenue from wholesalers, we obtained turnover confirmations from the major clients at invoice level.</p> <p>For selected amounts receivable that were outstanding at the end of the year, we confirmed the balance with customers, and where no confirmation was received, reconciled the amounts to subsequent cash receipts.</p> <p>With respect to unbilled revenue to households, we tested management's assumptions in relation to consumption by reference to historical data as well as specific current year factors, including weather patterns. On a sample basis, we reconciled unbilled revenue to the subsequently billed revenue, and tested billed revenue to subsequent payments.</p> <p>With regard to significant judgments made by the management in determination of whether the Company or the Group act as an agent or principal, we considered the indicators in the</p>

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quantities delivered but not yet billed to household customers who settle their debts according to equalized payment schedules. Such revenue is determined using an established methodology within the Group. The judgment explained above also relates to the distribution revenue derived from the household customers of the Group.

context of updated guidance provided in IFRS 15. As a part of our analysis, we considered the facts and circumstances surrounding the provision of services in question, such as, primary responsibility for fulfilling the promise to provide the specified good or service; bearing of inventory risk before the specified good or service has been transferred to a customer, and discretion in establishing the prices for the specified goods or services.

We also evaluated the adequacy of the financial statement disclosures of key assumptions and judgments as well as other disclosures as required by IFRS 15.

#### Revaluation of fixed assets (the Group)

In 2019, the Group carried out the revaluation of buildings, constructions, machinery and equipment of the Distribution segment as reflected in the note 9. The revaluation was carried out by an external expert using the depreciated replacement cost method.

The key assumptions during the revaluation process are associated with the materials cost and the cost of the average construction prices at the time of revaluation. For the determination of values, data available to the Group about similar constructions of facilities in recent years is used.

As a result of the revaluation, in 2019, the gross asset amount was increased by 105,452 thousand EUR and the accumulated depreciation was increased by 30,756 thousand EUR. As a result of the revaluation, a gain of 70,540 thousand EUR was recognised in the statement of comprehensive income, while a gain of 854 thousand EUR was included in the profit and loss account.

We have evaluated the results of the revaluation of the Group's fixed assets and the methods used. PwC experts with experience in similar projects were also involved.

We verified the assumptions used in the calculations by the external valuer and the Group, reviewed the calculations, verified their methodology and the source data used in the calculations.

We have assessed the growth in material and labour costs from 2017 to 2019 by comparing it to market data, as well as evaluated internal market data analysed by the Group. In addition, we have verified the revaluation results reflected in the financial data.

We also assessed whether the financial statements disclose sufficient and relevant information about the key assumptions, observations and revaluation results.

Revenue recognition and revaluation of fixed assets requires significant time and resource to audit due to the magnitude, therefore we have determined these as key audit matters.

#### How we tailored our Group audit scope

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

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

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

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

- the Management Report of the Company as set out on pages 12 to 20 of the accompanying Consolidated and Company's Annual Report
- the Statement of the Board Responsibility as set out on page 21 of the accompanying Consolidated and Company's Annual Report,
- the Statement of Corporate Governance, set out in separate statement prepared by the Company's management and available on the Company's website <http://www.lg.lv/> as at the date of this audit report,
- Information on the Composition of the Council and the Board of the Company, as set out on pages 4 to 5 of the accompanying Consolidated and Company's Annual Report,
- Consolidated Non-financial Report as set out on pages 69 to 90 of the accompanying Consolidated and Company's Annual Report, and
- other disclosed information including Summary Information on the Group, Information on Strategy and Objectives of the Group, Shares and Shareholders of the Company, as set out on pages 6 to 11 of the accompanying Consolidated and Company's Annual Report,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, including the Management Report of the Company, the Statement of the Board Responsibility, the Statement of Corporate Governance, Information on the Composition of the Council and the Board of the Company, Consolidated Non-financial Report and other disclosed information including Summary Information on the Group, Information on Strategy and Objectives of the Group, Shares and Shareholders of the Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists,

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we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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## Report on other legal and regulatory requirements

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### Appointment

We were first appointed as auditors of the Company and the Group for the audit of the financial statements for the year ended 31 December 1997. Our appointment has been renewed annually by shareholders’ resolution representing a total period of uninterrupted engagement appointment of 23 years. Our appointment for the year ended 31 December 2019 was by resolution of general meeting of shareholders dated 19 June 2019.

PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5

Ilandra Lejiņa  
Member of the Board

Riga, Latvia  
1 April 2020

Terēze Labzova-Ceicāne  
Certified auditor in charge  
Certificate No. 184

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## CONSOLIDATED NON-FINANCIAL REPORT

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### JSC “Latvijas Gāze”

Place of registration	Riga, Latvia
Registration number	40003000642
Address	Aristida Briāna iela 6, Riga, Latvia, LV-1001
Website	<a href="http://www.lg.lv">www.lg.lv</a>

### JSC “Gasol”

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

### Abbreviations

UN	United Nations
CNG	Compressed natural gas
CSB	Central Statistics Bureau
EU	European Union
GAP	Gas Adjustment Point
CSR	Corporate social responsibility
ILO	International Labour Organization
GHG	Greenhouse gases

### Contact details

E-mail address for suggestions and questions regarding the report: [investor.relations@lg.lv](mailto:investor.relations@lg.lv)

## BOARD STATEMENT

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The JSC “Latvijas Gāze” has been the leading and most reliable natural gas supplier in Latvia for many years and is now actively expanding its presence in other countries of the region in a bid to become the customers’ first choice in the Baltic and Finnish natural gas market. The subsidiary of JSC “Latvijas Gāze”, the JSC “Gaso” is the only natural gas distribution system operator in Latvia.

By corporate social responsibility we understand a systematic process where the company assesses the impact of its actions upon the environment, employees, customers, business and society and sets the operating principles that follow from the company’s impact assessment and values. Furthermore, the company’s reputation and employees’ satisfaction is enhanced, business risks are reduced, and consequently the company’s value is raised. JSC “Latvijas Gāze” undertakes to continue paying attention to improving the performance of the companies covered as far as the matters discussed in the report are concerned.

The report was reviewed and approved by the Board of JSC “Latvijas Gāze” on April 1, 2020 as part of the consolidated annual accounts (non-financial report) and its preparation in accordance with the law has been verified by a certified auditor.

The report is signed on behalf of the Board by:

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Aigars Kalvītis  
Chairman of the Board

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Sebastian Gröblichhoff  
Deputy Chairman of the  
Board

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Elita Dreimane  
Member of the Board

## INTRODUCTION

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The consolidated Corporate Social Responsibility Report of Latvijas Gāze Group for the year 2019 is its third and follows [the guidelines of the UN \*Global Compact\*](#), and includes the non-financial information set out in [Directive 2014/95/EU of the European Parliament and of the Council](#) and [the Financial Instrument Market Law](#). This report, as the methodology of its preparation evolves, uses a number of new key performance indicators, also considering the recommendations included in [Nasdaq ESG Reporting Guide 2.0 \(2019\)](#) for companies listed on stock exchange<sup>1</sup>.

The description of the business model of JSC “Latvijas Gāze” and JSC “Gasol” and other general information regarding the Group and its operations is included in [the Management report of the consolidated annual accounts](#). Information on the corporate governance model of JSC “Latvijas Gāze” and its elements is presented in [the Corporate governance report](#). The report details the Group’s policy in the respective area, the main risks, the measures for prevention or mitigation thereof, and the relevant performance indicators.

The report has been prepared in Latvian, English and Russian and is published on [Nasdaq Baltic](#), as well as permanently available on the [Latvijas Gāze website](#). The performance indicators refer to a five- or two-year period depending on data availability. The data calculation methods have not been substantially changed from the previous report.

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<sup>1</sup> The report presents the following indicators of *Nasdaq ESG Metrics*: E2, E3, E5, E7, S3, S4, S6 – S10, G4, G7 – G10

## HUMAN RIGHTS

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

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

## RESPECT FOR HUMAN RIGHTS AT THE COMPANY

### POLICY AND RISKS

The Latvian regulatory framework of human rights is essentially designed to be directly applied within organisations and both JSC “Latvijas Gāze” and JSC “Gasol” fully meet these requirements.

The Group’s objective is not to allow any violation of human rights in its business and

### MEASURES

JSC “Latvijas Gāze” and JSC “Gasol” see respect for human rights as the very minimum of any company’s standard of conduct. The Group fully complies with the regulatory framework of Latvia, the European Union, the Council of Europe and the UN (contained by the Universal Declaration of Human Rights) that meets the highest human rights standards. The Group does not in any way get involved in and is opposed to any violations of human rights and takes an active stance in this regard towards customers, partners and employees as well.

The professional qualification and experience of the management of JSC “Latvijas Gāze” and JSC “Gasol” proves the management’s profound understanding of the role of human rights in the Group’s work. The Group fully ensures the protection of first-generation (right

to facilitate their eradication in any partner’s business.

Respect for human rights is closely linked with the Group’s effectiveness and substantially reduces the Group’s operational risks.

to life, health and political beliefs), second-generation (socioeconomic rights) and third-generation (solidarity, right to environment, personal data protection etc.) human rights in respect of both its employees and customers.

In addition to the regulatory stipulations, JSC “Latvijas Gāze” regularly conducts working environment quality measurements at workplaces. As concerns customers, in order to enable disabled persons to enter all facilities, environmental reconstruction and improvement takes place on a regular basis. Such access options are in place at all facilities reconstructed since 2016.

The year 2019 saw the implementation of both the [whistleblowing system at JSC “Latvijas Gāze”](#) and [the whistleblowing procedure at JSC “Gasol”](#) which enable sounding alarm over human rights violations, too.

## STAFF HEALTH AND SAFETY

### POLICY AND RISKS

The Latvian regulatory framework of labour protection is directly applicable and the Group devotes substantial resources towards

fully meeting these requirements. This is one of the Group’s priority areas of CSR given the specific nature of JSC “Gasol”. Specifically, more than a half of employees at JSC “Gasol” are tasked with the direct maintenance of the

natural gas distribution system which entails an increased risk because of the explosiveness and inflammability of gas and the health impact of other harmful working environment factors.

## MEASURES

Employees are ensured a safe working environment harmless to health, including appropriate workplaces, technical resources, and individual means of protection. As required under regulations, the Group develops a labour protection and fire safety plan and conducts an internal monitoring of working environment. Employees are instructed on labour protection and fire safety pursuant to a schedule depending on work specifics. At least once per year there is training held on how to act in the event of fire. An assessment of risks of working environment and explosive environment is also conducted once per year. Based on such

The Group’s objective is to provide a safe working environment that helps avoid the risk of working environment or mitigate its impact to the extent possible.

assessments, the deficiencies found are either eliminated or mitigated.

Accidents at work are constantly registered and analysed. Employees undergo mandatory health checks pursuant to a schedule depending on work specifics. Employees are provided with health insurance. The work equipment and machinery is regularly inspected and serviced in line with the manufacturer requirements.

Under the whistleblowing system introduced at the Group in 2019 it is also possible to report on violations that endanger employees’ health and safety.

## PERSONAL DATA PROTECTION AND DATA SECURITY

### POLICY AND RISKS

Given the substantial number of employees and customers, the Group pays special attention to the protection of privacy and personal data. When it comes to personal data protection, Latvia has a stringent regulatory framework based on the directly applicable EU General Data Protection Regulation 2016/679. In line with the

principles of the regulation, the Group has drawn up an internal procedure of personal data protection that encompasses a policy of personal data protection and rules of its implementation.

The Group’s objective is to ensure a full protection and security of personal data for both employees and customers.

### MEASURES

The Group both complies with the regulatory requirements and takes reasonable and proactive measures to improve processes. A comprehensive personal data processing audit has been carried out, and the improvements put forward have been effected. The internal regulatory enactments governing the processes of personal data processing have been revised, and the relevant processes with

control mechanisms have been implemented. Much attention is devoted to staff training in the field of personal data protection, explaining the regulatory requirements and analysing examples and case studies. The Group employs personal data processing specialists who regularly analyse the personal data protection and security system and take the measures needed for its improvement.

In 2019 the Group completed a systematic analysis of contractual obligations previously

entered into, updating the contracting parties’ duties in terms of personal data protection where necessary.

JSC “Latvijas Gāze” has repeatedly instructed all employees on personal data protection, discussing issues relevant to the Group, especially in the segment of (individual) customer attendance. As part of the

introductory training of new employees at JSC “Latvijas Gāze”, each employee having started working for the Group undergoes a test of knowledge on personal data protection, followed by additional training if necessary.

The whistleblowing system within the Group envisages an option of reporting violations of personal data protection and security.

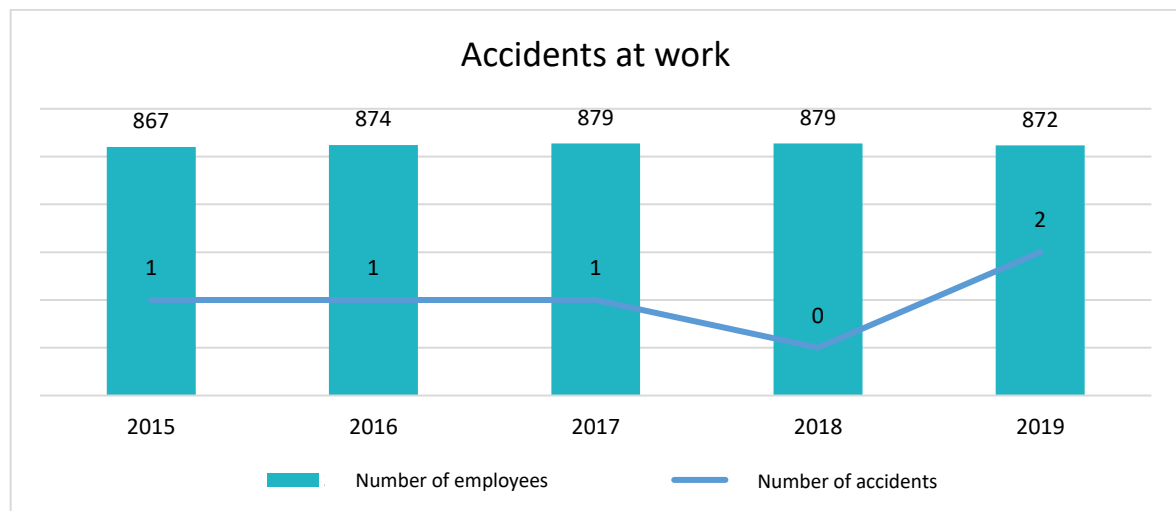
## PERFORMANCE INDICATORS

### *Violations*

In 2019 there were no complaints received, including from whistleblowers, over general human rights infringements in the field of staff health and labour safety or personal data protection and data security. Neither were there infringements found by the supervisory institutions.

### *Accidents at work*

In 2019 employees suffered injuries in a road accident and while performing maintenance of the natural gas distribution network. There were no lethal accidents in the period covered.



### *Complaints over violations of customer privacy or data protection in 2019*

Founded complaints	0
Partially founded complaints	0
Unfounded complaints	8
<b>Total:</b>	<b>8</b>

## EMPLOYEES

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

## TRADE UNIONS

### POLICY AND RISKS

The employees' rights to engage in trade unions and collectively bargain employment matters are ensured and bolstered.

The Group's objective is to ensure a mutually beneficial cooperation and collective bargaining in respect of decisions on the social protection of employees.

### MEASURES

There are collective agreement discussion meetings held, attended by representatives of the Group's management, employees and trade unions. A labour dispute commission has been set up, featuring representatives of the employer and trade unions. Premises are made available for holding trade union meetings, as are permanent premises and means of

communication for the head of the trade union. The trade union takes part in the selection of health insurance policy for employees.

In 2019 a new collective agreement took effect among JSC “Latvijas Gāze”, JSC “Gasol” and the trade union of Latvian public utility and transport employees “LAKRS”, and its current version is valid for two years.

## FORCED AND CHILD LABOUR

### POLICY AND RISKS

Forced and compulsory labour is nationally prohibited, as is forced child labour. The Group is firmly opposed to such forms of

employment and strictly adheres to such policy.

## EMPLOYMENT CONDITIONS

### POLICY AND RISKS

Employees predominantly have a normal working time of 40 hours per week. Depending on the specifics and need, time credits are occasionally used. There is a paid annual leave and, on top of what is stipulated

by the legislation, a paid additional leave for length of service, dangerous working conditions, and additional off-days to heads of structural units.

All employees have written employment contracts signed and issued and all taxes

pertaining to the employment relationship paid.

The recruitment policy is implemented so as to avoid the risk of lack of qualified specialists jeopardising compliance with the industry standards in terms of the safety and

## MEASURES

A number of matters pertaining to employment relationship and employees’ social guarantees are governed by the collective agreement and internal rules of procedure. JSC “Gasos” has set up a standing pension management committee, composed of two Board members

## PREVENTION OF DISCRIMINATION

### POLICY AND RISKS

The Latvian legislation extensively prohibits discrimination, and the Group complies with it, making sure that decisions in respect of employees are based on appropriate and objective criteria. A prohibition of

## MEASURES

Job advertisements set out specific requirements for candidates based on the professional competences needed by the Group and are worded in a non-discriminatory way. During the recruitment process, no

## PERFORMANCE INDICATORS

### *Involvement of trade unions*

In 2019 there was no need to involve trade unions in the settlement of disputes.

operational continuity of the natural gas distribution system.

The Group’s objective is to maintain a competitive staff motivation system with fair and appropriate remuneration, work life balance, and targeted social guarantees.

and two staff representatives and tasked with controlling the compliance of 3rd level pension contributions for employees.

Employees are systematically assessed and remunerated based on their work quality, initiative, intensity and contribution.

discrimination is also stipulated by the Employees’ Code of Conduct.

The Group sees the risks associated with discrimination as low. Given the specific nature of JSC “Gasos”, there is a relatively low proportion of female employees.

sensitive information about applicants, including their religious or political conviction, family status, sexual orientation, ethnic origin, political beliefs etc., is requested.



### **Number of employees in operating segments**

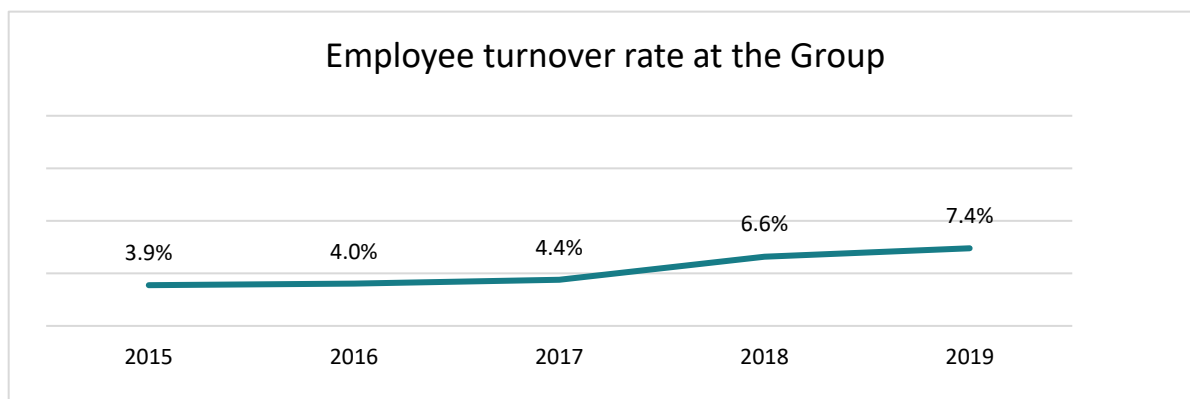
	<b>2018</b>	<b>2019</b>
Trading (JSC “Latvijas Gāze”)	117	116
Distribution (JSC “Gaso”)	879	872
<b>Total:</b>	<b>996</b>	<b>988</b>

### **Number of employees subject to the collective agreement**

The collective agreement is applicable to all employees of JSC “Latvijas Gāze” and JSC “Gaso”. It ensures an equal treatment of employees in terms of social guarantees.

### **Employee turnover rate**

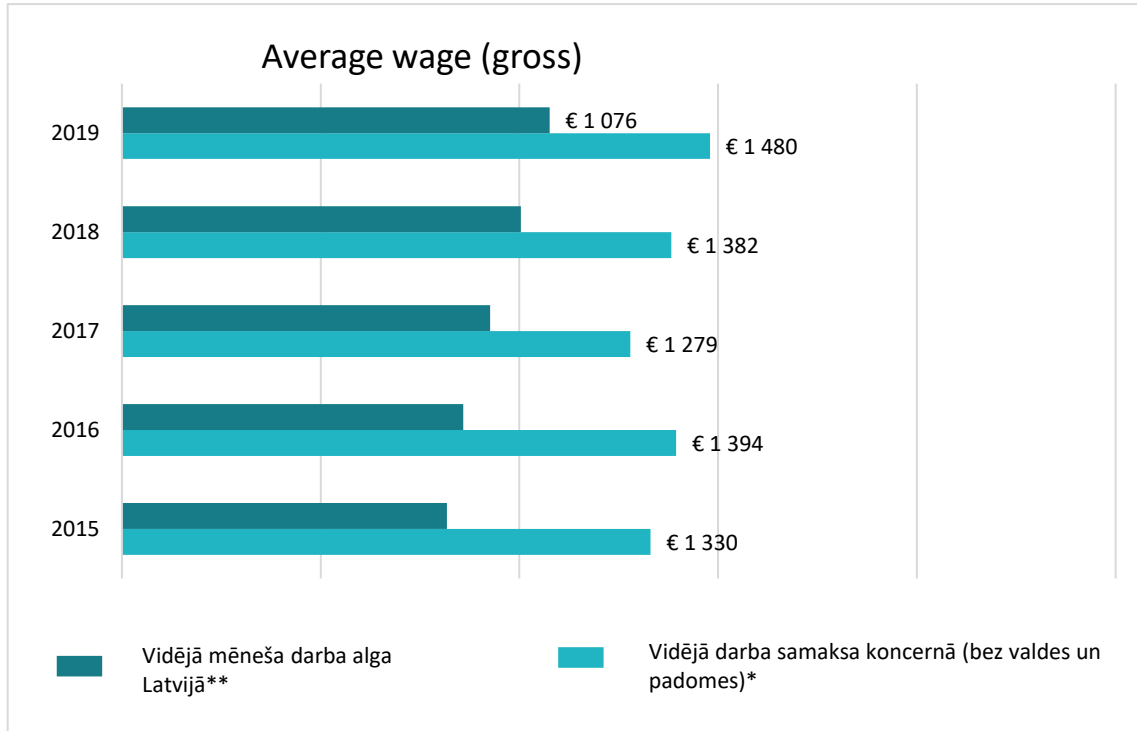
The development of the employee turnover rate reflects the events at the Group and the situation on the labour market. The increased employee turnover results from the reorganisation of the Group.



*In comparison with the previous report, the data for 2017 and 2018 are revised.*

### **Average wage**

The average wage at the Group is higher than the national average and the average wage in the electricity, gas and heating industry (in 2019 – 1 366 EUR).

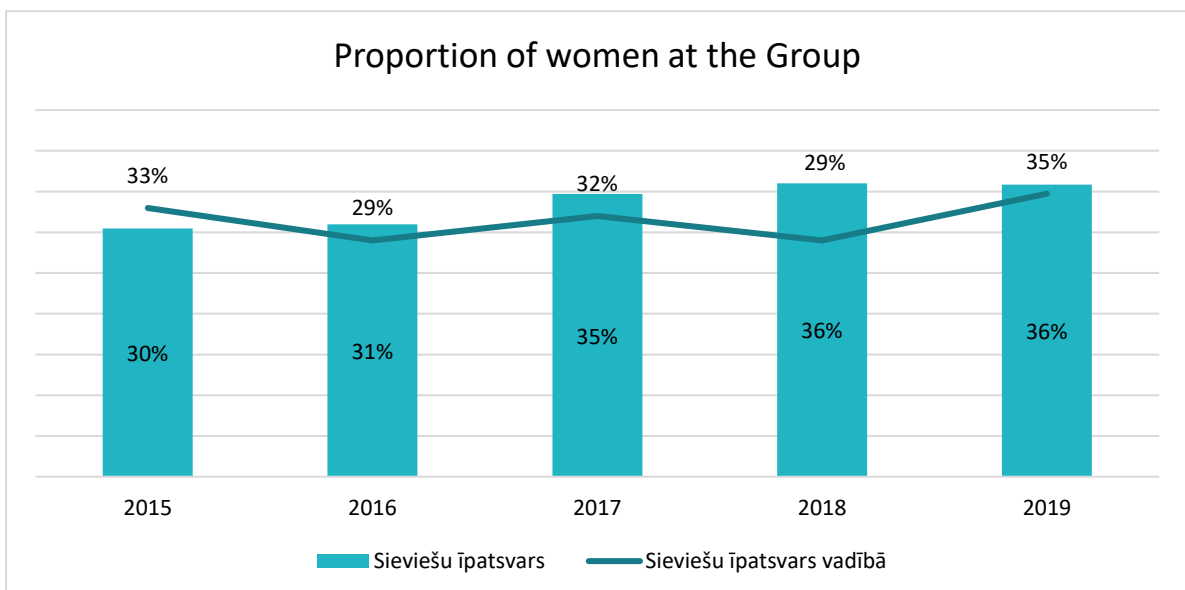


\*As per profit or loss statement

\*\* Source: CSB

### ***Gender diversity – proportion of women***

The proportion of women at the Group is in line with the average in the industry. The proportion of women in management is consistent with the overall proportion of women at the Group.



## ***Violations***

In 2019 there were no complaints received, including from whistleblowers, over discrimination at work. Neither were there infringements found by the supervisory institutions.

## ENVIRONMENT

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

## NATURAL GAS USAGE AND SUSTAINABILITY

### POLICY AND RISKS

The Group both helps others obtain an environmentally friendly source of energy – natural gas – and itself takes advantage of the development of environmentally friendly technologies. As natural gas is transmitted over pipelines, its delivery does not involve substantial loss of energy and there are less carbon dioxide (CO<sub>2</sub>) emitted in the process of transportation compared with other fuels. When it comes to usage, natural gas again involves much lower CO<sub>2</sub> emissions than other fuels, thus creating less of a greenhouse effect. Specifically, compared with wood products, coal and liquid fuels, natural gas generates a substantially lower permanent pollution of carbon oxide, sulphur oxides, nitrogen oxides, smoke, soot, ash and heavy metals regardless of whether used in local

boilers, large boiler houses or cogeneration plants.

The use of natural gas in motor transport, too, as replacement of petrol and diesel contributes significantly towards the reduction of carbon dioxide emissions and the improvement of air quality. For instance, natural gas-powered cars generate by as much as 70% lower nitrogen oxide emissions which is important for the health of human lungs<sup>2</sup>. Thus the Group works on a sustainable basis and contributes to the environmental protection.

In line with the above policy, the Group strives to increase the use of natural gas in areas where other fossil resources are currently preferred.

### MEASURES

Taking responsibility for the environmental impact of the Group’s business and in a bid to reduce it, [an environmental policy and environmental code](#) for JSC “Gasol” whose business accounts for almost entire environmental impact of the Group, was developed in 2018 and 2019. On February 11, 2020 the environmental policy was reviewed and approved by the Board JSC “Gasol”. The document analyses the potential of mitigating the environmental impact of the product sold by the Group – natural gas – and identifies the resulting objectives.

Across the natural gas supply and usage chain, it is the final consumers that can contribute significantly to the mitigation of its environmental impact. The Group believes that through educational and information measures it is possible to achieve a decisive improvement in public awareness of the positive and negative impact of natural gas usage in areas where individual contributions and efforts can yield a material reduction in the environmental impact.

In order to educate its customers and other stakeholders on ways of saving energy resources, including natural gas, the Group has

<sup>2</sup> Source: NGVA Europe: <https://www.ngva.eu/policy-priorities/air-quality/>.

drawn up an [Energy efficiency brochure](#) and systematically updates its followers on social media about specific energy saving methods (“education through communication”). The Group also believes that much difference can be made by replacing inefficient natural gas appliances with more efficient ones, and not just among households but also in the commercial, manufacturing and energy sectors. Hence, customers are regularly informed of the latest developments in the design and construction of gas pipelines and gas-powered facilities. Customers are also encouraged to do a regular maintenance of internal natural gas pipelines and appliances to reduce natural gas loss due to looseness.

CO<sub>2</sub> and other emissions may be further reduced by replacing petrol and diesel cars with ones powered with natural gas. CNG used in transportation generates up to 30% lower CO<sub>2</sub> emissions than diesel or petrol, and for other harmful emissions this difference is up to 90%. It is therefore one of the current objectives of the Group to actively promote the

development of CNG infrastructure in Latvia, also providing technical support and competences to businesses who invest in building CNG refuel stations.

In 2019 the Group together with a number of other energy and transport businesses launched an initiative “Vide rīt dienai!” (‘Environment for tomorrow’) in order to discuss the use of more cost-effective and environmentally friendly energy in transport and to seek solutions towards accomplishing the global climate policy goals. In May 2019, with a direct involvement of the Group through CNG deliveries, a first publicly available CNG refuel station in Latvia in 14 years opened in Jēkabpils. A second such station opened in January 2020 in Riga, continuing a purposeful expansion of CNG facilities in Latvia.

The Group has over 70 CNG vehicles for various uses and from different manufacturers available for use by its employees, as well as its own CNG refuel station within the Group’s territory.

## NATURAL RESOURCE CONSUMPTION AND GHG

### POLICY AND RISKS

The Group essentially uses energy and water for providing for daily needs. The Group’s business – natural gas distribution and trading – does not necessitate availability of vast natural resources.

A key role in the total consumption of energy resources is played by energy efficiency of buildings, as heating accounts for approximately 50% of the Group’s energy consumption. Electricity consuming appliances may be divided into a number of categories – lighting, computer hardware, household appliances, climate control appliances, technical equipment (natural gas filling equipment, compressors, instruments etc.), cathodic protection of gas pipelines.

With some categories, such as cathodic protection of gas pipelines, no substantial improvement in energy efficiency is possible, while a systematic selection of, for instance, computer hardware and household appliances, yields reduction in electricity consumption.

The Group’s car fleet is renewed on a regular basis to secure mid-term compliance with the environmental requirements of the European Union for vehicles.

The Group sees its GHG-related risks as low since it has no industrial sources of pollution, such as high-capacity manufacturing equipment and massive boiler houses.

## MEASURES

For heating purposes, the environmentally friendly natural gas is used – the Group produces almost all the heat it needs of natural gas and, through its cogeneration plant, about 30% of the electricity needed for own consumption. The premises at 20 Vagonu Street and 6 Aristida Briāna Street in Riga as well as most of JSC “Gasol” regional units have their own individual heating boiler houses that have been gradually upgraded over several years, thus making energy supply efficient. The Group takes care of the technical condition of buildings as well as their regulatory compliance in terms of energy efficiency. It also advises external partners dealing with the maintenance of servicing of buildings in choosing energy-efficient solutions for the supply of goods and services.

The Group has introduced a corporate energy management system compliant with the LVS EN ISO 5001 standard and continues to

apply this standard. An internal energy audit is conducted once per year, and there is a standing working group in charge of energy efficiency. A person responsible for environmental monitoring has been appointed. Quarterly a report is prepared on the release of GHG, predominantly methane, into the atmosphere.

In 2019 the Group acquired and late in the year started using for office purposes the administrative building at 6 Aristida Briāna Street, Riga. The building has been assessed for energy efficiency and issued a valid energy certificate.

Part of the Group’s car fleet is renewed every year, thus ensuring that the fleet as a whole meets the current environmental requirements. About one fourth of the Group’s vehicles are fuelled by natural gas. The Group also uses smart systems to monitor fuel consumption.

## BIODIVERSITY

### POLICY AND RISKS

The development of the natural gas distribution infrastructure is subject to extensive regulation, and the JSC “Gasol” complies with all regulatory requirements at the project preparation and construction stage alike. On a daily basis the JSC “Gasol” communicates with a wide range of individuals involved in development projects, gaining support and securing project completion.

When building infrastructure (natural gas distribution networks), the Group is subject to the private owners’ right to property and its usage and may affect protected natural sites. Hence, it is essential to cooperate with the public, the local governments, and the state authorities in charge of environmental matters.

The gasification of new housing estates often requires building gas pipelines through areas where there have been no usage restrictions before, with encumbrance caused to the owners and potential discontent to the public. It is therefore of particular importance to involve all landowners in the process, advising them of the common practical benefits from the infrastructure. The risks associated with the impact of construction of material infrastructure upon animal species, however, are immaterial.

The Group’s objectives – to gain broad support for the infrastructure development projects implemented by involving residents, businesses, local governments and the responsible public authorities and to ensure compliance with the environmental impact requirements and consequently a smooth

course of projects, as well as to complete the construction of natural gas systems by the

beginning of the heating season so as to satisfy the primary need for heating.

## MEASURES

The prospective system development plans take into account the municipal territorial plans, the wishes of local governments and their

residents and businesses, and the national and municipal restrictions on protected areas.

## OPERATION AND POLLUTION OF NATURAL GAS DISTRIBUTION NETWORKS

### POLICY AND RISKS

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

However, natural gas is a dangerous product when used improperly – the potential danger of natural gas is one of the key aspects of JSC “Gasos” work. It is therefore one of the main tasks of JSC “Gasos” to instruct people on proper conduct in the event of an accident or threat thereof. Lack of knowledge on the physical properties and use of natural gas

may cause adverse consequences to consumers themselves and their property and an increased number of emergency calls and accidents to JSC “Gasos”. Natural gas is inflammable, explosive and asphyxiant in enclosed spaces. In the event of natural gas leakage, methane release occurs.

The operation of the natural gas distribution system within the meaning of the law “On Pollution” does not constitute a polluting activity and does not require a pollution permit of category A, B or C or a GHG emission permit.

## MEASURES

Information on the safety measures to be taken when using natural gas and guidelines on the proper use of gas appliances and instructions for emergency situations are provided on JSC “Gasos” website and the major media and distributed in the form of booklets. JSC “Gasos” takes part in events held by local governments, public organisations and operational services to raise public awareness of the safe usage of natural gas. There are educational events held regularly at schools and various forums. The danger and composition of natural gas, conduct in the event of accidents and other crucial information is published in the [Natural gas safety data sheet](#).

The year 2019 saw the establishment of the “Gasos gas school” – lectures on the origin, use, appliances and danger of natural gas for three different age groups of children, and interactive mobile stand and informational materials. Part was also taken in the annual contest for schools “Esi drošs, neesi pādrošs” (“Be Brave, Not Rash”) and twenty similar events across Latvia.

For many years the Group has been using technologies that allow installation and repairs of natural gas connections with a negligible release of natural gas into the atmosphere. The technical monitoring of the natural gas distribution system takes place regularly, as do audits and leakage tests of internal pipelines.

At JSC “Gasos” Riga Unit which is in charge of more than a half of natural gas consumers there

is a separate emergency service, while other regional units have separate emergency teams. In addition to the common emergency phone 112, there is a dedicated natural gas emergency number 114 where calls are forwarded to the call operators of the Emergency Service of JSC “Gasó”.



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

The Emergency Service of JSC “Gasó” and its local units are under contract with the

operational services and communication holders on cooperation in emergency situations. Where there is disruption to a centralised natural gas supply to multiple consumers at a time, JSC “Gasó” notifies the customers.

The employees of the Emergency Service and the teams regularly undergo certification. Every year there are approximately 400 test calls made that include training together with other operational services. The employees are equipped with modern devices for the detection of gas leakages and the elimination of consequences.

## CHEMICAL SUBSTANCES AND WASTE

### POLICY AND RISKS

The Group generates various kinds of waste in the course of its business – municipal, constructional, biological, hazardous, and environmentally harmful. However, the hazardous waste is associated with the use of domestic goods – batteries, motor oils, hazardous electrical appliances etc., while the Group’s direct business – the construction and maintenance of the natural gas distribution system and gas trade – does not generate hazardous waste.

JSC “Gasó” has three environmental pollution permits of category C – for the boiler houses

heating the premises of the Group’s regional units in Riga, Bauska and Ogre. JSC “Latvijas Gāze” has – one – for the boiler house heating the premises at Aristida Briana iela 6, Riga.

When it comes to waste management, the regulatory requirements are met, but in some areas a goal has been set to reduce the amount of waste, for instance, by reducing the circulation of paper through implementing an electronic document circulation system.

### MEASURES

Every year there is data submitted to the State Environmental Service on the pollution of category C generated by boiler houses. Quarterly reports are made on the hazardous waste (such as accumulators) and packaging used in business, for which the Group pays natural resource tax.

The following hazardous waste is sorted and separately submitted for recycling: computer hardware, scrap metal, construction materials, tyres and batteries. Paper and plastic, too, is sorted and submitted for recycling.



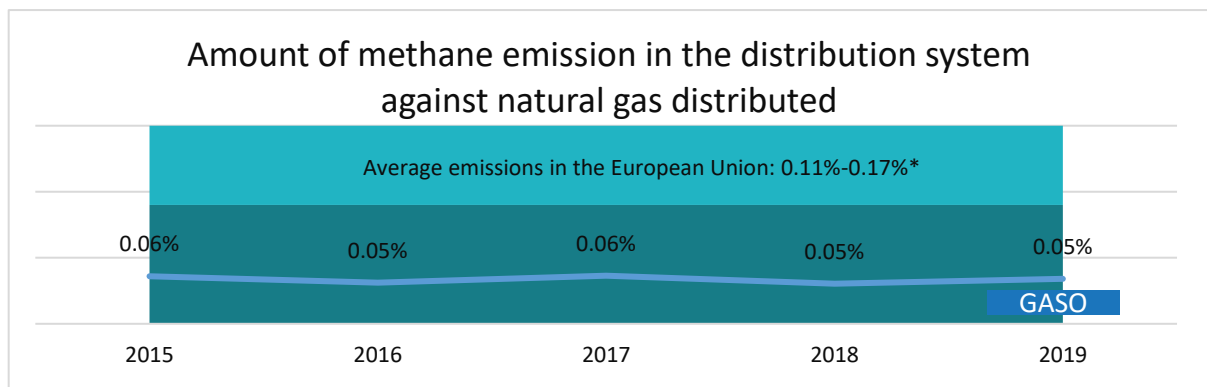
## PERFORMANCE INDICATORS

### **Violations**

In 2019 there were no complaints received, including from whistleblowers, over environmental infringements. Neither were there infringements found by the supervisory institutions. No substantial environmental harm has been inflicted and no areas have been deforested in the course of construction and running of the distribution system.

### **Methane losses in the distribution system (comparison within the industry)**

The calculated amount of methane emission in the Latvian natural gas distribution system is approximately 2-3 times below the EU average. As natural gas emission from the distribution system is inevitable, only emissions above the EU average would represent a bad result.

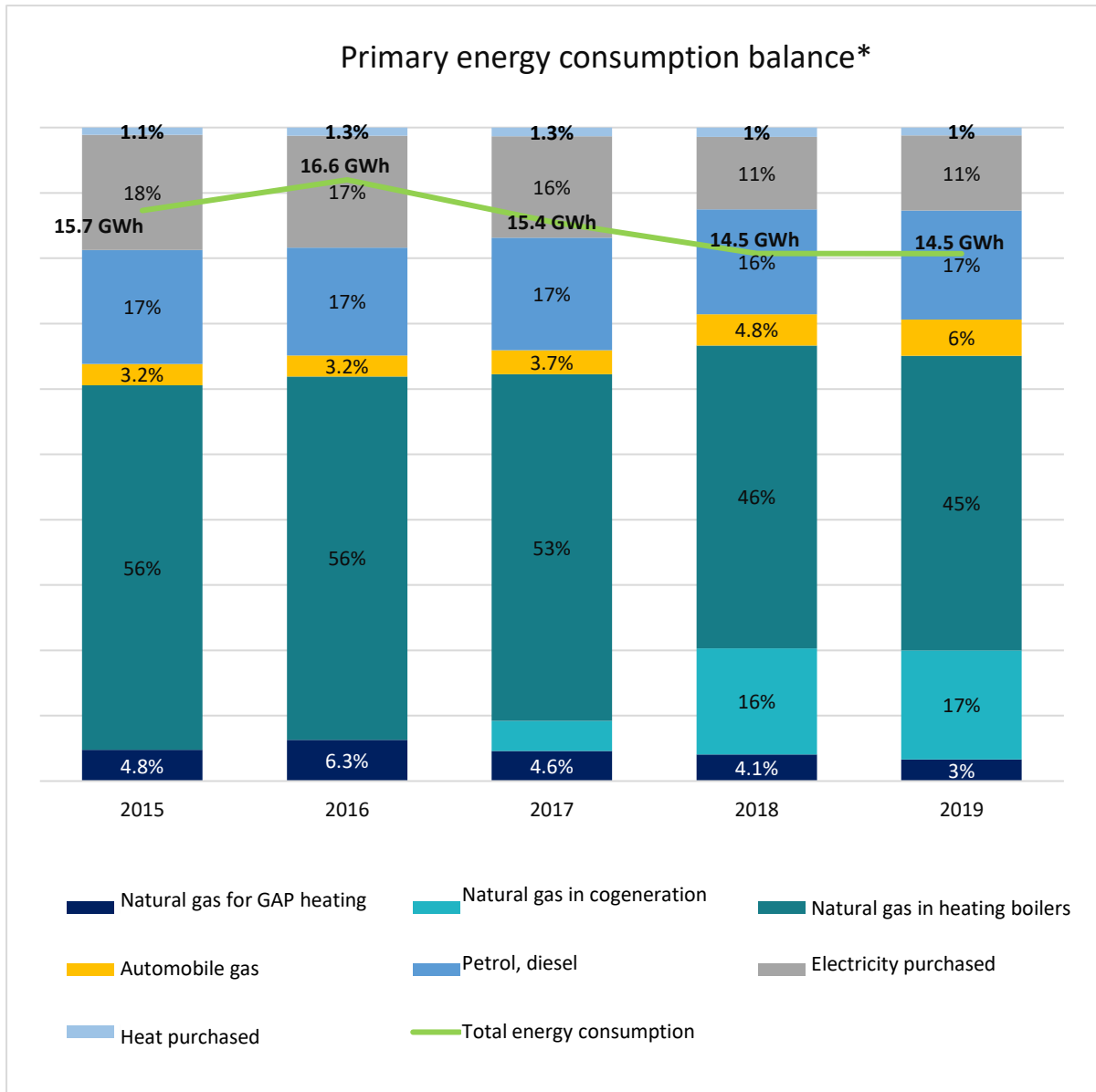


\*Technical Association of the European Natural Gas Industry MARCOGAZ; *Survey methane emissions for gas distribution in Europe, Update 2017, 2018*

### **Primary energy consumption balance**

The Group sees natural gas as a resource for a green and financially efficient housekeeping and therefore purposefully increases the use of natural gas for own consumption. Since 2015 the share of natural gas in the primary energy consumption basket has grown from 64% to 71%.

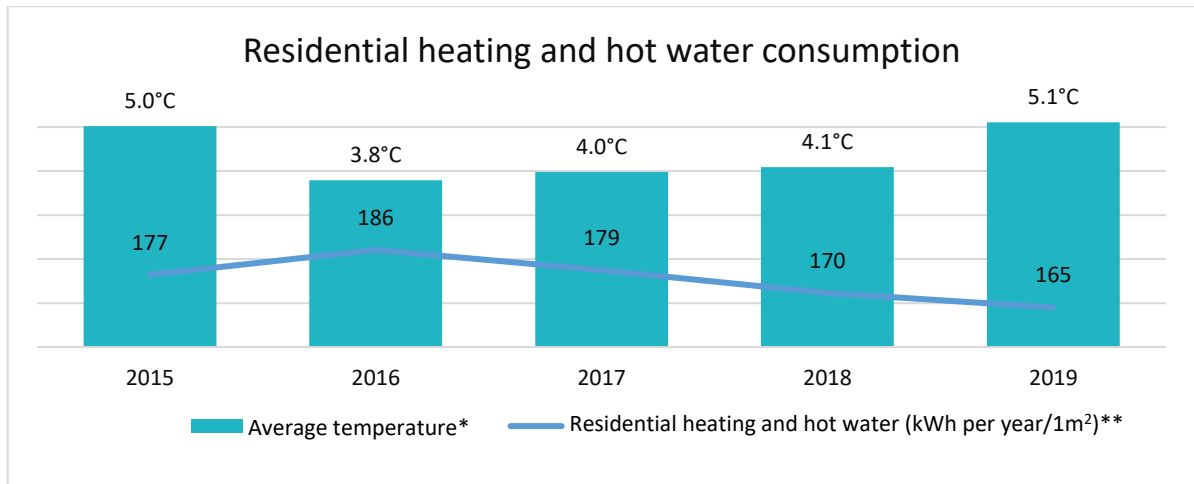
It also invests in the energy efficiency of buildings and equipment, which, in turn, facilitates a decrease in the total energy consumption. Since 2015 the total energy consumption has dropped by 8%, though the weather conditions (the air temperature) have contributed to this.



\*The primary energy consumption balance shows the energy quantity consumed, so the electricity and heat generated by the cogeneration plant is represented by the natural gas quantity consumed by the cogeneration plant.  
*In comparison with the previous report, certain data (in particular, “Natural gas in cogeneration”, “Natural gas in heating boilers”, “Electricity purchased”) for 2017 and 2018 have been revised thus having an impact on the other data as well as regards the specific period.*

### **Residential heating and hot water consumption**

A key role in residential heating and hot water consumption is played by thermal energy in the heating season. Data suggests that overall there is a correlation between the air temperature and the total consumption.

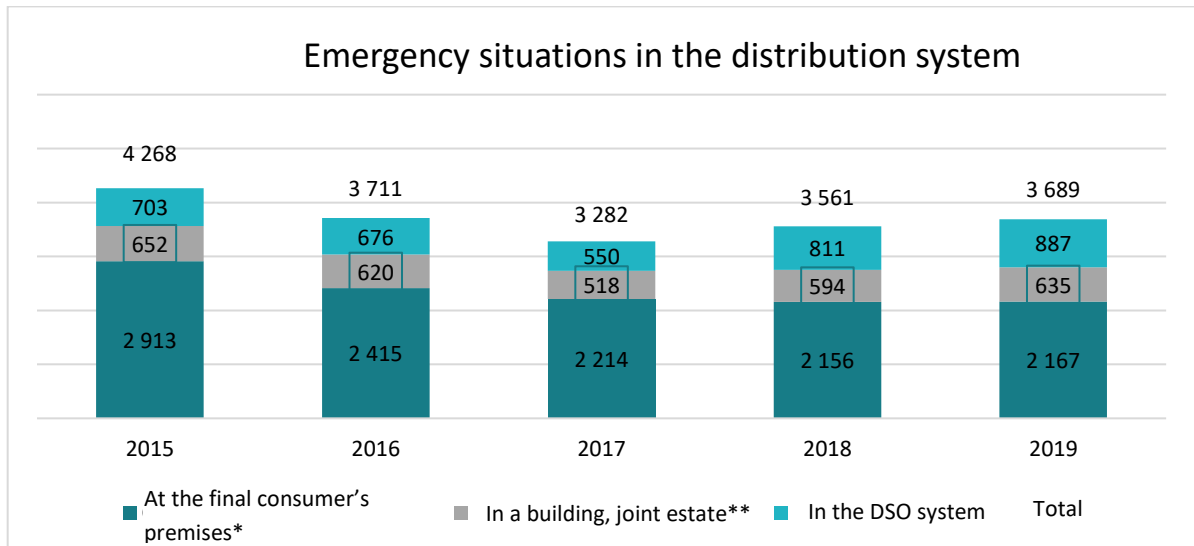


\*Average air temperature in Latvia during the heating season (Jan-May and Sep-Dec); source: CSB

\*\*The heat purchased in 2015 has been calculated on the basis of the average consumption in 2016-2019.

### ***Emergency situations in the natural gas distribution system***

Since 2015 the number of final natural gas consumers has not changed much, yet the number of emergency calls has dropped. The most part of emergency situations are damages to the equipment owned by final consumers. In 2019 there were 10 emergency calls per day received on average.

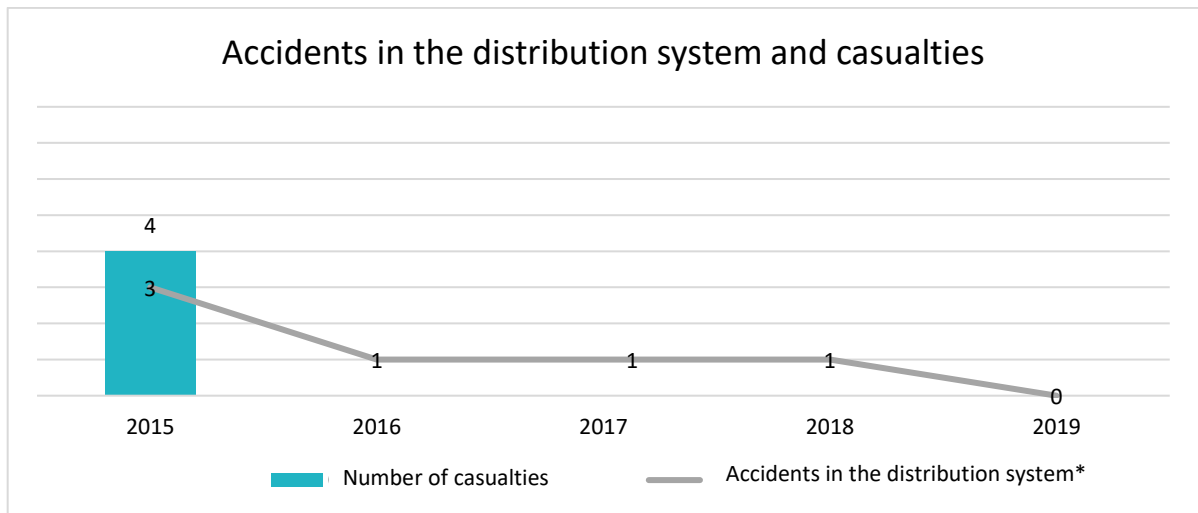


\*Includes equipment whose operation falls under the final consumer's responsibility – the natural gas consumption meter, shut-off devices, natural gas hardware and gas pipelines within the final consumer's premises

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

### ***Accidents in the distribution system and casualties***

Overall there are very few accidents (emergency situations with severe consequences) in the distribution system. In 2019 in Latvia there were no emergency situations that qualify as accident.



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

### ***Incidents involving hazardous waste***

During the reporting period, while replacing a high-pressure shut-off device, there were residues of oil products (23m<sup>3</sup>) found in a natural gas distribution system pipeline and subsequently utilised. There were no other incidents involving hazardous waste.

## COMPLIANCE

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

### BRIBERY, PROCUREMENTS, CONFLICTS OF INTEREST, ETHICS, SANCTIONS AND COMBATING MONEY LAUNDERING, FAIR COMPETITION

#### POLICY AND RISKS

Compliance with the regulatory requirements is one of the cornerstones of the Group’s corporate governance. The Group does not engage in corruption or commercial bribery, fully condemns such actions, and makes a clear statement thereof to its customers, partners and employees through this report and the [Employees’ Code of Conduct and Business Code of Conduct](#). The Group urges its partners to observe equivalent principles of ethics.

Both JSC “Latvijas Gāze” and JSC “Gasos” are public service providers and comply with the requirements of the Law On Procurements of Public Service Providers in terms of procedure of tender announcement and bid selection. Procurements below the threshold set by the law are held in compliance with detailed internal regulations.

The Group’s general approach envisages no use of intermediaries where the Group has the required competence, while agents and advisors are only hired for clear purposes defined in mutual contracts (debt collection etc.).

There is an internal regulatory framework applied whereby multiple people are involved in decision-making, thus reducing corruption risks in procurements and in the rendering of services. Currently being the sole provider of

natural gas distribution system services, JSC “Gasos” is aware of the risks associated with decisions on building the infrastructure necessary for customers, giving permissions etc.

Overall, potential risks of commercial bribery are present in two areas – services provided and procurements. Crucially, as concerns natural gas distribution and natural gas trading to households, these services are fully regulated by the state, including common service tariffs. Hence, the risks associated with corrupt dealings involving these services are very low.

Risks also exist in the provision of technical services of the natural gas distribution system, but, again, major decisions are not taken by one person, there are specific procedures and documentation of service provision and costing, as well as internal control mechanisms. In order for a poor bid selection in tenders not to adversely affect the Group’s reputation, effectiveness and service prices, the field of procurements has always been subject to detailed regulation, including through the Articles of Association, and the measures implemented substantially reduce the risks of commercial bribery.

## MEASURES

There are specific internal procedures and requirements in place that substantially reduce the risks of corruption and commercial bribery. As part of good corporate governance, particular attention is devoted to precluding the possibility of corruption or commercial bribery in every facet of business in respect of both services provided and services received.

Under the Articles of Association of JSC “Latvijas Gāze”, the Group is to be represented by the Chairman of the Board or by at least two Members of the Board together. In the case of JSC “Gasol”, at least two Board members are required for representation.

JSC “Gasol” has set up standing and *ad hoc* procurement commissions. Open tenders are announced on the company’s website and in the Procurement Supervision Bureau’s system. An outsourced electronic procurement system is now used with most procurements. It gives more transparency and an electric control over stages of tenders and information flows, mitigating the risks of unwarranted intervention in the processes.

Both financial and human resources are allocated towards maintaining compliance with the regulatory requirements and reducing the probability of the risks of non-compliance materialising. The Group regularly and actively keeps track of legislative changes using the public participation options in the process of drafting of regulatory enactments, attends public meetings, and cooperates with the responsible authorities. The Group takes an

active part in the work of both major organisations of Latvian businesses – the Latvian Confederation of Employers and the Latvian Chamber of Trade and Commerce. Furthermore, there are internal regulatory documents for operational compliance drawn up and maintained.

As an issuer of publicly traded shares JSC “Latvijas Gāze” is subject to and strictly observes a number of requirements in respect of transparency and openness of corporate governance and [circulation and disclosure of inside information](#).

Given the increased attention paid to Latvia in 2019 in the context of compliance with global economic sanctions and prevention of money laundering, the Group has followed the statutory procedure in disclosing information on the ultimate beneficial owners, assessing the risks of sanctions and money laundering, and drawing up a policy of compliance with sanctions. When it comes to sanction control, JSC “Latvijas Gāze” as a Group listed on stock exchange (participant of the financial market) is monitored by the Financial and Capital Market Commission.

In 2019 JSC “Latvijas Gāze” drafted and in 2020 approved an updated general risk management policy where a variety of strategic, operational and compliance risks are defined as material to the Group.

In 2019 the Group implemented a whistleblowing scheme enabling anyone to report on possible compliance issues at the Group without fear of identification.

## PERFORMANCE INDICATORS

### *Violations*

In 2019 there were no complaints received, including from whistleblowers, over possible infringements in the field of corruption, commercial bribery, procurements, conflicts of interest, sanctions and money laundering or competition, or manipulations on the natural gas wholesale market, and no such cases were found. There are

no legal proceedings against JSC "Latvijas Gāze" or JSC "Gasol" resolved in 2019 or currently pending over anti-competitive or competition restrictive behaviour.

### ***Training***

In 2019 all employees of JSC "Latvijas Gāze" were provided in-person training on the whistleblowing system and possibilities as well as on the main duties of the employees of the Group as issuer of publicly traded shares. The employees of JSC "Latvijas Gāze" subject to monitoring for compliance with sanctions were provided a number of courses on the system of sanctions and money laundering prevention and the measures and actions to be taken.