“LATVIJAS GĀZE” GROUP CONSOLIDATED AND JSC "LATVIJAS GĀZE" UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE 9-MONTHS PERIOD ENDED 30 SEPTEMBER 2019

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

RIGA
2019

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COUNCIL OF THE JSC "LATVIJAS GĀZE"

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

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

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

Juris Savickis, 1946
Vice-Chairman of the Council

Since 1996, President of LLC "ITERA Latvija"

Oliver Giese, 1967
Vice-Chairman of the Council

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

Matthias Kohlenbach, 1969
Member of the Council

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

David Stephen Harrison, 1970
Member of the Council

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

Nicolàs Merigó Cook, 1963
Member of the Council

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

Hans-Peter Floren, 1961
Member of the Council

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

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

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

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

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

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

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

Sergey Kuznets
(Сергей Кузнец), 1970
Member of the Council
(from 9 October 2019)

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

Member of the Council – term office till 9 October, 2019: Igor Fedorov.

MANAGEMENT BOARD OF THE JSC "LATVIJAS GĀZE"

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

Aigars Kalvītis, 1966
Chairman of the Board

Latvian University of Agriculture -
Master's Degree in Economics

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

Maastricht University / Netherlands
Master's Degree in Economics

Denis Emelyanov, 1979
Vice-Chairman of the Board

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

Elita Dreimane, 1968
Member of the Board

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

LATVIJAS GĀZE GROUP IN SHORT

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

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

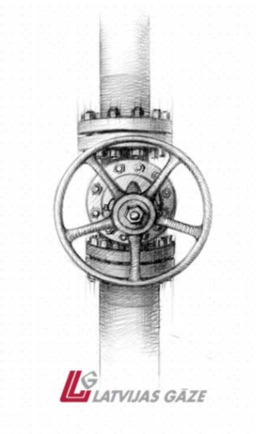
The natural gas distribution segment provides natural gas distribution services in Latvia. The JSC "Gaso" holds an exclusive license for the distribution of natural gas on the territory of Latvia. The license is valid until 6 December 2037. The JSC "Gaso" owns and operates all distribution assets necessary to provide the respective services to its more than 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 30 September 2019

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

STRATEGY AND OBJECTIVES



OUR OBJECTIVE

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

OUR MISSION

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

OUR VISION

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

SHARES AND SHAREHOLDERS OF THE JSC "LATVIJAS GĀZE"

SHARES AND SHAREHOLDERS

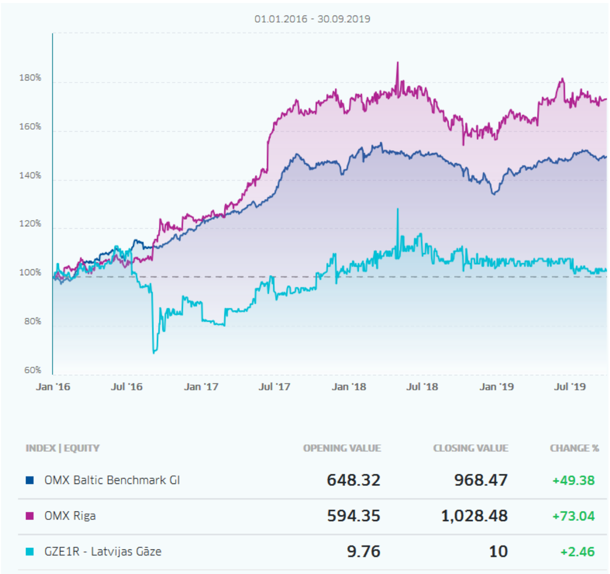
The shares of the JSC "Latvijas Gāze" are listed on the Nasdaq Riga stock exchange since February 15, 1999, and its ticker code is GZE1R since August 1, 2004. The total number of securities has not changed since 1999.

COMPANY'S SHARE PRICE, OMX RIGA GI AND OMX BALTIC GI INDEX CHANGES (01.01.2016. – 30.09.2019.)

ISIN	LV0000100899
Ticker code	GZE1R
List	Second list
Nominal value	1.40 EUR
Total number of securities	39 900 000

Number of securities in public offering	25 328 520
Liquidity provider	None

Source: Nasdaq Riga



INDEX | EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX Baltic Benchmark GI	648.32	968.47	+49.38
OMX Riga	594.35	1,028.48	+73.04
GZE1R - Latvijas Gāze	9.76	10	+2.46

Source: Nasdaq Baltic

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

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

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

In September 2019, in terms of stock market capitalization, the JSC "Latvijas Gāze" ranked number one among the companies listed on the Nasdaq Baltic Secondary List.

In the nine months of 2019, the market capitalization value of the JSC "Latvijas Gāze" reached 399.00 million EUR, which was 7.4% lower than at the end of the same period in 2018. During the nine months of 2019, the share price of the Company decreased by 1.96%.

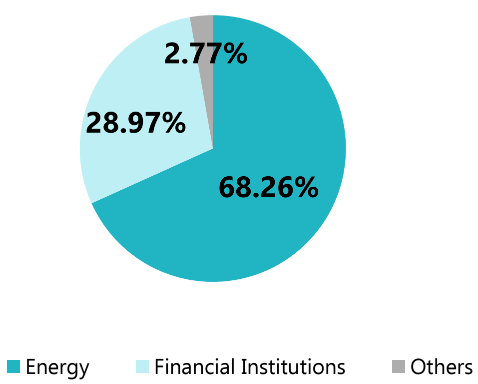
SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2016.-30.09.2019.)

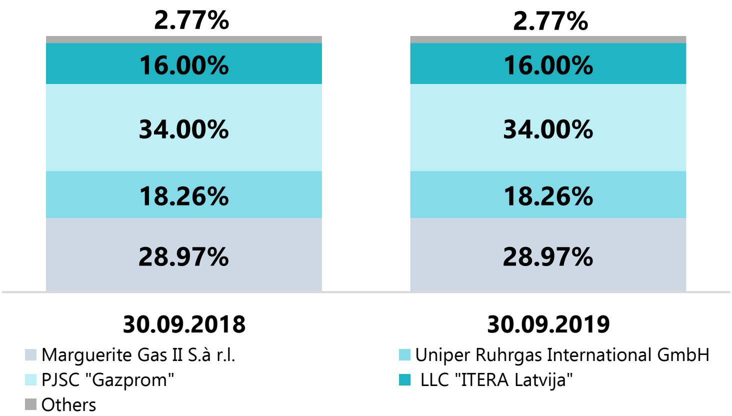
Source: Nasdaq Baltic

INFORMATION ON SHARE TRANSACTIONS (2017 Q3– 2019 Q3)

	2017 Q3	2018 Q3	2019 Q3
Share price (EUR)			
First	8.78	10.00	10.20
Highest	9.82	13.00	10.60
Lowest	7.76	9.90	9.80
Average	8.77	10.65	10.26
Last	9.33	10.80	10.00
Change (From First to Last share price)	6.26%	8.00%	-1.96%
Number of transactions	1 144	606	729
Number of shares traded	133 081	52 611	65 903
Turnover (million EUR)	1.161	0.557	0.673
Capitalization (million EUR)	372.27	430.92	399.00

COMPOSITION OF SHAREHOLDERS AS AT 30.09.2019





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

		At the date of signing financial statements
Management Board		**Number of shares**
Chairman of the Board	Aigars Kalvitis	None
Deputy Chairman of the Board	Denis Emelyanov	None
Deputy Chairman of the Board	Sebastian 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

While during the first half of 2019 a mild winter as well as a steep drop in market prices had created significant challenges for natural gas traders in the Baltic region and Europe alike, the operating environment stabilized in the third quarter.

High gas burn in the power generation segment and large customers buying significant gas quantities for storage injections drove Latvian natural gas demand in the third quarter. While the price for the GASPOOL front month index, which serves as one of the key reference prices in the Baltic region, dropped by more than 40% in the period from January to end of June it bottomed out during July. However, prices continued to exhibit a strong short-term volatility including days with price movements of more than one Euro per MWh.

Despite the slightly better operating environment, the third quarter as expected could not fully mitigate the Group's depressed operating results reported after the first half of 2019. Nevertheless, the Group's distribution as well as the sales & trading segment managed to improve at least slightly their financial position during the third quarter 2019.

While lower year-on-year total gas consumption in Latvia had led to a decline in the utilization of the gas distribution system and negatively weighed on the net turnover of the distribution segment in the first half of 2019 the situation improved during the third quarter 2019. In total, the JSC "Gaso" during the period January to September transported 971 million m^3 through its distribution network, which was only 1.2% less than during the same period in 2018. Despite the difficult market environment, the sales & trading segment, managed to increase its sales by 23% year-on-year. Due to strong deliveries into the Estonian natural gas market and significantly higher gas demand in the power generation segment in the summer months the JSC "Latvijas Gāze" during the nine months period of 2019 in total sold 1 181 million m^3 (12 451 GWh) of natural gas to more than 400 thousand customers.

However, despite a year-on-year increase in the Group's net turnover during the period January to September 2019, EBITDA and net profit dropped noticeably in comparison to the same period in 2018. With 14.4 million EUR EBITDA was by 48.2% lower than a year before. The Group's net profit at the end of the third quarter of 2019 amounted to 2.8 million EUR, down from 18.5 million EUR in 2018. The key reason for the deterioration in the financial results relates to a combination of several unfavourable factors affecting the Group's sales & trading segment.

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

Second, despite positive income from financial derivatives that settled during the first months of the year, mark-to-market losses on open financial derivatives for gas deliveries starting as of November 2019 put a further strain on the segment's half-year financial performance. In line with IFRS accounting rules, the Group recognizes unrealized gains and losses on financial derivatives at fair value through profit and loss. Due the stabilization of market prices and further income from settled hedges during the third quarter 2019 the negative impact on operating result slightly diminished in comparison to the first six months of the year.

Third, because of the continuously falling market prices several customers of the JSC "Latvijas Gāze" that had closed fixed prices contracts required price adjustments or even terminated their contracts.

Paying the termination fee and closing a new contract seemed to be commercially more attractive to those customers than continuing on the existing terms and conditions. The penalties paid by customers, however, were not sufficient to cover the true losses of the JSC “Latvijas Gāze” stemming from the termination of the contracts and, thus, resulted in significant losses.

While earlier than planned storage bookings had negatively weighed on the sales & trading segment’s financial result for the first half of 2019, respectively lower storage costs in the third quarter contributed to reducing the operating loss after the nine months period.

With regard to the further course of business during 2019, the JSC “Latvijas Gāze” expects, that the operating result of the sales & trading segment will improve during the fourth quarter. Starting from early November income from physical supply contracts will begin reversing the mark-to market losses related to financial derivatives. On the physical supply side, the Company successfully completed its storage injection program and is well prepared for the upcoming winter season.

The sales & trading segment, despite the drop in total gas demand in Latvia during the first months of the year, managed to increase its sales by 23% year-on-year.

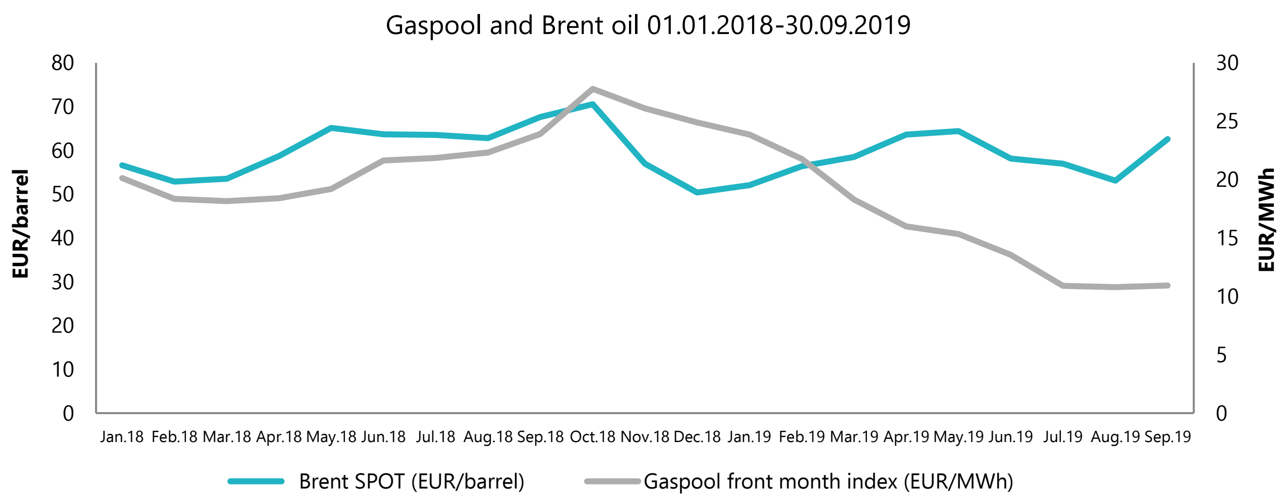
Overall, Latvijas Gāze Group remains fully committed to achieving the best possible financial performance and creating sustainable value for all stakeholders. In that context, the sales & trading segment will continue to maintain a strict approach to cost discipline in its core business. Apart from that, after the “go-live” of the first module of the sales & trading segment’s new billing system and customer portal the JSC “Latvijas Gāze” started with the implementation of the second module. The new billing system as well as the customer portal will contribute to reducing the cost of core business processes as well as to improving customer service quality.

Group`s key figures	2019 Q3	2018 Q3
Natural gas sales, million m^3	1 181	960
Number of employees, average	990	993
Length of distribution lines, km	5 256	5 238

Group`s key financial figures	2019 Q3	2018 Q3 Restated
	EUR'000	EUR'000
Net turnover	258 516	256 237
EBITDA	14 427	27 877
EBITDA, %	5.58	10.88
EBIT	5 394	19 146
EBIT, %	2.09	7.47
Net profit	2 832	18 554
Net profit margin, %	1.10	7.24
Earnings per share, EUR	0.07	0.47
P/E	140.89	23.2

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, amortisation and impairment of property, plant and equipment and intangible assets
EBITDA,% *(or EBITDA margin)*	EBITDA, % = $\frac{EBITDA}{Revenue\ from\ contracts\ with\ customers}$ x 100%
EBIT *(Profit before income tax and interest)*	EBIT= Profit of the year + Corporate income tax + Financial expense - Financial income
EBIT,% *(or EBIT margin)*	EBIT,% = $\frac{EBIT}{Revenue\ from\ contracts\ with\ customers}$ x 100%
Net profitability *(or Commercial profitability)* The indicator reflects how much the company earns from each of the EUR received from customers	Net profitability, %= $\frac{Profit\ of\ the\ year}{Revenue\ from\ contracts\ with\ customers}$ x 100%
P/E Ratio *(Relationship between Share Price and Earnings per Share)*	P/E=$\frac{Share\ price\ 30.09.2019}{Earnings\ per\ share\ for\ the\ reporting\ year}$

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



GENERAL MARKET AND INDUSTRY ENVIRONMENT

Unusually warm average temperatures in North West Europe and significantly lower demand for Liquefied Natural Gas ("LNG") in Asia led to rapidly falling natural gas prices in the world markets during the first half of 2019. High storage levels and the influx of competitively priced LNG to North West European markets pushed prices at the major European gas trading hubs down by more than 50% in comparison to late autumn 2018. At the same time, natural gas prices for the upcoming winter season 2019/2020 quoted above the prices for the summer months of 2019 triggering an early start of the storage injection season across Europe.

The ample supply of competitively priced LNG in world markets also led to an increase in the number of scheduled LNG deliveries to the Klaipeda LNG Terminal. All regasification capacities are reserved at the Klaipeda LNG terminal until the end of 2019. Increased LNG deliveries will further strengthen the competitive dynamics in the region and bolster short-term security of supply.

Worldwide political discussions on measures against climate change and the transition to carbon-free economies continued. While governments in the Baltic region actively push for a further reduction of fossil fuels in the energy mix until 2030 natural gas will play a key role in balancing electricity supply from intermittent renewable sources.
Competition in the Latvian and Baltic natural gas market further intensified during the reporting period. In February, the first trading companies started competing with the JSC "Latvijas Gāze" in the formerly fully regulated household segment in Latvia. Apart from that, cross-border competition in the Baltic region also became fiercer leading to increasing pressure on sales margins. The JSC "Latvijas Gāze" expects that the currently observed trends will continue to unfold in the remaining months of 2019 and also extend into the year 2020.

KEY EVENTS DURING THE REPORTING PERIOD

- **On 1 January 2019,** the new distribution network tariffs became effective.
- **In January,** the Finnish, Estonian and Latvian transmission operators agreed to establish a single market area from January 1, 2020, setting common tariffs for the entry points to the gas transmission system in Varska, Korneti, Imatra and Kiemenai.
- **In February,** the first traders started competing with the JSC "Latvijas Gāze" in the formerly fully regulated household segment in Latvia by actively offering natural gas to household customers.
- **In March,** the JSC Conexus Baltic Grid ("CBG") held an "Auction for keeping an active natural gas quantity and ensuring its availability at the storage facility in the winter period 2019-2020". In total 2 845 000 MWh of commitments were auctioned. The JSC "Latvijas Gāze" successfully participated in the auction and committed to keep a certain quantity of natural gas in the Inčukalns Underground Gas Storage ("IUGS") until end of February 2020. For this commitment, the Company receives a respective financial compensation.
- **In April,** the JSC "Latvijas Gāze" successfully managed the "Go-Live" for the first module of its new billing system and customer portal.
- **On 18 April,** the Public Utilities Commission ("PUC") adopted new gas grid connection rules that allow customers to establish a direct connection with the high-pressure transmission system owned and operated by the JSC "Conexus Baltic Grid". So far, all gas customers in Latvia could only connect to the local gas distribution network owned and operated by the JSC "Gaso".
- **In May,** the JSC "Conexus Baltic Grid" in line with the existing tariff methodology announced to reduce the tariff for the one-year bundled capacity product from 3.52 EUR/MWh to 1.13 EUR/MWh.
- **On 19 June,** the JSC "Latvijas Gāze" held its Annual Shareholders Meeting".
- **As of 15 July 2019,** the JSC "Conexus Baltic Grid" (CBG) curtailed the technically available injection capacity into the Inčukalns Underground Gas Storage (IUGS). Starting from 15 July CBG until the end of the injection season limited the daily maximum injection capacity to 104 GWh.
- **On 11 September 2019,** the JSC "Latvijas Gāze" at the "Vide rītdienai!" event announced to promote actively natural gas as a fuel in transportation

OPERATING RESULTS OF THE BUSINESS SEGMENTS

Distribution segment: Net turnover of the Group's distribution segment amounted to 35.4 million EUR during the reporting period and was in line with the segment's net turnover for the same period in the previous year. The distribution segment's EBITDA reached 14.3 million EUR, which is in line with the nine months period in 2018. Profit before taxes at the end of third quarter of 2019 amounted to 5.5 million EUR, representing a 3% year-on-year decrease for the segment.

In terms of assets, the distribution segment is the largest segment within Latvijas Gāze Group. At the end of the third quarter of 2019, the segment's assets were worth 263.4 million EUR and comprised 74.9% of the Group's total assets.

Sales & trading segment: During the reporting period, the Group's sales & trading segment generated a net turnover of 223.1 million EUR, (representing 86.3% of total Group's revenues). In comparison to the same period in the previous year the segment's net turnover increased by 1.1%. The segment's EBITDA amounted to 0.2 million EUR, compared to 12.5 million EUR at the end of third quarter in 2018. The EBIT of the sales & trading segment for the nine months of 2019 were negative and amounted to minus 0.3 million EUR, compared to a positive 12.1 million in 2018. The period loss before taxes in total summed up to 0.5 million EUR in comparison to a net profit of 11.7 million EUR during the same period in 2018.

At the end of the third quarter of 2019, the asset value of the sales & trading segment amounted to 113.9 million EUR, mainly consisting of natural gas in storage and cash reserves.

FINANCIAL RISK MANAGEMENT

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

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

The group's ***liquidity risk*** mainly stems from the distinct seasonality of the natural gas business. To ensure security of supply for the winter months the Company usually injects significant gas quantities into the Inčukalns Underground Gas Storage ("IUGS") during the injection season starting in early summer. While the Company needs to ensure the availability of respective cash reserves to finance the injection of natural gas into the storage during the summer months, customers will typically consume and subsequently pay most of the gas only during the winter period. To actively monitor and manage the liquidity risk the Company continuously improves its internal cash planning tools and instruments. To take account of the increased importance of a systematic and rigorous cash management in a competitive and highly volatile market the Company has in place a dedicated Treasury function.

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

Company and enables the implementation of a more advanced portfolio optimization strategy.

In comparison to the years before the opening of the Latvian natural gas market to competition the natural gas sales & trading segment faces more ***market risks***. Particularly the greater variety of pricing structures requested by customers have created new risk positions. To actively manage and mitigate these risks, the Company established a separate Risk Management function. Apart from that, the Company continuously monitors and develops further its risk management policies and strategies. Although internal market risk mitigation, e.g. through negotiating supply agreement terms and working with the sales portfolio, is the preferred risk mitigation option, the Company actively uses financial hedging instruments.

FUTURE PROSPECTS

The Company expects that during the fourth quarter 2019 the financial results of Latvijas Gāze group will improve. Nevertheless, the general market environment will remain challenging going forward. Competition on the supply side is likely 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. However, the commissioning of the Balticconnector pipeline between Estonia and Finland and the creation of a single market zone comprising Latvia, Estonia and Finland as of 1 January 2020 will also open up new sales and business opportunities for Latvijas Gāze group. Nevertheless, ensuring competitive purchase conditions under the existing long-term supply agreement with the PJSC Gazprom and increasing the flexibility of supplies will remain key to safeguard the leading position of Latvijas Gāze group in the Latvian natural gas market and to enable the further expansion into neighbouring markets. Starting from the year 2020, the JSC "Latvijas Gāze" will also deliver natural gas to customers in Finland.

The Company plans to explore additional markets and has set up an internal project group to analyse opportunities for expanding its business into new segments. The analysis puts a particular focus on business opportunities arising around LNG and gas powered technologies in the Baltic region. Apart from that, the JSC "Latvijas Gāze" currently reviews its customer care processes with the aim to improve the quality, speed and cost effectiveness of serving its more than 400 thous. customers. 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.

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

TRANSACTIONS WITH RELATED PARTIES

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

STATEMENT OF BOARD RESPONSIBILITY

The Board of the Joint Stock Company “Latvijas Gāze” is responsible for the preparation of the “Latvijas Gāze” Group consolidated and the JSC "Latvijas Gāze" unaudited interim condensed financial statements for the 9-months period ended 30 September 2019 (further – Financial statements), which consist of the Company’s and the Company’s and its subsidiary (further - Group’s) financial statements.

Financial statements for the 9-months period ended 30 September 2019 have been prepared in compliance with the International Financial Reporting Standards adopted by the European Union.

According to the information available to the management of the Company, the Financial statements provide a true and fair view of the Company’s and the Group’s assets, liabilities, financial position, operational results and cash flows in all key aspects. The principles of recognition and valuation of items observed in the preparation of financial information were the same as in the annual accounts.

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on November 27, 2019, and they are signed on behalf of the Board by:

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

FINANCIAL STATEMENTS

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

CORPORATE INFORMATION

Company	Latvijas Gāze, Joint Stock Company
LEI code	097900BGMO0000055872
Registration number, place and date of registration	Unified registration number 40003000642 Riga, Latvia, March 25, 1991 re-registered in Commercial Register on December 20, 2004
Address	A.Briāna 6, Riga, Latvia, LV-1001 (from 2 October 2019) Vagonu street 20, Riga, Latvia, LV-1009 (until 1 October 2019)
Corporate management report and Non-financial report	www.lg.lv
Major shareholders	PAS Gazprom (34.0%) Marguerite Gas II.S.a.r.l. (28.97%) Uniper Ruhrgas International GmbH (18.26%) ITERA Latvija SIA (16.0%)
Financial period	January 1- September 30, 2019

STATEMENT OF PROFIT OR LOSS

	Note	Group 01.01-30.09.2019	Group 01.01-30.09.2018	Company 01.01-30.09.2019	Company 01.01-30.09.2018
		EUR'000	EUR'000	EUR'000	EUR'000
			Restated		Restated
Revenue, including excise duty		263 488	262 000	229 805	229 054
Less excise duty		(4 972)	(5 763)	(4 985)	(5 778)
Revenue from contracts with customers	2	**258 516**	**256 237**	**224 820**	**223 276**
Other income		2 825	5 045	1 347	4 184
Raw materials and consumables used	3	(216 353)	(208 045)	(214 701)	(206 824)
Personnel expenses	4	(18 820)	(18 983)	(3 338)	(3 446)
Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets		(9 033)	(8 731)	(512)	(428)
Other operating expenses	5	(11 741)	(6 377)	(8 338)	(3 434)
Dividends received from subsidiary		-	-	-	1 796
Operating profit / (loss)		**5 394**	**19 146**	**(722)**	**15 124**
Financial income		-	40	-	40
Financial expense		(294)	(632)	(121)	(444)
Profit / (loss) before taxes		**5 100**	**18 554**	**(843)**	**14 720**
Corporate income tax		(2 268)	-	(2 268)	-
Profit / (loss) for the period		**2 832**	**18 554**	**(3 111)**	**14 720**

STATEMENT OF COMPREHENSIVE INCOME

	Group 01.01-30.09.2019	Group 01.01-30.09.2018	Company 01.01-30.09.2019	Company 01.01-30.09.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Profit / (loss) for the period	**2 832**	**18 554**	**(3 111)**	**14 720**
Other comprehensive income - items that will not be reclassified to profit or loss				
Change in revaluation reserve of property, plant and equipment	98	57	-	-
Total other comprehensive income	**98**	**57**	**-**	**-**
Total comprehensive income / (loss) for the period	**2 930**	**18 611**	**(3 111)**	**14 720**

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

BALANCE SHEET

	Note	Group 30.09.2019	Group 31.12.2018	Company 30.09.2019	Company 31.12.2018
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets	6	7 190	6 644	4 361	3 341
Property, plant and equipment	7	237 375	238 465	2 725	848
Right-of-use assets		67	-	67	-
Investment in subsidiary	8	-	-	194 534	194 534
Other debtors		111	26	6	6
Total non-current assets		**244 743**	**245 135**	**201 693**	**198 729**
Current assets					
Inventories	9	63 840	103 963	62 200	102 442
Pre-payments for inventories		21 387	5 036	21 386	5 025
Trade receivables		19 109	36 175	16 640	34 964
Income tax receivable		-	63	-	63
Other current assets		4 179	5 827	3 727	5 451
Cash and cash equivalents		24 070	16 280	5 083	4 845
Total current assets		**132 585**	**167 344**	**109 036**	**152 790**
TOTAL ASSETS		**377 328**	**412 479**	**310 729**	**351 519**

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BALANCE SHEET (continued)

	Note	Group 30.09.2019	Group 31.12.2018	Company 30.09.2019	Company 31.12.2018
		EUR'000	EUR'000	EUR'000	EUR'000
LIABILITIES AND EQUITY					
Equity					
Share capital		55 860	55 860	55 860	55 860
Share premium		20 376	20 376	20 376	20 376
Reserves		123 394	127 079	204 460	204 460
Retained earnings		91 710	107 040	636	25 692
Total equity		**291 340**	**310 355**	**281 332**	**306 388**
Non-current liabilities					
Borrowings	10	26 250	29 167	-	-
Lease liabilities		41	-	41	-
Deferred income	11	18 321	18 658	-	-
Employee benefit obligations		2 328	2 264	125	125
Total non-current liabilities		**46 940**	**50 089**	**166**	**125**
Current liabilities					
Trade payables		5 188	5 581	6 087	9 928
Interest-bearing loans and borrowings	10	6 931	11 886	3 431	8 386
Lease liabilities		25	-	25	-
Deferred income	11	1 033	1 019	-	-
Other liabilities	12	25 871	33 549	19 688	26 692
Total current liabilities		**39 048**	**52 035**	**29 231**	**45 006**
Total liabilities		**85 988**	**102 124**	**29 397**	**45 131**
TOTAL LIABILITIES AND EQUITY		**377 328**	**412 479**	**310 729**	**351 519**

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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
December 31, 2017	**55 860**	**20 376**	**132 193**	**(87)**	**99 712**	**308 054**
Transactions with owners						
Dividends	-	-	-	-	(23 142)	(23 142)
Total transactions with owners	**-**	**-**	**-**	**-**	**(23 142)**	**(23 142)**
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(5 285)	-	5 285	-
Comprehensive income						
Profit for the year	-	-	-	-	25 185	25 185
Other comprehensive income	-	-	68	190	-	258
Total comprehensive income	**-**	**-**	**68**	**190**	**25 185**	**25 443**
December 31, 2018	**55 860**	**20 376**	**126 976**	**103**	**107 040**	**310 355**
Transactions with owners						
Dividends	-	-	-	-	(21 945)	(21 945)
Total transactions with owners	**-**	**-**	**-**	**-**	**(21 945)**	**(21 945)**
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(3 783)	-	3 783	-
Comprehensive income						
Profit for the year	-	-	-	-	2 832	2 832
Other comprehensive income	-	-	98	-	-	98
Total comprehensive income	**-**	**-**	**98**	**-**	**2 832**	**2 930**
September 30, 2019	**55 860**	**20 376**	**123 291**	**103**	**91 710**	**291 340**

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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
December 31, 2017	**55 860**	**20 376**	**(172)**	**204 545**	**25 641**	**306 250**
Transactions with owners						
Dividends	-	-	-	-	(23 142)	(23 142)
Total transactions with owners	**-**	**-**	**-**	**-**	**(23 142)**	**(23 142)**
Comprehensive income:						
Profit for the year	-	-	-	-	23 193	23 193
Other comprehensive income	-	-	87	-	-	87
Total comprehensive income	**-**	**-**	**87**	**-**	**23 193**	**23 280**
December 31, 2018	**55 860**	**20 376**	**(85)**	**204 545**	**25 692**	**306 388**
Transactions with owners						
Dividends	-	-	-	-	(21 945)	(21 945)
Total transactions with owners	**-**	**-**	**-**	**-**	**(21 945)**	**(21 945)**
Comprehensive loss						
Loss for the year	-	-	-	-	(3 111)	(3 111)
Total comprehensive loss	**-**	**-**	**-**	**-**	**(3 111)**	**(3 111)**
September 30, 2019	**55 860**	**20 376**	**(85)**	**204 545**	**636**	**281 332**

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Chairman of the Board	Deputy Chairman of the Board	Member of the Board

STATEMENT OF CASH FLOWS

	Group 01.01-30.09.2019	Group 01.01-30.09.2018	Company 01.01-30.09.2019	Company 01.01-30.09.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Cash flow from operating activities				Restated
Profit / (loss) before corporate income tax	**5 100**	**18 554**	**(843)**	**14 720**
Adjustments:				
- depreciation of property, plant and equipment and right-of-use assets	7 632	7 574	197	182
- amortisation of intangible assets	1 409	1 162	315	245
- income from participating interests	-	-	-	(1 796)
- losses / (income) from long-term asset exclusions	39	61	-	(4)
- interest expenses	293	284	121	96
Changes in operating assets and liabilities:				
- in accounts receivable	22 773	18 722	20 070	13 427
- in inventories	40 123	(20 033)	40 242	(19 686)
- in advances for inventories	(16 350)	(39 720)	(16 361)	(39 528)
- in accounts payable	(12 224)	5 217	(10 195)	7 629
Corporate income tax received back / (paid)	(2 205)	4 070	(2 205)	4 075
Net cash inflow / (outflow) from operating activities	**46 590**	**(4 109)**	**31 341**	**(20 640)**
Cash flow from investing activities				
Payments for property, plant and equipment	(6 125)	(4 250)	(2 080)	(136)
Payments for intangible assets	(2 579)	(1 885)	(1 977)	(1 098)
Proceeds from sale of property, plant and equipment	39	65	-	21
Cash transferred in reorganisation	-	-	-	(5 458)
Dividends received	-	-	-	1 796
Net cash outflow from investing activities	**(8 665)**	**(6 070)**	**(4 057)**	**(4 875)**
Cash flow from financing activities				
Overdraft used	-	29 766	-	29 766
Interest paid	(293)	(284)	(121)	(96)
Overdraft paid	(4 955)	-	(4 955)	-
Loan paid	(2 917)	(1 750)	-	-
Leases paid	(25)	-	(25)	-
Dividends paid	(21 945)	(17 955)	(21 945)	(17 955)
Net cash inflow / (outflow) from financing activities	**(30 135)**	**9 777**	**(27 046)**	**11 715**
Net cash flow	**7 790**	**(402)**	**238**	**(13 800)**
Cash and cash equivalents at the beginning of the reporting period	**16 280**	**24 817**	**4 845**	**21 558**
Cash and cash equivalents at the end of the reporting period	**24 070**	**24 415**	**5 083**	**7 758**

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NOTES TO FINANCIAL STATEMENTS

1. Segment information

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

The natural gas sales & trading segment comprises the purchase, trade and sale of natural gas. 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 and 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 9 months 2019	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
EBITDA	**173**	**14 254**	**14 427**
Depreciation and amortisation	(512)	(8 521)	(9 033)
Financial expense	(121)	(173)	(294)
Profit / (loss) before taxes	**(460)**	**5 560**	**5 100**

Group 9 months 2018	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
	Restated	Restated	
EBITDA	**13 652**	**14 225**	**27 877**
Depreciation and amortisation	(428)	(8 303)	(8 731)
Financial income	40	-	40
Financial expense	(444)	(188)	(632)
Profit before taxes	**12 820**	**5 734**	**18 554**

*Amounts shown include Groups' self-consumption recalculated based on the principle applied in 2019 as compared with data reported in "Latvijas Gāze" Group consolidated and JSC "Latvijas Gāze" unaudited interim financial statements for the 9-months period ended 30 September 2018.

Company / Gas trade	9 months 2019	9 months 2018
	EUR'000	EUR'000
EBITDA	**(212)**	**15 552**
Depreciation and amortisation	(510)	(428)
Financial income	-	40
Financial expense	(121)	(444)
Profit / (loss) before taxes	**(843)**	**14 720**

Group 9 months 2019	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	3 407	5 165	8 572
Segment assets 30.09.2019	113 972	263 356	377 328

Group 9 months 2018	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	1 234	4 901	6 135
Segment assets 30.09.2018	180 392	261 022	441 414

Company / Gas trade 9 months	2019	2018
	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	3 407	1 234
Segment assets 30.09.	310 729	375 271

2. Revenue from contracts with customers

Group	Gas trade		Gas distribution	
9 months 2019	Latvia	Other countries	Latvia	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	231 976	15 904	9 256	257 136
Inter-segment revenue	(24 795)	-	24 795	-
Connection and other service fees recognised as revenue	-	-	1 380	1 380
	207 181	**15 904**	**35 431**	**258 516**

Group	Gas trade		Gas distribution	
9 months 2018	Latvia	Other countries	Latvia	TOTAL
Restated	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	240 493	4 932	10 061	255 486
Inter-segment revenue	(24 729)	-	24 729	-
Connection and other service fees recognised as income	-	-	749	749
Other revenue	2	-	-	2
	215 766	**4 932**	**35 539**	**256 237**

*Amounts shown net of sales to foreign clients at Latvian virtual trading points as compared with data reported in “Latvijas Gāze” Group consolidated and JSC “Latvijas Gāze” unaudited interim financial statements for the 9-months period ended 30 September 2018.

Company	Gas trade		
9 months 2019	Latvia	Other countries	TOTAL
	EUR'000	EUR'000	EUR'000
Segment revenue	208 916	15 904	224 820
	208 916	**15 904**	**224 820**

Company	Gas trade		
9 months 2018	Latvia	Other countries	TOTAL
Restated	EUR'000	EUR'000	EUR'000
Segment revenue	218 342	4 932*	223 274
Other revenue	2	-	2
	218 344	4 932	223 276

*Amounts shown net of sales to foreign clients at Latvian virtual trading points as compared with data reported in “Latvijas Gāze” Group consolidated and JSC “Latvijas Gāze” unaudited interim financial statements for the 9-months period ended 30 September 2018.

3. Raw materials and consumables used

	Group 9 months 2019	Group 9 months 2018	Company 9 months 2019	Company 9 months 2018
	EUR'000	EUR'000	EUR'000	EUR'000
		Restated		Restated
Natural gas purchase	215 241	207 066	214 667	206 789
Costs of materials, spare parts and fuel	1 112	979	34	35
	216 353	208 045	214 701	206 824

*Amounts shown net of excise duty as compared with data reported in “Latvijas Gāze” Group consolidated and JSC “Latvijas Gāze” unaudited interim financial statements for the 9-months period ended 30 September 2018.

4. Personnel expenses

	Group 9 months 2019	Group 9 months 2018	Company 9 months 2019	Company 9 months 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	14 232	14 451	2 513	2 643
State social insurance contributions	3 413	3 399	591	570
Life, health and pension insurance	941	919	131	119
Other personnel costs	234	214	103	114
	18 820	18 983	3 338	3 446

5. Other operating expenses

	Group 9 months 2019	Group 9 months 2018	Company 9 months 2019	Company 9 months 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Net fair value losses on financial derivatives	5 019	-	5 019	-
Selling and advertising costs	518	1 279	346	1 174
Expenses related to premises (rent, electricity, security and other services)	1 169	1 065	272	368
Donations, financial support	839	419	734	345
Office and other administrative costs	1 360	1 310	592	665
Taxes and duties	775	820	464	417
Costs of IT system maintenance, communications and transport	1 304	1 002	593	417
Other costs	757	482	318	48
	11 741	6 377	8 338	3 434

Other operating expenses position includes a net amount of 5 019 thousand EUR originating from financial hedging activities. (7 216) thousand EUR out of this amount is attributable to operational activities during the 9 months reporting period. The remaining amount for outstanding derivatives of 2 197 thousand EUR is evaluated on a mark-to-market basis as of the balance sheet date. 950 thousand EUR is attributable to operational activity in 2019 and 1 247 thousand EUR is attributable to operational activity in 2020.

6. Intangible assets

	Group 30.09.2019	Group 31.12.2018	Company 30.09.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
As at the beginning of period	**17 558**	**13 889**	**3 541**	**1 294**
Additions	1 954	4 075	1 335	2 260
Disposals	-	(406)	-	(13)
As at the end of period	**19 512**	**17 558**	**4 876**	**3 541**
Amortisation				
As at the beginning of period	**10 913**	**9 899**	**200**	**75**
Amortisation	1 409	1 421	315	138
Disposals	-	(406)	-	(13)
As at the end of period	**12 322**	**10 914**	**515**	**200**
Net book value as at the end of the period	**7 190**	**6 644**	**4 361**	**3 341**

As at 30 September 2019 the Group has payables for intangible assets for a total of EUR 284 thousand (as at 31 December 2018: EUR 909 thousand), and the Company has payables for intangible assets for a total of EUR 40 thousand (as at 31 December 2018: EUR 682 thousand).

7. Property, plant and equipment

Group	Land, buildings, construc-tions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2018	**545 105**	**32 620**	**15 565**	**393**	**593 683**
Additions	2 813	565	375	2 865	**6 618**
Disposals	(215)	(39)	(251)	-	**(505)**
30.09.2019	**547 703**	**33 146**	**15 689**	**3 258**	**599 796**
Depreciation					
31.12.2018	**323 273**	**20 697**	**11 248**	**-**	**355 218**
Calculated	5 079	1 550	1 001	-	**7 630**
Disposals	(143)	(34)	(250)	-	**(427)**
30.09.2019	**328 209**	**22 213**	**11 999**	**-**	**362 421**
Net book value as of 30.09.2019	**219 494**	**10 933**	**3 690**	**3 258**	**237 375**
Net book value as of 31.12.2018	**221 832**	**11 923**	**4 317**	**393**	**238 465**

As at 30 September 2019 the Group has payables for property, plant and equipment for a total of EUR 645 thousand.

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

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

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2018	**-**	**-**	**1 263**	**-**	**1 263**
Additions	1 799	-	273	-	**2 072**
Disposals	-	-	(3)	-	**(3)**
30.09.2019	**1 799**	**-**	**1 533**	**-**	**3 332**
Depreciation					
31.12.2018	**-**	**-**	**415**	**-**	**415**
Calculated	-	-	195	-	**195**
Disposals	-	-	(3)	-	**(3)**
30.09.2019	**-**	**-**	**607**	**-**	**607**
Net book value as of 30.09.2019	**1 799**	**-**	**926**	**-**	**2 725**
Net book value as of 31.12.2018	**-**	**-**	**848**	**-**	**848**

As at 30 September 2019 the Company has payables for property, plant and equipment for a total of EUR 5 thousand.

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

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

8. Investment in subsidiary

	Company
	EUR'000
Invested during reorganisation 1.12.2017	194 534
Balance sheet value 30.09.2019 and 31.12.2018	**194 534**

Shares held	30.09.2019	31.12.2018
JSC “Gaso”	100%	100%

	Subsidiary's equity 30.09.2019	Subsidiary's equity 31.12.2018	Subsidiary's profit 30.09.2019	Subsidiary's profit 30.09.2018
	EUR'000	EUR'000	EUR'000	EUR'000
JSC “Gaso”	**204 542**	**198 501**	**5 943**	**5 630**

9. Inventories

	Group 30.09.2019	Group 31.12.2018	Company 30.09.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	62 200	102 442	62 200	102 442
Materials and spare parts	1 709	1 597	-	-
Allowance for slow-moving inventory	(69)	(76)	-	-
	63 840	**103 963**	**62 200**	**102 442**

10. Interest-bearing loans and borrowings

Loans	Group 30.09.2019	Group 31.12.2018	Company 30.09.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Loan from JSC "SEB banka"				
Long-term part of the loan	26 250	29 167	-	-
Short-term part of the loan (i.e. less than 12 months)	3 500	3 500	-	-
Overdraft from “OP Corporate Bank” plc Branch in Latvia	3 431	8 386	3 431	8 386
	33 181	**41 053**	**3 431**	**8 386**

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

11. Deferred income

	Group 30.09.2019	Group 31.12.2018	Company 30.09.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Income from residential and corporate customers' contributions to construction of gas pipelines:				
Long-term part	18 321	18 658	-	-
Short-term part	1 033	1 019	-	-
	19 354	**19 677**	**-**	**-**

Changes of deferred income

	Group 9 months 2019	Group 9 months 2018	Company 9 months 2019	Company 9 months 2018
	EUR'000	EUR'000	EUR'000	EUR'000
Balance at the beginning of the year	**19 677**	**19 916**	**-**	**-**
Received from residential and corporate customers during reporting year	446	449	-	-
Included in income of reporting year	(769)	(754)	-	-
Total transfer to next years	**19 354**	**19 611**	**-**	**-**

12. Other liabilities

	Group 30.09.2019	Group 31.12.2018	Company 30.09.2019	Company 31.12.2018
	EUR'000	EUR'000	EUR'000	EUR'000
Prepayments received	15 611	18 679	15 508	18 652
Derivative financial instruments	1 193	421	1 012	421
Value added tax	2 587	5 732	2 036	4 867
Accrued costs	3 754	4 302	414	1 159
Excise tax	316	1 139	311	1 137
Vacation pay reserve	796	881	137	137
Salaries	764	777	145	177
Social security contributions	508	620	87	91
Personnel income tax	234	313	26	40
Real estate tax	45	-	-	-
Other current liabilities	62	679	12	11
Natural resource tax	1	6	-	-
	25 871	**33 549**	**19 688**	**26 692**

13. Summary of significant accounting policies

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

Basis of preparation

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

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

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

Restatements of 2018 due to reclassification

Excise duty

At the end of 2018, the management decided to change the accounting policy for excise tax in the statement of profit or loss where it is now deducted from the net revenue. Comparative information for the period ended 30 September 2018 is adjusted retrospectively. The impact of restatement was as follows:

	Group 9 months 2018 EUR'000			Company 9 months 2018 EUR'000		
	As originally reported	**Restated**	Change	As originally reported	**Restated**	Change
Revenue, net	261 251	255 488	(5 763)	229 054	223 276	(5 778)
Raw materials and consumables used	(213 808)	(208 045)	5 763	(212 602)	(206 824)	5 778

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

The Group has changed the presentation of the equity line items in the balance sheet of the Company and Group as of 31 December 2018 and restated the comparative balance sheet of 30 September 2018. Presentation of retained earnings and other equity items was also changed on the statement of changes in equity of the Company and Group. The statement of changes in equity was restructured to provide more clarity, where the information previously presented in the notes was brought to the statement of changes in equity for greater prominence. The equity section of the balance sheet was restructured accordingly.

Presentation of dividends received from subsidiary undertaking

To present dividends received from its subsidiary undertaking as a part of operating profit, the Company changed the presentation of dividends received from showing it below Operating profit to showing it within. Also in the statement of cash flows dividends received from subsidiary undertaking are reclassified from Financing activities to Investing activities.

Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases on the Group's and Company's financial statements.

IFRS 9 Financial Instruments

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

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

Impairment of financial assets

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

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

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

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 31 December 2018 and as at 30 September 2019.

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

IFRS 15 Revenue from contracts with customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 using the modified retrospective application, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). The Group incurs connection fee revenues that have been previously recognised as deferred income and gradually amortised to the profit or loss as "Other income" under the previous accounting policy. With implementation of IFRS 15, it was determined that such revenues fall under "Revenues from contracts with customers" and deferral remains to be appropriate under IFRS 15. Reclassification was made in comparative information for the period ended 30 September 2018 to report these revenues consistently as in the period ended 30 September 2019.

As a result of the application the following adjustments were recognised to the amounts in the financial statements at 30 September 2018:

	Group 9 months 2018 in EUR'000			**Company 9 months 2018 in EUR'000**		
	Original (previous accounting policy)	**New (IFRS 15)**	Difference	Original (previous accounting policy)	**New (IFRS 15)**	Difference
Revenue	255 488	256 237	749	223 276	223 276	-
Other income	5 794	5 045	(749)	4 184	4 184	-

IFRS 16 Leases

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

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

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

Financial instruments

Financial assets Classification

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

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

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

Recognition and de-recognition

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

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

Measurement

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

Debt instruments

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

Amortised cost

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

As at 30 September 2019 and 31 December 2018, the following financial assets of the Company and Group were classified in this category:

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

Equity instruments

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

Derivative financial instruments

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

Impairment

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

The measurement of ECL reflects:

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

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

Revenue from contracts with customers

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

Sale of natural gas – wholesale

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

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

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

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

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

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

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

Excise duty

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

Sale of services – natural gas distribution

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

Connection fees

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

Contract assets and contract liabilities related to contracts with customers

Due to equalised invoicing and settlement arrangements with household customers, these customers routinely are in the position of over-payment in relation to their actual consumption. It is also common for households to make an advance payment for the whole year ahead, based on the actual consumption of prior settlement year. There are also corporate customers who have overpaid to the Company and Group for the goods and services received. The balances of overpaid amounts that represent contract liabilities are offset against future consumption. They are reported within other liabilities as prepayments received. Contract asset that relates to contract with the natural gas transmission and storage operator, where the Company and the Group has undertaken commitment to store an agreed quantity of natural gas in the underground storage for particular period of time 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 Company and the Group do not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Company and the Group do not adjust any of the transaction prices for the time value of money.

Property, plant and equipment

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

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

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

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

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

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

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

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

Intangible assets

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

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

Impairment of non-financial assets

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

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

Inventories

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

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

Leases (accounting policy applied after 31 December 2018)

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

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

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

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 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 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.

Operating leases (accounting policy applied until 31 December 2018)

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

Principles of consolidation

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

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

As at 30 September 2019, 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 Company and the Group recognised a reorganisation reserve which arose as a result of a difference between the net assets received and transferred within reorganisation process. This reserve may not be used for distribution and can only be offset if there is a future reorganisation between entities under common control resulting in a negative difference.

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

Segment reporting

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

Share capital and dividend authorised

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

Trade and other payables

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

Borrowings and borrowing costs

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

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

Provisions

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

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

Employee benefits

Wages, salaries and bonus plans

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

Social security and pension contributions

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

Vacation pay accrual

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

Post-employment and other employee benefits

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

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

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

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

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

Income tax

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

Starting from the taxation year 2018, the corporate income tax is calculated for distributed profits (20/80 from the net amount payable to shareholders). The tax on the distributed profit will be recognised when the Company's shareholders decide upon distribution. 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 recognises deferred tax liability for taxable temporary differences associated with investment in subsidiary (arising from existence of untaxed retained earnings arisen after 1 January 2018 in subsidiary) except to the extent that it is probable that the temporary difference will not reverse in the foreseeable future, i.e., the untaxed retained earnings will not be distributed from subsidiary to the parent company in foreseeable future. In the reporting periods ended 30 September 2019 and 31 December 2018 the management of the Group did not recognise the deferred tax liability in the consolidated financial statement related to the above.

Related parties

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

Correction of prior period error

In 2018, an error in the Company's statement of cash flows reported in the financial statements for the period ended 30 September 2018 was discovered related to the presentation of the cash transferred to the subsidiary during the reorganisation, which was originally reported in in financial statements for the period ended 30 September 2018 as change in accounts payable. In fact, this cash outflow of EUR 5 458 thousand should have been reported within cash flows from investing activities whereas change in accounts payable within cash flows from operating activities should be increased by EUR 5 458 thousand. In the Company's financial statements for the period ended 30 September 2019, the comparative statement of cash flows for the period ended 30 September 2018 was restated to correct the error as described above. As a result of restatement, the amount of net cash inflow from operating activities increased by EUR 5 458 thousand and the amount of net cash outflow from investing activities increased by EUR 5 458 thousand accordingly.

14. Subsequent events

Since 30 September 2019 up to the signing of these financial statements there have been no events with effect on the financial position or financial results of the Company and the Group as at the balance sheet date. In November, the Company received dividends from its subsidiary in the amount of 9 975 thous. EUR.