

“LATVIJAS GĀZE” GROUP CONSOLIDATED AND JSC “LATVIJAS GĀZE” UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE 3-MONTHS PERIOD ENDED 31 MARCH 2019

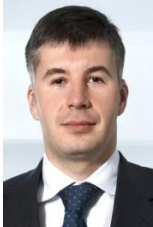
Prepared in compliance with the International Financial
Reporting Standards as adopted by the European Union

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COUNCIL OF THE JSC "LATVIJAS GĀZE"

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



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

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



Juris Savickis, 1946
Vice-Chairman of the Council

Since 1996, President of LLC "ITERA Latvija"



Oliver Giese, 1967
Vice-Chairman of the Council

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



Matthias Kohlenbach, 1969
Member of the Council

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



David Stephen Harrison, 1970
Member of the Council

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



Nicolàs Merigó Cook, 1963
Member of the Council

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



Hans-Peter Floren, 1961
Member of the Council

Since 2018, Owner and Chief Executive Officer of FLORENGY AG (Essen, Germany)



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

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



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

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



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

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



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

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

MANAGEMENT BOARD OF THE JSC “LATVIJAS GĀZE”

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



Aigars Kalvītis, 1966
Chairman of the Board

Latvian University of Agriculture -
Master's Degree in Economics



Sebastian Gröblichhoff, 1979
Vice-Chairman of the Board
(term of office from September 1, 2016
till August 31, 2019)

Maastricht University / Netherlands
Master's Degree in Economics



Denis Emelyanov, 1979
Vice-Chairman of the Board

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



Elita Dreimane, 1968
Member of the Board

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

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 more than 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 March 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

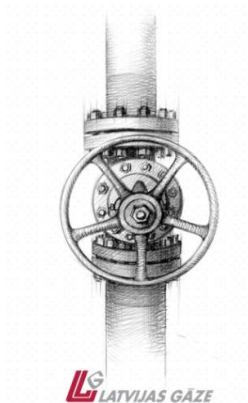
To strengthen the position of Latvijas Gāze group as a leader in the Latvian and Baltic energy market by becoming the natural gas supplier of first choice for customers and by ensuring the most stable supply of natural gas for the Baltic region.

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.



SHARES AND SHAREHOLDERS OF THE JSC “LATVIJAS GĀZE”

SHARES AND SHAREHOLDERS

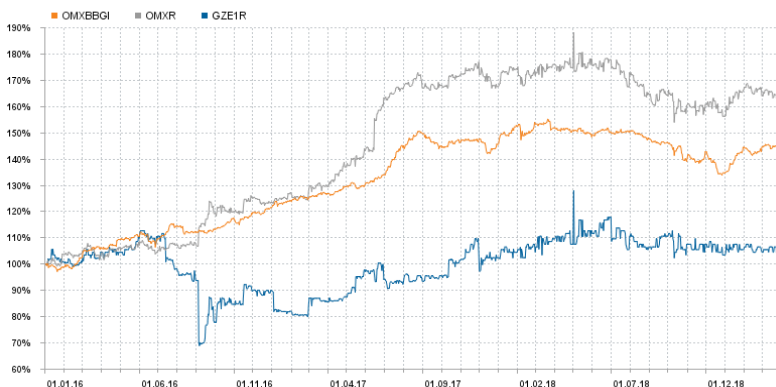
The shares of the JSC “Latvijas Gāze” are listed on the Nasdaq Riga stock exchange since February 15, 1999, and its ticker code is GZE1R since August 1, 2004. The total number of securities has not changed since 1999.

COMPANY’S SHARE PRICE, OMX RIGA GI AND OMX BALTIC GI INDEX CHANGES (01.01.2016. – 31.03.2019.)

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

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

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



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

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

In March 2019, in terms of stock market capitalization, the JSC “Latvijas Gāze” ranked number one among the companies listed on the Nasdaq Baltic Secondary List and number five among the TOP 10 Companies listed by market value in Nasdaq Baltic Regulated market.

In the first quarter of 2019, the market capitalization value of the JSC “Latvijas Gāze” reached 414.96 million EUR, which was slightly lower than at the end of the same period in 2018. During the first three months of 2019, the Company’s share price moved only slightly and quoted 2% higher at the reporting date than at the beginning of the reporting period.

SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2016.-31.03.2019.)

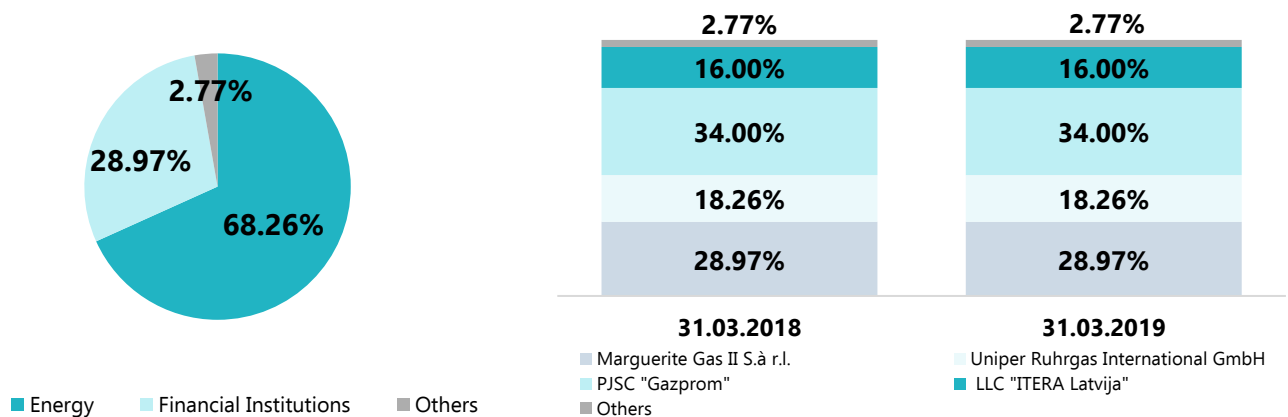


Source: Nasdaq Baltic

INFORMATION ON SHARE TRANSACTIONS (2017 Q1 – 2019 Q1)

	2017 Q1	2018 Q1	2019 Q1
Share price (EUR)			
First	8.78	10.00	10.20
Highest	8.79	10.80	10.50
Lowest	7.76	9.90	10.20
Average	8.13	10.37	10.33
Last	8.36	10.70	10.40
Change (From First to Last share price)	-4.78%	7.00%	2.00%
Number of transactions	462	231	207
Number of shares traded	55 360	18 714	18 239
Turnover (million EUR)	0.450	0.193	0.140
Capitalization (million EUR)	333.56	426.93	414.96

COMPOSITION OF SHAREHOLDERS AS AT 31.03.2019



SHARES OWNED BY MEMBERS OF THE GOVERNING BODIES OF THE JSC “LATVIJAS GĀZE”

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

MANAGEMENT REPORT

The first quarter 2019 was marked by comparably mild temperatures. Despite several colder days during January and February, overall temperatures during the first three months of the year remained above the long-term seasonal normal temperature. Nevertheless, the JSC “Latvijas Gāze” managed to sell 379 million m³ (4 002 GWh) of natural gas to more than 400 thousand customers and to increase natural gas sales by 8.6% in comparison to the first quarter 2018. In an increasingly competitive market environment, the Group’s sales & trading segment was particularly successful in expanding gas sales outside of its domestic market. At the end of the first quarter the JSC “Latvijas Gāze” held a 24.1% market share in Estonia and was amongst the top three gas traders in the Estonian natural gas market.

The Group’s net turnover during the first three months of 2019 amounted to 113.2 million EUR and was 17.5% higher in comparison to the same period in 2018. However, in comparison to the first quarter of the previous year the Group’s operating activities resulted in lower EBITDA, EBIT and net profit figures. The Group’s weaker economic performance in the reporting period was mainly attributable to one key factor. While the result of the Group’s sales & trading segment was slightly better than a year before, lower total natural gas consumption in Latvia due to milder temperatures and a respectively lower utilization of the Latvian gas distribution network negatively weighed on the distribution segment and pushed the Group’s total net profit below the level for the same period in 2018. The Group’s net profit for the first quarter 2019 amounted to 17.24 million EUR, which was 14.3% lower than for the same period in the previous year.

With regard to the further course of business during 2019, the JSC “Latvijas Gāze” expects that considerable expenses for the utilization of the transportation and storage infrastructure as well as significantly lower sales margins will mitigate a large part of the positive financial results accumulated in the Group’s natural gas sales & trading segment during the first quarter 2019. While market prices almost dropped by 50% since October 2018 the cost of the gas sold to its customers by the JSC “Latvijas Gāze” is not falling as rapidly, pushing down net sales margins. Particularly the portion of uncommitted sales quantities that were still open during the first quarter 2019 will negatively affect the Group’s economic result.



During the first quarter 2019 the JSC “Latvijas Gāze” successfully expanded its natural gas sales activities in the Baltic region.

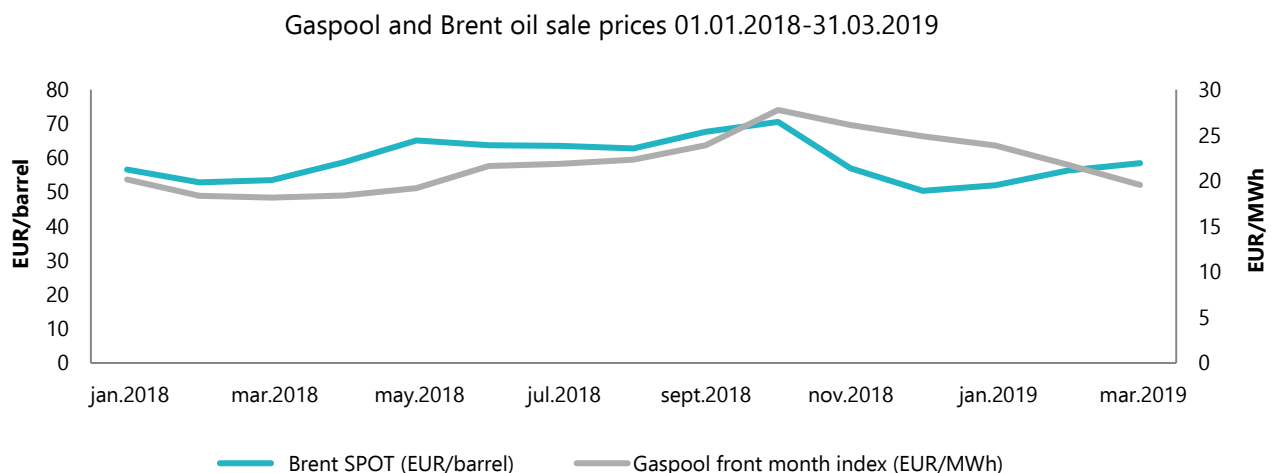
Despite the difficult market environment, the JSC “Latvijas Gāze” remains fully committed to achieving the best possible financial performance and creating sustainable value for all stakeholders. In that context, the sales & trading segment during the first quarter 2019 successfully continued to implement its ambitious cost savings program initiated in 2018. Apart from that, in March 2019 the JSC “Latvijas Gāze” witnessed the “go-live” for the first module of the sales & trading segment’s new billing system and customer portal. 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 Q1	2018 Q1
Natural gas sales, million m ³	379	349
Number of employees, average	991	990
Length of distribution lines, km	5 248	5 231

Group`s key financial figures	2019 Q1	2018 Q1 Restated
	EUR'000	EUR'000
Net turnover	113 178	96 352
EBITDA	20 328	23 398
EBITDA, %	18.0	24.3
EBIT	17 331	20 517
EBIT, %	15.3	21.3
Net profit	17 242	20 118
Net profit margin, %	15.2	20.9
Earnings per share, EUR	0.43	0.50
P/E	24.19	21.40

Alternative Performance Measures (APM)	Formulas
EBITDA (<i>Profit before income tax, interest, depreciation and amortization</i>)	EBITDA = Profit of the year + Corporate income tax + Financial expense - Financial income + Depreciation, amortisation and impairment of property, plant and equipment and intangible assets
EBITDA, % (<i>or EBITDA margin</i>)	$\text{EBITDA, \%} = \frac{\text{EBITDA}}{\text{Revenue from contracts with customers}} \times 100\%$
EBIT (<i>Profit before income tax and interest</i>)	EBIT = Profit of the year + Corporate income tax + Financial expense - Financial income
EBIT, % (<i>or EBIT margin</i>)	$\text{EBIT, \%} = \frac{\text{EBIT}}{\text{Revenue from contracts with customers}} \times 100\%$
Net profitability (<i>or Commercial profitability</i>) The indicator reflects how much the company earns from each of the EUR received from customers	$\text{Net profitability, \%} = \frac{\text{Profit of the year}}{\text{Revenue from contracts with customers}} \times 100\%$
P/E Ratio (<i>Relationship between Share Price and Earnings per Share</i>)	$\text{P/E} = \frac{\text{Share price 31.03.2019}}{\text{Earnings per share for the reporting year}}$

The above-described alternative performance measures are used by the management of the Group to evaluate 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 quarter 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 almost 50% in comparison to late autumn 2018. At the same time, natural gas prices for the upcoming winter season 2019/2020 quoted significantly above prices for the summer months of 2019 indicating an early start of the storage injection season across Europe in 2019.

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 for the coming months of the year. Increased LNG deliveries to the Baltic region will further strengthen the competitive dynamics in the region and bolster short-term security of supply.

Worldwide political discussions on measures against climate change and the transition to carbon-free economies continued during the first months of 2019. While governments in the Baltic

region actively push for a further reduction of fossil fuels in the energy mix until 2030 natural gas will further play a key role in balancing electricity supply from intermittent renewable sources. In that context, water levels in the river Daugava at the beginning of the summer months and price developments at the Nordic power exchange will have a crucial impact on the use of natural gas in power generation during the coming months of the year.

Competition in the Latvian and Baltic natural gas market further intensified during the first three months of the year. 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. The JSC “Latvijas Gāze” expects that the currently observed trends will continue to unfold and the market environment will remain challenging during the rest of 2019.

KEY EVENTS DURING THE FIRST QUARTER 2019

- **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 Conexus Baltic Grid (“CBG”) held an “Auction for keeping an active natural gas quantity and ensuring its availability at the storage facility in 2019-2020”. In total 2 845 000 MWh 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 against a respective financial compensation.

OPERATING RESULTS OF THE BUSINESS SEGMENTS

Distribution segment: Net turnover of the Group’s distribution segment amounted to 17.5 million EUR during the first quarter 2019. In comparison to the same period in the previous year the segment’s net turnover dropped by 19.6%. The drop was mainly attributable to a significantly lower utilization of the Latvian natural gas distribution system during the first quarter 2019 due to unusually mild temperatures. The segment’s EBITDA reached 10.1 million EUR, which is 28% lower in comparison to the first quarter 2018. Profit before taxes for the first three months of 2019 amounted to 7.1 million EUR, representing a 36.3% year-on-year decrease for the segment. In terms of assets, the distribution segment is the largest segment within Latvijas Gāze Group. At the end of the first quarter 2019, the segment’s assets were worth 262.4 million EUR and comprised 64% of the Group’s total assets.

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 and follow-up actions in case of arising credit issues.

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

Sales & trading segment: During the first quarter 2019, the Group’s sales & trading segment generated a net turnover of 95.7 million EUR, (representing 85% of total Group’s revenues). In comparison to the same period in the previous year the segment’s net turnover increased by 28.3%. The increase was mainly attributable to the strong expansion of natural gas sales outside of the domestic market. The segment’s EBITDA reached 10.3 million EUR, which was 9.1% higher in comparison to the first quarter 2018. Profit before taxes for the first three months of 2019 amounted to 10.1 million EUR, representing a 13.1% year-on-year increase for the segment. At the end of the first quarter 2019, the asset value of the sales & trading segment amounted to 149.6 million EUR, mainly consisting of natural gas in storage and cash reserves.

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

FUTURE PROSPECTS

The Company expects that the general market environment will remain challenging for Latvijas Gāze group in rest of 2019. Competition on the supply side is likely to increase further while overall natural gas demand in Latvia will rather stagnate. In the mid-term, the energy strategies recently presented by the Lithuanian and Latvian government foreseeing a further reduction in the use of fossil fuels will exert additional downward pressure on natural gas consumption. However, despite moving at slow pace, the progress in regional market integration and growing trading activity at the Latvian Virtual Trading Point will also open up new sales and business opportunities for Latvijas Gāze group. Nevertheless, ensuring competitive purchase conditions under the existing long-term supply agreement with the PJSC Gazprom and increasing the flexibility of supplies will remain key to safeguard the leading position of Latvijas Gāze group in the Latvian

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

SUBSEQUENT EVENTS

Since March 31, 2019 up to the signing of these financial statements there have been no events with effect on the financial position or financial results of

created new risk positions. To actively manage and 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 transactions.

natural gas market and to enable the further expansion into neighboring markets.

The Company plans to explore additional markets and analyze opportunities for expanding its business into new segments. The JSC “Latvijas Gāze” will continue to analyze business opportunities arising around LNG and gas powered technologies in the Baltic region.

To improve the effectiveness and efficiency of its billing processes as well as to increase customer satisfaction the sales & trading segment will, therefore, continue with the implementation of a new billing system and customer portal.

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

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

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

STATEMENT OF BOARD RESPONSIBILITY

The Board of the Joint Stock Company “Latvijas Gāze” is responsible for the preparation of the “Latvijas Gāze” Group consolidated and the JSC “Latvijas Gāze” unaudited interim condensed financial statements for the 3-months period ended 31 March 2019 (further – Financial statements), which consist of the Company’s and the Company’s and its subsidiary (further - Group’s) financial statements.

Financial statements for the 3-months period ended 31 March 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 Company’s and the Group’s assets, liabilities, financial position, operational results and cash flows in all key aspects. The principles of recognition and valuation of items observed in the preparation of financial information were the same as in the annual accounts.

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on May 29, 2019, and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Sebastian Gröblichhoff
Deputy Chairman of the Board

Elita Dreimane
Member of the Board

FINANCIAL STATEMENTS

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

CORPORATE INFORMATION

Company	Latvijas Gāze, Joint Stock Company
LEI code	097900BGMO0000055872
Registration number, place and date of registration	Unified registration number 40003000642, Riga, Latvia, March 25, 1991 re-registered in Commercial Register on December 20, 2004
Address	Vagonu street 20, Riga, LV-1009, Latvia
Corporate management report and Non-financial report	www.lg.lv
Major shareholders	PAS Gazprom (34,0%) Marguerite Gas I.I.S.a.r.l. (28,97%) Uniper Ruhrgas International GmbH (18,26%) ITERA Latvija SIA (16,0%)
Financial period	January 1- March 31, 2019

STATEMENT OF PROFIT OR LOSS

	Note	Group 01.01- 31.03.2019	Group 01.01- 31.03.2018	Company 01.01- 31.03. 2019	Company 01.01- 31.03. 2018
		EUR'000	EUR'000	EUR'000	EUR'000
			Restated		Restated
Revenue, including excise duty		116 300	100 090	100 167	79 825
Less excise duty		(3 122)	(3 738)	(3 131)	(3 747)
Revenue from contracts with customers	2	113 178	96 352	97 036	76 078
Other income		1 924	681	1 497	439
Raw materials and consumables used	3	(86 680)	(64 416)	(86 198)	(63 924)
Personnel expenses	4	(6 329)	(6 523)	(1 110)	(1 187)
Depreciation, amortization and impairment of property, plant and equipment and intangible assets		(2 997)	(2 881)	(104)	(129)
Other operating expenses	5	(1 765)	(2 696)	(932)	(1 734)
Operating profit		17 331	20 517	10 189	9 543
Financial income		-	40	-	40
Financial expense		(89)	(432)	(30)	(368)
Profit before taxes		17 242	20 125	10 159	9 215
Corporate income tax		-	(7)	-	(7)
Profit for the period		17 242	20 118	10 159	9 208

STATEMENT OF COMPREHENSIVE INCOME

	Note	Group 01.01- 31.03.2019	Group 01.01- 31.03.2018	Company 01.01- 31.03. 2019	Company 01.01- 31.03. 2018
		EUR'000	EUR'000	EUR'000	EUR'000
Profit for the period		17 242	20 118	10 159	9 208
Other comprehensive income - items that will not be reclassified to profit or loss					
Change in revaluation reserve of property, plant and equipment	7	48	22	-	-
Total other comprehensive income		48	22	-	-
Total comprehensive income for the period		17 290	20 140	10 159	9 208

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on May 29, 2019, and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Sebastian Gröblichhoff
Deputy Chairman of the Board

Elita Dreimane
Member of the Board

BALANCE SHEET

	Note	Group 31.03.2019	Group 31.12.2018	Company 31.03.2019	Company 31.12.2018
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets	6	6 615	6 644	3 585	3 341
Property, plant and equipment	7	236 413	238 465	789	848
Investment in subsidiary	8	-	-	194 534	194 534
Other debtors		108	26	6	6
Total non-current assets		243 136	245 135	198 914	198 729
Current assets					
Inventories	9	31 988	103 963	30 044	102 442
Pre-payments for inventories		549	5 036	329	5 025
Trade receivables		47 115	36 175	45 568	34 964
Income tax receivable		63	63	63	63
Other current assets		1 784	5 827	1 310	5 451
Cash and cash equivalents		87 350	16 280	68 402	4 845
Total current assets		168 849	167 344	145 716	152 790
TOTAL ASSETS		411 985	412 479	344 630	351 519

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 Aigars Kalvītis
 Chairman of the Board

 Sebastian Gröblichhoff
 Deputy Chairman of the Board

 Elita Dreimane
 Member of the Board

BALANCE SHEET (continued)

	Note	Group 31.03.2019	Group 31.12.2018	Company 31.03.2019	Company 31.12.2018
		EUR'000	EUR'000	EUR'000	EUR'000
LIABILITIES AND EQUITY					
Equity					
Share capital		55 860	55 860	55 860	55 860
Share premium		20 376	20 376	20 376	20 376
Reserves		125 864	127 079	204 460	204 460
Retained earnings		125 545	107 040	35 851	25 692
Total equity		327 645	310 355	316 547	306 388
Non-current liabilities					
Borrowings	10	28 000	29 167	-	-
Deferred income	11	18 596	18 658	-	-
Employee benefit obligations		2 285	2 264	125	125
Total non-current liabilities		48 881	50 089	125	125
Current liabilities					
Trade payables		3 426	5 581	7 637	9 928
Interest-bearing loans and borrowings	10	3 500	11 886	-	8 386
Deferred income	11	1 025	1 019	-	-
Other liabilities		27 508	33 549	20 321	26 692
Total current liabilities		35 459	52 035	27 958	45 006
Total liabilities		84 340	102 124	28 083	45 131
TOTAL LIABILITIES AND EQUITY		411 985	412 479	344 630	351 519

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Sebastian Gröbblinghoff
Deputy Chairman of the Board

Elita Dreimane
Member of the Board

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation reserve	Employee benefits revaluation reserve	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2017	55 860	20 376	132 193	(87)	99 712	308 054
Transactions with owners:						
Dividends	-	-	-	-	(23 142)	(23 142)
Total transactions with owners	-	-	-	-	(23 142)	(23 142)
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(5 285)	-	5 285	-
Comprehensive income:						
Profit for the year	-	-	-	-	25 185	25 185
Other comprehensive income	-	-	68	190	-	258
Total comprehensive income	-	-	68	190	25 185	25 443
December 31, 2018	55 860	20 376	126 976	103	107 040	310 355
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(1 263)	-	1 263	-
Comprehensive income:						
Profit for the year	-	-	-	-	17 242	17 242
Other comprehensive income	-	-	48	-	-	48
Total comprehensive income	-	-	48	-	17 242	17 290
March 31, 2019	55 860	20 376	125 761	103	125 545	327 645

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Elita Dreimane
Member of the Board

COMPANY’S STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Employee benefits revaluation reserve	Reorgani-sation reserve	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2017	55 860	20 376	(172)	204 545	25 641	306 250
Transactions with owners:						
Dividends	-	-	-	-	(23 142)	(23 142)
Comprehensive income:						
Profit for the year	-	-	-	-	23 193	23 193
Other comprehensive income	-	-	87	-	-	87
Total comprehensive income	-	-	87	-	23 193	23 280
December 31, 2018	55 860	20 376	(85)	204 545	25 692	306 388
Comprehensive income:						
Profit for the year	-	-	-	-	10 159	10 159
Total comprehensive income	-	-	-	-	10 159	10 159
March 31, 2019	55 860	20 376	(85)	204 545	35 851	316 547

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STATEMENT OF CASH FLOW

	Group 01.01- 31.03.2019	Group 01.01- 31.03.2018	Company 01.01- 31.03. 2019	Company 01.01- 31.03. 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Cash flow from operating activities				Restated
Profit before corporate income tax	17 242	20 125	10 159	9 215
<i>Adjustments:</i>				
- depreciation of property, plant and equipment	2 752	2 525	63	60
- amortisation of intangible assets	428	356	41	69
- losses from long-term asset exclusions	1	12	-	-
- interest expenses	88	83	30	19
<i>Changes in operating assets and liabilities:</i>				
- in accounts receivable	(5 882)	(3 120)	(6 463)	(2 655)
- in advances for inventories	4 487	4 181	4 696	4 196
- in inventories	71 976	56 824	72 398	57 060
- in accounts payable	(9 135)	(5 243)	(8 131)	(5 181)
Corporate income tax paid	-	(32)	-	(32)
Net cash inflow from operating activities	81 957	75 711	72 793	62 751
Cash flow from investing activities				
Payments for property, plant and equipment	(360)	(318)	(15)	(11)
Payments for intangible assets	(894)	(604)	(805)	(273)
Proceeds from sale of property, plant and equipment	7	1	-	-
Cash transferred in reorganisation	-	-	-	(5 458)
Net cash outflow from investing activities	(1 247)	(921)	(820)	(5 742)
Cash flow from financing activities				
Interest paid	(88)	(83)	(30)	(19)
Overdraft paid	(8 386)	(3 361)	(8 386)	(3 361)
Loan paid	(1 167)	-	-	-
Net cash outflow from financing activities	(9 641)	(3 444)	(8 416)	(3 380)
Net cash flow	71 069	71 346	63 557	53 629
Cash and cash equivalents at the beginning of the reporting period	16 280	24 817	4 845	21 558
Cash and cash equivalents at the end of the reporting period	87 349	96 163	68 402	75 187

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NOTES TO FINANCIAL STATEMENTS

1. Segment information

In 2019 and 2018, Latvijas Gāze group consists of two segments - natural gas sales & trading segment and distribution segment.

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

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

The information included in the operating segments corresponds to the information used by the Board of JSC Latvijas Gāze for the gas sales and trading segment and the Board of 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 3 months 2019	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
EBITDA	10 064	10 264	20 328
Depreciation and amortisation	(2 892)	(105)	(2 997)
Financial expense	(59)	(30)	(89)
Segment profit before taxes	7 113	10 129	17 242

Group 3 months 2018	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
EBITDA	13 988	9 410	23 398
Depreciation and amortisation	(2 752)	(129)	(2 881)
Financial income	-	40	40
Financial expense	(64)	(368)	(432)
Segment profit before taxes	11 172	8 953	20 125

Company / Gas trade	3 months 2019	3 months 2018
	EUR'000	EUR'000
EBITDA	10 293	9 672
Depreciation and amortisation	(104)	(129)
Financial income	-	40
Financial expense	(30)	(368)
Segment profit before taxes	10 159	9 215

Group 3 months 2019	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	718	289	1 007
Segment assets 31.3.2019	262 353	149 632	411 985

Group 3 months 2018	Gas distribution	Gas trade	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	617	284	901
Segment assets 31.3.2018	267 445	146 684	414 128

Company / Gas trade 3 months	2019	2018
	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	289	284
Segment assets 31.3.	344 630	341 782

2. Revenue from contracts with customers

Group 3 months 2019	Gas trade		Gas distribution	TOTAL
	Latvia	Other countries	Latvia	
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	95 102	14 854	17 079	127 035
Inter-segment revenue	(14 280)	-	-	(14 280)
Connection and other service fees recognised as revenue	-	-	255	255
Other revenue	1	-	167	168
	80 823	14 854	17 501	113 178

Group 3 months 2018	Gas trade		Gas distribution	TOTAL
	Latvia	Other countries	Latvia	
Restated	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	82 810	9 133	21 363	113 306
Inter-segment revenue	(17 368)	-	-	(17 368)
Connection and other service fees recognised as income	-	-	249	249
Other revenue	1	-	164	165
	65 443	9 133	21 776	96 352

Company 3 months 2019	Gas trade		TOTAL
	Latvia	Other countries	
	EUR'000	EUR'000	EUR'000
Segment revenue	82 181	14 854	97 035
Other revenue	1	-	1
	82 182	14 854	97 036

Company 3 months 2018	Gas trade		
	Latvia	Other countries	TOTAL
Restated	EUR'000	EUR'000	EUR'000
Segment revenue	66 944	9 133	76 077
Other revenue	1	-	1
	66 945	9 133	76 078

3. Raw materials and consumables used

	Group 3 months 2019	Group 3 months 2018	Company 3 months 2019	Company 3 months 2018
	EUR'000	EUR'000	EUR'000	EUR'000
		Restated*		Restated*
Natural gas purchase	86 329	64 063	86 189	63 914
Costs of materials, spare parts and fuel	351	353	9	10
	86 680	64 416	86 198	63 924

*Amounts shown net of excise duty as compared with data reported in “Latvijas Gāze” Group consolidated and JSC “Latvijas Gāze” unaudited interim financial statements for the 3-months period ended 31 March 2018.

4. Personnel expenses

	Group 3 months 2019	Group 3 months 2018	Company 3 months 2019	Company 3 months 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	4 780	4 944	851	856
State social insurance contributions	1 144	1 183	194	207
Life, health and pension insurance	305	298	44	37
Other personnel costs	100	98	21	87
	6 329	6 523	1 110	1 187

5. Other operating expenses

	Group 3 months 2019	Group 3 months 2018	Company 3 months 2019	Company 3 months 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Selling and advertising costs	345	1 072	305	1 060
Expenses related to premises (rent, electricity, security and other services)	244	314	90	122
Donations, financial support	15	9	5	-
Office and other administrative costs	437	466	219	245
Taxes and duties	248	236	145	139
Costs of IT system maintenance, communications and transport	388	330	154	130
Other costs	88	269	14	38
	1 765	2 696	932	1 734

6. Intangible assets

	Group 31.03.2019	Group 31.12.2018	Company 31.03.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
As at the beginning of period	17 571	13 889	3 541	1 294
Additions	385	4 075	285	2 260
Disposals	-	(406)	-	(13)
As at the end of period	17 956	17 558	3 826	3 541
Amortisation				
As at the beginning of period	10 913	9 899	200	75
Amortisation	428	1 421	41	138
Disposals	-	(406)	-	(13)
As at the end of period	11 341	10 914	241	200
Net book value as at the end of the period	6 615	6 644	3 585	3 341

7. Property, plant and equipment

Group	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2018	545 105	32 620	15 565	393	593 683
Additions	48	-	4	474	526
Reclassified	162	111	67	(340)	-
Disposals	(29)	(16)	(43)	-	(88)
31.03.2019	545 286	32 715	15 593	527	594 121
Depreciation					
31.12.2018	323 273	20 697	11 248	-	355 218
Calculated	1 692	539	338	-	2 569
Disposals	(24)	(13)	(42)	-	(79)
31.03.2019	324 941	21 223	11 544	-	357 708
Net book value as of 31.03.2019	220 345	11 492	4 049	527	236 413
Net book value as of 31.12.2018	221 832	11 923	4 317	393	238 465

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

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2018	-	-	1 263	-	1 263
Additions	-	-	4	-	4
Disposals	-	-	(2)	-	(2)
31.03.2019	-	-	1 265	-	1 265
Depreciation					
31.12.2018	-	-	415	-	415
Calculated	-	-	63	-	63
Disposals	-	-	(2)	-	(2)
31.03.2019	-	-	476	-	476
Net book value as of 31.03.2019	-	-	789	-	789
Net book value as of 31.12.2018	-	-	848	-	848

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

8. Investment in subsidiary

	Company
	EUR'000
Invested during reorganisation 1.12.2017	194 534
Balance sheet value 31.03.2019 and 31.12.2018	194 534

Shares held	31.03.2019	31.12.2018
JSC “Gasol”	100%	100%

	Subsidiary's equity 31.03.2019	Subsidiary's equity 31.12.2018	Subsidiary's profit 31.03.2019	Subsidiary's profit 31.03.2018
	EUR'000	EUR'000	EUR'000	EUR'000
JSC “Gasol”	205 632	198 501	7 083	10 910

9. Inventories

	Group 31.03.2019	Group 31.12.2018	Company 31.03.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	30 044	102 442	30 044	102 442
Materials and spare parts	2 021	1 597	-	-
Allowance for slow-moving inventory	(77)	(76)	-	-
	31 988	103 963	30 044	102 442

10. Interest-bearing loans and borrowings

Loans	Group	Group	Company	Company
	31.03.2019	31.12.2018	31.03.2019	31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
<i>Loan from JSC "SEB banka"</i>				
Long-term part of the loan	28 000	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
	31 500	41 053	-	8 386

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

11. Deferred income

	Group	Group	Company	Company
	31.03.2019	31.12.2018	31.03.2019	31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Income from residential and corporate customers' contributions to construction of gas pipelines:				
Long-term part	18 596	18 658	-	-
Short-term part	1 025	1 019	-	-
	19 621	19 677	-	-

Changes of deferred income

	Group	Group	Company	Company
	3 months 2019	3 months 2018	3 months 2019	3 months 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Balance at the beginning of the year	19 677	20 169	-	5
Received from residential and corporate customers during reporting year	199	726	-	-
Included in income of reporting year	(255)	(979)	-	(5)
Total transfer to next years	19 621	19 916	-	-

12. Other liabilities

	Group 31.03.2019	Group 31.12.2018	Company 31.03.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Prepayments received	10 901	18 679	10 888	18 652
Value added tax	6 897	5 732	5 895	4 867
Accrued costs	5 822	4 723	2 170	1 580
Excise tax	919	1 139	912	1 137
Vacation pay reserve	1 180	881	138	137
Salaries	834	777	174	177
Social security contributions	503	620	96	91
Personnel income tax	230	313	34	40
Real estate tax	136	-	-	-
Other current liabilities	86	679	14	11
Natural resource tax	-	6	-	-
	27 508	33 549	20 321	26 692

13. 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 Company.

Restatements of 2018 due to reclassification

Excise duty

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

	Group 3 months 2018 EUR'000			Company 3 months 2018 EUR'000		
	As originally reported	Restated	Change	As originally reported	Restated	Change
Revenue, net	100 090	96 352	(3 738)	79 825	76 078	(3 747)
Raw materials and consumables used	(68 154)	(64 416)	3 738	(67 671)	(63 924)	3 747

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

The Group has changed the presentation of the equity line items in the balance sheet of the Company and Group as of 31 December 2018 and restated the comparative balance sheet of 31 March 2018. Presentation of retained earnings and other equity items was also changed on the statement of changes in equity of the Company and Group. The statement of changes in equity was restructured to provide more clarity, where the information previously presented in the notes was brought to the statement of changes in equity for greater prominence. The equity section of the balance sheet was restructured accordingly.

Changes in accounting policies

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

IFRS 9 Financial Instruments

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

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies, although no adjustments were recognised to the amounts in the financial statements.

Impairment of financial assets

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

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

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

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

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

IFRS 15 Revenue from contracts with customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 using the modified retrospective application, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). The Group incurs connection fee revenues that have been previously recognised as deferred income and gradually amortised to the profit or loss as “Other income” under the previous accounting policy. With implementation of IFRS 15, it was determined that such revenues fall under “Revenues from contracts with customers” and deferral remains to be appropriate under IFRS 15. Reclassification was made in comparative information for the period ended 31 March 2018 to report these revenues consistently as in the period ended 31 March 2019.

As a result of the application the following adjustments were recognised to the amounts in the financial statements at 31 March 2018:

	Group 3 months 2018 in EUR'000			Company 3 months 2018 in EUR'000		
	Original (previous accounting policy)	New (IFRS 15)	Difference	Original (previous accounting policy)	New (IFRS 15)	Difference
Revenue	96 105	96 352	247	76 078	76 078	-
Other income	928	681	(247)	439	439	-

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

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

Equity instruments

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

Derivative financial instruments

Derivative financial instruments are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the 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 Company and Group acts as an agent in collecting the excise duty from customers, and paying it to the government, therefore revenue is recognised net of excise tax levied on the customers.

Sale of services – natural gas distribution

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

Connection fees

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

Contract assets and contract liabilities related to contracts with customers

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

Financing component

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

Property, plant and equipment

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

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

Assets purchased, but not yet ready for the intended use or under installation process are classified under “Assets under construction”. Subsequent costs are included in the asset’s carrying amount or recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company or the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss statement for the financial period when they are incurred.

Upon revaluation of property, plant and equipment, the accumulated depreciation is changed in proportion to changes in the gross value of the property, plant and equipment revalued. Increases in the carrying amount arising on revaluation of buildings, gas distribution system and equipment are credited to Revaluation reserve in shareholders’ equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; any further decreases are charged to the profit or loss statement. The revaluation surplus is transferred to retained earnings on the retirement or disposal of the asset. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset’s original cost is reclassified from the property, plant and equipment revaluation reserve to retained earnings.

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

	years
Buildings	20 - 100
Constructions, including gas distribution system	40 - 60
Machinery and equipment	5 - 30
Other fixed assets	3.33 - 10

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

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

Intangible assets

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

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

Impairment of non-financial assets

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

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

Inventories

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

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

Operating leases

The Company is a lessee. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the profit 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 March 2019, 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 as well as the preceding reorganisation involving establishment of the JSC “Conexus Baltic Grid”, the Company and the Group 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 for the with regard to investment in subsidiary is reversed if the recoverable amount of investment has increased above the previously estimated recoverable amount used in measuring the recognised impairment loss, but reversal should not exceed the initial cost of investment.

Segment reporting

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

Share capital and dividend authorised

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

Trade and other payables

These amounts represent liabilities for goods and services provided to the Company and the Group prior to the end of 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 removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. Borrowings are classified as current liabilities unless the Company and the Group have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

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

Provisions

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

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

Employee benefits

Wages, salaries and bonus plans

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

Social security and pension contributions

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

Vacation pay accrual

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

Post-employment and other employee benefits

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

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

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

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

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

Income tax

On July 28, 2017 there was a new Corporate Income Tax Law adopted whereby from January 1, 2018 onwards profit generated after 2017 shall be taxed when being distributed. The new law no longer contains provisions that cause temporary differences between the carrying amounts of assets and liabilities in financial accounting and their tax base, hence no deferred income tax assets or liabilities arise in the individual company level.

Starting from the taxation year 2018, the corporate income tax is calculated for distributed profits (20/80 from the net amount payable to shareholders). The tax on the distributed profit will be recognised when the Company's shareholders decide upon distribution. For this reason, there is no current corporate tax charge in the Company's or Groups statement of profit or loss for the year ended 31 March 2019. 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.

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

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

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.

Correction of prior period error

In 2018, an error in the Company's statement of cash flows reported in the financial statements for the period ended 31 March 2018 was discovered related to the presentation of the cash transferred to the subsidiary during the reorganisation, which was originally reported in in financial statements for the period ended 31 March 2018 as change in accounts payable. In fact, this cash outflow of EUR 5 458 thousand should have been reported within cash flows from investing activities whereas change in accounts payable within cash flows from operating activities should be increased by EUR 5 458 thousand. In the Company's financial statements for the period ended 31 March 2019, the comparative statement of cash flows for the period ended 31 March 2018 was restated to correct the error as described above. As a result of restatement, the amount of net cash inflow from operating activities increased by EUR 5 458 thousand and the amount of net cash outflow from investing activities increased by EUR 5 458 thousand accordingly.

14. Subsequent events

Since March 31, 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 Company and the Group as at the balance sheet date.