“LATVIJAS GĀZE” GROUP CONDENSED CONSOLIDATED AND JSC "LATVIJAS GĀZE" UNAUDITED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2019

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

RIGA
2020

CONTENTS

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"

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. (Luxemburg)

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"

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 Gröblinghoff, 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.

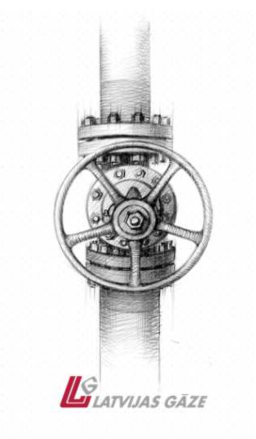
The natural gas distribution segment provides natural gas distribution services in Latvia. The JSC "Gaso" holds an exclusive license for the distribution of natural gas on the territory of Latvia. The license is valid until 6 December 2037. The JSC "Gaso" owns and operates all distribution assets necessary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

The JSC "Gaso" 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 "Gaso" 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 "Gaso"	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.

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

INDEX | EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX Baltic Benchmark GI	648.32	992.83	+53.14
OMX Riga	594.35	1,036.15	+74.33
GZE1R - Latvijas Gāze	9.76	9.9	+1.43

Source: Nasdaq Baltic

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.

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%.

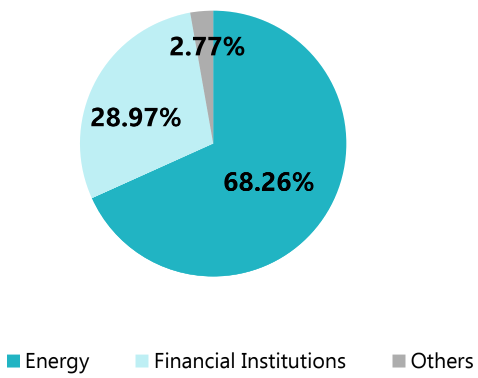
SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2016.-31.12.2019.)

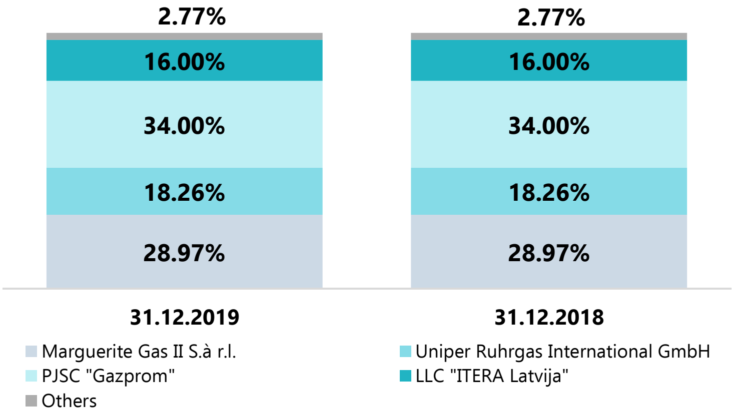
Source: Nasdaq Baltic

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



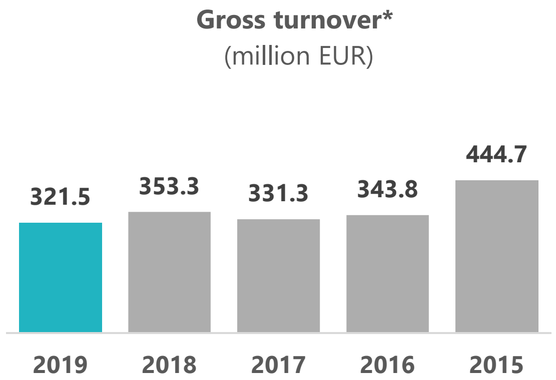


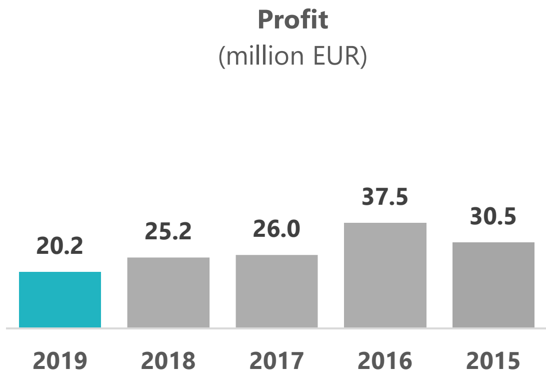
SHARES OWNED BY MEMBERS OF THE GOVERNING BODIES OF THE JSC "LATVIJAS GĀZE"

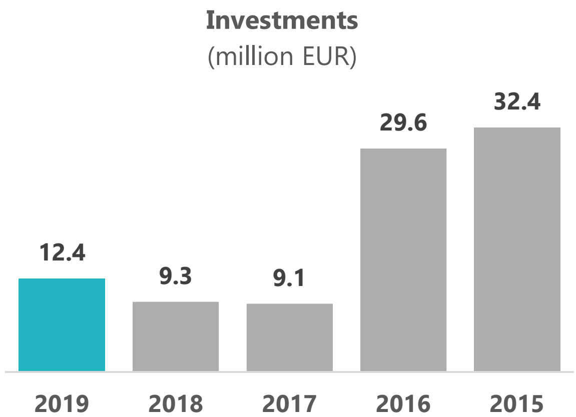
		At the date of signing financial statements
Management Board		**Number of shares**
Chairman of the Board	Aigars Kalvītis	None
Deputy Chairman of the Board	Denis Emelyanov	None
Deputy Chairman of the Board	Sebastian Gröblinghoff	None
Member of the Board	Elita Dreimane	None
Council		
Chairman of the Council	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	Sergey Kuznets	None

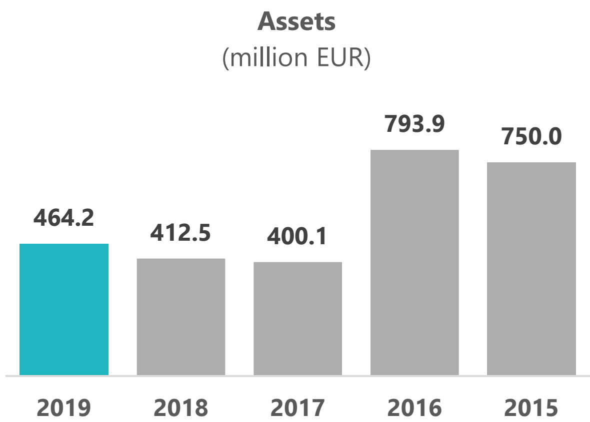
LATVIJAS GĀZE GROUP FACTS AND FIGURES

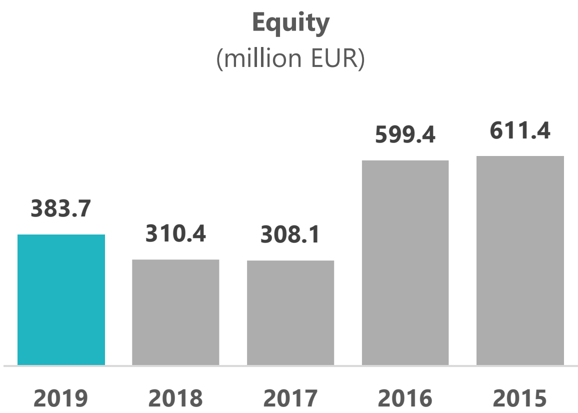
FINANCIAL INDICATORS

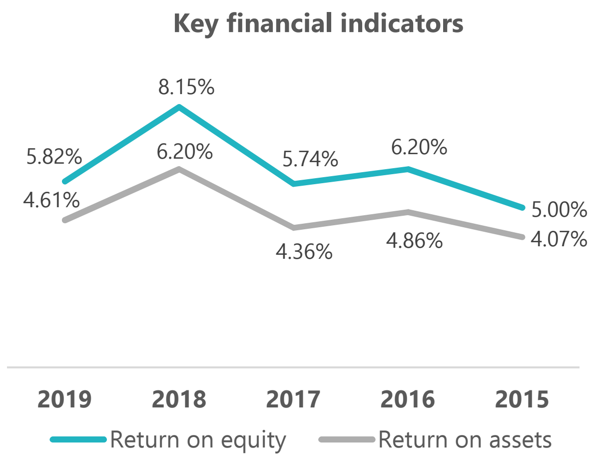








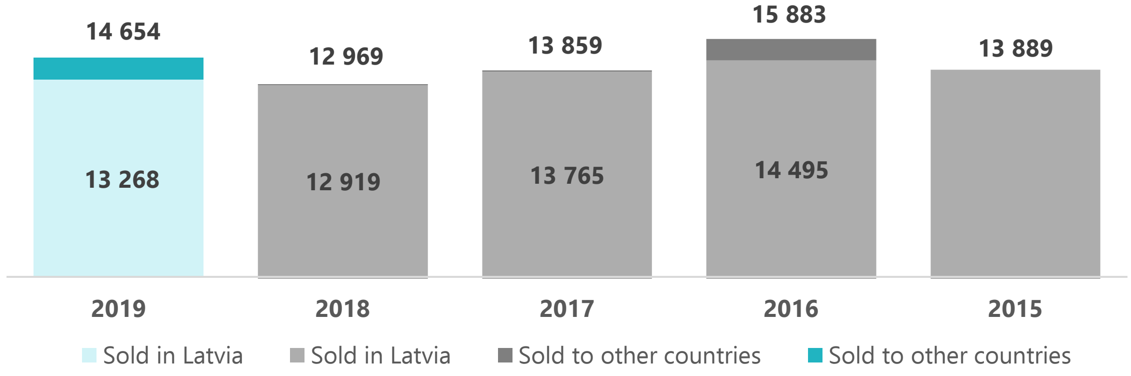




*Revenue from contracts with customers (including excise duty)

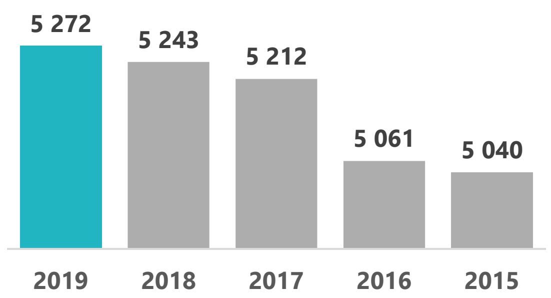
NATURAL GAS VOLUMES

Natural gas sales (GWh)

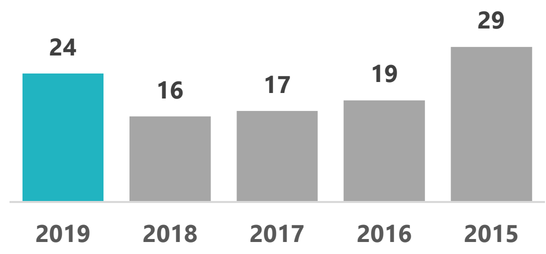


DISTRIBUTION SYSTEM

Gas distribution pipelines owned by Latvijas Gāze Group (km)

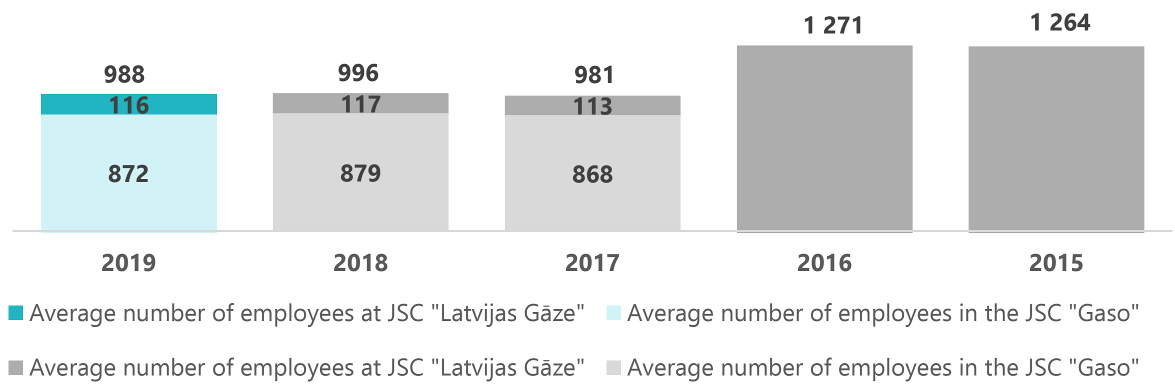


Construction of gas distribution pipelines (km)



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 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 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.

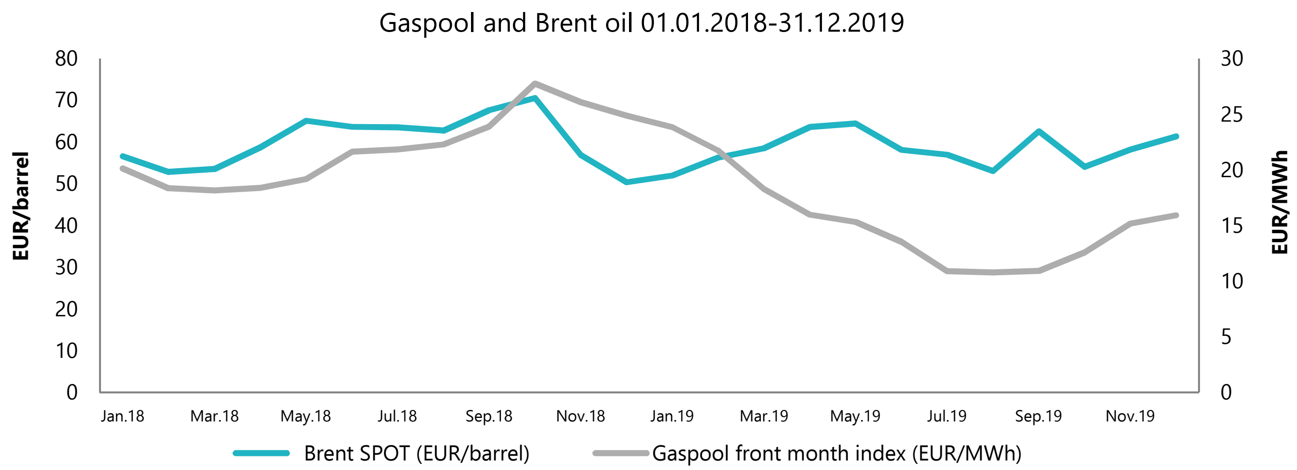
Group`s key figures	**2019**	**2018**	**2017**
Natural gas sales, GWh	14 654	12 969	13 859
Number of employees, average	988	996	981
Length of distribution lines, km	5 272	5 243	5 212

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

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

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

The 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 capacitybooking 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 “Gaso”.
- **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 Connector took place. Commercial operations of the pipeline started on January 1, 2020.

OPERATING RESULTS OF THE BUSINESS SEGMENTS

Distribution segment: The distribution segment operated by the JSC "Gaso" 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 333.7 million EUR, which represents 72% 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 131 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 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
TOTAL	**100**

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.

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 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.

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 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.

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.

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 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 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.

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 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.

TRANSACTIONS WITH RELATED PARTIES

The JSC "Latvijas Gāze" is party to a long-term natural gas sales and purchase agreement ("the Agreement") with the PJSC "Gazprom". Under the Agreement, the Company is obliged to buy a defined annual quantity based on take-or-pay terms. In case Latvijas Gāze fails to offtake the defined minimum quantities, it may incur financial and legal obligations. The PJSC "Gazprom" holds 34% of the shares in the JSC "Latvijas Gāze".

SUBSEQUENT EVENTS

Since December 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 Group and the Company 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 condensed financial statements for 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 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 February 26, 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

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	A.Briāna 6, Riga, Latvia, LV-1001 (from 2 October 2019) Vagonu street 20, Riga, Latvia, LV-1009 (until 1 October 2019)
Corporate management report and Non-financial report	www.lg.lv
Major shareholders	PJSC Gazprom (34.0%) Marguerite Gas II.S.a.r.l. (28.97%) Uniper Ruhrgas International GmbH (18.26%) ITERA Latvija SIA (16.0%)
Financial period	January 1- December 31, 2019

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)
Revenue from contracts with customers	2	**314 349**	**344 902**	**265 995**	**297 778**
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
Operating profit		**22 857**	**25 882**	**22 141**	**23 641**
Financial income		-	40	-	40
Financial expense		(399)	(737)	(173)	(488)
Profit before taxes		**22 458**	**25 185**	**21 968**	**23 193**
Corporate income tax		(2 268)	-	(2 268)	-
Profit for the period		**20 190**	**25 185**	**19 700**	**23 193**
		EUR	EUR	EUR	EUR
Earnings per share (basic and diluted)	14	0.506	0.631	0.494	0.581
Earnings per share from continuing operations (basic and diluted)	14	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
Profit for the period		**20 190**	**25 185**	**19 700**	**23 193**
Other comprehensive income - items that will not be reclassified to profit or loss					
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		407	190	34	87
Total other comprehensive income		**75 111**	**258**	**34**	**87**
Total comprehensive income for the period		**95 301**	**25 443**	**19 734**	**23 280**

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on February 26, 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
ASSETS					
Non-current assets					
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
Total non-current assets		**321 203**	**245 135**	**202 452**	**198 729**
Current assets					
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	13	11 151	5 827	10 758	5 451
Cash and cash equivalents		48 995	16 280	38 487	4 845
Total current assets		**143 035**	**167 344**	**127 758**	**152 790**
TOTAL ASSETS		**464 238**	**412 479**	**330 210**	**351 519**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on February 26, 2020, and they are signed on behalf of the Board by:

Aigars Kalvītis	Sebastian Gröblinghoff	Elita Dreimane
Chairman of the Board	Deputy Chairman of the Board	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
LIABILITIES AND EQUITY					
Equity					
Share capital	14	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
Total equity		**383 711**	**310 355**	**304 177**	**306 388**
Non-current liabilities					
Borrowings	15	25 667	29 167	-	-
Lease liabilities		292	-	292	-
Deferred income	16	18 434	18 658	-	-
Employee benefit obligations		1 757	2 264	57	125
Total non-current liabilities		**46 150**	**50 089**	**349**	**125**
Current liabilities					
Trade payables	17	5 489	5 581	8 249	9 928
Interest-bearing loans and borrowings	15	3 500	11 886	-	8 386
Lease liabilities		93	-	93	-
Deferred income	16	1 138	1 019	92	-
Other liabilities	18	24 157	33 549	17 250	26 692
Total current liabilities		**34 377**	**52 035**	**25 684**	**45 006**
Total liabilities		**80 527**	**102 124**	**26 033**	**45 131**
TOTAL LIABILITIES AND EQUITY		**464 238**	**412 479**	**330 210**	**351 519**

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Aigars Kalvītis	Sebastian Gröblinghoff	Elita Dreimane
Chairman of the Board	Deputy Chairman of the Board	Member of the Board

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reva-luation 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**
Transactions with owners						
Dividends	-	-	-	-	(21 945)	(21 945)
Total transactions with owners	**-**	**-**	**-**	**-**	**(21 945)**	**(21 945)**
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(6 593)	-	6 593	-
Comprehensive income						
Profit for the year	-	-	-	-	20 190	20 190
Other comprehensive income	-	-	74 704	407	-	75 111
Total comprehensive income	**-**	**-**	**74 704**	**407**	**20 190**	**95 301**
December 31, 2019	**55 860**	**20 376**	**195 087**	**510**	**111 878**	**383 711**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on February 26, 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

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
December 31, 2017	**55 860**	**20 376**	**(172)**	**204 545**	**25 641**	**306 250**
Transactions with owners						
Dividends	-	-	-	-	(23 142)	(23 142)
Total transactions with owners	**-**	**-**	**-**	**-**	**(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**
Transactions with owners						
Dividends	-	-	-	-	(21 945)	(21 945)
Total transactions with owners	**-**	**-**	**-**	**-**	**(21 945)**	**(21 945)**
Comprehensive income						
Profit for the year	-	-	-	-	19 700	19 700
Other comprehensive income	-	-	34	-	-	34
Total comprehensive income	**-**	**-**	**34**	**-**	**19 700**	**19 734**
December 31, 2019	**55 860**	**20 376**	**(51)**	**204 545**	**23 447**	**304 177**

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STATEMENT OF CASH FLOWS

	Note	Group 2019	Group 2018	Company 2019	Company 2018
		EUR'000	EUR'000	EUR'000	EUR'000
Cash flow from operating activities					
Profit before corporate income tax		**22 458**	**25 185**	**21 968**	**23 193**
Adjustments:					
- 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		(34)	(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
Changes in operating assets and liabilities:					
- in accounts receivable		5 004	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		(12 449)	4 312	(10 637)	4 703
Corporate income tax received back / (paid)		(2 205)	3 733	(2 205)	4 012
Net cash inflow / (outflow) from operating activities		**79 335**	**21 611**	**58 701**	**(253)**
Cash flow from investing activities					
Payments for property, plant and equipment	9	(9 374)	(6 219)	(2 177)	(173)
Payments for intangible assets	8	(3 077)	(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	19	-	-	9 975	8 977
Net cash inflow / (outflow) from investing activities		**(12 368)**	**(9 309)**	**5 479**	**1 797**
Cash flow from financing activities					
Overdraft used	15	-	5 025	-	5 025
Overdraft paid		(8 386)	-	(8 386)	-
Loan paid	15	(3 500)	(2 333)	-	-
Leases paid		(25)	-	(37)	-
Interest paid		(396)	(389)	(170)	(140)
Dividends paid		(21 945)	(23 142)	(21 945)	(23 142)
Net cash outflow from financing activities		**(34 252)**	**(20 839)**	**(30 538)**	**(18 257)**
Net cash flow		**32 715**	**(8 537)**	**33 642**	**(16 713)**
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		**48 995**	**16 280**	**38 487**	**4 845**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on February 26, 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

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 “Gaso” holds an exclusive license for the distribution of natural gas on the territory of Latvia. JSC “Gaso” 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 “Gaso” 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
EBITDA	**13 587**	**22 040**	**35 627**
Depreciation and amortisation	(768)	(12 002)	(12 770)
Financial expense	(173)	(226)	(399)
Profit before taxes	**12 646**	**9 812**	**22 458**

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

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

Group 2019	Gas trade	Gas distribution	Total
	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	130 509	333 729	464 238

Group 2018	Gas trade	Gas distribution	Total
	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

Company / Gas trade	2019	2018
	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

Group	Gas trade		Gas distribution	
2019	Latvia	Other countries	Latvia	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	244 768	21 227	49 509	315 504
Inter-segment revenue	(2 184)	-	-	(2 184)
Connection and other service fees recognised as revenue	-	-	1 029	1 029
	242 584	21 227	50 538	314 349

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

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

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
	280 769	**17 009**	**297 778**

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
	3 513	**5 992**	**1 793**	**4 945**

Other income position includes a net amount of 276 thousand EUR originating from financial hedging activities. (5 495) thousand EUR out of this amount is attributable to operational activities during the 12 months reporting period (2018: 2 000 thousand EUR). The remaining amount for outstanding derivatives of 5 771 thousand EUR is evaluated on a mark-to-market basis as of the balance sheet date and is attributable to 2020 operational activity.

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
	247 263	**278 553**	**245 588**	**276 835**

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
	25 852	**25 377**	**5 033**	**5 356**
Average number of employees	988	996	116	117

Salaries of the Council and the Board	Group 2019	Group 2018	Company 2019	Company 2018
	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	-	-
	3 323	**3 438**	**1 506**	**1 965**

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
	12 770	**11 545**	**785**	**384**

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
	9 120	**9 537**	**4 216**	**5 484**

8. Intangible assets

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

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 1 242 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
Cost or revalued amount					
31.12.2018	**545 105**	**32 620**	**15 565**	**393**	**593 683**
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)
31.12.2019	**650 929**	**38 835**	**16 443**	**1 079**	**707 286**
Depreciation					
31.12.2018	**323 273**	**20 697**	**11 248**	**-**	**355 218**
Calculated	7 206	2 320	1 335	-	10 861
Revaluation	28 913	1 835	-	-	30 748
Disposals	(756)	(854)	(581)	-	(2 191)
31.12.2019	**358 636**	**23 998**	**12 002**	**-**	**394 636**
Net book value as of 31.12.2019	**292 293**	**14 837**	**4 441**	**1 079**	**312 650**
Net book value as of 31.12.2018	**221 832**	**11 923**	**4 317**	**393**	**238 465**

As at 31 December 2019, the Group has payables for property, plant and equipment for a total of EUR 1 547 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
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**

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
Cost or revalued amount					
31.12.2018	**-**	**-**	**1 263**	**-**	**1 263**
Additions	1 811	-	371	1	2 183
Disposals	-	-	(41)	-	(41)
31.12.2019	**1 811**	**-**	**1 593**	**1**	**3 405**
Depreciation					
31.12.2018	**-**	**-**	**415**	**-**	**415**
Calculated	18	-	272	-	290
Disposals	-	-	(29)	-	(29)
31.12.2019	**18**	**-**	**658**	**-**	**676**
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
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**

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.

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 "Gaso"	**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 "Gaso"	**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
Allowance at the beginning of the year	**8 128**	**8 581**	**8 107**	**8 581**
Expense included in profit or loss statement	547	321	216	300
Income included in profit or loss statement	(6)	-	-	-
Net changes included in profit or loss statement	**541**	**321**	**216**	**300**
Bad debts written off	(303)	(774)	(303)	(774)
Allowance at the end of the year	**8 366**	**8 128**	**8 020**	**8 107**

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. 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	2 088	3 193	1 802	3 193
Reserves funds	1 145	-	1 145	-
Derivative financial instruments	7 029	1 616	7 029	1 616
Other receivables	215	483	374	354
	11 151	**5 827**	**10 758**	**5 451**

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

14. 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
Share capital				
Registered (closed issue) shares	36.52	14 571 480	36.52	14 571 480
Bearer (public issue) shares	63.48	25 328 520	63.48	25 328 520
	100.00	**39 900 000**	**100.00**	**39 900 000**
Shareholders				
Uniper Ruhrgas International GmbH *(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
	100.00	**39 900 000**	**100.00**	**39 900 000**

As at December 31, 2019 and as at December 31, 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.

Earnings per share/ Group	Earnings per share 2019	2018
Net profit attributable to shareholders (a) EUR'000	**20 190**	**25 185**
Ordinary shares as at 1 January (number, th.)	39 900	39 900
Ordinary shares as at 31 December (number, th.)	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b) (number, th.)	39 900	39 900
Basic earnings per share during the year (a/b) in EUR	**0.506**	**0.653**

Earnings per share / Company	Earnings per share 2019	2018
Net profit attributable to shareholders (a) EUR'000	**19 702**	**23 193**
Ordinary shares as at 1 January (number, th.)	39 900	39 900
Ordinary shares as at 31 December (number, th.)	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b) (number, th.)	39 900	39 900
Basic earnings per share during the year (a/b) in EUR	**0.494**	**0.581**

15. Interest-bearing loans and borrowings

	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Loan from JSC "SEB banka"				
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	-	-
Overdraft from "OP Corporate Bank" plc Branch in Latvia	-	8 386	-	8 386
	29 167	**41 053**	**-**	**8 386**

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 "Gaso". 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 2019	Group 2018	Company 2019	Company 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Balance at the beginning of the year	**41 053**	**38 361**	**8 386**	**3 361**
Borrowings received	-	5 025	-	5 025
Borrowings repaid	(11 886)	(2 333)	(8 386)	-
Balance at the end of the year	**29 167**	**41 053**	**-**	**8 386**

16. 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
Income from residential and corporate customers' contributions to construction of gas pipelines:				
Long-term part	18 434	18 658	-	-
Short-term part	1 138	1 019	-	-
Other deferred income:				
Short-term part	-	-	92	-
	19 572	**19 677**	**92**	**-**

Changes of deferred income

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

17. 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 19)	-	113	5 167	6 165
Payables to third parties	5 489	5 468	3 082	3 763
	5 489	**5 581**	**8 249**	**9 928**

18. 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
	24 157	**33 549**	**17 250**	**26 692**

19. 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 "Gaso" was established in late 2017.

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

Related party payables and 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
Receivables from related companies				
JSC "Gaso"	-	-	-	811
Advance payments to related entities				
PJSC "Gazprom"	5 827	5 025	5 827	5 025
Payables to related companies for natural gas and services				
JSC "Gaso"	-	-	5 167	6 052

20. 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.

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 "Gaso" was established and a series of rent agreements was concluded between JSC "Latvijas Gāze" and JSC "Gaso", 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 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 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;
- 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 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 - 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 after 31 December 2018)

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 "Gaso" 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 "Gaso" 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 "Gaso" shares in exchange for the net assets transferred to JSC "Gaso", thereby acquiring non-monetary assets (shares) in exchange for a combination of non-monetary and monetary assets and liabilities (i.e., JSC "Gaso" 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 it 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 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 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 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

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 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 and the Company 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.

21. 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	5	15	1	1
	46	**54**	**27**	**25**

22. Contingent liabilities

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

According to the Commercial law of Republic of Latvia, in the case of reorganization, the incumbent company bears solidary responsibility together with the newly established company with regard to the liabilities that originated prior to reorganisation and were transferred to the newly established company, and whose settlement date occurs within five years after the reorganization date. As at 31 December 2019, the Group and the Company are not aware of any existing liabilities that it 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 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Contracted and unfinished	**686**	**1 335**	**244**	**845**

23. Subsequent events

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.