LATVIJAS GĀZE GROUP CONSOLIDATED AND JSC "LATVIJAS GĀZE" UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE 3-MONTHS PERIOD ENDED 31 MARCH 2020

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 2014, 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"

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.

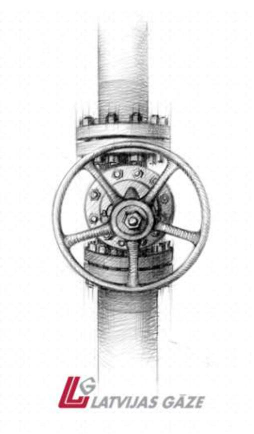
The natural gas distribution segment provides natural gas distribution services in Latvia. The JSC "Gaso" holds an exclusive license for the distribution of natural gas on the territory of Latvia. The license is valid until 6 December 2037. The JSC "Gaso" owns and operates all distribution assets necessary 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 March 2020

	Countries of operation	Type of business operation	Participation share
JSC "Latvijas Gāze"	Latvia, Lithuania, Estonia, Finland	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.

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 (01.01.2017. – 31.03.2020.)

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 Baltic

INDEX | EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX Baltic Benchmark GI	788.17	777.91	-1.3
OMX Riga	733.77	904.46	+23.26
GZE1R - Latvijas Gāze	8.78	9	+2.51

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.

On 31st of March 2020, in terms of stock market capitalization, the JSC "Latvijas Gāze" remained on the first place among the companies listed on the Nasdaq Riga Secondary List. In the second half of March 2020, the coronavirus started to affect stock markets. At the end of the reporting period, the market capitalization value of the JSC "Latvijas Gāze" amounted to 359.10 million EUR and decreased by 13.46%, compared to the same period of 2019. During the first quarter of 2020, the share price of the Company fell by 9.09%.

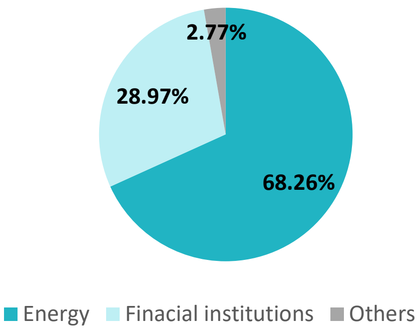
SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2017.-31.03.2020.)

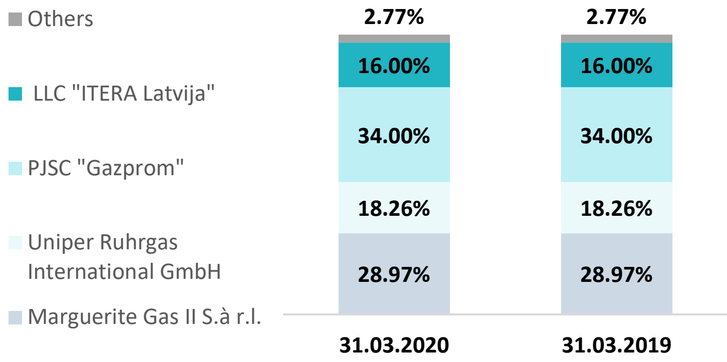
Source: Nasdaq Baltic

INFORMATION ON SHARE TRANSACTIONS (3M 2018 – 3M 2020)

	3M 2020	3M 2019	3M 2018
Share price (EUR)			
First	9.90	10.20	10.00
Highest	10.00	10.50	10.80
Lowest	8.10	10.20	9.90
Average	9.58	10.33	10.37
Last	9.00	10.40	10.70
Change (From First to Last share price)	-9.09%	1.96%	7.00%
Number of transactions	413	207	231
Number of shares traded	21 337	18 239	18 714
Turnover (million EUR)	0.201	0.140	0.193
Capitalization (million EUR)	359.10	414.96	426.93

COMPOSITION OF SHAREHOLDERS ON 31.03.2020





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

MANAGEMENT REPORT

Comparably mild temperatures and the far-reaching lockdown measures connected to the spread of the coronavirus were the key factors shaping the operating environment of the JSC “Latvijas Gāze” during the first quarter 2020. Despite several colder days during February and March, overall temperatures remained above the long-term seasonal normal temperature especially affecting natural gas demand in the heating segment. At the same time, the availability of natural gas supplies remained high due to healthy storage levels and a continued inflow of LNG into Europe. Particularly the early lockdown in the wake of the spread of the coronavirus in China and the subsequent drop in economic activity spurred the arrival of additional Liquefied Natural Gas (“LNG”) cargoes in Europe and pushed down market prices.

On 14 March 2020, the Latvian Cabinet of Ministers issued a “Declaration of Emergency Situation” in Latvia due to the coronavirus pandemic. In light of this, Latvijas Gāze group took several safety measures to protect the health and well-being of its customers and employees. Besides strict internal rules including travelling and business meetings, the JSC “Latvijas Gāze” as well as the JSC ”Gaso” closed their client centres for visitors until end of emergency situation. Until re-opening of the client centres services for clients will be available only via phone and electronic forms of communication. Despite that, Latvijas Gāze group fully ensured business continuity as well as the uninterrupted supply of natural gas to its customers during the first quarter. Nevertheless, depending on the length of the crisis, the Group’s management cannot fully preclude further limitations to the Group’s operations, if those will be required by decisions of the government.

Despite the challenging market environment the JSC “Latvijas Gāze” during the first quarter of 2020 managed to sell 3 307 GWh of natural gas to its customers in Latvia and abroad. After the opening of the Finish natural gas market on 1 January 2020 the Group’s sales & trading segment was particularly successful in selling natural gas to Finnish customers. During the first quarter 2020, the JSC “Latvijas Gāze” sold 466.4 GWh to Finnish customers, which comprised 57% of total natural gas sales abroad.

“During the first quarter 2020, the JSC “Latvijas Gāze” successfully expanded its natural gas sales activities in Finland.

The Group’s net turnover during the first three months of the year amounted to 65.5 million EUR and was 42.1% lower in comparison to the same period in 2019. The significantly lower net turnover was attributable to lower absolute sales prices as well as a drop in sales in comparison to the first quarter 2019. As several larger customers had stored significant natural gas quantities in 2019 sales during the first three months of 2020 dropped as expected. Apart from that, as mentioned before, milder than usual temperatures led to lower overall natural gas demand. The market conditions prevailing during the first quarter of the year also affected EBITDA, EBIT and net profit figures. The Group’s net profit for the first quarter 2020 amounted to 15.3 million EUR, which was 11.3% lower than for the same period in the previous year.

With regard to the further course of business during 2020, the JSC “Latvijas Gāze” expects that the business environment will remain challenging. Latvijas Gāze group projects that particularly a drop in overall natural gas demand because of the measures related to the coronavirus lockdown as well as an increasing inability of certain customer groups to settle their invoices may negatively affect the Group’s financial performance in 2020. Apart from that stiff competition, low market prices and the extremely limited availability of storage capacities in the Baltic region will exert pressure on the Group’s sales & trading business. However, Management of the JSC “Latvijas Gāze” also expects that the profit generated during the first quarter 2020 will provide a certain financial buffer for the remaining months of the year. The economic performance of the distribution business operated by the JSC “Gaso” will largely depend on the overall demand level and the respective volumes of natural gas transported through the distribution network during 2020.

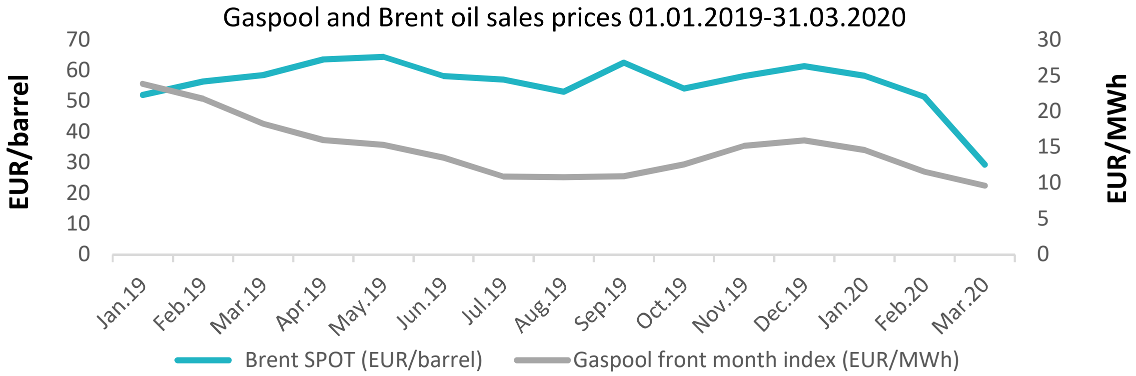
Despite the difficult market environment, the JSC “Latvijas Gāze” remains fully committed to achieving the best possible financial performance and creating sustainable value for all stakeholders. In that context, the sales & trading segment during the first quarter 2020 continued to actively control and further reduce its operating expenses and applied a disciplined approach to capital expenditures. At the same time, the sales & trading segment successfully drove the further implementation of its new billing system and customer portal. The new billing system as well as the customer portal will contribute to reducing the cost of core business processes as well as to improving customer service quality.

Group`s key figures	3M 2020	3M 2019	3M 2018
Natural gas sales, GWh	3 259	4 002	3 674
Number of employees, average	987	991	990
Length of distribution lines, km	5 298	5 248	5 231

Group`s key financial figures	3M 2020	3M 2019	3M 2018
	EUR'000	EUR'000	EUR'000
Net turnover	65 496	113 178	96 352
EBITDA	18 894	20 328	23 398
EBITDA, %	28.8	18.0	24.3
EBIT	15 390	17 331	20 517
EBIT, %	23.5	15.3	21.3
Net profit	15 286	17 242	20 118
Net profit margin, %	23.3	15.2	20.9
Earnings per share, EUR	0.38	0.43	0.50
P/E	23.49	24.19	21.40
Current ratio	4.92	4.76	5.39

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, %= $\frac{Net\ profit}{Revenue\ from\ contracts\ with\ customers}$ x 100%
P/E Ratio	P/E= $\frac{Share\ price}{Earnings\ per\ share\ for\ the\ reporting\ period}$
Current ratio *(Ability to pay short-term obligations)*	Current ratio = $\frac{Current\ assets}{Current\ liabilities}$

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

After a stabilization phase during the last months of 2019, market prices significantly went down again during the first three months of the year. The price for the GASPOOL front month index, which serves as one of the key reference prices in the Baltic region, dropped by 34% in the period January to end of March 2020. Two major developments were the key drivers behind the decline in market prices. Unusually warm average temperatures in North West Europe and a massive drop in economic activity in Asia related to the coronavirus led to a worldwide drop in natural gas demand. At the same time, higher than usual storage levels at this time of the year and the diversion of LNG cargoes initially destined for Asian markets significantly increased the amount of freely available natural gas supplies in North West Europe.

On a regional level, strong LNG deliveries to the Klaipeda LNG Terminal reflect the currently high supply of competitively priced LNG in world markets. Lower absolute prices and the ample availability of natural gas intensified the level of competition in the Latvian and regional natural gas market during the first quarter 2020. Subsequently, the pressure on sales margins increased and several customers strived to re-negotiate or improve the pricing conditions in existing contracts in a quest to benefit from lower market prices. Apart from that, less favourable market conditions led to lower demand for natural gas in the power generation segment.

The JSC "Latvijas Gāze" expects that a continuously high level of LNG deliveries to the Baltic region during 2020 will further spur competition on the supply side and might even lead to a situation of temporary oversupply in the wake of weakening overall natural gas demand. Although it is too early to assess fully the impact stemming from the spread of the coronavirus, the projected massive downturn in economic activity will also affect natural gas demand in the Baltic region.

The overall level of natural gas demand in Latvia and the region during 2020 will also depend on the water levels in the river Daugava at the beginning of the summer months and price developments at the Nordic power exchange.

The JSC "Latvijas Gāze" expects that the currently observed trends will have a lasting effect during the upcoming months and the market environment will remain challenging during the rest of 2020.

KEY EVENTS DURING THE REPORTING PERIOD

- **Since January 1, 2020,** natural gas users in Finland are able to choose freely their natural gas supplier and to receive natural gas from Baltic natural gas traders through the Baltic Connector pipeline linking Finland and Estonia.
- **During January 2020,** the share of total Finnish natural gas consumption delivered through the Baltic Connector pipeline amounted to 34%.
- **On 12 March**, the Latvian Public Utilities Commission ("PUC") approved the terms of use for the Inčukalns Underground Gas Storage (IUGS) in the storage season 2020/2021.
- **On 14 March**, the Latvian Cabinet of Ministers issued a "Declaration of Emergency Situation" in Latvia due to the COVID-19 pandemic. The government prolonged the state of emergency in Latvia **until June 9, 2020**. At this moment the client centres of both JSC "Latvijas Gāze" and JSC "Gaso" remain closed and services for clients are available only via phone and electronic forms of communication.

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 first quarter 2020, assets of the segment were worth 332.8 million EUR, which represents 70% of the Group's total asset value. In the reporting period, the distribution segment generated a net turnover of 15.4 million EUR (decrease by 9.6% compared to the same period of 2019) and EBITDA of 9.0 million EUR. The drop was mainly attributable to a lower utilization of the Latvian natural gas distribution system during the first quarter due to unusually mild temperatures. The segment profit before taxes amounted to 5.7 million EUR in January-March of 2020.

Sales & trading segment: On 31st of March 2020, the sales & trading segment operated by the JSC "Latvijas Gāze" had an asset value of 142.8 million EUR. In the first quarter of 2020, the segment generated a net turnover of 49.7 million EUR which is a decrease by 49% in comparison to the same period of 2019. The significantly lower net turnover is attributable to lower absolute sales prices as well as a drop in sales in comparison to the first quarter 2019. EBITDA for the segment amounted to 9.9 million EUR and profit before taxes reached 9.6 million EUR.

LONG-TERM GAS SUPPLIES

In order to ensure the long-term stability of the Latvian and regional natural 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.

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. Apart from that, the Group during the first quarter 2020 implemented additional measures to manage the increased credit risk resulting from the coronavirus lockdown measures. To minimize the increased risks resulting from potential liquidity issues of its customers the JSC "Latvijas Gāze" put in place additional review procedures and credit policies to protect its own financial position while still supporting customers suffering from the consequences of the current situation where possible. Furthermore, the Group will take into account the impact of the virus on macroeconomic forecasts when calculating the expected credit loss for buyers and customers for 2020.

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 natural 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 natural 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

As the situation regarding the coronavirus is developing rapidly, the impact on the regional and European economy is still very hard to estimate precisely at this moment. However, at the end of March the Bank of Latvia publicly announced that it expects the Latvian GDP to decrease by 6.5% in 2020. Although the Group cannot yet exactly quantify the impact of the drop in GDP on natural gas consumption, it is likely that the total natural gas demand in Latvia will also be lower than initially expected. Lower total natural gas demand in Latvia as well as in the Baltic region subsequently might result in a decline of the Group's sales volumes in 2020.

Apart from that, the Group assumes that there will be an increase in accounts receivable due to delayed payments by customers suffering from liquidity issues as well as an increase of customers being in default. However, only after having invoiced the May natural gas deliveries to customers it will be possible to understand more reasonably the exact magnitude of the potential liquidity issues of the Group's customers. Nevertheless, as mentioned in the section on Financial Risk Management above the Group has already taken additional measures to manage actively the increased credit and liquidity risks resulting from the current situation.

Independent from the spread of the coronavirus 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. Since 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 will continue to analyse opportunities for expanding its business into new segments. The analysis puts a particular focus on business opportunities arising around LNG and natural gas powered technologies in the Baltic region.

Latvijas Gāze group will continue to 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 JSC "Latvijas Gāze" fails to offtake the defined minimum quantities, it may incur financial and legal obligations. The PJSC "Gazprom" holds 34% of the shares in the JSC "Latvijas Gāze"

SUBSEQUENT EVENTS

Sebastian Gröblinghoff Vice-Chairman of the Management Board and Chief Financial Officer (CFO) of JSC "Latvijas Gāze" has decided to leave the Company as of 30 June 2020 and to continue his career in the energy sector outside of Latvia.

Since March 31, 2020 up to the signing of these financial statements there have been no other events with effect on the financial position or financial results of the Company and the Group as at the balance sheet date.

STATEMENT OF THE BOARD RESPONSIBILITY

The Board of the Joint Stock Company "Latvijas Gāze" is responsible for the preparation of the "Latvijas Gāze" Group consolidated and the JSC "Latvijas Gāze" unaudited interim condensed financial statements for 3-months period ended 31 March 2020 (further – Financial statements), which consist of the Company's and its subsidiary (further - Group's) and the Company's financial statements.

Financial statements for the 3-months period ended 31 March 2020 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 principles of recognition and valuation of items observed in the preparation of financial information were the same as in the annual accounts.

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on 27 May 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, 25 March 1991 re-registered in Commercial Register on 20 December 2004
Address	A.Briāna 6, Riga, Latvia, LV-1001
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	1 January – 31 March 2020

STATEMENT OF PROFIT OR LOSS

	Note	Group 01.01-31.03.2020	Group 01.01-31.03.2019	Company 01.01-31.03.2020	Company 01.01-31.03. 2019
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue from contracts with customers	**2**	**65 496**	**113 178**	**50 115**	**97 036**
Other income	3	967	1 924	706	1 497
Raw materials and consumables used	4	(39 290)	(86 680)	(38 894)	(86 198)
Personnel expenses	5	(6 471)	(6 329)	(1 172)	(1 110)
Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets		(3 504)	(2 997)	(288)	(104)
Other operating expenses	6	(1 808)	(1 765)	(785)	(932)
Operating profit		**15 390**	**17 331**	**9 682**	**10 189**
Financial expense		(104)	(89)	(52)	(30)
Profit before taxes		**15 286**	**17 242**	**9 630**	**10 159**
Corporate income tax		-	-	-	-
Profit for the period		**15 286**	**17 242**	**9 630**	**10 159**

STATEMENT OF COMPREHENSIVE INCOME

	Group 01.01-31.03.2020	Group 01.01-31.03.2019	Company 01.01-31.03.2020	Company 01.01-31.03. 2019
	EUR'000	EUR'000	EUR'000	EUR'000
Profit for the period	**15 286**	**17 242**	**9 630**	**10 159**
Other comprehensive income - items that will not be reclassified to profit or loss				
Change in revaluation reserve of property, plant and equipment	-	48	-	-
Total other comprehensive income	**-**	**48**	**-**	**-**
Total comprehensive income for the period	**15 286**	**17 290**	**9 630**	**10 159**

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BALANCE SHEET

	Note	Group 31.03.2020	Group 31.12.2019	Company 31.03.2020	Company 31.12.2019
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets	7	7 957	8 137	4 857	4 799
Property, plant and equipment	8	310 473	312 650	2 674	2 729
Right-of-use assets		55	384	361	384
Investment in subsidiary	9	-	-	194 534	194 534
Other debtors		202	32	6	6
Total non-current assets		**318 687**	**321 203**	**202 432**	**202 452**
Current assets					
Inventories	10	17 878	50 105	16 317	48 872
Pre-payments for inventories		5 876	5 829	5 870	5 828
Trade receivables		30 828	26 955	28 488	23 813
Other current assets		6 539	11 151	5 917	10 758
Cash and cash equivalents		95 784	48 995	78 853	38 487
Total current assets		**156 905**	**143 035**	**135 445**	**127 758**
TOTAL ASSETS		**475 592**	**464 238**	**337 877**	**330 210**

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BALANCE SHEET (continued)

	Note	Group 31.03.2020	Group 31.12.2019	Company 31.03.2020	Company 31.12.2019
		EUR'000	EUR'000	EUR'000	EUR'000
LIABILITIES AND EQUITY					
Equity					
Share capital		55 860	55 860	55 860	55 860
Share premium		20 376	20 376	20 376	20 376
Reserves		193 844	195 597	204 494	204 494
Retained earnings		128 917	111 878	33 077	23 447
Total equity		**398 997**	**383 711**	**313 807**	**304 177**
Liabilities					
Non-current liabilities					
Borrowings	11	24 500	25 667	-	-
Lease liabilities		32	292	270	292
Deferred income	12	18 364	18 434	-	-
Employee benefit obligations		1 778	1 757	57	57
Total non-current liabilities		**44 674**	**46 150**	**327**	**349**
Current liabilities					
Trade payables		3 295	5 489	7 084	8 249
Interest-bearing loans and borrowings	11	3 500	3 500	-	-
Lease liabilities		25	93	93	93
Deferred income	12	1 076	1 138	23	92
Other liabilities	13	24 025	24 157	16 543	17 250
Total current liabilities		**31 921**	**34 377**	**23 743**	**25 684**
Total liabilities		**76 595**	**80 527**	**24 070**	**26 033**
TOTAL LIABILITIES AND EQUITY		**475 592**	**464 238**	**337 877**	**330 210**

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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
31 December 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**
31 December 2019	**55 860**	**20 376**	**195 087**	**510**	**111 878**	**383 711**
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(1 753)	-	1 753	-
Comprehensive income						
Profit for the year	-	-	-	-	15 286	15 286
Total comprehensive income	**-**	**-**	**-**	**-**	**15 286**	**15 286**
31 March 2020	**55 860**	**20 376**	**193 334**	**510**	**128 917**	**398 997**

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COMPANY'S STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Employee benefits revaluation reserve	Reorgani-sation reserve	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 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**
31 December 2019	**55 860**	**20 376**	**(51)**	**204 545**	**23 447**	**304 177**
Comprehensive income						
Profit for the year	-	-	-	-	9 630	9 630
Total comprehensive income	**-**	**-**	**-**	**-**	**9 630**	**9 630**
31 March 2020	**55 860**	**20 376**	**(51)**	**204 545**	**33 077**	**313 807**

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STATEMENT OF CASH FLOWS

	Note	Group 01.01-31.03.2020	Group 01.01-31.03.2019	Company 01.01-31.03.2020	Company 01.01-31.03.2019
		EUR'000	EUR'000	EUR'000	EUR'000
Cash flow from operating activities					
Profit before corporate income tax		**15 286**	**17 242**	**9 630**	**10 159**
Adjustments:					
- depreciation of property, plant and equipment and right-of-use assets		2 979	2 752	112	63
- amortisation of intangible assets		520	428	171	41
- losses / (income) from long-term asset exclusions		90	1	-	-
- interest expenses		105	88	52	30
Changes in operating assets and liabilities:					
- in accounts receivable		1 317	(5 882)	167	(6 463)
- in inventories		32 227	71 976	32 555	72 398
- in advances for inventories		(47)	4 487	(42)	4 696
- in accounts payable		(3 089)	(9 135)	(1 759)	(8 131)
Net cash inflow from operating activities		**49 388**	**81 957**	**40 886**	**72 793**
Cash flow from investing activities					
Payments for property, plant and equipment	8	(821)	(360)	(59)	(15)
Payments for intangible assets	7	(507)	(894)	(392)	(805)
Proceeds from sale of property, plant and equipment		1	7	-	-
Net cash inflow / (outflow) from investing activities		**(1 327)**	**(1 247)**	**(451)**	**(820)**
Cash flow from financing activities					
Overdraft paid		-	(8 386)	-	(8 386)
Loan paid		(1 167)	(1 167)	-	-
Leases paid		-	-	(17)	-
Interest paid		(105)	(88)	(52)	(30)
Net cash outflow from financing activities		**(1 272)**	**(9 641)**	**(69)**	**(8 416)**
Net cash flow		**46 789**	**71 069**	**40 366**	**63 557**
Cash and cash equivalents at the beginning of the reporting period		**48 995**	**16 280**	**38 487**	**4 845**
Cash and cash equivalents at the end of the reporting period		**95 784**	**87 349**	**78 853**	**68 402**

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NOTES TO FINANCIAL STATEMENTS

1. Segment information

In 2020 and 2019, 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 3 months 2020	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
EBITDA	**9 930**	**8 964**	**18 894**
Depreciation and amortisation	(271)	(3 233)	(3 504)
Financial expense	(52)	(52)	(104)
Profit before taxes	**9 607**	**5 679**	**15 286**

Group 3 months 2019	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
EBITDA	**10 264**	**10 064**	**20 328**
Depreciation and amortisation	(105)	(2 892)	(2 997)
Financial expense	(30)	(59)	(89)
Profit before taxes	**10 129**	**7 113**	**17 242**

Company / Gas trade	3 months 2020	3 months 2019
	EUR'000	EUR'000
EBITDA	**9 970**	**10 293**
Depreciation and amortisation	(288)	(104)
Financial expense	(52)	(30)
Profit before taxes	**9 630**	**10 159**

Group 3 months 2020	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant, equipment and intangible assets	269	962	1 231
Segment assets 31.03.2020	142 811	332 781	475 592

Group 3 months 2019	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	289	718	1 007
Segment assets 31.03.2019	149 632	262 353	411 985

Company / Gas trade 3 months	2020	2019
	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	269	289
Segment assets 31.03	337 877	344 630

2. Revenue from contracts with customers

Group	Gas trade		Gas distribution	
3 months 2020	Latvia	Other countries	Latvia	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	37 019	12 682	15 443	65 144
Inter-segment revenue	(625)	-	-	(625)
Connection, balancing and other service fees recognised as revenue	359	55	262	676
Other revenue	-	-	301	301
	36 753	**12 737**	**16 006**	**65 496**

Group	Gas trade		Gas distribution	
3 months 2019	Latvia	Other countries	Latvia	Total
Restated	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	82 182	14 854	17 079	114 115
Inter-segment revenue	(1 360)	-	-	(1 360)
Connection and other service fees recognised as revenue	-	-	255	255
Other revenue	1	-	167	168
	80 823	**14 854**	**17 501**	**113 178**

Company	Gas trade		
3 months 2020	Latvia	Other countries	Total
	EUR'000	EUR'000	EUR'000
Segment revenue	37 019	12 682	49 701
Other revenue (balancing services)	359	55	414
	37 378	**12 737**	**50 115**

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

3. Other income

	Group 3 months 2020	Group 3 months 2019	Company 3 months 2020	Company 3 months 2019
	EUR'000	EUR'000	EUR'000	EUR'000
Net fair value gains on financial derivatives	180	986	180	986
Other	787	938	526	511
	967	1 924	706	1 497

In 3 months 2020 Other income position includes a net amount of 180 thousand EUR originating from financial hedging activities. 1 544 thousand EUR out of this amount is attributable to operational activities during the 3 months reporting period. The remaining amount for outstanding derivatives of (1 364) thousand EUR is evaluated on a mark-to-market basis as of the balance sheet date. (1 399) thousand EUR is attributable to operational activity in 2020 and 35 thousand EUR is attributable to operational activity in 2021.

4. Raw materials and consumables used

	Group 3 months 2020	Group 3 months 2019	Company 3 months 2020	Company 3 months 2019
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	38 992	86 329	38 882	86 189
Costs of materials, spare parts and fuel	298	351	12	9
	39 290	86 680	38 894	86 198

5. Personnel expenses

	Group 3 months 2020	Group 3 months 2019	Company 3 months 2020	Company 3 months 2019
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	4 862	4 780	835	851
State social insurance contributions	1 177	1 144	212	194
Life, health and pension insurance	313	305	47	44
Other personnel costs	119	100	78	21
	6 471	6 329	1 172	1 110

6. Other operating expenses

	Group 3 months 2020	Group 3 months 2019	Company 3 months 2020	Company 3 months 2019
	EUR'000	EUR'000	EUR'000	EUR'000
Selling and advertising costs	190	345	124	305
Expenses related to premises (rent, electricity, security and other services)	303	244	51	90
Donations, financial support	20	15	9	5
Office and other administrative costs	434	437	194	219
Taxes and duties	239	248	152	145
Costs of IT system maintenance, communications and transport	467	388	240	154
Other costs	155	88	15	14
	1 808	**1 765**	**785**	**932**

7. Intangible assets

	Group 3 months 2020	Group 2019	Company 3 months 2020	Company 2019
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
As at the beginning of period	**20 967**	**17 558**	**5 468**	**3 541**
Additions	339	3 410	229	1 928
Disposals	-	(1)	-	(1)
As at the end of period	**21 306**	**20 967**	**5 697**	**5 468**
Amortisation				
As at the beginning of period	**12 830**	**10 914**	**669**	**200**
Amortisation	519	1 917	171	470
Disposals	-	(1)	-	(1)
As at the end of period	**13 349**	**12 830**	**840**	**669**
Net book value as at the end of the period	**7 957**	**8 137**	**4 857**	**4 799**

8. 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					
31.12.2019	**650 929**	**38 835**	**16 443**	**1 079**	**707 286**
Additions	419	313	132	28	892
Disposals	(263)	(66)	(178)	-	(507)
31.03.2020	**651 085**	**39 082**	**16 397**	**1 107**	**707 671**
Depreciation					
31.12.2019	**358 636**	**23 998**	**12 002**	**-**	**394 636**
Calculated	1 947	695	337	-	2 979
Disposals	(177)	(62)	(178)	-	(417)
31.03.2020	**360 406**	**24 631**	**12 161**	**-**	**397 198**
Net book value as of 31.03.2020	**290 679**	**14 451**	**4 236**	**1 107**	**310 473**
Net book value as of 31.12.2019	**292 293**	**14 837**	**4 441**	**1 079**	**312 650**

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**

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					
31.12.2019	**1 811**	**-**	**1 593**	**1**	**3 405**
Additions	-	-	39	1	40
Disposals	-	-	(3)	-	(3)
31.03.2020	**1 811**	**-**	**1 629**	**2**	**3 442**
Depreciation					
31.12.2019	**18**	**-**	**658**	**-**	**676**
Calculated	18	-	77	-	95
Disposals	-	-	(3)	-	(3)
31.03.2020	**36**	**-**	**732**	**-**	**768**
Net book value as of 31.03.2020	**1 775**	**-**	**897**	**2**	**2 674**
Net book value as of 31.12.2019	**1 793**	**-**	**935**	**1**	**2 729**

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**

9. Investment in subsidiary

	Company
	EUR'000
Invested during reorganisation 01.12.2017	194 534
Balance sheet value 31.03.2020 and 31.12.2019	**194 534**

Shares held	31.03.2020	31.12.2019
JSC “Gaso”	100%	100%

	Subsidiary's equity 31.03.2020	Subsidiary's equity 31.12.2019	Subsidiary's profit 3 months 2020	Subsidiary's profit 3 months 2019
	EUR'000	EUR'000	EUR'000	EUR'000
JSC “Gaso”	279 723	274 067	5 656	7 083

10. Inventories

	Group 31.12.2020	Group 31.12.2019	Company 31.12.2020	Company 31.12.2019
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	16 317	48 872	16 317	48 872
Materials and spare parts	1 632	1 304	-	-
Allowance for slow-moving inventory	(71)	(71)	-	-
	17 878	**50 105**	**16 317**	**48 872**

11. Interest-bearing loans and borrowings

	Group 31.03.2020	Group 31.12.2019	Company 31.03.2020	Company 31.12.2019
	EUR'000	EUR'000	EUR'000	EUR'000
Loan from JSC "SEB banka"				
Long-term part of the loan	24 500	25 667	-	-
Short-term part of the loan (i.e. less than 12 months)	3 500	3 500	-	-
	28 000	**29 167**	**-**	**-**

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. The Company has overdraft possibility. Overdraft interest rate is fixed % p.a. plus 3 month EURIBOR.

12. Deferred income

	Group 31.03.2020	Group 31.12.2019	Company 31.03.2020	Company 31.12.2019
	EUR'000	EUR'000	EUR'000	EUR'000
Income from residential and corporate customers' contributions to construction of gas pipelines:				
Long-term part	18 364	18 434	-	-
Short-term part	1 053	1 046	-	-
Other deferred income:				
Short-term part	23	92	23	92
	19 440	**19 572**	**23**	**92**

Changes of deferred income

	Group 3 months 2020	Group 3 months 2019	Company 3 months 2020	Company 3 months 2019
	EUR'000	EUR'000	EUR'000	EUR'000
Balance at the beginning of the year	**19 572**	**19 677**	**92**	**-**
Received from residential and corporate customers during reporting year	199	199	-	-
Included in income of reporting year	(331)	(255)	(69)	-
Total transfer to next years	**19 440**	**19 621**	**23**	**-**

13. Other liabilities

	Group 31.03.2020	Group 31.12.2019	Company 31.03.2020	Company 31.12.2019
	EUR'000	EUR'000	EUR'000	EUR'000
Prepayments received	9 090	10 843	9 014	10 793
Derivative financial instruments	2 663	1 258	2 663	1 258
Value added tax	3 499	3 839	2 525	2 774
Accrued costs	4 995	4 431	1 134	1 081
Excise tax	757	892	756	887
Vacation pay reserve	1 234	901	141	141
Salaries	846	839	163	151
Social security contributions	498	701	89	101
Personnel income tax	248	338	49	33
Real estate tax	136	-	-	-
Natural resource tax	1	6	-	-
Other current liabilities	58	109	9	31
	24 025	**24 157**	**16 543**	**17 250**

14. 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.

Financial instruments

Financial assets Classification

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

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

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

Recognition and de-recognition

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

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

Measurement

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

Debt instruments

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

Amortised cost

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

The following financial assets of the Company and Group were classified in this category:

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

Equity instruments

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

Derivative financial instruments

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

Impairment

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

The measurement of ECL reflects:

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

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

Revenue from contracts with customers

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

Sale of natural gas – wholesale

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

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

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

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

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

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

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

Excise duty

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

Sale of services – natural gas distribution

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

Connection fees

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

Contract assets and contract liabilities related to contracts with customers

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

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

Financing component

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Intangible assets

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

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

Impairment of non-financial assets

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

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

Inventories

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

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

Leases (accounting policy applied since 1 January 2019)

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

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Discount rate applied to measure lease liabilities as at 31 March 2020 and 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.

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.

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.

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 with regard to investment in subsidiary is reversed if the recoverable amount of investment has increased above the previously estimated recoverable amount used in measuring the recognised impairment loss, but reversal should not exceed the initial cost of investment.

Segment reporting

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

Share capital and dividend authorised

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

Trade and other payables

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

Borrowings and borrowing costs

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

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

Provisions

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

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

Employee benefits

Wages, salaries and bonus plans

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

Social security and pension contributions

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

Vacation pay accrual

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

Post-employment and other employee benefits

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

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

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

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

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

Income tax

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

The Group recognise deferred tax liability for taxable temporary differences associated with investment in subsidiary (arising from existence of untaxed retained earnings arisen after 1 January 2018 in subsidiary) except to the extent that it is probable that the temporary difference will not reverse in the foreseeable future, i.e., the untaxed retained earnings will not be distributed from subsidiary to the parent company in foreseeable future. In the reporting periods ended 31 March 2020 and 31 December 2019 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.

15. Subsequent events

Sebastian Gröblinghoff Vice-Chairman of the Management Board and Chief Financial Officer (CFO) of JSC “Latvijas Gāze” has decided to leave the Company as of 30 June 2020 and to continue his career in the energy sector outside of Latvia.

Since 31 March 2020 up to the signing of these financial statements there have been no other events with effect on the financial position or financial results of the Group and the Company as at the balance sheet date.