LATVIJAS GĀZE GROUP CONSOLIDATED AND JSC "LATVIJAS GĀZE" UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE 9-MONTHS PERIOD ENDED 30 SEPTEMBER 2020

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

Riga 2020

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COUNCIL OF THE JSC "LATVIJAS GĀZE"

(Term of office from October 9, 2019 till October 8, 2022)

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

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

Juris Savickis, 1946
Vice-Chairman of the Council

Since 1996, President of LLC "ITERA Latvija"

Oliver Giese, 1967
Vice-Chairman of the Council

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

Matthias Kohlenbach, 1969
Member of the Council

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

David Stephen Harrison, 1970
Member of the Council

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

Nicolàs Merigó Cook, 1963
Member of the Council

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

Hans-Peter Floren, 1961
Member of the Council

Since 2014, Owner and Chief Executive Officer of FLORENGY AG (Essen, Germany)

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

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

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

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

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

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

Sergey Kuznets
(Сергей Кузнец), 1970
Member of the Council

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

MANAGEMENT BOARD OF THE JSC "LATVIJAS GĀZE"

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

Aigars Kalvītis, 1966
Chairman of the Board

Latvian University of Agriculture,
Master's Degree in Economics

Denis Emelyanov, 1979
Vice-Chairman of the Board

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

Elita Dreimane, 1968
Member of the Board

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

Inga Āboliņa, 1974
Member of the Board
(Term of office from August 17, 2020 till August 16, 2023)

Stockholm School of Economics in Riga, Executive MBA

LATVIJAS GĀZE GROUP IN SHORT

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

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

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

The JSC "Gaso" fully complies with the requirements of the Energy Law, which foresees a full legal, structural, and operational separation of the distribution business from the sales & trading activities. The JSC "Gaso" has an own Board of Management and Council that are fully independent from the sales & trading business of the JSC "Latvijas Gāze".

Structure of Latvijas Gāze group as of 30 September 2020

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

STRATEGY AND OBJECTIVES

OUR OBJECTIVE

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

OUR MISSION

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

OUR VISION

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

SHARES AND SHAREHOLDERS OF THE JSC "LATVIJAS GĀZE"

SHARES AND SHAREHOLDERS

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

COMPANY'S SHARE PRICE, OMX RIGA GI AND OMX BALTIC GI INDEX CHANGES (01.01.2017. – 30.09.2020.)

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

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

Source: Nasdaq Baltic

INDEX | EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX_Baltic_Benchmark_GI	788.17	935.42	+18.68
OMX Riga_GI	733.77	1,117.04	+52.23
GZE1R - Latvijas Gāze	8.78	10.3	+17.31

Source: Nasdaq Baltic

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

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

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

On 30th of September 2020, in terms of stock market capitalization, the JSC "Latvijas Gāze" remained on the first place among the companies listed on the Nasdaq Riga Secondary List and the market capitalization value of the Company amounted to 410.97 million EUR, which is by 3% more, compared to the same period of 2019. After negative impact of coronavirus lockdown measures on stock market during March - April, domestic stock market recovered and the share price of the Company increased by 4.04% during nine months of 2020.

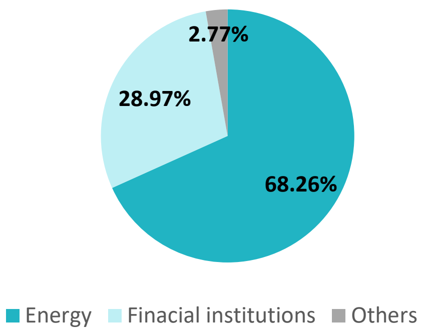
SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2017.-30.09.2020.)

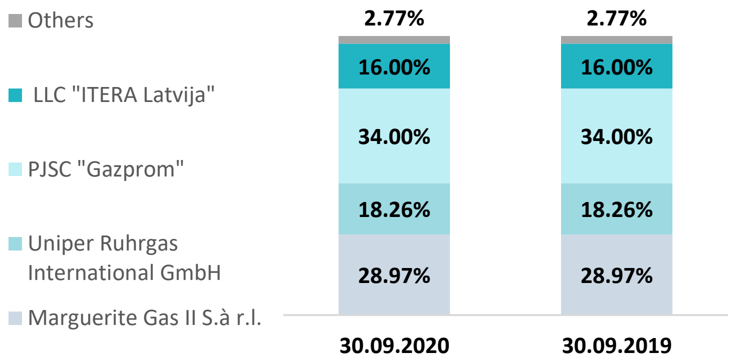
Source: Nasdaq Baltic

INFORMATION ON SHARE TRANSACTIONS (9M 2018 – 9M 2020)

	9M 2020	9M 2019	9M 2018
Share price (EUR)			
First	9.90	10.20	10.00
Highest	10.50	10.60	13.00
Lowest	8.10	9.80	9.90
Average	9.90	10.26	10.65
Last	10.30	10.00	10.80
Change (From First to Last share price)	4.04%	-1.96%	8.00%
Number of transactions	1 292	729	606
Number of shares traded	61 806	65 903	52 611
Turnover (million EUR)	0.61	0.67	0.56
Capitalization (million EUR)	410.97	399.00	430.92

COMPOSITION OF SHAREHOLDERS ON 30.09.2020





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

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

MANAGEMENT REPORT

The year 2020 so far has been challenging both for the world as a whole and for the energy industry. Relatively mild air temperatures, strict restrictions due to the spread of the coronavirus, and the low level of natural gas prices were the main factors shaping the operating environment of the JSC "Latvijas Gāze". Despite some colder days in February and March, generally the air temperature remained above the long-term seasonal average, affecting in particular the demand for natural gas in the heating segment. Substantially higher summer-winter spreads compared to the regulated charge for storage capacities lead to a high demand for storage services, leaving the JSC "Latvijas Gāze" with a lower storage availability than in 2019. Furthermore, the maintenance of the natural gas transmission systems limited the possibilities of rerouting and optimising natural gas flows.

In March 2020, when a state of emergency was announced in Latvia due to the spread of the coronavirus and remained in place till June 9, the Latvijas Gāze group decided to only serve customers remotely so as to protect the health of both customers and employees. Given the development of the epidemiological situation, the customer service centres of the JSC "Latvijas Gāze" and the JSC "Gaso" are closed to visitors.

Sales volumes outside Latvia account for 19% of the total sales volumes of the JSC "Latvijas Gāze".

In nine months of 2020, the JSC "Latvijas Gāze" sold 8 369 GWh of natural gas to customers in Latvia and abroad, with the latter accounting for 19% of the total natural gas sales volumes. Numerous major customers accumulated substantial natural gas quantities during 2019, thus reducing their natural gas demand in 2020 and adversely affecting the domestic sales volumes of the JSC "Latvijas Gāze".

The Group's net turnover in nine months reached 132.3 million EUR – a 48.8% decline year-on-year. This is due to lower sales prices and a decrease in sales volumes compared to the first nine months of 2019. The Group's net profit for January-September 2020 – 17.7 million EUR – was several times higher than in the respective period of last year when it amounted to just 2.8 million EUR due to *mark-to-market* losses from financial derivatives. Under the IFRS rules, the Group recognises unrealised gains or losses from financial derivatives at fair value in the profit or loss statement.

As concerns the further course of business in 2020, the JSC "Latvijas Gāze" expects the operating environment to remain challenging. On top of the intense competition further increasing the pressure on profitability, the insufficient capacities of the Estonian and Finnish interconnection "Balticconnector" will pose additional challenges to the sales and trading segment. Further restrictions related to the spread of the coronavirus might affect customer liquidity and natural gas demand in several industries, adversely affecting the Group's 2020 financial performance. However, the JSC "Latvijas Gāze" management also sees the profit gained in the reporting period as a financial safety cushion for the remaining months of the year. As has been done before, representatives of the sales and trading segment will maintain active communication with customers regarding possible liquidity issues arising from the coronavirus and jointly seek solutions.

The economic performance of the distribution segment managed by the JSC "Gaso" will depend on the overall natural gas demand and volumes transported through the distribution network over the year. In 2020, the JSC "Gaso" continues to develop a safe and available natural gas distribution infrastructure, with the major investments of nine months made in the construction and reconstruction of gas pipelines and shut-off devices, the reconstruction of technological equipment, and the development of information technologies and computing equipment.

In 2020, the JSC "Latvijas Gāze" refreshed the company's logo and visual identity. The new logotype and visual identity are a modernised version of the previous brand with a view to demonstrate the company's contemporary approach to services and the dynamics of process whilst maintaining the stability brought by the company's long-time experience. In addition to the visual changes, the customers are also provided with a redesigned portal with enhanced functionality and other modernised services. The JSC "Latvijas Gāze" keeps working on improvements in different areas, including customer care and IT system upgrade. The recent months saw intense work on improvements in remote customer attendance, enabling multiple options of reaching the Company and receiving services remotely. The improvements include a new informational hotline number replacing the premium-rate number used previously and extended remote payment options.

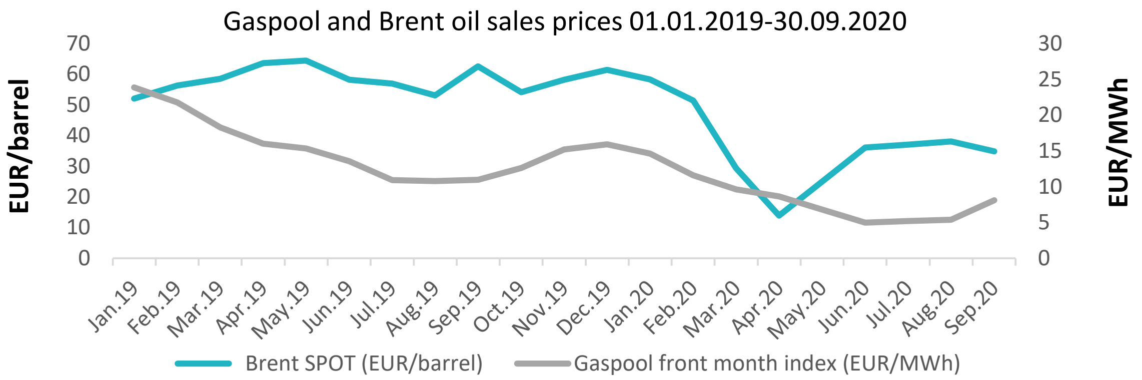
In order to achieve the best possible financial performance and create a sustainable value for all stakeholders, the sales and trading segment continued to actively control and reduce operating expenses and pursued a disciplined approach towards capital expenses. Still, the sales and trading segment managed to successfully progress with the implementation of the new billing system and customer portal which will improve the quality of customer service.

Group`s key figures	9M 2020	9M 2019	9M 2018
Natural gas sales, GWh	8 369	12 451	10 111
Number of employees, average	994	990	993
Length of distribution lines, km	5 317	5 256	5 238

Group`s key financial figures	9M 2020	9M 2019	9M 2018
	EUR'000	EUR'000	EUR'000
Net turnover	132 290	258 516	256 237
EBITDA	29 710	14 427	27 877
EBITDA, %	22.5	5.6	10.9
EBIT	19 516	5 394	19 146
EBIT, %	14.8	2.1	7.5
Net profit	17 683	2 832	18 554
Net profit margin, %	13.4	1.1	7.2
Earnings per share, EUR	0.44	0.07	0.47
P/E	23.41	140.89	23.23
Current ratio	4.37	3.40	2.44

Alternative Performance Measures (APM)	Formulas
EBITDA *(Profit before income tax, interest, depreciation and amortization)*	EBITDA = Profit of the year + Corporate income tax + Financial expense - Financial income + Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets
EBITDA,% *(or EBITDA margin)*	EBITDA, % = $\frac{EBITDA}{Revenue\ from\ contracts\ with\ customers}$ x 100%
EBIT *(Profit before income tax and interest)*	EBIT= Profit of the year + Corporate income tax + Financial expense - Financial income
EBIT,% *(or EBIT margin)*	EBIT,% = $\frac{EBIT}{Revenue\ from\ contracts\ with\ customers}$ x 100%
Net profitability *(or Commercial profitability)* The indicator reflects how much the company earns from each of the EUR received from customers	Net profitability, %= $\frac{Net\ profit}{Revenue\ from\ contracts\ with\ customers}$ x 100%
P/E Ratio	P/E=$\frac{Share\ price\ (last)}{Earnings\ per\ share\ for\ the\ reporting\ period}$
Current ratio *(Ability to pay short-term obligations)*	Current ratio = $\frac{Current\ assets}{Current\ liabilities}$

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



GENERAL MARKET AND INDUSTRY ENVIRONMENT

Following a period of stabilisation in late 2019, the first half of 2020 again saw a sharp drop in the market prices. Starting with July, though, the prices have been on a rise again. The spot price of Brent reached its lowest in late April 2020, reflecting the adverse impact of the coronavirus upon the global economy, slightly recovered in May-August, but resumed its drop in September following the restrictions of the second coronavirus wave. Meanwhile, the GASPOOL front month index price – one of the main comparable prices in the Baltic region – dropped by 45% between January and September 2020, but has exhibited an increase since July. Along with the coronavirus, the unusually high air temperature in the North-western Europe during the heating months lead to a global decline in natural gas demand. A last-minute natural gas transit deal between Russia and the Ukraine eliminating the risk of supply disruption, an unusually high storage utilisation rate at the end of March, and the rerouting of initially Asia-bound LNG cargoes to Europe substantially increased the volume of freely available natural gas supplies in the North-western Europe.

The situation as concerns recovery from the coronavirus is still unclear, as the spread of the virus is still ongoing in many places of the world and governments impose restrictions of different scales to halt it. The current restrictions in Europe and Latvia are of less impact upon energy consumption than in the spring, and the weather conditions in the winter are likely to be the decisive factor for consumption.

According to the macroeconomic forecasts of the Bank of Latvia (LB) as revised in September 2020, Latvia's GDP will drop by -4.7% in 2020. However, their risk scenario, which covers the possible impact of the second coronavirus wave, estimates a much bigger drop (up to -6.7%). The latest economic review by the International Monetary Fund (IMF) projects a negative growth rate of the global economy (-4.4%) in 2020. At the same time, the IMF expects the global economy to regain positive dynamics as early as in 2021 (+5.2%). The projected comprehensive economic decline will also affect the demand for natural gas in the Baltic region. On a regional level, the large LNG deliveries to the Klaipeda LNG terminal reflect the vast supply of competitively-priced LNG currently available in the world markets. The low absolute natural gas prices and the wide natural gas availability in nine months of 2020 intensified competition both domestically and regionally. The pressure on sales profitability grew, and a number of customers, in a bid to take advantage of the low market prices, requested a revision or improvement of pricing conditions in their existing contracts. The adverse market conditions also contributed to a decline in natural gas demand in the electricity production segment. The JSC "Latvijas Gāze" expects a constant abundance of LNG deliveries in the Baltic region to further intensify supply-side competition in 2020 and possibly lead to a brief oversupply following the weakening of the overall demand.

KEY EVENTS DURING THE REPORTING PERIOD

- **Since January 1, 2020,** natural gas users in Finland are able to choose freely their natural gas supplier and to receive natural gas from Baltic natural gas traders through the Balticconnector pipeline linking Finland and Estonia.
- **On March 12, 2020**, the Latvian Public Utilities Commission ("PUC") approved the terms of use for the Inčukalns Underground Gas Storage (IUGS) in the storage season 2020/2021.
- **On March 14, 2020**, due to the Covid-19 pandemic the state of emergency was announced in Latvia, which ended **on June 9, 2020**. JSC "Latvijas Gāze" provided only remote customer service.
- **On March 17, 2020** and **on May 21, 2020** the IUGS storage capacity was sold out. The demand for storage capacity exceeded available storage capacity multiple times.
- **On June 25, 2020** JSC "Latvijas Gāze" held its annual Meeting of Shareholders.
- **Since August 10, 2020** JSC "Latvijas Gāze" has new logo and visual identity.
- **On August 17, 2020** the JSC "Latvijas Gāze" Management Board has joined Inga Āboliņa, who is responsible for Company's finances.
- **On August 21, 2020** the Latvian Centre of Infectious Diseases presented the medical equipment purchased for the 100 thousand EUR donated by JSC "Latvijas Gāze" in April.
- **On August 26, 2020** JSC "Latvijas Gāze" participated in the conference "Heat Supply 2020" organized by "Dienas Bizness".

OPERATING RESULTS OF THE BUSINESS SEGMENTS

Distribution segment: The distribution segment operated by the JSC "Gaso" is the largest business segment within Latvijas Gāze group by its asset value. At the end of the third quarter 2020, assets of the segment were worth 331.3 million EUR, which represents 72% of the Group's total asset value. In the reporting period, the distribution segment generated a net turnover of 33.9 million EUR and EBITDA of 14.0 million EUR (decrease by 4.4% and 1.7%, compared to the same period of 2019, respectively). Distribution services are regulated and form the main source of revenues for JSC "Gaso". The drop in net turnover was mainly caused by lower utilization of the Latvian natural gas distribution system, because of unusually high temperatures during the heating months. The segment's profit before taxes amounted to 4.5 million EUR in the first nine months of 2020 and was by 18.9% lower, compared to the same period of 2019.

Sales & trading segment: On 30th of September 2020, the sales & trading segment operated by the JSC "Latvijas Gāze" had an asset value of 127.6 million EUR. In the first nine months of 2020, the segment generated a net turnover of 98.4 million EUR, which was by 56% lower in comparison to the same period of 2019. The significantly lower net turnover was mainly attributable to lower sales prices due to developments in global natural gas market, as well as lower sales quantities, compared to January – September of 2019. During the first nine months of 2020 segment's EBITDA amounted to 15.7 million EUR and profit before taxes reached 14.7 million EUR, while in the same period of 2019 EBITDA was 0.2 million EUR and loss before taxes was (0.5) million EUR.

LONG-TERM GAS SUPPLIES

In order to ensure the long-term stability of the Latvian and regional natural gas market, the JSC "Latvijas Gāze" is positioning itself as one of the leading players in the Baltic region with a portfolio consisting of long-term natural gas supplies as well as booked storage and transmission capacities.

The JSC "Latvijas Gāze" procures almost all of its natural gas under a long-term contract with the PJSC "Gazprom". The contract is subject to a take-or-pay obligation that requires the JSC "Latvijas Gāze" to buy a defined amount of natural gas on an annual basis or make a payment for the quantity not taken. Under this type of contracts prices paid for natural gas usually relate to the prices of competing energy sources (e.g. oil and oil products) and/or market reference prices (e.g. hub prices such as TTF or NBP), as dictated by market conditions. Any of the contract parties in regular intervals (usually every two years) may trigger a review of the contract conditions. In case of no agreement after a defined period, the parties may refer the case to a neutral board of arbitration that will make a binding decision.

FINANCIAL RISK MANAGEMENT

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

As in previous periods, the JSC "Latvijas Gāze" faced a high customer concentration risk with only a few customers accounting for a significant share of overall sales volumes. To mitigate ***credit default risks*** major customers are subject to individual credit risk management policies, which include a number of practices, such as an evaluation of credit limits, a detailed supervision of financial figures, and frequent billing cycles to avoid the accumulation of debt. For transactions with smaller customers Latvijas Gāze group has put in place detailed policies and processes that ensure the continuous monitoring of incoming customer payments and trigger respective customer communication as well as follow-up actions in case of arising credit issues. Apart from that, the Group during the first quarter 2020 implemented additional measures, that were continues the second and third quarter, to manage the increased credit risk resulting from the coronavirus lockdown measures. To minimize the increased risks resulting from potential liquidity issues of its customers the JSC "Latvijas Gāze" put in place additional review procedures and credit policies to protect its own financial position while still supporting customers where possible.

The group's ***liquidity risk*** mainly stems from the distinct seasonality of the natural gas business. To ensure security of supply for the winter months the Company usually injects significant natural gas quantities into the Inčukalns Underground Gas Storage ("IUGS") during the injection season starting in early summer. While the Company needs to ensure the availability of respective cash reserves to finance the injection of natural gas into the storage during the summer months, customers will typically consume and subsequently pay most of the natural gas only during the winter period. To actively monitor and manage the liquidity risk the Company continuously improves its internal cash planning tools and instruments. To take account of the increased importance of a systematic and rigorous cash management in a competitive and highly volatile market the Company has in place a dedicated treasury function. Until May 31, 2021 the Company has active overdraft agreement with the Latvian branch of OP Corporate Bank plc. 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.

TRANSACTIONS WITH RELATED PARTIES

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

SUBSEQUENT EVENTS

In light of the increasing risks of spread of the coronavirus, a state of emergency has again been put in place in Latvia from November 9 till December 6, 2020. The management of the Latvijas Gāze group intends to comply with all the necessary safety measures to keep its customers and employees safe. There is currently not enough information to reliably measure the impact of the state of emergency upon the Group's financial performance. Apart from the above, between September 30, 2020 and the signing of these financial statements there have been no events of impact upon the Company's or the Group's financial position or financial results as at the balance sheet date.

STATEMENT OF THE BOARD RESPONSIBILITY

The Board of the Joint Stock Company “Latvijas Gāze” is responsible for the preparation of the “Latvijas Gāze” Group consolidated and the JSC "Latvijas Gāze" unaudited interim condensed financial statements for 9-months period ended 30 September 2020 (further – Financial statements), which consist of the Company’s and its subsidiary’s (further - Group’s) and the Company’s financial statements.

Financial statements for the 9-months period ended 30 September 2020 have been prepared in compliance with the International Financial Reporting Standards adopted by the European Union.

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

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on 25 November 2020, and they are signed on behalf of the Board by:

Aigars Kalvītis Chairman of the Board	Inga Āboliņa Member of the Board	Elita Dreimane Member of the Board

FINANCIAL STATEMENTS

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

CORPORATE INFORMATION

Company	Latvijas Gāze, Joint Stock Company
LEI code	097900BGMO0000055872
Registration number, place and date of registration	Unified registration number 40003000642 Riga, Latvia, 25 March 1991 re-registered in Commercial Register on 20 December 2004
Address	A.Briāna 6, Riga, Latvia, LV-1001
Corporate management report and Non-financial report	www.lg.lv
Major shareholders	PJSC Gazprom (34.0%) Marguerite Gas II.S.a.r.l. (28.97%) Uniper Ruhrgas International GmbH (18.26%) ITERA Latvija SIA (16.0%)
Financial period	1 January – 30 September 2020

STATEMENT OF PROFIT OR LOSS

	Note	Group 01.01-30.09.2020	Group 01.01-30.09.2019	Company 01.01-30.09.2020	Company 01.01-30.09.2019
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue from contracts with customers	**2**	**132 290**	**258 516**	**99 512**	**224 820**
Other income	3	3 830	2 825	3 005	1 347
Raw materials and consumables used	4	(81 734)	(216 353)	(80 602)	(214 701)
Personnel expenses	5	(18 553)	(18 820)	(3 437)	(3 338)
Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets		(10 194)	(9 033)	(891)	(512)
Other operating expenses	6	(6 123)	(11 741)	(3 010)	(8 338)
Operating profit / (loss)		**19 516**	**5 394**	**14 577**	**(722)**
Financial expense		(339)	(294)	(187)	(121)
Profit / (loss) before taxes		**19 177**	**5 100**	**14 390**	**(843)**
Corporate income tax		(1 494)	(2 268)	(1 494)	(2 268)
Profit for the period / (loss)		**17 683**	**2 832**	**12 896**	**(3 111)**

STATEMENT OF COMPREHENSIVE INCOME

	Group 01.01-30.09.2020	Group 01.01-30.09.2019	Company 01.01-30.09.2020	Company 01.01-30.09.2019
	EUR'000	EUR'000	EUR'000	EUR'000
Profit / (loss) for the period	**17 683**	**2 832**	**12 896**	**(3 111)**
Other comprehensive income - items that will not be reclassified to profit or loss				
Change in revaluation reserve of property, plant and equipment	-	98	-	-
Total other comprehensive income	**-**	**98**	**-**	**-**
Total comprehensive income for the period / (loss)	**17 683**	**2 930**	**12 896**	**(3 111)**

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BALANCE SHEET

	Note	Group 30.09.2020	Group 31.12.2019	Company 30.09.2020	Company 31.12.2019
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets	7	8 140	8 137	4 825	4 799
Property, plant and equipment	8	309 452	312 650	2 558	2 729
Right-of-use assets		45	384	317	384
Investment in subsidiary	9	-	-	194 534	194 534
Other debtors		72	32	5	6
Total non-current assets		**317 709**	**321 203**	**202 239**	**202 452**
Current assets					
Inventories	10	42 014	50 105	40 427	48 872
Pre-payments for inventories		15 138	5 829	15 138	5 828
Trade receivables		18 522	26 955	16 484	23 813
Other financial assets at amortised cost		3 710	9 426	3 652	9 363
Other current assets		1 352	1 725	668	1 395
Cash and cash equivalents		60 502	48 995	43 852	38 487
Total current assets		**141 238**	**143 035**	**120 221**	**127 758**
TOTAL ASSETS		**458 947**	**464 238**	**322 460**	**330 210**

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BALANCE SHEET (continued)

	Note	Group 30.09.2020	Group 31.12.2019	Company 30.09.2020	Company 31.12.2019
		EUR'000	EUR'000	EUR'000	EUR'000
LIABILITIES AND EQUITY					
Equity					
Share capital		55 860	55 860	55 860	55 860
Share premium		20 376	20 376	20 376	20 376
Reserves		190 531	195 597	204 494	204 494
Retained earnings		117 071	111 878	18 787	23 447
Total equity		**383 838**	**383 711**	**299 517**	**304 177**
Liabilities					
Non-current liabilities					
Borrowings	11	22 750	25 667	-	-
Lease liabilities		23	292	227	292
Deferred income	12	18 169	18 434	-	-
Employee benefit obligations		1 820	1 757	57	57
Total non-current liabilities		**42 762**	**46 150**	**284**	**349**
Current liabilities					
Trade payables		4 984	5 489	5 113	8 249
Interest-bearing loans and borrowings	11	3 500	3 500	-	-
Lease liabilities		25	93	93	93
Deferred income	12	1 176	1 138	112	92
Other liabilities	13	22 662	24 157	17 341	17 250
Total current liabilities		**32 347**	**34 377**	**22 659**	**25 684**
Total liabilities		**75 109**	**80 527**	**22 943**	**26 033**
TOTAL LIABILITIES AND EQUITY		**458 947**	**464 238**	**322 460**	**330 210**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reva-luation reserve	Employee benefits revaluation reserve	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2018	**55 860**	**20 376**	**126 976**	**103**	**107 040**	**310 355**
Transactions with owners						
Dividends	-	-	-	-	(21 945)	(21 945)
Total transactions with owners	**-**	**-**	**-**	**-**	**(21 945)**	**(21 945)**
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(6 593)	-	6 593	-
Comprehensive income						
Profit for the year	-	-	-	-	20 190	20 190
Other comprehensive income	-	-	74 704	407	-	75 111
Total comprehensive income	**-**	**-**	**74 704**	**407**	**20 190**	**95 301**
31 December 2019	**55 860**	**20 376**	**195 087**	**510**	**111 878**	**383 711**
Transactions with owners:						
Dividends	-	-	-	-	(17 556)	(17 556)
Total transactions with owners	**-**	**-**	**-**	**-**	**(17 556)**	**(17 556)**
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(5 066)	-	5 066	-
Comprehensive income						
Profit for the year	-	-	-	-	17 683	17 683
Total comprehensive income	**-**	**-**	**-**	**-**	**17 683**	**17 683**
30 September 2020	**55 860**	**20 376**	**190 021**	**510**	**117 071**	**383 838**

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COMPANY'S STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Employee benefits revaluation reserve	Reorgani-sation reserve	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2018	**55 860**	**20 376**	**(85)**	**204 545**	**25 692**	**306 388**
Transactions with owners						
Dividends	-	-	-	-	(21 945)	(21 945)
Total transactions with owners	**-**	**-**	**-**	**-**	**(21 945)**	**(21 945)**
Comprehensive income:						
Profit for the year	-	-	-	-	19 700	19 700
Other comprehensive income	-	-	34	-	-	34
Total comprehensive income	**-**	**-**	**34**	**-**	**19 700**	**19 734**
31 December 2019	**55 860**	**20 376**	**(51)**	**204 545**	**23 447**	**304 177**
Transactions with owners:						
Dividends	-	-	-	-	(17 556)	(17 556)
Total transactions with owners	**-**	**-**	**-**	**-**	**(17 556)**	**(17 556)**
Comprehensive income						
Profit for the year	-	-	-	-	12 896	12 896
Total comprehensive income	**-**	**-**	**-**	**-**	**12 896**	**12 896**
30 September 2020	**55 860**	**20 376**	**(51)**	**204 545**	**18 787**	**299 517**

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STATEMENT OF CASH FLOWS

	Group 01.01-30.09.2020	Group 01.01-30.09.2019	Company 01.01-30.09.2020	Company 01.01-30.09.2019
	EUR'000	EUR'000	EUR'000	EUR'000
Cash flow from operating activities				
Profit before corporate income tax	**19 177**	**5 100**	**14 390**	**(843)**
Adjustments:				
- depreciation of property, plant and equipment and right-of-use assets	8 697	7 632	351	197
- amortisation of intangible assets	1 514	1 409	540	315
- losses from long-term asset exclusions	203	39	-	-
- interest expenses	339	293	186	121
Changes in operating assets and liabilities:				
- in accounts receivable	17 575	22 773	13 754	20 070
- in inventories	8 091	40 123	8 445	40 242
- in advances for inventories	(9 311)	(16 350)	(9 310)	(16 361)
- in accounts payable	(5 925)	(12 224)	(2 762)	(10 195)
Corporate income tax received back	(1 494)	(2 205)	(1 494)	(2 205)
Net cash inflow from operating activities	**38 866**	**46 590**	**24 100**	**31 341**
Cash flow from investing activities				
Payments for property, plant and equipment	(5 217)	(6 125)	(132)	(2 080)
Payments for intangible assets	(1 425)	(2 579)	(810)	(1 977)
Proceeds from sale of property, plant and equipment	95	39	-	-
Net cash outflow from investing activities	**(6 547)**	**(8 665)**	**(942)**	**(4 057)**
Cash flow from financing activities				
Overdraft paid	-	(4 955)	-	(4 955)
Loan paid	(2 917)	(2 917)	-	**-**
Leases paid	-	(25)	(51)	(25)
Interest paid	(339)	(293)	(186)	(121)
Dividends paid	(17 556)	(21 945)	(17 556)	(21 945)
Net cash outflow from financing activities	**(20 812)**	**(30 135)**	**(17 793)**	**(27 046)**
Net cash flow	**11 507**	**7 790**	**5 365**	**238**
Cash and cash equivalents at the beginning of the reporting period	**48 995**	**16 280**	**38 487**	**4 845**
Cash and cash equivalents at the end of the reporting period	**60 502**	**24 070**	**43 852**	**5 083**

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

NOTES TO FINANCIAL STATEMENTS

1. Segment information

In 2020 and 2019, Latvijas Gāze group consisted of two segments – the natural gas sales & trading segment and the distribution segment.

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

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

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

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

Group 9 months 2020	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
EBITDA	**15 697**	**14 013**	**29 710**
Depreciation and amortisation	(840)	(9 354)	(10 194)
Financial expense	(187)	(152)	(339)
Profit before taxes	**14 670**	**4 507**	**19 177**

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**

Company / Gas trade	9 months 2020	9 months 2019
	EUR'000	EUR'000
EBITDA	**15 468**	**(212)**
Depreciation and amortisation	(891)	(510)
Financial expense	(187)	(121)
Profit / (loss) before taxes	**14 390**	**(843)**

Group 9 months 2020	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant, equipment and intangible assets	680	7 030	7 710
Segment assets 30.09.2020	127 648	331 299	458 947

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

Company / Gas trade 6 months	2020	2019
	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	680	3 407
Segment assets 30.09	322 460	310 729

2. Revenue from contracts with customers

Group	Gas trade		Gas distribution	
9 months 2020	Latvia	Other countries	Latvia	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	77 557	21 225	32 377	131 159
Inter-segment revenue	(1 098)	-	-	(1 098)
Connection, balancing and other service fees recognised as revenue	653	77	791	1 521
Other revenue	-	-	708	708
	77 112	**21 302**	**33 876**	**132 290**

Group	Gas trade		Gas distribution	
9 months 2019	Latvia	Other countries	Latvia	Total
Restated	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	207 975	15 444	34 051	257 470
Inter-segment revenue	(1 735)	-	-	(1 735)
Connection, balancing and other service fees recognised as revenue*	941	460	1 380	2 781
Other revenue				
	207 181	**15 904**	**35 431**	**258 516**

* Revenue from balancing services is presented separately from Segment revenue and inter-segment revenue is clarified compared to financial statements for the 9-months period ended 30 September 2019.

Company	Gas trade		
9 months 2020	Latvia	Other countries	Total
	EUR'000	EUR'000	EUR'000
Segment revenue	77 557	21 225	98 782
Other revenue (balancing services)	653	77	730
	78 210	**21 302**	**99 512**

Company 9 months 2019	Gas trade Latvia	 Other countries	 Total
	EUR'000	EUR'000	EUR'000
Segment revenue	207 975	15 444	223 419
Other revenue	941	460	1 401
	208 916	**15 904**	**224 820**

3. Other income

	Group 9 months 2020	Group 9 months 2019	Company 9 months 2020	Company 9 months 2019
	EUR'000	EUR'000	EUR'000	EUR'000
Net fair value gains on financial derivatives	2 228	-	2 228	-
Other	1 602	2 825	777	1 347
	3 830	**2 825**	**3 005**	**1 347**

In 2020 Other income position includes a net amount of 2 228 thousand EUR originating from financial hedging activities. 791 thousand EUR out of this amount is attributable to operational activities during the 9 months reporting period. The remaining amount for outstanding derivatives of 1 437 thousand EUR is evaluated on a mark-to-market basis as of the balance sheet date. 2 818 thousand EUR is attributable to operational activity in 2020 and (1 381) thousand EUR is attributable to operational activity in 2021.

4. Raw materials and consumables used

	Group 9 months 2020	Group 9 months 2019	Company 9 months 2020	Company 9 months 2019
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	80 798	215 241	80 565	214 667
Costs of materials, spare parts and fuel	936	1 112	37	34
	81 734	**216 353**	**80 602**	**214 701**

5. Personnel expenses

	Group 9 months 2020	Group 9 months 2019	Company 9 months 2020	Company 9 months 2019
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	14 028	14 232	2 577	2 513
State social insurance contributions	3 333	3 413	578	591
Life, health and pension insurance	949	941	139	131
Other personnel costs	243	234	143	103
	18 553	**18 820**	**3 437**	**3 338**

6. Other operating expenses

	Group 9 months 2020	Group 9 months 2019	Company 9 months 2020	Company 9 months 2019
	EUR'000	EUR'000	EUR'000	EUR'000
Net fair value losses on financial derivatives	-	5 019	-	5 019
Selling and advertising costs	507	518	333	346
Expenses related to premises (rent, electricity, security and other services)	1 035	1 169	153	272
Donations, financial support	726	839	705	734
Office and other administrative costs	1 275	1 360	639	592
Taxes and duties	745	775	458	464
Costs of IT system maintenance, communications and transport	1 353	1 304	637	593
Other costs	482	757	85	318
	6 123	**11 741**	**3 010**	**8 338**

In 2020 there are no net fair value losses on financial activities. In 2019 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.

7. Intangible assets

	Group 9 months 2020	Group 2019	Company 9 months 2020	Company 2019
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
As at the beginning of period	**20 967**	**17 558**	**5 468**	**3 541**
Additions	1 518	3 410	566	1 928
Disposals	-	(1)	-	(1)
As at the end of period	**22 485**	**20 967**	**6 034**	**5 468**
Amortisation				
As at the beginning of period	**12 830**	**10 914**	**669**	**200**
Amortisation	1 515	1 917	540	470
Disposals	-	(1)	-	(1)
As at the end of period	**14 345**	**12 830**	**1 209**	**669**
Net book value as at the end of the period	**8 140**	**8 137**	**4 825**	**4 799**

8. Property, plant and equipment

Group	Land, buildings, construc-tions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2019	**650 929**	**38 835**	**16 443**	**1 079**	**707 286**
Additions	2 687	1 498	414	1 183	5 782
Transfers	-	-	1	(1)	-
Disposals	(624)	(482)	(290)	-	(1 396)
30.09.2020	**651 658**	**39 851**	**16 568**	**2 261**	**711 672**
Depreciation					
31.12.2019	**358 636**	**23 998**	**12 002**	**-**	**394 636**
Calculated	5 850	1 810	1 003	-	8 663
Disposals	(404)	(432)	(281)	-	(1 117)
30.09.2020	**364 082**	**25 376**	**12 724**	**-**	**402 182**
Net book value as of 30.09.2020	**288 910**	**14 475**	**3 844**	**2 261**	**309 490**
Net book value as of 31.12.2019	**292 293**	**14 837**	**4 441**	**1 079**	**312 650**

Group	Land, buildings, construc-tions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2018	**545 105**	**32 620**	**15 565**	**393**	**593 683**
Additions	6 325	2 236	1 490	718	10 769
Revaluation	100 552	4 900	-	-	105 452
Disposals	(1 053)	(921)	(612)	(32)	(2 618)
31.12.2019	**650 929**	**38 835**	**16 443**	**1 079**	**707 286**
Depreciation					
31.12.2018	**323 273**	**20 697**	**11 248**	**-**	**355 218**
Calculated	7 206	2 320	1 335	-	10 861
Revaluation	28 913	1 835	-	-	30 748
Disposals	(756)	(854)	(581)	-	(2 191)
31.12.2019	**358 636**	**23 998**	**12 002**	**-**	**394 636**
Net book value as of 31.12.2019	**292 293**	**14 837**	**4 441**	**1 079**	**312 650**
Net book value as of 31.12.2018	**221 832**	**11 923**	**4 317**	**393**	**238 465**

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2019	**1 811**	**-**	**1 593**	**1**	**3 405**
Additions	-	-	114	-	114
Transfer	-	-	1	(1)	-
Disposals	-	-	(4)	-	(4)
30.09.2020	**1 811**	**-**	**1 704**	**-**	**3 515**
Depreciation					
31.12.2019	**18**	**-**	**658**	**-**	**676**
Calculated	54	-	230	-	284
Disposals	-	-	(3)	-	(3)
30.09.2020	**72**	**-**	**885**	**-**	**957**
Net book value as of 30.09.2020	**1 739**	**-**	**819**	**-**	**2 558**
Net book value as of 31.12.2019	**1 793**	**-**	**935**	**1**	**2 729**

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2018	**-**	**-**	**1 263**	**-**	**1 263**
Additions	1 811	-	371	1	2 183
Disposals	-	-	(41)	-	(41)
31.12.2019	**1 811**	**-**	**1 593**	**1**	**3 405**
Depreciation					
31.12.2018	**-**	**-**	**415**	**-**	**415**
Calculated	18	-	272	-	290
Disposals	-	-	(29)	-	(29)
31.12.2019	**18**	**-**	**658**	**-**	**676**
Net book value as of 31.12.2019	**1 793**	**-**	**935**	**1**	**2 729**
Net book value as of 31.12.2018	**-**	**-**	**848**	**-**	**848**

9. Investment in subsidiary

	Company
	EUR'000
Invested during reorganisation 01.12.2017	194 534
Balance sheet value 30.09.2020 and 31.12.2019	**194 534**

Shares held	30.09.2020	31.12.2019
JSC "Gaso"	**100%**	**100%**

	Subsidiary's equity 30.09.2020	Subsidiary's equity 31.12.2019	Subsidiary's profit 9 months 2020	Subsidiary's profit 9 months 2019
	EUR'000	EUR'000	EUR'000	EUR'000
JSC "Gaso"	**278 854**	**274 067**	**4 787**	**5 943**

10. Inventories

	Group 30.09.2020	Group 31.12.2019	Company 30.09.2020	Company 31.12.2019
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	40 427	48 872	40 427	48 872
Materials and spare parts	1 657	1 304	-	-
Allowance for slow-moving inventory	(70)	(71)	-	-
	42 014	**50 105**	**40 427**	**48 872**

11. Interest-bearing loans and borrowings

	Group 30.09.2020	Group 31.12.2019	Company 30.09.2020	Company 31.12.2019
	EUR'000	EUR'000	EUR'000	EUR'000
Loan from JSC "SEB banka"				
Long-term part of the loan	22 750	25 667	-	-
Short-term part of the loan (i.e. less than 12 months)	3 500	3 500	-	-
	26 250	**29 167**	**-**	**-**

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

12. Deferred income

	Group 30.09.2020	Group 31.12.2019	Company 30.09.2020	Company 31.12.2019
	EUR'000	EUR'000	EUR'000	EUR'000
Income from residential and corporate customers' contributions to construction of gas pipelines:				
Long-term part	18 169	18 434	-	-
Short-term part	1 064	1 046	-	-
Other deferred income:				
Short-term part	112	92	112	92
	19 345	**19 572**	**112**	**92**

13. Other liabilities

	Group 30.09.2020	Group 31.12.2019	Company 30.09.2020	Company 31.12.2019
	EUR'000	EUR'000	EUR'000	EUR'000
Prepayments received	13 335	10 843	13 181	10 793
Derivative financial instruments	1 499	1 258	1 499	1 258
Value added tax	2 126	3 839	1 657	2 774
Accrued costs	2 860	4 431	388	1 081
Excise tax	226	892	223	887
Vacation pay reserve	956	901	141	141
Salaries	829	839	168	151
Social security contributions	468	701	31	101
Personnel income tax	253	338	42	33
Real estate tax	45	-	-	-
Natural resource tax	2	6	-	-
Other current liabilities	63	109	11	31
	22 662	**24 157**	**17 341**	**17 250**

14. Summary of significant accounting policies

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

Basis of preparation

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

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

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

Financial instruments

Financial assets Classification

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

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

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

Recognition and de-recognition

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

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

Measurement

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

Debt instruments

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

Amortised cost

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

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

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

Equity instruments

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

Derivative financial instruments

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

Impairment

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

The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes,
- time value of money and

- all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

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

Revenue from contracts with customers

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

Sale of natural gas – wholesale

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

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

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

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

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

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

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

Excise duty

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

Sale of services – natural gas distribution

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

Connection fees

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

Contract assets and contract liabilities related to contracts with customers

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

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

Financing component

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Intangible assets

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

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

Impairment of non-financial assets

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

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

Inventories

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

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

Leases (accounting policy applied since 1 January 2019)

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

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Discount rate applied to measure lease liabilities as at 30 September 2020 and 31 December 2019 is 3.33%.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the expected lease term on a straight-line basis. If the Group or the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group and the Company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group or the Company.

Principles of consolidation

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

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

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

Reorganisation and investment in subsidiary

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

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

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

Dividends from the subsidiary are recognised in the separate financial statements of the Company when the right to receive the dividend is established. The dividend is recognised in the profit or loss statement.

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

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

Segment reporting

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

Share capital and dividend authorised

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

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group and the Company prior to the end of the reporting period which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition with an exception of personnel related accruals where the payment terms might be up to 12 months. If the payment is not due within

12 months after the reporting period, such payables are presented as non-current. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings and borrowing costs

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

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

Provisions

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

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

Employee benefits

Wages, salaries and bonus plans

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

Social security and pension contributions

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

Vacation pay accrual

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

Post-employment and other employee benefits

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

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

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

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

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

Income tax

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

The Group recognise deferred tax liability for taxable temporary differences associated with investment in subsidiary (arising from existence of untaxed retained earnings arisen after 1 January 2018 in subsidiary) except to the extent that it is probable that the temporary difference will not reverse in the foreseeable future, i.e., the untaxed retained earnings will not be distributed from subsidiary to the parent company in foreseeable future. In the reporting periods ended 30 September 2020 and 31 December 2019 the management of the Group did not recognise the deferred tax liability in the consolidated financial statement related to the above.

Related parties

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

15. Subsequent events

In light of the increasing risks of spread of the coronavirus, a state of emergency has again been put in place in Latvia from November 9 till December 6, 2020. The management of the Latvijas Gāze group intends to comply with all the necessary safety measures to keep its customers and employees safe. There is currently not enough information to reliably measure the impact of the state of emergency upon the Group's financial performance. Apart from the above, between September 30, 2020 and the signing of these financial statements there have been no events of impact upon the Company's or the Group's financial position or financial results as at the balance sheet date.