



**LATVIJAS GĀZE GROUP CONSOLIDATED AND
JSC "LATVIJAS GĀZE"
UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 3-MONTHS PERIOD ENDED 31 MARCH 2021**

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

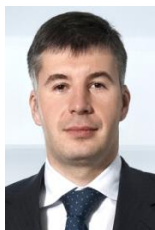
Riga 2021

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COUNCIL OF THE JSC “LATVIJAS GĀZE”

Council's term of office from 9 October 2019 till 8 October 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. (Luxembourg)



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”

Management Board’s term of office from 16 August 2018 till 15 August 2021.

Board member’s Inga Āboliņa’s term of office from 17 August 2020 till 16 August 2023.



Aigars Kalvītis, 1966
Chairman of the Board

Latvian University of Agriculture,
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



Inga Āboliņa, 1974
Member of the Board

Stockholm School of Economics in
Riga, Executive MBA

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 “Gasos” 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 “Gasos” owns and operates all distribution assets necessary to provide the respective services to its approximately 400 thousand customers. The JSC “Gasos” 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 “Gasos” 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 2021

	Countries of operation	Type of business operation	Participation share
JSC “Latvijas Gāze”	Latvia, Lithuania, Estonia, Finland	Sales & trading of natural gas	
JSC “Gasos”	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

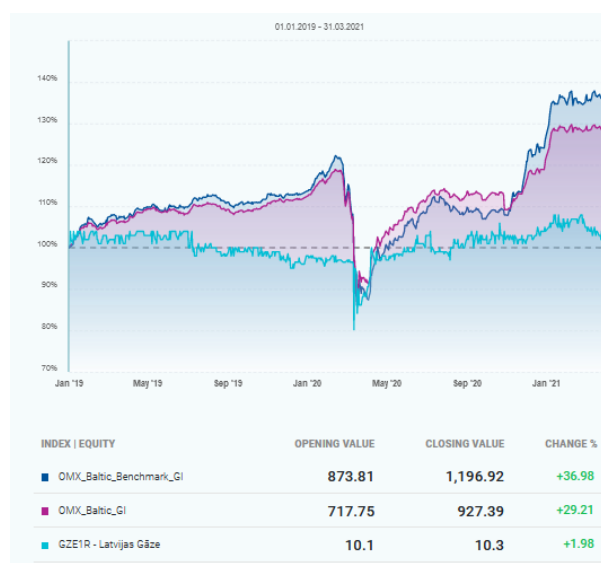
The shares of the JSC “Latvijas Gāze” are listed on the Nasdaq Riga stock exchange since February 15, 1999, and its ticker code is GZE1R since August 1, 2004. The total number of securities has not changed since 1999. The total number of shareholders of JSC “Latvijas Gāze” as of 31.03.2021 was 6 318.

COMPANY’S SHARE PRICE, OMX RIGA GI AND OMX BALTIC GI INDEX CHANGES (01.01.2019. – 31.03.2021.)

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



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 2021, in terms of stock market capitalization, the JSC “Latvijas Gāze”, the market capitalization value of the Company amounted to 410.97 million EUR, which is by 14% more, compared to the same period of 2020. After negative impact of coronavirus lockdown measures on stock market during March – April 2020, domestic stock market recovered and the share price of the Company has increased since then.

SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2019.-31.03.2021.)

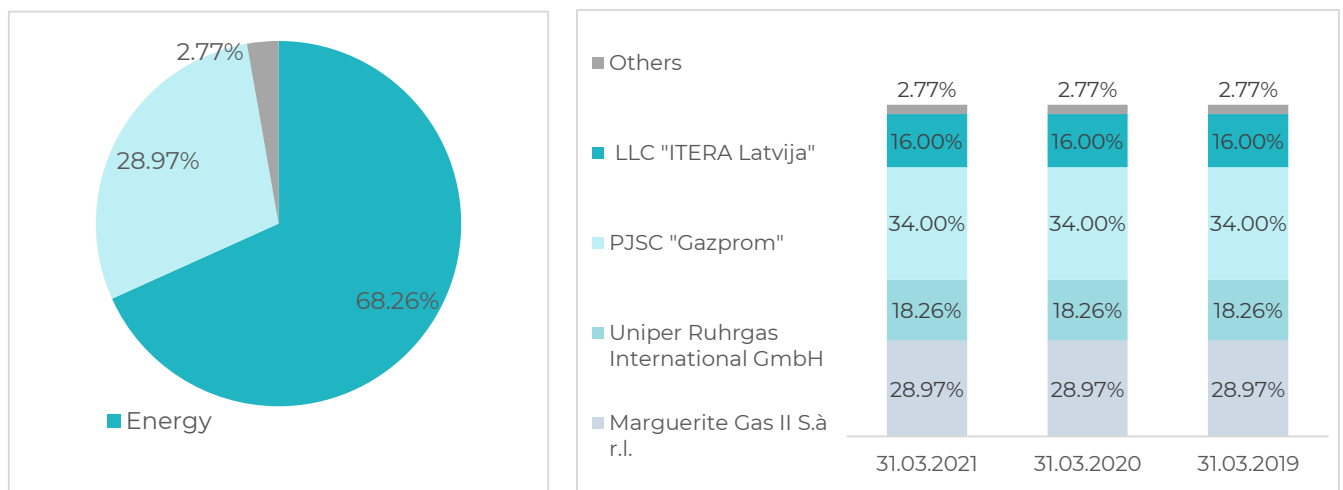


Source: Nasdaq Baltic

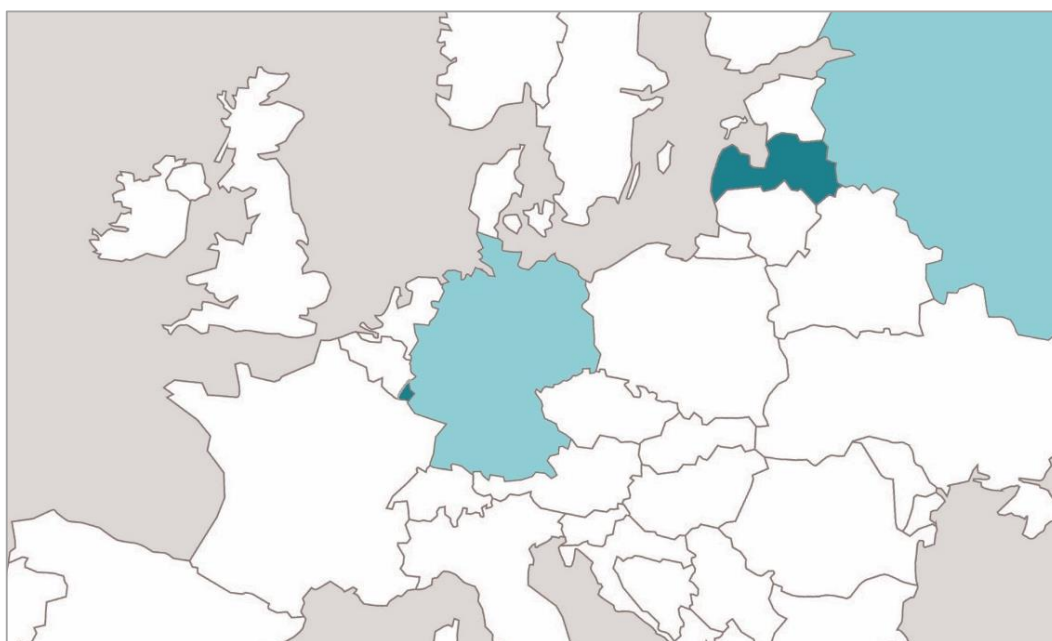
INFORMATION ON SHARE TRANSACTIONS (3M 2019 –3M 2021)

	3M 2021	3M 2020	3M 2019
Share price (EUR)			
First	10.50	9.90	10.20
Highest	10.90	10.00	10.50
Lowest	10.20	8.10	10.20
Average	10.61	9.58	10.33
Last	10.30	9.00	10.40
Change (From First to Last share price)	-1.90%	-9.09%	1.96%
Number of transactions	827	413	207
Number of shares traded	20 928	21 337	18 239
Turnover (million EUR)	0.221	0.201	0.140
Capitalization (million EUR)	411	359	415

COMPOSITION OF SHAREHOLDERS, 31.03.2021



GEOGRAPHICAL DISTRIBUTION OF THE MAJOR SHAREHOLDERS



- Russia (PAS Gazprom)
- Luxembourg (Marguerite GAS I S.À R.L.)
- Germany (Uniper Ruhrgas International GMBH)
- Latvia (SIA Itera Latvija)

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

		At the date of signing financial statements
		Number of shares
Management Board		
Chairman of the Board	Aigars Kalvītis	None
Deputy Chairman of the Board	Denis Emelyanov	None
Member of the Board	Elita Dreimane	None
Member of the Board	Inga Āboliņa	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

Latvijas Gāze group showed an outstanding performance in first quarter of 2021. Last year's strategic decision by JSC "Latvijas Gāze" to defer injected underground storage inventory to 2021 boosted gross profit margin amid continuous natural gas price rise. Additionally, significantly colder temperature increased JSC "Latvijas Gāze" sales and utilization of JSC "Gasol" distribution network. The rally is observed almost in all commodities on the back of economic recovery and supply constraints. Despite the fact that JSC "Latvijas Gāze" benefited from natural gas price rise in the first quarter, continuous commodity rally will pose a challenge for the remaining part of the year.

Natural gas price increased almost three times in the first quarter of 2021 compared to its lows in the third quarter of 2020 due to cold winter that pushed demand higher for natural gas. Although the situation with the spread of coronavirus continues to be alarming, the increasing availability of the vaccine will contribute to a faster economic recovery.

In March 2020 due to the spread of coronavirus, a state of emergency was declared in Latvia, which remained in place till June 9 2020. Given the development of the epidemiological situation, the state of emergency was prolonged until April 2021. The customer service centres of JSC "Latvijas Gāze" and JSC "Gasol" remain closed to visitors.

During first quarter of 2021, JSC "Latvijas Gāze" sold 4 181 GWh of natural gas to customers in Latvia and abroad. Compared to the same period in 2020, sales volumes has increased by 25%. Sales volumes to foreign counterparties accounted for 47% of the total sales volumes. After opening of the Finnish natural gas market in 2020 the Group's sales & trading segment was particularly successful in selling natural gas to Finnish customers. During the first quarter of 2021, the JSC "Latvijas Gāze" sold 1 161 GWh to Finnish customers, which comprised 28% of total natural gas sales.

Sales volumes outside Latvia accounted for 47% of the total sales volumes of the JSC "Latvijas Gāze".

The Group's net turnover during the first three months in 2021 reached 75.2 million EUR – a 14.8% increase compared to same period in 2020. This is due to higher sales prices and increase in sales volumes compared to same period in 2020. The air temperature was below three-year average in the reporting period, which increased demand for natural gas in the region. The Group's net profit for first quarter in 2021 – 24.7 million EUR – was by 61.4% higher in comparison to the same period in 2020 when it amounted to 15.3 million EUR.

For the further course of business in 2021, JSC "Latvijas Gāze" expects that further natural gas price rally will diminish the margin as it is getting extremely challenging to pass high natural gas price to clients due to severe competition. Accordingly, competitors are companies that seek to increase market share and are able to offer prices below market levels.

The economic performance of the distribution segment managed by JSC "Gasol" depends on the overall natural gas demand and volumes transported through the distribution network over the year. During first quarter of 2021, JSC "Gasol" continued to develop a safe and available natural gas distribution infrastructure, with major investments made in construction and reconstruction of gas

pipelines and shut-off devices, reconstruction of technological equipment, and development of information technologies and computing equipment.

At the end of 2020, redesigned client portal with enhanced functionality and other modernised services became available to customers. JSC "Latvijas Gāze" keeps working on improvements in different areas, including customer care and IT system upgrade. During first quarter of 2021, the JSC "Latvijas Gāze" continued to work on improvements in remote customer attendance, enabling multiple options of reaching the Company and receiving services remotely.

Group`s key figures	3M 2021	3M 2020	3M 2019
Natural gas sales, GWh*	4 118	3 259	4 002
Number of employees, average	1 007	987	991
Length of distribution lines, km	5 352	5 298	5 248

Group`s key financial figures	3M 2021	3M 2020	3M 2019
	EUR'000	EUR'000	EUR'000
Net turnover	75 234	65 496	113 178
EBITDA	28 343	18 894	20 328
EBITDA, %	37.7	28.8	18.0
EBIT	24 753	15 390	17 331
EBIT, %	32.9	23.5	15.3
Net profit	24 672	15 286	17 242
Net profit margin, %	32.8	23.3	15.2
Earnings per share, EUR	0.62	0.38	0.43
P/E	16.61	23.49	24.19
Current ratio	5.18	4.92	4.76
ROCE	0.06	0.05	0.05
Dividends / net profit		0.87	0.87

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)	$\text{EBITDA, \%} = \frac{\text{EBITDA}}{\text{Revenue from contracts with customers}} \times 100\%$
EBIT(Profit before income tax and interest)	EBIT= Profit of the year + Corporate income tax + Financial expense - Financial income
EBIT,% (or EBIT margin)	$\text{EBIT, \%} = \frac{\text{EBIT}}{\text{Revenue from contracts with customers}} \times 100\%$
Net profitability (or Commercial profitability) The indicator reflects how much the company earns from each of the EUR received from customers	$\text{Net profitability, \%} = \frac{\text{Profit of the year}}{\text{Revenue from contracts with customers}} \times 100\%$
P/E Ratio (Relationship between Share Price and Earnings per Share)	$\text{P/E} = \frac{\text{Last share price}}{\text{Earnings per share for the reporting year}}$

Return on equity (ROE) (<i>Company's earnings ratio on the company's equity source - shareholders</i>) The indicator reflects the effective use of equity capital by the company	Return on equity,% = $\frac{\text{Profit of the year}}{\text{Average annual equity value}^*} \times 100\%$
Return on assets (ROA) (<i>The amount of profit earned by the company on the assets used</i>) The indicator reflects how effectively company is profiting from the use of its assets	Return on assets,% = $\frac{\text{Profit of the year}}{\text{Average annual asset value}^{**}} \times 100\%$
Current ratio The indicator measures Company's ability to pay short-term obligations that matures within one year.	Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$
Return on capital employed (ROCE) The indicator measures the effective use of available capital by the company.	Return on capital employed = $\frac{\text{EBIT}}{\text{Capital employed}}$
Dividend payout ratio The indicator reflects total amount of dividends paid out to shareholders relative to the net income of the company.	Dividend payout ratio = $\frac{\text{Dividends paid}}{\text{Net income}}$

* 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

Natural gas surplus accumulated in North-West Europe was fully eroded by cold winter and supply constraints. Asia experienced harsh weather during the winter as a result natural gas price benchmark reached all time high. Additionally, US LNG exports were negatively impacted by polar blast in February 2021. Natural gas inventories in Europe entered the summer season with a below five-year average level, which continues to support bullish natural gas price rally. Carbon Emission Allowances (EUA) futures price increased pushing coal out of the energy mix and boosting demand for natural gas as low-carbon alternative.

The latest economic review by the International Monetary Fund (IMF) estimates a positive growth rate of the global economy (+6%) in 2021. The global economy is projected to grow 4.4% in 2022. The projections for 2021 and 2022 are stronger than in the previous economic review. The upward revision reflects additional fiscal support in a few large economies, the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to subdued mobility. High uncertainty surrounds the economic projections related to the path of the pandemic, the effectiveness of policy support to provide a bridge to vaccine-powered normalization, and the evolution of financial conditions. According to the latest macroeconomic forecasts of the Bank of Latvia (LB) as revised in April 2021, Latvia's GDP will grow by 3.3% in 2021, compared to the December 2020 forecast of 2.8%. With the infection rates declining only moderately, uncertainty remains high, encumbering investment decisions and, together with the adverse impact of the pandemic on employment and income, resulting in more cautious spending behaviour of consumers. At the same time, due to restrictions, many services are still unavailable or cannot be remotely provided to their full potential.

KEY EVENTS DURING THE REPORTING PERIOD

- **Since January**, in order to provide financing for the purchase of natural gas for the next two natural gas injection seasons, JSC “Latvijas Gāze” has entered into a new credit line agreement with the Latvian branch of OP Corporate Bank plc, continuing the previously established cooperation. The current EUR 50 million credit line agreement expires end of May 2021, the new credit line is EUR 30 million and is in force until end of May 2023.
- **On April 6, 2021**, the state of emergency in Latvia, which was in force from November 6, 2020 related to the spread of coronavirus ended. JSC “Latvijas Gāze” will continue serving its customers only remotely, with the customer service centre remaining closed. When and where possible JSC “Latvijas Gāze” employees are working remotely to minimize risks associated with the spread of coronavirus.

OPERATING RESULTS OF THE BUSINESS SEGMENTS

Sales & trading segment: On 31st March 2021, the sales & trading segment operated by JSC “Latvijas Gāze” had an asset value of 139.7 million EUR. In first quarter of 2021, the segment generated a net turnover of 55.8 million EUR, which was by 13% higher in comparison to the same period in 2020. The significantly higher net turnover was mainly attributable to higher sales prices due to developments in global natural gas market, as well as higher sales quantities, compared to the same period in 2020. During first quarter 2021 segment’s EBITDA amounted to 16.4 million EUR, profit before taxes reached 16.1 million EUR, while in first quarter of 2020 EBITDA was 9.9 million EUR, and profit before taxes was 9.6 million EUR.

Distribution segment: The distribution segment operated by JSC “Gasol” is the largest business segment within Latvijas Gāze group by its asset value. At the end of first quarter 2021, assets of the segment were worth 333.2 million EUR, which represents 70% of the Group’s total asset value. In the reporting period, the distribution segment generated a net turnover of 19.5 million EUR and EBITDA of 11.9 million EUR (increase by 22% and 33% accordingly, compared to the same period of 2020, respectively). Distribution services are regulated and form the main source of revenue for JSC “Gasol”. The increase in net turnover was mainly caused by higher utilization of the Latvian natural gas distribution system, because of lower temperatures during the heating months. The segment’s profit before taxes amounted to 8.6 million EUR in first quarter of 2021 and was by 51% higher, compared to same period 2020.

LONG-TERM GAS SUPPLIES

JSC “Latvijas Gāze” business portfolio consist of long-term natural gas supplies as well as booked storage and transmission capacities, thus contributing to the Latvia and region long-term stability of gas provision.

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

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

As in previous periods, 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 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 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. As in May 2021 the existing overdraft agreement of the JSC “Latvijas Gāze” with OP Corporate Bank plc will expire, JSC “Latvijas Gāze” has concluded a new overdraft agreement with OP Corporate Bank plc that will be utilized to purchase natural gas during the next two natural gas injection seasons. The new overdraft limit is 30 million EUR and expires on 31 May, 2023. The closed transaction strengthens the overall liquidity of the Company and enables the implementation of a more advanced portfolio optimization strategy.

Following the opening of the Latvian natural gas market to competition in 2017, the natural gas sales and trading segment continues to be exposed to **market risks**. Particularly the greater variety of pricing structures requested by customers and high price volatility 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 instrument.

FUTURE PROSPECTS

JSC “Latvijas Gāze” expects that 2021 will be challenging, as it is hard to pass high natural gas price to clients due to severe competition. This will negatively affect the profitability of JSC “Latvijas Gāze” in the next periods. On the other side, demand for natural gas in the region is expected to increase as cold winter brought back gas inventory to healthy levels and industrial gas demand will grow on the back of economy recovery.

Competition in Finish market will be more intense this year as the tight winter-summer spread no longer provides a competitive advantage to utilize the underground storage in Latvia. In contrast, Finland has a good track record in securing supply via pipe during winter.



At the same time JSC “Latvijas Gāze” supports EU policy on climate neutrality objectives for 2050 and plans to contribute achieving the goals of sustainable development. Particularly the Company puts its focus on promoting the CNG use in transport sector thus reducing the greenhouse gas emissions and diminishing environmental footprint. The Company plans to explore additional markets and has set up an internal project group to analyse opportunities for expanding its business into environmentally friendly segments. The analysis puts a particular focus on business opportunities arising around CNG and bio methane production technologies in the Baltic region.

Following the EU Methane strategy and objectives for transportation sector put forward in the Renewables Directive, supporting both a motivational system for organic waste recovery and the demand side for the use of biomethane in transport the Company will respond through economically sustainable answers to the challenge of combating climate change and giving access to energy resources in an efficient and sustainable way, overall.

JSC “Latvijas Gāze” will continue to invest consequently into modernization and digitalization of customer care processes as well as into new product and service development. Furthermore, to increase the effectiveness JSC “Latvijas Gāze” will continue to implement new functionalities to the new billing system and customer portal.

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 CNG, LNG, and gas powered technologies in the Baltic region.

Latvijas Gāze group will continue build on its strong reputation in the Latvian market and expanding its activities in the single market area formed by Estonia, Latvian and Finland

CORPORATE MANAGEMENT REPORT AND REMUNERATION REPORT

www.lg.lv

COVID-19 IMPACT

The management of the Latvijas Gāze group complies with all the necessary safety measures to keep its customers and employees safe.

SUBSEQUENT EVENTS

Since 31 March 2021 up to the signing of these financial statements there have been no events with effect on the financial position or financial results of the Company and the Group as at the balance sheet date.



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 2021 (further – Financial statements), which consist of the Company's and the Company's and its subsidiary (further - Group's) financial statements.

Financial statements for the 3-months period ended 31 March 2021 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 26 May 2021, and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Inga Āboliņa
Member 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
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 2021

STATEMENT OF PROFIT OR LOSS

	Note	Group 01.01.- 31.03.2021	Group 01.01.- 31.03.2020	Company 01.01.- 31.03.2021	Company 01.01.- 31.03.2020
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue from contracts with customers	2	75 234	65 496	56 879	50 115
Other income	3	694	967	468	706
Raw materials and consumables used	4	(38 798)	(39 290)	(38 334)	(38 894)
Personnel expenses	5	(6 738)	(6 471)	(1 138)	(1 172)
Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets		(3 590)	(3 504)	(306)	(288)
Other operating expenses	6	(2 049)	(1 808)	(1 068)	(785)
Operating profit		24 753	15 390	16 501	9 682
Financial expense		(81)	(104)	(81)	(52)
Profit before taxes		24 672	15 286	16 420	9 630
Corporate income tax		-	-	-	-
Profit for the period		24 672	15 286	16 420	9 630

STATEMENT OF COMPREHENSIVE INCOME

	Group 01.01.- 31.03.2021	Group 01.01.- 31.03.2020	Company 01.01.- 31.03.2021	Company 01.01.- 31.03.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Profit for the period	24 672	15 286	16 420	9 630
Other comprehensive income - items that will not be reclassified to profit or loss				
Total other comprehensive income	-	-	-	-
Total comprehensive income for the period	24 672	15 286	16 420	9 630

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Chairman of the Board

Inga Āboliņa
Member of the Board

Elita Dreimane
Member of the Board

BALANCE SHEET

	Note	Group 31.03.2021	Group 31.12.2020	Company 31.03.2021	Company 31.12.2020
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets	7	9 073	9 177	5 111	5 057
Property, plant and equipment	8	307 687	309 971	2 483	2 534
Right-of-use assets		35	40	272	295
Investment in subsidiary	9	-	-	194 534	194 534
Other debtors		91	8	5	5
Total non-current assets		316 886	319 196	202 405	202 425
Current assets					
Inventories	10	12 726	42 220	11 090	40 854
Pre-payments for inventories		11 566	8 046	11 561	8 035
Trade receivables		36 390	28 306	33 515	25 339
Other financial assets at amortised cost		447	1 573	396	1 513
Other current assets		1 997	1 972	1 307	1 363
Cash and cash equivalents		92 818	54 236	74 537	44 968
Total current assets		155 944	136 353	132 406	122 072
TOTAL ASSETS		472 830	455 549	334 811	324 497

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BALANCE SHEET (continued)

	Note	Group 31.03.2021	Group 31.12.2020	Company 31.03.2021	Company 31.12.2020
		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		186 870	188 432	204 491	204 491
Retained earnings		137 403	111 169	32 653	16 233
Total equity		400 509	375 837	313 380	296 960
Liabilities					
Non-current liabilities					
Provisions		688	700	-	-
Borrowings	11	21 000	22 167	-	-
Lease liabilities		-	-	164	187
Deferred income	12	18 241	18 318	-	-
Employee benefit obligations		2 305	2 305	61	61
Total non-current liabilities		42 234	43 490	225	248
Current liabilities					
Trade payables		4 028	5 725	7 690	8 202
Interest-bearing loans and borrowings	11	3 500	3 500	-	-
Lease liabilities		37	21	111	89
Deferred income	12	1 086	1 079	-	-
Other liabilities	13	21 436	25 897	13 405	18 998
Total current liabilities		30 087	36 222	21 206	27 289
Total liabilities		72 321	79 712	21 431	27 537
TOTAL LIABILITIES AND EQUITY		472 830	455 549	334 811	324 497

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation reserve	Employee benefits revaluation reserve	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000 Restated	EUR'000 Restated
31 December 2019 (restated)	55 860	20 376	195 087	510	110 719	382 552
Transactions with owners						
Dividends	-	-	-	-	(17 556)	(17 556)
Total transactions with owners	-	-	-	-	(17 556)	(17 556)
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(6 817)	-	6 817	-
Comprehensive income						
Profit for the year	-	-	-	-	11 189	11 189
Other comprehensive income	-	-	-	(348)	-	(348)
Total comprehensive income	-	-	-	(348)	11 189	10 841
31 December 2020	55 860	20 376	188 270	162	111 169	375 837
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(1 562)	-	1 562	-
Comprehensive income						
Profit for the year	-	-	-	-	24 672	24 672
Total comprehensive income	-	-	-	-	24 672	24 672
31 March 2021	55 860	20 376	186 708	162	137 403	400 509

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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 Restated	EUR'000 Restated
31 December 2019 (restated)	55 860	20 376	(51)	204 545	22 288	303 018
Transactions with owners						
Dividends	-	-	-	-	(17 556)	(17 556)
Total transactions with owners	-	-	-	-	(17 556)	(17 556)
Comprehensive income:						
Profit for the year	-	-	-	-	11 501	11 501
Other comprehensive income	-	-	(3)	-	-	(3)
Total comprehensive income	-	-	(3)	-	11 501	11 498
31 December 2020	55 860	20 376	(54)	204 545	16 233	296 960
Comprehensive income						
Profit for the year	-	-	-	-	16 420	16 420
Total comprehensive income	-	-	-	-	16 420	16 420
31 March 2021	55 860	20 376	(54)	204 545	32 653	313 380

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STATEMENT OF CASH FLOWS

	Note	Group 01.01.- 31.03.2021	Group 01.01.- 31.03.2020	Company 01.01.- 31.03.2021	Company 01.01.- 31.03.2020
		EUR'000	EUR'000	EUR'000	EUR'000
Cash flow from operating activities					
Profit before corporate income tax		24 672	15 286	16 420	9 630
<i>Adjustments:</i>					
- depreciation of property, plant and equipment and right-of-use assets		3 035	2 979	93	112
- amortisation of intangible assets		555	520	213	171
- (profit) / losses from long-term asset exclusions		20	90	(3)	-
- interest expenses		81	105	81	52
<i>Changes in operating assets and liabilities:</i>					
- in accounts receivable		(6 454)	1 317	(6 986)	167
- in inventories		29 495	32 227	29 764	32 555
- in advances for inventories		(3 521)	(47)	(3 526)	(42)
- in accounts payable		(3 854)	(3 089)	(5 821)	(1 759)
Net cash inflow from operating activities		44 029	49 388	30 235	40 886
Cash flow from investing activities					
Payments for property, plant and equipment	8	(2 708)	(821)	(27)	(59)
Payments for intangible assets	7	(1 476)	(507)	(554)	(392)
Proceeds from sale of property, plant and equipment		31	1	13	-
Net cash outflow from investing activities		(4 153)	(1 327)	(568)	(451)
Cash flow from financing activities					
Loan paid		(1 167)	(1 167)	-	-
Leases paid		-	-	(17)	(17)
Interest paid		(127)	(105)	(81)	(52)
Net cash outflow from financing activities		(1 294)	(1 272)	(98)	(69)
Net cash flow		38 582	46 789	29 569	40 366
Cash and cash equivalents at the beginning of the reporting period		54 236	48 995	44 968	38 487
Cash and cash equivalents at the end of the reporting period		92 818	95 784	74 537	78 853

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NOTES TO FINANCIAL STATEMENTS

1. Segment information

In 2021 and 2020, Latvijas Gāze group consisted of two segments – the natural gas sales & trading segment and the distribution segment.

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

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

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

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

Group 3 months 2021	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
EBITDA	16 450	11 893	28 343
Depreciation and amortisation	(289)	(3 301)	(3 590)
Financial expense	(81)	-	(81)
Profit before taxes	16 080	8 592	24 672

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

Company / Gas trade	3 months 2021	3 months 2020
	EUR'000	EUR'000
EBITDA	16 807	9 970
Depreciation and amortisation	(306)	(288)
Financial expense	(81)	(52)
Profit before taxes	16 420	9 630

Group 3 months 2021	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant, equipment and intangible assets	296	953	1 249
Segment assets 31.03.2021	139 670	333 160	472 830

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

Company / Gas trade	3 months 2021	3 months 2020
	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	296	269
Segment assets 31.03	334 811	337 877

Assets	JSC "Latvijas Gāze"	JSC "Gasol"	Investment	Intercompany receivables/ payables	Rent	Total Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets 31.03.2021	334 811	337 589	(194 534)	(4 798)	(238)	472 830
Assets 31.12.2020	324 497	331 152	(194 534)	(5 311)	(255)	455 549

Assets 31.3.2021	Segment assets	Investment	Intercompany receivables/ payables	Rent	Total company
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
JSC "Latvijas Gāze"	139 670	194 534	369	238	334 811
JSC "Gasol"	333 160	-	4 429	-	337 589

Assets 31.12.2020	Segment assets	Investment	Intercompany receivables/ payables	Rent	Total company
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
JSC "Latvijas Gāze"	129 530	194 534	178	255	324 497
JSC "Gasol"	326 020	-	5 132	-	311 152

2. Revenue from contracts with customers

Group 3 months 2021	Gas trade		Gas distribution	Total
	Latvia	Other countries	Latvia	
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	21 960	33 883	18 973	74 816
Inter-segment revenue	(1 109)	-	-	(1 109)
Connection, balancing and other service fees recognised as revenue	982	54	275	1 311
Other revenue	-	-	216	216
	21 833	33 937	19 464	75 234

Group 3 months 2020	Gas trade		Gas distribution	Total
	Latvia	Other countries	Latvia	
	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

Company 3 months 2021	Gas trade		Total
	Latvia	Other countries	
	EUR'000	EUR'000	EUR'000
Segment revenue	21 960	33 883	55 843
Other revenue (balancing services)	982	54	1 036
	22 942	33 937	56 879

Company 3 months 2020	Gas trade		Total
	Latvia	Other countries	
	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

3. Other income

	Group 3 months 2021	Group 3 months 2020	Company 3 months 2021	Company 3 months 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Net fair value gains on financial derivatives	332	180	986	180
Other	362	787	938	526
	694	967	1 924	706

Other operating income position includes a net amount of 332 thousand EUR originating from financial hedging activities. (276) thousand EUR out of this amount is attributable to operational activities during the 3 months reporting period. The remaining amount for outstanding derivatives of 608 thousand EUR is evaluated on a mark-to-market basis as of the balance sheet date and is attributable to 2021 operational activity.

4. Raw materials and consumables used

	Group 3 months 2021	Group 3 months 2020	Company 3 months 2021	Company 3 months 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	38 459	38 992	86 329	38 882
Costs of materials, spare parts and fuel	339	298	351	12
	38 798	39 290	86 680	38 894

5. Personnel expenses

	Group 3 months 2021	Group 3 months 2020	Company 3 months 2021	Company 3 months 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	5 150	4 862	4 780	835
State social insurance contributions	1 204	1 177	1 144	212
Life, health and pension insurance	322	313	305	47
Other personnel costs	62	119	100	78
	6 738	6 471	6 329	1 172

6. Other operating expenses

	Group 3 months 2021	Group 3 months 2020	Company 3 months 2021	Company 3 months 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Selling and advertising costs	119	190	345	124
Expenses related to premises (rent, electricity, security and other services)	265	303	244	51
Donations, financial support	13	20	15	9
Office and other administrative costs	408	434	437	194
Taxes and duties	220	239	248	152
Costs of IT system maintenance, communications and transport	474	467	388	240
Other costs	550	155	88	15
	2 049	1 808	1 765	785

7. Intangible assets

	Group 3 months 2021	Group 2020	Company 3 months 2021	Company 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
As at the beginning of period	24 029	20 967	6 459	5 468
Additions	452	3 062	267	991
As at the end of period	24 481	24 029	6 726	6 459
Amortisation				
As at the beginning of period	14 852	12 830	1 402	669
Amortisation	556	2 022	213	733
As at the end of period	15 408	14 852	1 615	1 402
Net book value as at the end of the period	9 073	9 177	5 111	5 057

8. Property, plant and equipment

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					
31.12.2020	655 714	40 251	17 485	675	714 125
Additions	315	70	237	175	797
Disposals	(109)	(61)	(80)	-	(250)
31.03.2021	655 920	40 260	17 642	850	714 672
Depreciation					
31.12.2020	365 507	25 718	12 929	-	404 154
Calculated	2 031	513	487	-	3 031
Disposals	(78)	(52)	(70)	-	(200)
31.03.2021	367 460	26 179	13 346	-	406 985
Net book value as of 31.03.2021	288 460	14 081	4 296	850	307 687
Net book value as of 31.12.2020	290 207	14 533	4 556	675	309 971

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					
31.12.2019	650 929	38 835	16 443	1 079	707 286
Additions	6 159	2 163	1 051	-	9 373
Transfers	-	-	404	(404)	-
Disposals	(1 374)	(747)	(413)	-	(2 534)
31.12.2020	655 714	40 251	17 485	675	714 125
Depreciation					
31.12.2019	358 636	23 998	12 002	-	394 636
Calculated	7 814	2 389	1 312	-	11 515
Disposals	(943)	(669)	(385)	-	(1 997)
31.12.2020	365 507	25 718	12 929	-	404 154
Net book value as of 31.12.2020	290 207	14 533	4 556	675	309 971
Net book value as of 31.12.2019	292 293	14 837	4 441	1 079	312 650

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					
31.12.2020	1 811	-	1 721	-	3 532
Additions	-	-	29	-	29
Disposals	-	-	(17)	-	(17)
31.03.2021	1 811	-	1 733	-	3 544
Depreciation					
31.12.2020	90	-	908	-	998
Calculated	18	-	52	-	70
Disposals	-	-	(7)	-	(7)
31.03.2021	108	-	953	-	1 061
Net book value as of 31.03.2021	1 703	-	780	-	2 483
Net book value as of 31.12.2020	1 721	-	813	-	2 534

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	-	-	186	-	186
Transfer	-	-	1	(1)	-
Disposals	-	-	(59)	-	(59)
31.12.2020	1 811	-	1 721	-	3 532
Depreciation					
31.12.2019	-	-	658	-	676
Calculated	72	-	289	-	361
Disposals	-	-	(39)	-	(39)
31.12.2020	90	-	908	-	998
Net book value as of 31.12.2020	1 721	-	813	-	2 534
Net book value as of 31.12.2019	1 793	-	935	1	2 729

9. Investment in subsidiary

	Company	
	EUR'000	
Invested during reorganisation 01.12.2017	194 534	
Balance sheet value 31.03.2021 and 31.12.2020	194 534	
Shares held	31.03.2021	31.12.2020
JSC "Gasó"	100%	100%

	Subsidiary's equity	Subsidiary's equity	Subsidiary's profit	Subsidiary's profit
	31.03.2021	31.12.2020	3 months 2021	3 months 2020
	EUR'000	EUR'000	EUR'000	EUR'000
JSC "Gasó"	281 663	273 411	8 252	5 656

10. Inventories

	Group	Group	Company	Company
	31.03.2021	31.12.2020	31.03.2021	31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	11 090	40 854	11 090	40 854
Materials and spare parts	1 706	1 437	-	-
Allowance for slow-moving inventory	(70)	(71)	-	-
	12 726	42 220	11 090	40 854

11. Interest-bearing loans and borrowings

	Group	Group	Company	Company
	31.03.2021	31.12.2020	31.03.2021	31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
<i>Loan from JSC "SEB banka"</i>				
Long-term part of the loan	21 000	22 167	-	-
Short-term part of the loan (i.e. less than 12 months)	3 500	3 500	-	-
	24 500	25 667	-	-

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 "Gasó". 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 31.03.2021	Group 31.12.2020	Company 31.03.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Income from residential and corporate customers' contributions to construction of gas pipelines:				
Long-term part	18 241	18 318	-	-
Short-term part	1 086	1 079	-	-
	19 327	19 397	-	-

13. Other liabilities


	Group 31.03.2021	Group 31.12.2020	Company 31.03.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Prepayments received	8 792	11 872	8 723	11 813
Derivative financial instruments	379	3 688	379	3 688
Value added tax	2 891	1 848	1 848	899
Accrued costs	5 070	4 324	1 152	1 153
Excise tax	765	891	763	889
Vacation pay reserve	1 664	1 250	215	215
Salaries	928	878	186	169
Social security contributions	495	696	84	104
Personnel income tax	247	353	42	54
Natural resource tax	1	11	-	-
Other current liabilities	204	86	13	14
	21 436	25 897	13 405	18 998

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 Group and the Company 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 Group's and Company'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 Group and the Company 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 Group and the Company have transferred substantially all the risks and rewards of ownership.

Measurement


At initial recognition, the Group and Company 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;
- 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 Group and the Company assess on a forward-looking basis the expected credit losses (“ECL”) associated with their 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 Group and the Company apply a simplified approach permitted by IFRS 9 and measure 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 Group's and Company's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group and the Company 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 Group and the Company recognise revenue when it transfers control of a good or service to a customer.

Sale of natural gas – wholesale

The Group and the Company 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 Group and the Company 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 Group and the Company 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 act as an agent in collecting the excise duty from customers, and pay 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". This group is measured at cost less accumulated impairment losses. 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 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	20 - 70
Machinery and equipment	5 - 20
Other fixed assets	2 - 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

The Group and Company are 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 and the Company under residual value guarantees;
- the exercise price of a purchase option if the Group and the Company are reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group and the Company 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, 31 December 2020 and 31 March 2021 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

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, they have 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 “Gasol” which was established on 1 December 2017 as a result of a reorganisation (spun-off of distribution business segment from the parent company JSC “Latvijas Gāze”). The reorganisation was determined to be a transaction among entities under common control and was recorded based on predecessor values. As a result, on the reorganisation date, the assets and liabilities with resulting entries in equity were transferred to the opening balance sheet of subsidiary based on their predecessor amounts in the books of JSC “Latvijas Gāze”. The reorganisation as such did not impact the consolidated financial statements following an establishment of Group as consolidated financial statements continued to report the natural gas trading and distribution business in one consolidated entity.

Reorganisation and investment in subsidiary

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

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

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

As a result of this reorganisation the Company recognised a reorganisation reserve which arose as a result of a difference between the net assets received and transferred within reorganisation process.

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.

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

Segment reporting

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



Share capital and dividend authorised

Ordinary shares are classified as equity. No preference shares have been issued. Incremental external costs directly attributable to the issues of new shares are shown in equity as a deduction, net of tax, from the proceeds. Dividend distribution to the Group's parent company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's 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 Other liabilities 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 are unable to meet their 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 over employment and upon termination of employment 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 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 2021 and 31 December 2020 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

Since 31 March 2021 up to the signing of these financial statements there have been no events with effect on the financial position or financial results of the Company and the Group as at the balance sheet date.