LATVIJAS GĀZE GROUP CONSOLIDATED AND JOINT STOCK COMPANY "LATVIJAS GĀZE" UNAUDITED CONDENSED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Prepared in accordance with the International Accounting Standards 34 "Interim Financial Reporting" as adopted by the European Union

Latvijas gāze

CONTENTS

COUNCIL OF THE JSC “LATVIJAS GĀZE”

The Council’s term of office runs from 6 September 2021 till 5 September 2024.

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

Head of the Department for Marketing and Processing of Gas and Liquid Hydrocarbons, PJSC “Gazprom”

Juris Savickis, 1946
Vice-Chairman of the Council

President, LLC “ITERA Latvija”

Oliver Giese, 1967
Vice-Chairman of the Council

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

Nicolàs Merigó Cook, 1963
Member of the Council

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

Matthias Kohlenbach, 1969
Member of the Council

Legal Department, Uniper SE, Germany; responsible for international projects

Hans-Peter Floren, 1961
Member of the Council

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

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

Member of the Asset Management Committee, Head of the Asset Management and Corporate Relations Department, PJSC “Gazprom”

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

Head of Department 817, PJSC “Gazprom”

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

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

Yury Ivanov
(Юрий Иванов), 1982
Member of the Council

Head of the Directorate for Legal Support of Foreign Economic Activity, PJSC “Gazprom”

Ēriks Atvars, 1972
Member of the Council

Unicredit Corporate and Investment Banking (Germany)

MANAGEMENT BOARD OF THE JSC “LATVIJAS GĀZE”

The Management Board’s term of office runs from 16 August 2021 till 15 August 2024.

The term of office of Member of the Board Egīls Lapsalis runs from 1 November 2022 till 15 August 2024.

Aigars Kalvītis, 1966
Chairman of the Board

Latvian University of Agriculture, Master’s Degree in Economics

Denis Emelyanov, 1979
Member of the Board, 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 Enterprise Management

Elita Dreimane, 1968
Member of the Board

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

Egīls Lapsalis, 1979
Member of the Board

University of Latvia, Faculty of Law, Bachelor’s Degree of Social Sciences in Law

Member of the Board with a term of office till 12 August 2022: Inga Āboliņa

LATVIJAS GĀZE GROUP IN BRIEF

The Latvijas Gāze group consists of two business segments – natural gas trading and natural gas distribution operator services.

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

The natural gas distribution services segment provides natural gas distribution services in Latvia. This business is operated by the JSC "Gaso", which holds an exclusive license for the provision of natural gas distribution services in the territory of Latvia, valid till 6 December 2037. The JSC "Gaso" owns and operates all the distribution assets necessary to provide the respective services to approximately 400 thousand customers.

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

In 2022, the Company's shareholders adopted a decision on launching the Company's reorganisation process or the reduction of its share capital. Implementing the shareholders' decision, the Board continued working on the assessment of multiple scenarios of further governance of the JSC "Gaso" in line with the effective regulatory framework. As a result, the process of selling the natural gas distribution system operator JSC "Gaso" has been launched and is set to be completed in 2023. For this reason, the natural gas distribution service segment will from now onwards be treated as discontinued operation in the financial statement, while the natural gas sales & trading segment – as continuing operation.

STRUCTURE OF THE LATVIJAS GĀZE GROUP AS AT 31 DECEMBER 2022

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

STRATEGY AND OBJECTIVES

OUR OBJECTIVE

To strengthen the position of the 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 the public's well-being by promoting the use of natural gas as a source of clean and high-efficiency energy towards climate neutrality.

LATVIJAS GĀZE GROUP'S FOCUS

The Latvijas Gāze group, comprised by a natural gas sales & trading segment and a natural distribution service segment, is fully committed to the objective of strengthening its position as a leader in the Latvian and Baltic energy market and ensuring safe and stable supplied through:

1. PRICE COMPETITIVENESS

We continuously work towards improving the conditions of natural gas purchase and optimising cost-effectiveness in respect of the provision of products and services with a view to offer competitive natural gas prices and affordable natural gas distribution tariffs to all customers.

2. QUALITY OF PRODUCT

Natural gas is a product of invariably high quality with the lowest environmentally harmful emissions among all types of fossil fuel.

3. QUALITY OF SERVICE

The Latvijas Gāze group continuously improves the quality and availability of its services. Improvements are made in the business and sales processes with a view to speed up and simplify the provision of products and services.

4. EFFECTIVE MANAGEMENT

The Latvijas Gāze group is managed in compliance with the requirements of Section 56^{2} of the Financial Instrument Market Law and the "Corporate Governance Code" issued by the Advisory Board of the Ministry of Justice in 2020. The principles and criteria contained by the Code follow the recommendations of the European Union and the Organisation for Economic Co-operation and Development (OECD) for the corporate governance of capital companies.

5. PROFESSIONAL PERSONNEL

The Latvijas Gāze group employs a large staff of specialists of many fields. Given the paramount role of safety and security of gas supply, particular attention is paid to the qualification of technical specialists and to labour safety. The natural gas sales & trading segment employs people who are experts in their field and have a long professional experience both in the industry and at the Company.

6. SAFETY AND SECURITY OF GAS SUPPLY

In its natural gas distribution service segment, the Latvijas Gāze group ensures both the physical safety of the infrastructure and the distribution capacity necessary to meet the natural gas demand in Latvia.

7. SUSTAINABLE INVESTMENT

Investments in the safety of gas supply are closely related to the improvement of efficiency and environmental factors. The distribution segment observes high standards in respect of the natural gas distribution network, thus reducing the risk of emergency and methane leakage, and prioritises the establishment of safe and reliable distribution network infrastructure and the provision of a smart natural gas distribution service, focusing on the digitalisation of customer service and distribution asset maintenance and development processes and the promotion of natural gas as an effective source of energy.

8. SUSTAINABILITY

Pursuant to the climate neutrality goals set by the European Union for 2050, the JSC “Latvijas Gāze” focuses on offsetting the environmental impact caused by customers by creating projects that allow reducing GHG emissions. In line with the European Union’s “Fit for 55” proposal package, the European Commission’s Hydrogen and Gas Market Decarbonisation Package, the Methane Strategy, and the targets set in the Renewable Energy Directive, the Group’s ambition is to develop renewable energy projects, including by using the natural gas network infrastructure and its capabilities. The Group’s objective is to increase the use of natural gas in areas where other fossil resources are currently preferred. According to the criteria set out in the Sustainable investment regulation, the JSC “GASO” can achieve sustainability through building systems of hydrogen or other low-emission gases or adapting the existing systems for the transportation of such gases. The Company can achieve sustainability by accomplishing the objective of biogas production/trading which is aligned with the business development directions set out in the Company’s strategy.

SHARES AND SHAREHOLDERS OF THE JSC “LATVIJAS GĀZE”

SHARES AND SHAREHOLDERS

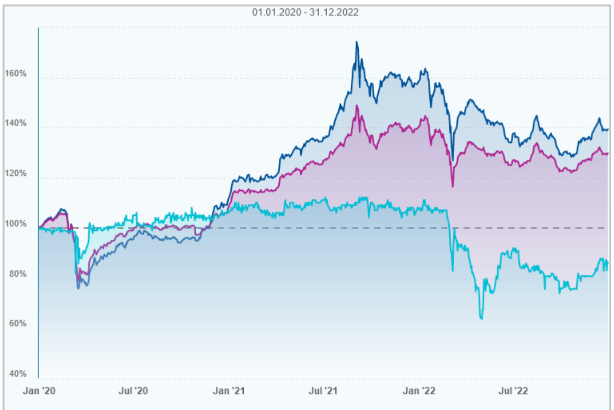
The shares of the JSC “Latvijas Gāze” have been listed on the Nasdaq Riga Stock Exchange since 15 February 1999, and its ticker code is GZE1R as of 1 August 2004. The total number of shareholders of the JSC “Latvijas Gāze” as at 31 December 2022 was 6 739.

COMPANY’S SHARE PRICE, OMX RIGA GI AND OMX BALTIC GI INDEX CHANGES (01.01.2020-31.12.2022)

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

Source: Nasdaq Baltic

Number of securities in public offering	25 328 520
Number of closed-issue securities	14 571 480
Liquidity providers	None



INDEX | EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX_Baltic_Benchmark_GI	992.83	1,384.42	+39.44
OMX_Baltic_GI	806.27	1,046.51	+29.8
GZE1R - Latvijas Gāze	9.9	8.5	-14.14

Avots: Nasdaq Baltic

The shares of the JSC “Latvijas Gāze” are included in four Baltic industry indexes that include public utilities –B7000GI, B7000PI, B7500GI, B7500PI, as well as in 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-wide index of all shares. Its basked 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 31 December 2022, the market capitalisation of the JSC “Latvijas Gāze” amounted to 339.15 million EUR, which is 21% less than in the respective period of 2021.

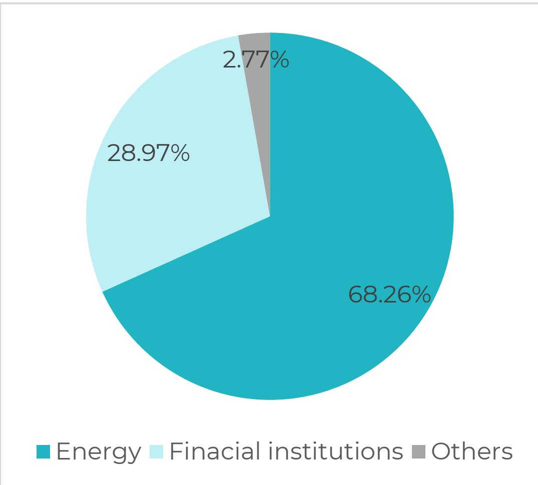
SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2020-31.12.2022)

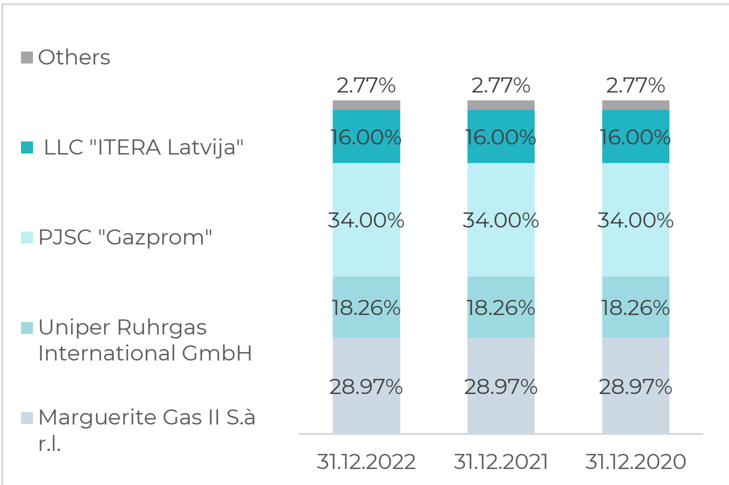
Source: Nasdaq Baltic

INFORMATION ON SHARE TRANSACTIONS (12M 2020 – 12M 2022)

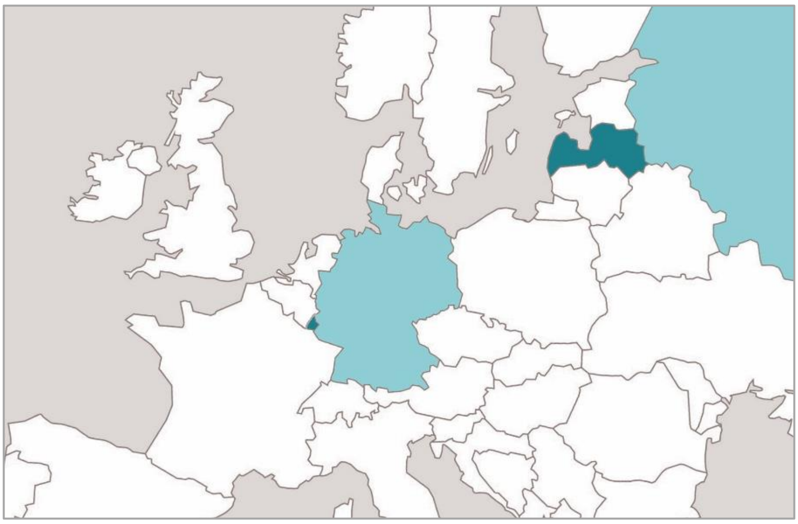
	12M 2022	12M 2021	12M 2020
Share price (EUR):			
First	10.60	10.50	9.90
Highest	11.10	11.10	10.80
Lowest	6.20	10.10	8.10
Average	8.58	10.71	10.01
Last	8.50	10.70	10.50
Change (from first to last share price)	-19.81%	1.90%	6.06%
Number of transactions	3 844	3 030	1 800
Number of shares traded	84 377	81 665	77 226
Turnover (million EUR)	0.72	0.87	0.77
Capitalisation (million EUR)	339	427	419

SHAREHOLDER STRUCTURE AS AT 31.12.2022





GEOGRAPHICAL DISTRIBUTION OF MAJOR SHAREHOLDERS



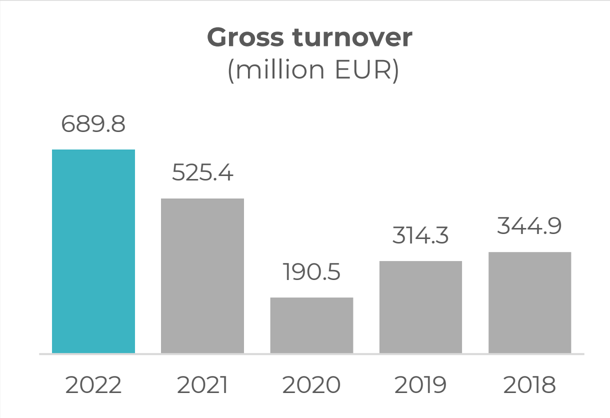
- Russia (PJSC Gazprom)
- Luxemburg (Marguerite Gas II S.à r.L.)
- Germany (Uniper Ruhrgas International GmbH)
- Latvia (LLC Itera Latvija)

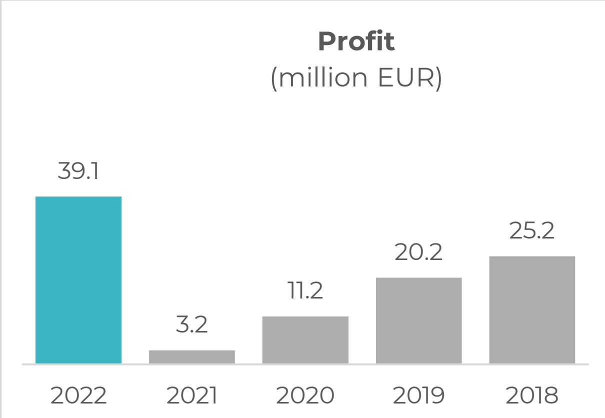
SHARES OWNED BY MEMBER OF THE GOVERNING BODIES OF THE JSC "LATVIJAS GĀZE"

		At the date of signing financial statements
Board		**Number of shares**
Chairman of the Board	Aigars Kalvītis	None
Member of the Board, Vice-Chairman of the Board	Denis Emelyanov	None
Member of the Board	Elita Dreimane	None
Member of the Board	Egīls Lapsalis	None
Council		
Chairman of the Council	Kirill Seleznev	None
Vice-Chairman of the Council	Juris Savickis	None
Vice-Chairman of the Council	Oliver Giese	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	Vitaly Khatkov	None
Member of the Council	Oleg Ivanov	None
Member of the Council	Yury Ivanov	None
Member of the Council	Ēriks Atvars	None

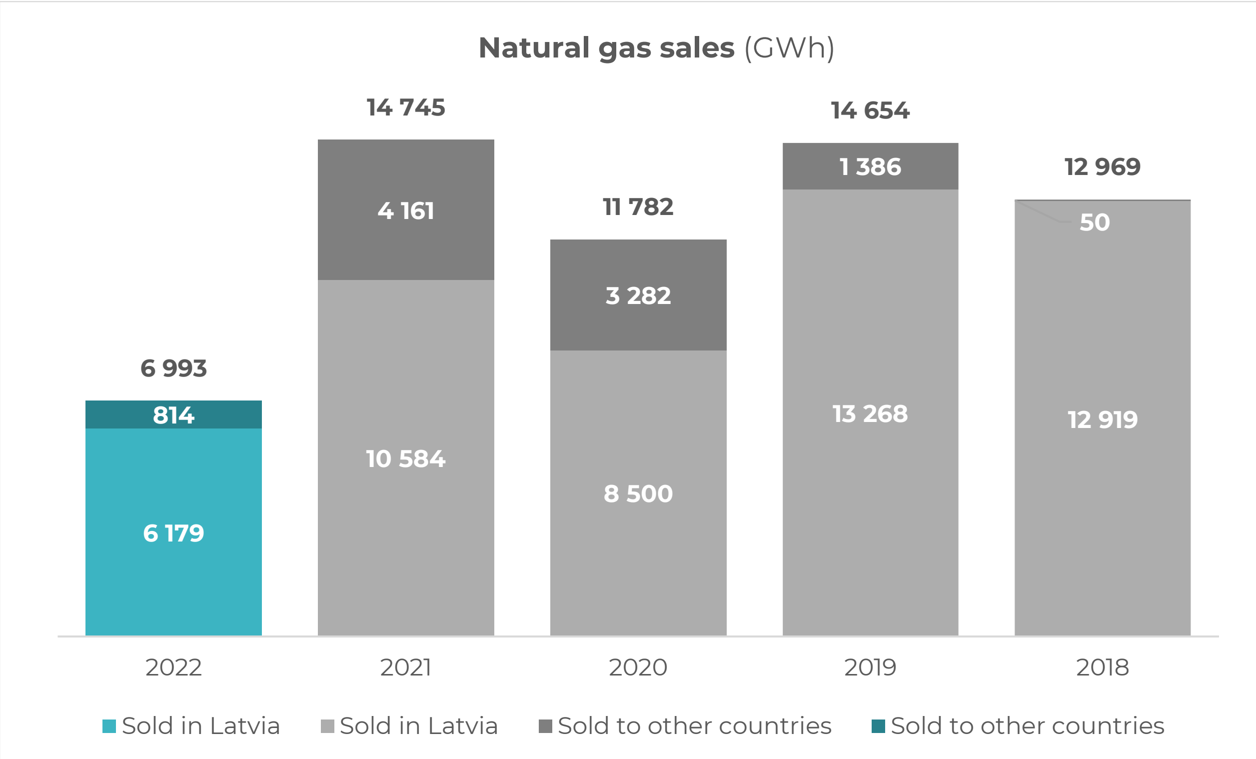
LATVIJAS GĀZE GROUP'S FACTS AND FIGURES

FINANCIAL INDICATORS

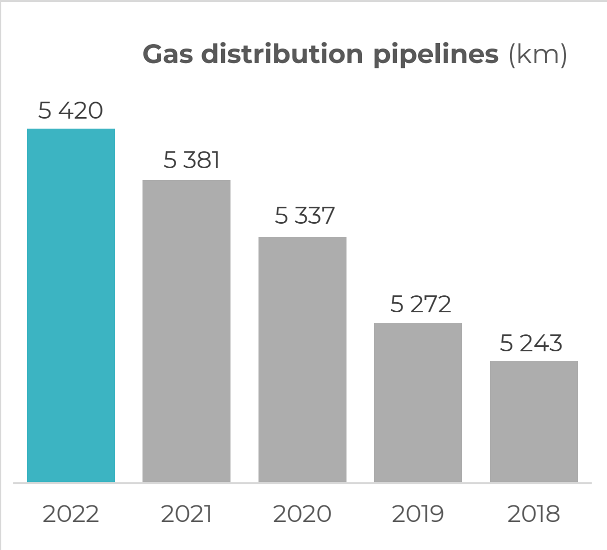


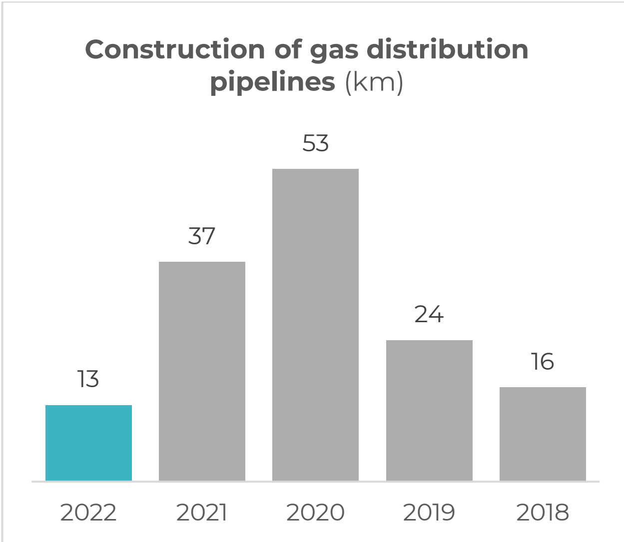


NATURAL GAS VOLUMES

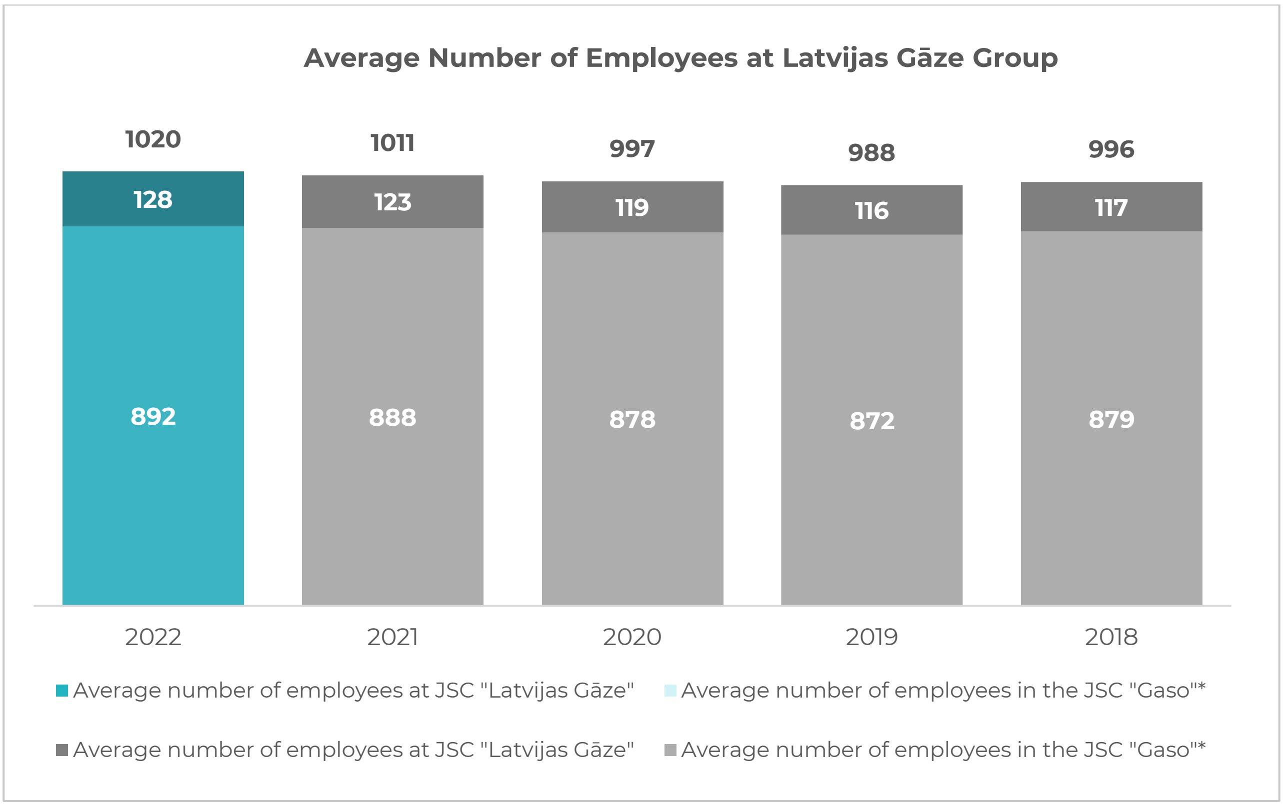


DISCONTINUED OPERATIONS – NATURAL GAS DISTRIBUTION VOLUMES





EMPLOYEES



*Discontinued operations

MANAGEMENT REPORT

The 2022 financial year was full of challenges for Latvijas Gāze Group, and passed in high uncertainty: natural gas prices exceeded the 200 EUR/MWh threshold, the impact of geopolitical events, regulatory changes on both Latvian and European Union levels. Despite this, Latvijas Gāze continued its operations, ensuring an uninterrupted supply of gas to its customers, including fulfilling its obligations as Public Trader towards household clients.

Latvijas Gāze group's net profit in 2022 is 39.1 million EUR – 35.9 million EUR higher than in 2021. The result is attributable to JSC "Latvijas Gāze" disciplined trading and risk management strategy in 2021 and 2022. The Group's net turnover in 2022 reached 689.8 million EUR – 31% more than in 2021 when net turnover was 525.4 million EUR. The increase is due to higher natural gas sales prices.

The JSC "Latvijas Gāze" continued its operations, ensuring an uninterrupted supply of gas to its customers, including fulfilling its obligations as Public Trader towards more than 340 000 household clients.

In 2022, JSC "Latvijas Gāze" sold 6 993 GWh of natural gas to customers in Latvia and abroad. Compared to 2021, sales volumes have decreased by 53%. Sales volume decrease is attributable to some market participants' choice against buying Russian-origin gas already before 1 January 2023, as well as customers have reconsidered their consumption habits of natural gas amid high price environment, including switching to alternative energy resources.

Sales to the household customer segment were 1 268 GWh in 2022. The segment remains regulated till 1 May 2023, with the tariff approved by the Public Utilities Commission. Household segment caused losses in the first half of 2022 since the tariff was lower than the costs of natural gas and trading expenses. Under the regulatory framework, the household tariff was increased for the next tariff period. Since the natural gas purchase price in Q3 and Q4 of 2022 was substantially higher compared to the tariff sales price, the household customer segment continued to generate losses. Due to changes in the "Law on measures to reduce the extraordinary increase in energy resource prices", until December 31, 2022, the Ministry of Economics of Latvia had to make a compensation payment for the difference between the regulated tariff and the actual natural gas price for the second half of 2022, therefore off-setting the previously incurred losses from household customer segment.

On 10 August 2022, Cabinet Regulations No. 503 "On the Supply of Energy Users During the Declaration of Early Warning and Alarm Level" took effect. They imposed an obligation on the public trader (JSC "Latvijas Gāze") to maintain 1 150 GWh of natural gas reserves in the Inčukalns Underground Gas Storage Facility for household supply during the period from 10 August 2023 till 30 April 2023, reducing the reserved 1 150 GWh each month by the natural gas quantity actually supplied to households in the previous month. Due to these regulations, as at 31.12.2022 JSC "Latvijas Gāze" had 755 GWh of natural gas reserved only for household supply, which could not be sold to other customers for market prices during times of high market demand, despite the fact that quantity required for the supply of households was 20% lower in 2022 compared to previous three year average consumption.

The economic performance of the natural gas distribution service segment operated by JSC "Gaso" depends on the overall demand for natural gas and the volumes transported through the natural gas distribution network over the year. According to the data of the Central Statistics Bureau[1], natural gas consumption in Latvia in 2022 was 30.3% lower than in 2021, resulting in a substantial decrease in the quantity transmitted over the distribution network. This adversely affected the financial results of JSC "Gaso"– the year 2022 ended with losses of 1.8 million EUR, as opposed to a profit of 11.5 million EUR in 2021. Hence, in December 2022, in order for JSC "Gaso" to be able to continue developing safe and available natural gas distribution infrastructure, with major investments made in construction and reconstruction of gas pipelines and shut-off devices, reconstruction of technological equipment and development of information systems and computing equipment, the Public Utilities Commission approved a decision to increase the natural gas distribution system service tariffs from 1 January 2023.

In 2022, Company's shareholders adopted a decision on launching the Company's reorganisation process or the reduction of its share capital. The Board started and continued working on the assessment of multiple scenarios of further governance of JSC "Gaso". As a result, a decision has been made to sell JSC "Gaso", with the process set to be completed in 2023. In the consolidated and Company's standalone financial report for 2022, the investment in subsidiary and accordingly the subsidiary's assets and liabilities are presented as assets and liabilities of assets held for sale. In the statement of profit or loss, the operations of the discontinued natural gas distribution segment are presented separately from the continuing operations of the trading segment. In order to present the assets and liabilities of the assets held for sale at net realisable value, the Company's and consolidated statement of profit or loss includes an impairment of 72.5 million EUR.

Group's non-financial figures	**2022**	**2021**
Natural gas sales, GWh	6 993	14 745
Number of employees, average	1 020	1 011
Length of distribution lines, km	5 420	5 381

Group's key financial figures	**2022**	**2021**
	EUR'000	EUR'000
Net turnover	**689 752**	**525 431**
EBITDA	**126 881**	**18 061**
EBITDA, %	18.4	3.4
Depreciation, amortisation and impairment of property, plant and equipment, intangible assets and right-of-use assets	(13 681)	(13 726)
Revaluation of investments	(72 534)	-
EBIT	**40 666**	**4 335**
EBIT, %	5.9	0.8
Financial expenses	(414)	(671)
Corporate income tax	(1 179)	(424)
Net profit before extraordinary dividends	**39 073**	**3 240**
Net profit margin before extraordinary dividends, %	5.7	0.6
Profit per share, EUR	0.98	0.08
P/E	8.67	133.75
Current ratio	3.78	1.22
ROCE	0.13	0.01
Dividends / net profit	0.38	-

[1] https://data.stat.gov.lv/pxweb/lv/OSP_PUB/START__NOZ__EN__ENB/ENB020m

Key financial figures from continuing operations	2022	2021
	EUR'000	EUR'000
Net turnover	**702 595**	**520 587**
EBITDA	**103 466**	**(10 780)**
EBITDA, %	14.7	(2.1)
Depreciation, amortisation and impairment of property, plant and equipment, intangible assets and right-of-use assets	(1 380)	(1 280)
EBIT	**102 086**	**(12 060)**
EBIT, %	14.5	(2.3)
Financial expenses	(392)	(665)
Corporate income tax	(1 179)	(424)
Net profit before extraordinary dividends	**100 515**	**(13 149)**
Net profit margin before extraordinary dividends, %	14.3	(2.5)

Alternative Performance Measures (APM)	Formulas
EBITDA *(Profit before income tax, interest, depreciation and amortization)*	EBITDA = Profit of the year before extraordinary dividends + Corporate income tax + Financial expense - Financial income + Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets + revaluation on investments
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 before extraordinary dividends + 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= $\frac{Last\ share\ price}{Earnings\ per\ share for\ the\ reporting\ year}$
Current ratio The indicator measures Company's ability to pay short-term obligations that matures within one year.	Current ratio = $\frac{Current\ assets}{Current\ liabilities}$
Return on capital employed (ROCE) The indicator measures the effective use of available capital by the company.	Return on capital employed = $\frac{EBIT}{Capital\ employed}$
Dividend payout ratio The indicator reflects total amount of dividends paid out to shareholders relative to the net income of the company.	Dividend payout ratio = $\frac{Dividends\ paid}{Net\ income}$

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

The natural gas market in 2022 was affected by geopolitical tension, which was the main factor for high natural gas prices and the general market situation - a natural gas deficit in Europe. Nevertheless, during the summer of 2022 governments in Europe actively built natural gas reserves for the upcoming winter. The year 2022 has transformed the natural gas market – if previously natural gas consumption depended mostly on air temperature, now it also depends on various socioeconomic events in Europe and the world. Furthermore, the high natural gas prices and uncertainty over gas supplies has forced customers to both reconsider their consumption habits and switch to alternative energy resources. However, while the industry players faced various challenges in 2022, it has also brought various opportunities, as evident in the financial results.

The latest economic report by the International Monetary Fund[1] forecasts a positive global economic growth in 2022 (+3.4%) and 2023 (+2.9%). This is 0.2% above the previous forecast, but the 2023 forecast is below the historical 2000-2019 average of 3.8%. In 2024, the global economy is expected to grow by 3.1%. Interest rate increase by the central banks to combat inflation and Russia's military activities in Ukraine continue to adversely affect economy. The rapid spread of CoViD-19 in China hampered growth in 2022, but the recent lifting of the CoViD-19 restrictions has enabled a faster economic recovery than expected. Inflation is now forecast to decrease from 8.8% in 2022 (unchanged from the previous report) to 6.6% in 2023 (a 0.1% increase against the report) and 4.3% in 2024, which would still be above the pre-pandemic level (2017-2019) of 3.5%.

According to the latest macroeconomic forecasts by the Bank of Latvia[2] (LB) as revised in September 2022, Latvia's GDP will grow by 3.0% in 2022 (an increase by 0.1% aga compared to June report). However, the GDP growth forecast for 2023 has been revised downwards to -0.2% (decrease by 2.6% compared to June report). Forecasts are developed by a high degree of uncertainty resulting from the unpredictable war started by Russia and the related developments in global prices, particularly those on energy. The baseline scenario of Latvijas Banka's forecasts provides for a temporary recession. Soaring energy prices have resulted in a deterioration of the future economic outlook, however the solid growth observed at the beginning of the year has allowed to maintain the GDP growth projections for 2022 similar to the previous report. With the effects of unfavourable factors still persisting at the beginning of 2023, Latvia's economy can be expected to stagnate next year. Latvia's inflation projections for 2022 and 2023 have been revised upwards to 16.9% and 9.2% respectively (from 14.8% in 2022 and 7% in 2023 in the June inflation forecast) mostly on account of higher energy (particularly, gas) and food prices, as well as the assumption that the prices of these products will be higher than previously expected.

KEY EVENTS DURING THE REPORTING PERIOD

— **On 24 February 2022,** Russia military invasion in Ukraine prompted United States, European Union, United Kingdom, and other major economies to impose an extraordinary

[1] https://www.imf.org/en/Publications/WEO/Issues/2023/01/31/world-economic-outlook-update-january-2023
[2] https://www.makroekonomika.lv/latvijas-banka-parskata-makroekonomiskas-prognozes-2

set of coordinated economic sanctions against Russia in order to limit customary trade and financial relations with Russia.

- **On 28 February 2022,** "Amber Grid" announced that the Polish-Lithuanian gas pipeline interconnection (GIPL) will launch commercial operations as of 1 May 2022.
- **On 9 March 2022,** by a decision of the Cabinet of Ministers, an early warning was declared in the Latvian natural gas supply sector.
- **On 31 March 2022,** a presidential decree of the Russian Federation was issued whereby the procedure of settlements for natural gas supplies under the external trade agreements of the PJSC "Gazprom" was changed as of 1 April 2022.
- **On 20 May 2022,** Gasgrid Finland Oy and Excelerate Energy, Inc. signed a contract on an LNG terminal vessel with a planned location at the Southern coast of Finland. The goal is to start deploying the LNG terminal vessel in December 2022.
- **On 21 May 2022,** Russia discontinued natural gas supplies to Finland.
- **On 16 June 2022,** the Parliament adopted amendments to the National Security Law which took effect on 23 June 2022. Under the amendments, the Russian Federation or the Republic of Belarus, their citizens, as well as legal entities registered in the Russian Federation or the Republic of Belarus are no longer allowed to acquire qualifying holding or decisive influence in a commercial company of significance to national security and to be the beneficial owner of a commercial company of significance to national security.
- **On 1 July 2022,** the natural gas tariff for households was increased by 65.6% to 89.9% depending on consumption.
- **On 14 July 2022,** the Parliament adopted in the final reading amendments to the Energy Law whereby natural gas supplies from Russia are prohibited as of 1 January 2023.
- **From 1 July 2022 till 30 April 2023,** households with an average monthly consumption of at least 221 kWh will receive state support for natural gas bills.
- **On 8 August 2022,** the Company's shareholders adopted a decision on launching the Company's reorganisation process or the reduction of its share capital.
- **On 10 August 2022,** Cabinet Regulations No. 503 "On the Supply of Energy Users During the Declaration of Early Warning and Alarm Level" took effect stipulating that from 10.08.2022 till 30.09.2022 the public trader has to keep in the Inčukalns Underground Gas Storage Facility natural gas reserves of 1,150 TWh designed for the supply of household customers from 01.10.2022 till 30.04.2023.

PERFORMANCE OF OPERATING SEGMENTS

The sales & trading segment (continuing operations): In 2022, the segment's net turnover reached 702.6 million EUR – 33% more than in 2021 when net turnover was 530.2 million EUR. In 2022, the segment's EBITDA reached 103.5 million EUR, profit before taxes reached 101.7 million EUR, while in 2021 EBITDA was -10.8 million EUR and profit before taxes was -12.7 million EUR.

The distribution segment (discontinued operations)**:** In 2022, the segment's net turnover reached 51.2 million EUR and EBITDA reached 23.4 million EUR (a decrease against 2021 by 12% and 19% respectively). Natural gas distribution services are regulated and constitute the main source of revenue for JSC "Gaso".

NATURAL GAS SUPPLIES

From January till March 2022, the Company purchased natural gas from the PJSC "Gazprom" under the long-term natural gas supply agreement. From April till October 2022, within the regulatory framework, the Company purchased natural gas, including of Russian origin, from alternative suppliers. From October 2022 onwards, the Company purchases natural gas of other than Russian origin from alternative suppliers (bilateral contracts with suppliers from EU countries, LNG deliveries, GetBaltic natural gas exchange).

FINANCIAL RISK MANAGEMENT

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

As in previous periods, JSC "Latvijas Gāze" faced a high customer concentration risk with only a few customers accounting for a significant share of overall sales volumes. To mitigate ***credit risk*** customers are subject to individual credit risk evaluation, which include a number of practices, such as evaluation of credit limits, a detailed supervision of financial figures, and ongoing billing control and monitoring to avoid the accumulation of debt.

The group's ***liquidity risk*** mainly stems from the seasonal nature 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. In order to mitigate liquidity risk, Company prioritized natural hedge (internal market risk mitigation). Currently, Latvijas Gāze operates without borrowed capital because on 25 November 2022 it reached an agreement with the Latvian branch of OP Corporate Bank plc on an early termination of the overdraft contract. Short-term liquidity is good and the early termination of the contract has not adversely affected the Company.

Following the liberalisation of the Latvian natural gas market in 2017, the natural gas sales and trading segment continues to be exposed to ***market risks***. Particularly the greater variety of pricing structures requested by customers and high price volatility have created new risk positions. To manage and mitigate these risks, the Company established a separate Risk Management function. Company continuously monitors and develops further its risk management policies and strategies. Internal market risk mitigation, e.g. through negotiating supply agreement terms and working with the sales portfolio, is the preferred risk mitigation option.

Other risks are associated with regulatory changes. On 10 August 2022, Cabinet Regulations No. 503 "On the Supply of Energy Users During the Declaration of Early Warning and Alarm Level" (hereinafter – the Regulations) took effect stipulating that from 10.08.2022 till 30.09.2022 the public trader has to keep in the Inčukalns Underground Gas Storage Facility (hereinafter – the IUGS) natural gas reserves of 1,150 TWh designed for the supply of household customers from 01.10.2022 till 30.04.2023. According to Article 2.1 of the Regulations, the total reserved natural gas quantity is calculated as an average of the household consumers' consumption between 1 October and 30 April in the last three years. The Public trader may only use these reserves for supplying household customers. In fulfilment of this obligation, the Company as Public trader purchased natural gas and it was reserved in the IUGS for the needs of households in the 2022/2023 heating season. The Company paid for these reserves at the best time – December 2022, at a price of 119.51 EUR/MWh. The TTF forward prices at the time ranged between 123 and 146 EUR/MWh. Under the current wording of the Regulations, any natural gas quantity above the forecast for household consumers from 1 October 2022 till 30 April 2023 is blocked. The supervisory authorities were submitted both data on the historical actual natural gas deliveries to household consumers for October-November 2022 and a natural gas sales forecast for 2023 with a 20% reduction of the quantity required for the needs of household consumers.

CORPORATE GOVERNANCE REPORT AND REMUNERATION REPORT

Available on: www.lg.lv

FUTURE PROSPECTS

On 11 August 2022, amendments to the Energy Law took effect whereby natural gas supplies from Russia are prohibited as of 1 January 2023 Despite this, the Company managed to restructure its supply chains in 2022 and secure natural gas deliveries from other countries – there have been contracts signed with multiple alternative natural gas suppliers.

Under the amendments to the Energy Law, the natural gas market will be fully open for households as of 1 May 2023. The natural gas trading service will be provided in line with the content of the universal service and the principles of its application which are unknown to the market players and under discussion at the government as at the date of preparing this statement. Despite the regulatory changes, the Company will continue trading natural gas to households and commercial customers, investing in the modernisation and digitalisation of customer service processes and the development of new products and services. Furthermore, in order to streamline billing processes, the JSC "Latvijas Gāze" will continue rolling out new functionalities in the new billing system and customer portal.

On 8 August 2022, the shareholders of the JSC "Latvijas Gāze" adopted a decision on launching the Company's reorganisation process or the reduction of its share capital. In execution of the shareholder's decision, the Board continued working on multiple scenarios of further governance of the JSC "Gaso".

On 16 June 2022, the Parliament adopted amendments to the National Security Law in the 2nd and final reading. As a result of the amendments, the law is supplemented with transitional provisions (Section 21) whereby persons belonging to the Russian Federation who have qualifying holding or decisive influence or are the beneficial owners of a commercial company of significance to national security are prohibited from exercising their voting rights. Having regard to this, the Company has launched the process of selling the JSC "Gaso" and intends to complete it within 2023.

Pursuant to the climate neutrality goals set by the European Union for 2050, the Group focuses on offsetting the environmental impact caused by customers by creating projects that allow reducing GHG emissions. In line with the European Union's "Fit for 55" proposal package, the European Commission's Hydrogen and Gas Market Decarbonisation Package, the Methane Strategy, and the targets set in the Renewable Energy Directive, the Group's ambition is to develop renewable energy projects, including by using the natural gas network infrastructure and its capabilities. The Group's objective is to increase the use of natural gas in areas where other fossil resources are currently preferred. According to the criteria set out in the Sustainable investment regulation, the JSC "GASO" can achieve sustainability through building systems of hydrogen or other low-emission gases or adapting the existing systems for the transportation of such gases.

The Company can achieve sustainability by accomplishing the objective of biogas production/trading which is aligned with the business development directions set out in the Company's strategy. The Group's energy management system has been certified and on 11 February 2022 successfully passed recertification under the LVS EN ISO 50001:2018 standard. In addition to the energy system implemented in compliance with the LVS EN ISO 5001 standard, attention is paid to a good management of buildings, and those managed by the Group will undergo green office certification. There has been an environment management system implemented, certified under the ISO 14 001 standard, and a calculation of CO2 emissions has been made. Based on the environment policy and the CO2 calculations, the JSC "Latvijas Gāze" has planted 2000 birches, thus offsetting CO2 emissions of 3 years. A reduction of CO2 and other emissions can also be achieved through replacing petrol and diesel cars with natural gas counterparts. Using CNG in transport emits up to 30% less CO2 than diesel or petrol and up to 90% less other harmful substances. Hence, one of the Group's current objectives is to actively promote the development of CNG infrastructure in Latvia, providing technical support and other competences to companies that invest in building CNG filling stations.

In 2022, as part of the energy management system, the Group completed 41 energy efficiency tasks with planned energy savings of 1140 MWh per year. Such activities yield a decrease in the total energy consumption by approximately 11.7%.

In 2023, the company intends to complete 31 energy efficiency tasks with planned energy savings of 1935 MWh per year.

SUBSEQUENT EVENTS

On 26 February 2023, Council Regulation (EU) 2023/427 amending Regulation (EU) No. 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine (hereinafter – Regulation No. 2023/427) took effect.

According to Article 5o of the Regulation, it is prohibited as of 27 March 2023 for Russian nationals or natural persons residing in Russia to hold any posts in the governing bodies of the owners or operators of critical infrastructures, European critical infrastructures and critical entities.

The JSC "Gaso" is a holder of critical infrastructure. Having regard to the above and the requirements of the International and National Sanctions Law of the Republic of Latvia, the necessary changes will be timely made in the governance structure of the JSC "Gaso" pursuant to Regulation No. 2023/427.

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 Joint Stock Company "Latvijas Gāze" financial statements for 2022 (hereinafter – the Financial statements), which consist of the financial statements of the Company and its subsidiary (hereinafter – the Group) and the financial statements of the Company.

The Financial statements for 2022 have been prepared in accordance with the International Accounting Standards 34 "Interim Financial Reporting" as 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. 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 3 March 2023, and they are signed on behalf of the Board by:

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

FINANCIAL STATEMENTS

Prepared in accordance with the International Accounting Standards 34 “Interim Financial Reporting” as adopted by the European Union.

CORPORATE INFORMATION

Company	Latvijas Gāze, Joint Stock Company
LEI code	097900BGMO0000055872
Registration number, date and place of registration	Unified registration number 40003000642 Riga, Latvia, 25 March 1991, re-registered in the Commercial Register on 20 December 2004
Address	A.Briāna 6, Riga, Latvia, LV-1001
Major shareholders	PJSC Gazprom (34.0%) Marguerite Gas II.S.a.r.l. (28.97%) Uniper Ruhrgas International GmbH (18.26%) ITERA Latvija SIA (16.0%)
Financial period	1 January – 31 December 2022

STATEMENT OF PROFIT OR LOSS

	Note	Group 2022	Group (reclassified) 2021	Company 2022	Company 2021
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue from contracts with customers	2	**689 752**	**525 431**	**702 604**	**530 224**
Other income	3	1 174	422	1 174	422
Raw materials and consumables used	4	(562 244)	(338 195)	(562 020)	(337 952)
Personnel expenses	5	(6 458)	(5 557)	(6 458)	(5 557)
Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets		(1 312)	(1 212)	(1 380)	(1 280)
Net fair value losses on financial derivatives	6	(10 633)	(189 564)	(10 633)	(189 564)
Other operating expenses	7	(8 193)	(3 385)	(8 358)	(3 506)
Revaluation expenses of related companies	8	-	-	(72 534)	-
Gross profit		**102 086**	**(12 060)**	**42 395**	**(7 213)**
Financial expenses		(392)	(665)	(392)	(668)
Dividends received from subsidiary		-	-	-	8 379
Profit before taxes		**101 694**	**(12 725)**	**42 003**	**498**
Corporate income tax		(1 179)	(424)	(1 179)	(424)
Profit for the period for continuing operations		**100 515**	**(13 149)**	**40 824**	**74**
Profit or loss from discontinued operations	8	(61 442)	16 389	-	-
Profit for the period before extraordinary dividends		**39 073**	**3 240**	**40 824**	**74**
Extraordinary dividends		(15 000)	-	(15 000)	-
Profit for the period after extraordinary dividends		**24 073**	**3 240**	**25 824**	**74**

	EUR	EUR	EUR	EUR
Earnings per share from continuing operation	2.519	(0.330)	1.023	0.002
Earnings per share before extraordinary dividends (basic and diluted)	0.979	0.081	1.023	0.002
Earnings per share after extraordinary dividends (basic and diluted)	0.603	0.081	0.647	0.002

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on 3 March 2023, and they are signed on behalf of the Board by:

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

STATEMENT OF COMPREHENSIVE INCOME

	Note	Group 2022	Group reclassified 2021	Company 2022	Company 2021
		EUR'000	EUR'000	EUR'000	EUR'000
Profit for the period		**24 073**	**3 240**	**25 824**	**74**
Other comprehensive income - items that will not be reclassified to profit or loss					
Remeasurement of post-employment benefit obligations		4	30	4	30
Total other comprehensive income		**4**	**30**	**4**	**30**
Total comprehensive income for the period		**24 077**	**3 270**	**25 828**	**104**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on 3 March 2023, and they are signed on behalf of the Board by:

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

BALANCE SHEET

	Note	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets	9	4 333	9 639	4 333	4 926
Property, plant and equipment	10	2 371	307 446	2 371	2 304
Right-of-use assets		-	19	119	206
Investment in subsidiary		-	-	-	194 534
Trade receivables		25	86	25	5
Total non-current assets		**6 729**	**317 190**	**6 848**	**201 975**
Current assets					
Inventories		120 509	123 574	120 509	122 278
Pre-payments for inventories		63	29 338	63	29 297
Trade receivables		76 870	129 411	81 951	128 188
Derivative financial instruments		-	1 179	-	1 179
Other financial assets at amortised cost		5 850	447	5 850	361
Cash restricted from being used		-	86 030	-	86 030
Other current assets		554	2 270	554	1 009
Investments held for sale	8	170 225	-	122 000	-
Cash and cash equivalents		41 237	10 962	41 237	1 087
Total current assets		**415 308**	**383 211**	**372 164**	**369 429**
TOTAL ASSETS		**422 037**	**700 401**	**379 012**	**571 404**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on 3 March 2023, and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Elita Dreimane
Member of the Board

BALANCE SHEET (continued)

	Note	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
		EUR'000	EUR'000	EUR'000	EUR'000
LIABILITIES AND EQUITY					
Equity					
Share capital	12	55 860	55 860	55 860	55 860
Share premium		20 376	20 376	20 376	20 376
Reserves		(20)	182 940	(20)	204 521
Retained earnings		235 903	110 126	235 903	5 534
Total equity		**312 119**	**369 302**	**312 119**	**286 291**
Liabilities					
Non-current liabilities					
Provisions		-	688	-	-
Lease liabilities		-	-	51	119
Deferred income		-	14 094	-	-
Employee benefit obligations		39	1 512	39	29
Total non-current liabilities		**39**	**16 294**	**90**	**148**
Current liabilities					
Trade payables	13	33 419	51 992	37 327	54 721
Interest-bearing loans and borrowings		-	61 161	-	38 994
Lease liabilities		21	21	89	89
Deferred income		-	2 934	-	-
Derivative financial instruments		-	112 076	-	112 076
Other liabilities	14	26 987	86 621	26 987	79 085
Dividends unpaid		2 400	-	2 400	-
Liabilities directly related to investments held for sale	8	47 052	-	-	-
Total current liabilities		**109 879**	**314 805**	**66 803**	**284 965**
Total liabilities		**109 918**	**331 099**	**66 893**	**285 113**
TOTAL LIABILITIES AND EQUITY		**422 037**	**700 401**	**379 012**	**571 404**

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on 3 March 2023, and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Elita Dreimane
Member of the Board

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2020	**55 860**	**20 376**	**188 432**	**111 169**	**375 837**
Transactions with owners					
Dividends	-	-	-	(10 773)	(10 773)
Total transactions with owners	**-**	**-**	**-**	**(10 773)**	**(10 773)**
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(6 490)	6 490	-
Comprehensive income					
Profit for the year	-	-	-	3 240	3 240
Other comprehensive income	-	-	998	-	998
Total comprehensive income	**-**	**-**	**998**	**3 240**	**4 238**
31 December 2021	**55 860**	**20 376**	**182 940**	**110 126**	**369 302**
Dividends	-	-	-	(15 000)	(15 000)
Total transactions with owners	**-**	**-**	**-**	**(15 000)**	**(15 000)**
Comprehensive income					
Profit for the year	-	-	-	39 073	39 073
Other comprehensive income	-	-	4	-	4
Total comprehensive income	**-**	**-**	**4**	**39 073**	**39 077**
Impairment of investment held for sale	-	-	(81 095)	-	**(81 095)**
Reclassification of reserves and held for sale investments	-	-	(101 869)	101 704	**(165)**
31 December 2022	**55 860**	**20 376**	**(20)**	**235 903**	**312 119**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on 3 March 2023, and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Elita Dreimane
Member of the Board

COMPANY'S STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2020	**55 860**	**20 376**	**204 491**	**16 233**	**296 960**
Transactions with owners					
Dividends	-	-	-	(10 773)	(10 773)
Total transactions with owners	**-**	**-**	**-**	**(10 773)**	**(10 773)**
Other comprehensive income					
Profit for the year	-	-	-	74	74
Other comprehensive income	-	-	30	-	30
Total comprehensive income	**-**	**-**	**30**	**74**	**104**
31 December 2021	**55 860**	**20 376**	**204 521**	**5 534**	**286 291**
Transactions with owners					
Extraordinary dividends	-	-	-	(15 000)	(15 000)
Total transactions with owners	**-**	**-**	**-**	**(15 000)**	**(15 000)**
Other comprehensive income					
Profit for the year	-	-	-	40 824	40 824
Other comprehensive income	-	-	4	-	4
Total comprehensive income	**-**	**-**	**4**	**40 824**	**40 828**
Reclassification of reorganisation reserves	-	-	(204 545)	204 545	-
31 December 2022	**55 860**	**20 376**	**(20)**	**235 903**	**312 119**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on 3 March 2023, and they are signed on behalf of the Board by:

Aigars Kalvītis
Chairman of the Board

Elita Dreimane
Member of the Board

STATEMENT OF CASH FLOWS

	Note	Group 2022	Group (reclassified) 2021	Company 2022	Company 2021
		EUR'000	EUR'000	EUR'000	EUR'000
Cash flow from operating activities					
Profit before tax from continuing operations		**100 515**	**(12 725)**	**42 003**	**498**
Revenue from discontinued operations	8	**11 092**	**16 389**	**-**	**-**
Net cash flow from discontinued operations		743	(2 904)	-	-
Adjustments:					
- depreciation of property, plant and equipment and right-of-use assets	10	365	373	365	373
- amortisation of intangible assets	9	1 014	907	1 014	907
- movement in provision		(111 058)	-	13	(1)
- (profit) / losses from long-term asset write-off		5	-	5	(2)
- income from participating interest		-	-	-	(8 379)
- interest expenses		286	509	286	509
- losses on impairment of investments		-	-	72 534	-
Changes in operating assets and liabilities:					
- in accounts receivable		133 592	(189 742)	128 376	(188 528)
- in inventories		1 769	(81 353)	1 769	(81 424)
- in advances for inventories		29 234	(21 293)	29 234	(21 262)
- in accounts payable		(181 526)	220 391	(181 568)	218 875
- paid corporate income tax		(1 179)	(424)	(1 179)	(424)
Net cash inflow from operating activities		**92 859**	**(69 872)**	**92 852**	**(78 858)**
Cash flow from investing activities					
Payments for property, plant and equipment	10	(402)	(63)	(402)	(63)
Payments for intangible assets	9	(421)	(972)	(421)	(972)
Proceeds from sale of property, plant and equipment		52	14	52	14
Dividends received	15	-	-	-	8 379
Net cash outflow from investing activities		**(771)**	**(1 021)**	**(771)**	**7 358**
Cash flow from financing activities					
Overdraft/factoring received		(38 994)	38 994	(38 994)	38 994
Leases paid		(51)	(93)	(51)	(93)
Interest paid		(286)	(509)	(286)	(509)
Dividends paid		(12 600)	(10 773)	(12 600)	(10 773)
Net cash outflow from financing activities		**(51 931)**	**27 619**	**(51 931)**	**27 619**
Net cash flow		**40 150**	**(43 274)**	**40 150**	**(43 881)**
Cash and cash equivalents at the beginning of the reporting period		**10 962**	**54 236**	**1 087**	**44 968**
Reclassified cash from discontinuing operations		**(9 875)**	**-**	**-**	**-**
Cash and cash equivalents at the end of the reporting period		**41 237**	**10 962**	**41 237**	**1 087**

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on 3 March 2023, and they are signed on behalf of the Board by:

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

NOTES

1. Segment information

The Latvijas Gāze group consists of two segments – the natural gas sales & trading segment and the distribution segment. In 2022, the distribution segment is presented as discontinued operation and the natural gas sales & trading segment is presented as continuing operation.

The natural gas sales & trading segment comprises the purchase, trade and sale of natural gas. This business, which includes the wholesale and sale of natural gas to industrial and commercial customers as well as to households, is operated by the Company.

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 the Company 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, the 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.

Consolidated	Gas trade 2022	Gas distribution 2022 (discontinued operation)	Group 2022 (reclassified)
	EUR'000	EUR'000	EUR'000
Total segment EBITDA	**103 466**	**23 415**	**126 881**
Depreciation and amortisation	(1 380)	(12 301)	(13 681)
Revaluation of investments	-	(72 534)	(72 534)
Financial expenses	(392)	(22)	(414)
Reclassified to discontinued operations	-	61 442	61 442
Net profit before taxes	**101 694**	**-**	**101 694**

Consolidated	Gas trade 2021	Gas distribution 2021 (discontinued operation)	Group 2021 (reclassified)
	EUR'000	EUR'000	EUR'000
Total segment EBITDA	**(10 780)**	**28 841**	**18 061**
Depreciation and amortisation	(1 280)	(12 446)	(13 726)
Revaluation of investments	-	-	-
Financial expenses	(668)	(6)	(671)
Reclassified to discontinued operations	0	(16 389)	(16 389)
Net profit before taxes	**(12 725)**	**-**	**(12 725)**

2. Revenue from contracts with customers

Consolidated	Gas trade 2022	Gas distribution 2022 (discontinued operation)	Group 2022
	EUR'000	EUR'000	EUR'000
Revenue from external customers	702 604	51 180	753 784
- Latvia	416 390	51 180	467 570
- Other countries	286 214	-	286 214
Total segment revenue	**702 604**	**51 180**	**753 784**
Inter-segment revenue	(12 852)	-	(12 852)
Reclassified to discontinued operations	-	(51 180)	(51 180)
Total consolidation revenue	**689 752**	**-**	**689 752**

Consolidated	Gas trade 2021	Gas distribution 2021 (discontinued operation)	Group 2021
	EUR'000	EUR'000	EUR'000
Revenue from external customers	530 224	57 911	588 135
- Latvia	394 681	57 911	452 592
- Other countries	135 543	-	135 543
Total segment revenue	**530 224**	**57 911**	**588 135**
Inter-segment revenue	(4 793)	-	(4 793)
Reclassified to discontinued operations	-	(57 911)	(57 911)
Total consolidation revenue	**525 431**	**-**	**525 431**

3. Other income

	Group 2022	Group (reclassified) 2021	Company 2022	Company 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Penalties collected from customers	917	303	917	303
Other	257	119	257	119
	1 174	**422**	**1 174**	**422**

4. Raw materials and consumables used

	Group 2022	Group (reclassified) 2021	Company 2022	Company 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	562 178	338 150	561 954	337 907
Costs of materials, spare parts and fuel	66	45	66	45
	562 244	**338 195**	**562 020**	**337 952**

5. Personnel expenses

	Group 2022	Group (reclassified) 2021	Company 2022	Company 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	4 943	4 279	4 943	4 279
State social insurance contributions	1 116	908	1 116	908
Life, health and pension insurance	216	184	216	184
Other personnel costs	183	186	183	186
	6 458	**5 557**	**6 458**	**5 557**
Average number of employees	122	123	122	123

Salaries of the Council and the Board	Group 2022	Group (reclassified) 2021	Company 2022	Company 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	1 376	1 307	1 376	1 307
State social insurance contributions	243	191	243	191
Life, health and pension insurance	49	45	49	45
Other personnel costs	-	-	-	-
	1 668	**1 543**	**1 668**	**1 543**

6. Derivative financial instruments

	Group 2022	Group (reclassified) 2021	Company 2022	Company 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Net fair value losses on financial derivatives	(10 633)	(189 564)	(10 633)	(189 564)
	(10 633)	**(189 564)**	**(10 633)**	**(189 564)**

In 2022, net fair value losses on financial derivatives amounted to 10 633 thousand EUR and resulted from financial hedging activities. The entire amount refers to principal operations in the 2022 reporting period calculated as (110 897) thousand EUR (reversal of previous year's provisions), plus the net amount of 121 530 thousand EUR paid in 2022. As at 31 December 2022, the Company has no current natural gas swap deals / derivative financial instruments.

7. Other operating expenses

	Group 2022	Group (reclassified) 2021	Company 2022	Company 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Selling and advertising costs	3 342	411	3 342	411
Expenses related to premises (rent, electricity, security and other services)	1 461	708	1 531	749
Donations, financial support	1 059	342	1 059	342
Office and other administrative costs	969	727	969	731
Taxes and duties	828	481	828	480
Costs of IT system maintenance, communications and transport	245	522	245	522
Increase in provisions for bad debts, net	167	139	260	212
Losses from write-off and sale of property, plant and equipment	65	12	65	59
Other costs	57	43	57	-
	8 193	**3 385**	**8 358**	**3 506**

8. Operations to be discontinued

In 2022, following a decision on reorganisation by the Company's shareholders, it was decided to sell the Company's 100% investment in the JSC "Gaso". Hence, as of 31 December 2022 the investment is classified in the Company's separate financial statements and the Group's consolidated statement as "Investments held for sale" and is accounted pursuant to International Financial Reporting Standard 5 (hereinafter – IFRS 5).

Under IFRS 5, the investment in the JSC "Gaso" is accounted as follows:

- The Company's holding in the JSC "Gaso" as an individual asset in the Company's separate financial statements – "Investments held for sale";
- The assets and liabilities of the JSC "Gaso" as a disposal group in the consolidated financial statements, or "Investments held for sale" and "Liabilities directly associated with investments held for sale".
- The assets are measured at the lowest between their book value and fair value less selling costs.

The JSC "Gaso" represents a separate significant business segment of the Group – natural gas distribution. In the consolidated 2022 statements, the distribution segment is classified as discontinued operations and the comparable figures in the 2021 statement of profit or loss and statement of cash flows have been reclassified accordingly.

Profit or loss from operations to be discontinued	JSC "Gaso" 2022	JSC "Gaso" 2021
	EUR'000	EUR'000
Revenue from contracts with customers	**51 180**	**57 914**
Other income	1 280	1 249
Raw materials and consumables used	(12 662)	(5 902)
Personnel expenses	(22 662)	(23 399)
Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets	(12 301)	(12 446)
Other operating expenses	(6 564)	(5 865)
Operating profit / (loss)	**(1 729)**	**11 551**
Financial expenses	(22)	(6)
Profit / (loss) before taxes	**(1 751)**	**11 545**
Consolidation adjustments	12 843	4 844
Consolidated revenues from discontinued operation	**11 092**	**16 389**
Revaluation of investment for discontinued operation	(72 534)	-
Profit or loss from discontinued operation	**(61 442)**	**16 389**

Reclassification of balance sheet items of operations to be discontinued

Discontinued operation 2022	Discontinued assets and liabilities	Transactions excluded from consolidation	Group
	EUR'000	EUR'000	EUR'000
Discontinued operation assets	327 762	(3 908)	323 854
Recognised impairment of the investment in statement of profit or loss	(72 534)	-	(72 534)
Recognised impairment of investments held for sale in statement of changes in equity	(81 095)	-	(81 095)
Investments held for sale	**174 133**	**(3 908)**	**170 225**
Liabilities directly associated with assets held for sale	**(52 133)**	**5 081**	**(47 052)**
Net value of assets held for sale	**122 000**	**1 173**	**123 173**

9. Intangible assets

	Group 2022	Group 2021	Company 2022	Company 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
As at the beginning of period	**26 471**	**24 029**	**7 235**	**6 459**
Additions	1 472	2 737	421	776
Disposals	-	(295)	-	-
As at the end of period	**27 943**	**26 471**	**7 656**	**7 235**
Amortisation				
As at the beginning of period	**16 832**	**14 852**	**2 309**	**1 402**
Amortisation	2 544	2 275	1 014	907
Disposals	-	(295)	-	-
As at the end of period	**19 376**	**16 832**	**3 323**	**2 309**
Reclassified to discontinued operations	**(4 234)**	**-**	**-**	**-**
Net book value as at the end of period	**4 333**	**9 639**	**4 333**	**4 926**

9. Property, plant and equipment

Group	Land, buildings. constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2021	**658 876**	**41 759**	**18 069**	**1 894**	**720 598**
Additions	4 278	643	895	799	6 615
Disposals	(1 210)	(816)	(958)	-	(2 984)
Reclassified to discontinued operations	(660 133)	(41 586)	(16 251)	(2 553)	(720 523)
31.12.2022	**1 811**	**-**	**1 755**	**140**	**3 706**
Depreciation					
31.12.2021	**372 352**	**27 121**	**13 679**	**-**	**413 152**
Calculated	8 133	1 692	1 273	-	11 098
Disposals	(800)	(795)	(898)	-	(2 493)
Reclassified to discontinued operations	(379 451)	(28 018)	(12 953)	-	(420 422)
31.12.2022	**234**	**-**	**1 101**	**-**	**1 335**
Net book value as of 31.12.2022	**1 577**	**-**	**654**	**140**	**2 371**
Net book value as of 31.12.2021	**286 524**	**14 638**	**4 390**	**1 894**	**307 446**

Group	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2020	**655 714**	**40 251**	**17 485**	**675**	**714 125**
Additions	5 033	2 018	1 261	1 219	9 531
Disposals	(1 871)	(510)	(677)	-	(3 058)
31.12.2021	**658 876**	**41 759**	**18 069**	**1 894**	**720 598**
Depreciation					
31.12.2020	**365 507**	**25 718**	**12 929**	**-**	**404 154**
Calculated	8 127	1 885	1 415	-	11 427
Disposals	(1 282)	(482)	(665)	-	(2 429)
31.12.2021	**372 352**	**27 121**	**13 679**	**-**	**413 152**
Net book value as of 31.12.2021	**286 524**	**14 638**	**4 390**	**1 894**	**307 446**
Net book value as of 31.12.2020	**290 207**	**14 533**	**4 556**	**675**	**309 971**

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					
31.12.2021	**1 811**	**-**	**1 760**	**-**	**3 571**
Additions	-	-	262	140	402
Disposals	-	-	(267)	-	(267)
31.12.2022	**1 811**	**-**	**1 755**	**140**	**3 706**
Depreciation					
31.12.2021	**162**	**-**	**1 105**	**-**	**1 267**
Calculated	72	-	206	-	278
Disposals	-	-	(210)	-	(210)
31.12.2022	**234**	**-**	**1 101**	**-**	**1 335**
Net book value as of 31.12.2022	**1 577**	**-**	**654**	**140**	**2 371**
Net book value as of 31.12.2021	**1 649**	**-**	**655**	**-**	**2 304**

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000
Cost or revalued amount					
31.12.2020	**1 811**	**-**	**1 721**	**-**	**3 532**
Additions	-	-	66	-	66
Disposals	-	-	(27)	-	(27)
31.12.2021	**1 811**	**-**	**1 760**	**-**	**3 571**
Depreciation					
31.12.2020	**90**	**-**	**908**	**-**	**998**
Calculated	72	-	212	-	284
Disposals	-	-	(15)	-	(15)
31.12.2021	**162**	**-**	**1 105**	**-**	**1 267**
Net book value as of 31.12.2021	**1 649**	**-**	**655**	**-**	**2 304**
Net book value as of 31.12.2020	**1 721**	**-**	**813**	**-**	**2 534**

11. Taxes

Company Tax movement	Liabilities* 31.12.2021	Receivabl 31.12.2021	Calculated 2022	Paid 2022	Liabilities* 31.12.2022	Receivable 31.12.2022
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	19 597	-	63 378	(70 630)	12 346	-
Excise tax	841	-	4 011	(4 395)	457	-
Social security contributions	116	-	1 556	(1 533)	139	-
Corporate income tax	-	-	1 179	(1 179)	-	-
Personal income tax	62	-	932	(883)	111	-
	20 616	**-**	**71 056**	**(78 620)**	**13 053**	**-**

Company Tax movement	Liabilities* 31.12.2020	Receivabl 31.12.2020	Calculated 2021	Paid 2021	Liabilities* 31.12.2021	Receivable 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	899	-	73 886	(55 188)	19 597	-
Excise tax	889	-	6 022	(6 070)	841	-
Social security contributions	104	-	1 328	(1 316)	116	-
Corporate income tax	-	-	424	(424)	-	-
Personal income tax	54	-	831	(823)	62	-
Real estate tax	-	-	13	(13)	-	-
	1 946	**-**	**82 504**	**(63 834)**	**20 616**	**-**

12. Shares and shareholders

	31.12.2022 % of total share capital	31.12.2022 Number of shares	31.12.2021 % of total share capital	31.12.2021 Number of shares
Share capital				
Registered (closed issue) shares	36.52	14 571 480	36.52	14 571 480
Bearer (public issue) shares	63.48	25 328 520	63.48	25 328 520
	100.00	**39 900 000**	**100.00**	**39 900 000**
Shareholders				
Uniper Ruhrgas International GmbH (including registered (closed issue) shares 7 285 740)	18.26	7 285 740	18.26	7 285 740
Marguerite Gas II S. à r.l. (public issue shares 11 560 645)	28.97	11 560 645	28.97	11 560 645
Itera Latvija SIA (public issue shares 6 384 001)	16.00	6 384 001	16.00	6 384 001
PAS "Gazprom" (including registered (closed issue) shares 7 285 740)	34.00	13 566 701	34.00	13 566 701
Bearer (public issue) shares 6 260 961	2.77	1 102 913	2.77	1 102 913
	100.00	**39 900 000**	**100.00**	**39 900 000**

As at 31 December 2022 and 31 December 2021, the registered, signed and paid-up share capital consisted of 39 900 000 shares with a nominal value of 1.40 EUR each. Shares in the Company give their owners equal rights to dividends and liquidation quota and voting rights at shareholders' meetings. 14 571 480 (fourteen million five hundred seventy one thousand four hundred eighty) shares of the Company are registered shares. 25 328 520 (twenty five million three hundred twenty eight thousand five hundred twenty) shares of the Company are bearer shares in public circulation. All shares of the Company are dematerialised shares.

The Company determines, calculates and distributes dividends in compliance with the Commercial Law.

Earnings per share / Company	Earnings per share before extraordinary dividends 2022	Earnings per share 2022	Earnings per share 2021
Net profit attributable to shareholders (a) EUR '000	**40 824**	**25 824**	**74**
Ordinary shares as at 1 January (number, thousand)	39 900	39 900	39 900
Ordinary shares as at 31 December (number, thousand)	39 900	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b)	39 900	39 900	39 900
Basic earnings per share during the year (a/b) EUR	**1.023**	**0.647**	**0.002**

13. Trade payables

	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000
Payables to related parties (Note 15)	3 908	13 656
Payables to third parties	33 419	41 065
	37 327	**54 721**

14. Other liabilities

	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000
Prepayments received	11 784	56 822
Value added tax	12 345	19 597
Accrued costs	1 609	1 198
Excise tax	457	841
Vacation pay reserve	359	260
Salaries	158	175
Social security contributions	139	116
Personnel income tax	111	62
Natural resource tax	-	-
Other current liabilities	25	14
	26 987	**79 085**

15. Related party transactions

During the reporting period, the Group and the Company had transactions with the following related parties:

With the PJSC "Gazprom" – under the Agency contract signed in 2017 – on the transportation of natural gas over the territory of the Republic of Latvia and the storage of natural gas in the Inčukalns Underground Gas Storage Facility;

With the PJSC "Gazprom" – under the Long-term natural gas supply agreement signed in 1999. Currently suspended.

The ISDA Master agreement signed with "SEFE Marketing & Trading Limited" lays down the procedure of financial derivative trading. Currently the Company has no active transactions with "SEFE Marketing & Trading Limited".

With the JSC "Gaso" – a contract on natural gas trading; non-residential premises lease contract No. 57 on the lease of the immovable property at 20 Vagonu Street owned by the JSC "Gaso" for the Company's needs; cooperation agreement on the provision of services for business needs.

Income or expenses	Group 2022	Group 2021	Company 2022	Company 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Income from provision of services (incl. balancing services, natural gas for own use and other)				
JSC “Gaso”	-	-	13 076	5 037
PJSC “Gazprom”	8 111	2 477	8 111	2 477
Dividend income				
JSC “Gaso”	-	-	-	8 379
Natural gas purchases				
PJSC “Gazprom”	201 294	395 926	201 294	395 926
PJSC “Gazprom Export”	-	860	-	860
Expenses on natural gas distribution and other related services				
JSC “Gaso”	-	-	30 920	35 513
Net fair value losses on financial derivatives				
“SEFE Marketing & Trading Limited”	4 435	37 710	4 435	37 710

Related party payab;es and receivables	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Receivables from related companies				
JSC “Gaso”	-	-	5 081	1 991
PJSC “Gazprom”	-	236	-	236
Advance payments to related parties				
PJSC “Gazprom”	-	29 137	-	29 137
Payables to related companies for natural gas and services				
PJSC “Gazprom”	-	5 083	-	5 083
JSC “Gaso”	-	-	3 908	5 597
“Gazprom Marketing and Trading Limited”	-	2 976	-	2 976

16. Financial risk management

Fair value

Financial assets and liabilities	Level	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
		EUR'000	EUR'000	EUR'000	EUR'000
Trade receivables	3	76 870	129 411	81 951	128 188
Accrued income	3	4	90	4	4
Derivative financial instruments	2	-	1 179	-	1 179
Reserved funds	2	5 846	357	5 846	357
Cash restricted from being used	2	-	86 030	-	86 030
Cash and cash equivalents	2	41 237	10 962	41 237	1 087
Financial assets		**123 957**	**228 029**	**129 038**	**216 845**
Borrowings	3	-	61 161	-	38 994
Lease liabilities	3	21	21	140	208
Accrued expenses	3	1 609	4 702	1 609	1 198
Derivative financial instruments	2	-	112 076	-	112 076
Trade payables	3	33 419	51 992	37 327	54 721
Assets held for sale	3	170 225	-	-	-
Liabilities directly associated with assets held for sale	3	47 052	-	-	-
Financial liabilities		**252 326**	**229 952**	**39 076**	**207 197**

The fair value of derivative financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In order to arrive at the fair value of a derivative financial instrument, different methods are used: quoted prices, valuation techniques incorporating observable data, and valuation techniques based on internal models. These valuation methods are divided according with the fair value hierarchy into Level 1, Level 2 and Level 3.

The level in the fair value hierarchy, within which the fair value of a financial instrument is categorised, shall be determined on the basis of the lowest level input that is significant to the fair value in its entirety.

The classification of financial assets in the fair value hierarchy is a two-step process:

1. Classifying each input used to determine the fair value into one of the three levels;
2. Classifying the entire financial instrument based on the lowest level input that is significant to the fair value in its entirety.

Quoted market prices – Level 1

Valuations in Level 1 are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available and the prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques using observable inputs – Level 2

Valuation techniques in Level 2 are models where all significant inputs are observable for the asset or liability, either directly or indirectly. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as price) or indirectly (that is, derived from prices).

The quoted market price used for derivative financial assets and liabilities held by the Group and the Company are based on observable market data including current bid and ask prices, that are estimated by trading counterparties, Argus Media group (Commodity and Energy Price Benchmark agency), Intercontinental Exchange.

Valuation technique using significant unobservable inputs - Level 3

A valuation technique that incorporates significant inputs not based on observable market data (unobservable inputs) is classified in Level 3. Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. Level 3 inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

The fair value of long-term loans from credit institutions is measured by discounting future cash flows with market interest rates. As the interest rates applied to loans from credit institutions are variable and loans received as recent transactions and do not substantially differ from the market rates, the fair value of non-current liabilities approximately corresponds to their carrying amount.

Financial assets of the Group and the Company fall under Level 3, except cash and cash equivalents and derivative financial instruments, which fall under Level 2.

17. 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 Accounting Standards 34 "Interim Financial Reporting" and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted for use in the European Union, and are presented together in one document.

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

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

Financial instruments

Financial assets classification

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

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

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

Recognition and de-recognition

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

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

Measurement

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

Debt instruments

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

Amortised cost

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

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

- trade receivables;

— accrued income;
— reserved funds;
— cash and cash equivalents.

Equity instruments

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

Derivative financial instruments

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

Impairment

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

The measurement of ECL reflects:

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

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

Revenue from contracts with customers

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

Sale of natural gas – wholesale

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

Natural gas wholesale is deemed to have no financing element because the sale is made with a credit term of 10-30 days which is in line with the established or generally accepted market practice.

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

The Company sells natural gas to end users – corporate customers and households. 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.

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.

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

Property plant and equipment

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

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

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

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

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

Buildings:	20 – 100 years
Constructions, including gas distribution system:	20 – 70 years
Machinery and equipment:	5 – 20 years
Other fixed assets :	2 – 10 years

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 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. The cost of natural gas is composed of the gas purchase price and is determined using FIFO (first in first out) method.

The cost of other materials, spare parts and other inventories is determined using the weighted average method.

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

Leases

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

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

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease duration used in the calculation is based on signed agreements for external lease and 5 years for intragroup lease.

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

Right-of-use assets

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

- Right-of-use assets are measured at cost comprising the following;
- 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 revalue its land and buildings that are presented within property, plant and equipment, they have chosen not to do so for the right-of-use buildings held by the Group.

Equity

Equity includes share capital, share premium, reorganisation reserve, asset revaluation reserve, post-employment benefit revaluation reserve, other statutory reserves, and retained earnings.

The non-current asset revaluation reserve results from the revaluation of non-current assets. The revaluation reserve is the difference between the asset purchase costs and the valuation based on revaluation if it is assumed that the appreciation of assets substantially exceeds their purchase costs and this appreciation is lasting.

Other reserves are subject to consent of the Council.

The reorganisation reserve builds as the difference between the assets and liabilities invested into the subsidiary as a result of reorganisation.

The balance of reorganisation reserve is reclassified to retained earnings when participation in subsidiary is reclassified to assets held for sale in order to duly reflect the impact of the expected transaction on the presentation of the company’s equity.

Assets held for sale and discontinued operations

Non-current assets whose book value, under a management decision on their sale, will be recovered via sale transaction rather than via long-term use are classified as “Assets held for sale”.

A disposal group is a group of assets that are set to be sold or otherwise disposed of under a management decision in a single transaction as group and the liabilities directly attributable to these assets that are set to be transferred as a result of the transaction.

In order for non-current assets or a disposal group to be classified as held for sale, they have to meet the following criteria:

- the assets have to be available for immediate sale in their current condition;

- the sale of assets has to be highly probable.

Non-current assets classified as assets held for sale as well as discontinued operations are measured at the lowest between:

- book value;
- fair value less selling costs.

The fair value of assets in subsidiary held for sale is assessed and approved at the Board meeting.

Prior to reclassifying to a disposal group, losses from such valuation are recognised in profit or loss.

Certain significant lines of business that are set to be disposed of and are held for sale are classified as discontinued operations.

Discontinued operation is a part of the company that is either disposed of or classified as "held for sale" and:

- represents a separate significant line of business or geographical area of business;
- is part of a single coordinated plan to dispose an individual significant line of business or geographical are of business; or
- is a subsidiary acquired with a view to resell it or in respect of which a decision to sell has been made.

Impairment upon initial reclassification to assets held for sale is recognised in profit or loss even if the asset itself was previously measured at revalued cost.

Principles of consolidation

The Group's consolidated annual report is prepared if direct or indirect control over other commercial companies has been acquired. Control is deemed present if the parent company owns more than 50% of shares in the subsidiary (see Related parties).

The subsidiary is included in the Group's consolidated annual report as of the date when control is actually acquired. Consolidation is discontinued as of the date when control actually ceases.

Transactions between companies involved in consolidation are measured based on the market value (see Related parties). In the consolidated annual report, all outstanding balances or unrealised profits from transactions between companies involved in consolidation are excluded and the consolidated annual report presents the Latvijas Gāze group as a single company.

If an investment in subsidiary is classified as asset held for sale (see Discontinued operations), then in the consolidated accounts the parent company classifies all this subsidiary's assets and liabilities as "held for sale" regardless of whether the parent company will retain non-controlling interest in its former subsidiary after sale. Comparative data in the previous period regarding assets and liabilities are not adjusted (reclassified).

If a subsidiary is classified as discontinued operation, all its operations and assets are presented separately from the Group's continuing operations.

Furthermore, in the consolidated report, the financial results of a subsidiary held for sale (statement of profit or loss, statement of comprehensive income) are presented separately as discontinued operation if:

i. it is a part of the Group classified as held for sale;
ii. it represents a separate significant business line of the Group;
iii. there is a single coordinated plan to dispose of the interest in the subsidiary (as a separate significant business line of the Company).

Information on previous periods will be disclosed so that disclosure refers to all operations that are to be discontinued by the date of providing the statement of financial position for the last period (IFRS 5, Article 33).

Segment reporting

Having regard to the requirements of the Energy Law as to the natural gas distribution operator's operational independence from its vertically integrated parent company, the main decision-makers of each company are its Board and Council, in charge of the allocation of resources and the assessment of performance of each segments.

Share capital and dividend authorised

The Company's share capital consists of 39 900 000 shares. All shares give their owners equal rights, specifically to dividends and liquidation quota, and voting at shareholders' meetings. 14 571 480 shares of the Company are registered shares. 25 328 520 shares of the Company are bearer shares in public circulation. All shares of the Company are dematerialised shares. The Company may issue shares and convertible bonds. The volumes, terms, conditions and other matters pertaining to the issue of the Company's securities are decided by the shareholders' meeting. Incremental external costs directly attributable to the issues of new shares are shown in equity as a deduction, net of tax, from the proceeds. Dividend distribution to the Group's parent company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

Trade and other payables

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

Borrowings and borrowing costs

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

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

Provisions

The Company only recognises provisions if all the following recognition criteria are met:

Firstly, the Company has a current obligation (legal or constructive) caused by a past event. Secondly, the fulfilment of this obligation is likely to require an outflow of economic benefits from the company. Thirdly, the amount necessary to fulfil the obligation can be credibly estimated. Provisions are not recognised for future operating losses.

Provisions are measured at present value based on the management's best estimate of the costs necessary to fulfil the current 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 companies of 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 Other liabilities in the balance sheet.

Social security and pension contributions

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

Vacation pay accrual

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

Post-employment and other employee benefits

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

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

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

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

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

Income tax

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

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, or the Company and the JSC “Gaso” as parent and subsidiary.

Laima Dudiča
Chief Accountant,
Head of the Accounting and
Reporting Department