2021

LATVIJAS GĀZE GROUP CONSOLIDATED AND JSC "LATVIJAS GĀZE" ANNUAL REPORT

Prepared in compliance with the International Financial Reporting Standards as adopted by the European Union
*Translation from Latvian original

Latvijas gāze

CONTENTS

LETTER TO SHAREHOLDERS

Dear shareholder,

In 2021 Latvijas Gāze group succeeded in attaining a positive result despite the challenges brought on by the market conditions. After a record drop in global demand in 2020, natural gas markets experienced significant supply-demand tensions in 2021 resulting into steep price increases and volatility.

The strong demand growth in 2021 was driven by the economic recovery that followed the previous year's lockdowns and by a succession of extreme weather events. After previous cold winter and sever competition from Asia, Europe failed to bring natural gas inventories to five-year average level by start of 2021 / 2022 winter. Additionally, unplanned maintenance on supply side, rapid economic recovery, increase in Carbon Emission Allowances futures and geopolitical tension supported natural gas price rally.

2021 reconfirmed that natural gas as well as other commodity is cyclical. Although this time it was very short period between natural gas price collapse in 2020 due to COVID-19 pandemic and outstanding natural gas rally in 2021. Despite the fact that Latvijas Gāze accounting results were volatile and highly impacted by accounting methodology of financial derivatives, the disciplined trading and risk mitigation approach set the basis for the strongest winter season (October 2021 – March 2022) performance. Latvijas Gāze business model proves to be successful during entire commodity cycle.

In future we see our role in satisfying arising natural gas supply-demand gaps which might be driven by the fact that long term supply contracts expire for many traders in Europe. Baltic region is no longer isolated natural gas island and Gas Interconnection Poland–Lithuania (GIPL) will further integrate the region in European market that will broaden Latvijas Gāze opportunities.

In the light of EU decarbonisation policies and European Commission plan REPowerEU for more affordable, secure and sustainable energy, we set high priority to projects that support climate neutral circular economy. In 2021 Latvijas Gāze focused on biomethene production project research and development with the aim to commence the production in coming years.

Considering the global threats for information systems and technologies we continue to implement projects to strengthen Cybersecurity.

Rising customer expectations, intensified competition and the shifts in value pools of society shapes our future in achieving operational and commercial excellence and to put the customers at the core.

Yours sincerely,
Aigars Kalvītis

COUNCIL OF THE JSC "LATVIJAS GĀZE"

Council's term of office from 6 September 2021 till 5 September 2024.

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

Head of the Department for Marketing and Processing of Gas and Liquid Hydrocarbons, JSC *Gazprom*;

Juris Savickis, 1946
Member of the Council

President of LLC "ITERA Latvija"

Oliver Giese, 1967
Member of the Council

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

Nicolàs Merigó Cook, 1963
Member of the Council

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

Matthias Kohlenbach, 1969
Member of the Council

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

Hans-Peter Floren, 1961
Member of the Council

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

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

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

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

Head of Department 817 at PJSC "Gazprom

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

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

Yury Ivanov
(Юрий Иванов), 1974
Member of the Council

Head of Directorate for Legal Support of Foreign Economic Activity at PJSC "Gazprom"

Eriks Atvars
(Ēriks Atvars), 1972
Member of the Council

Unicredit Corporate and Investment Banking (Germany)

MANAGEMENT BOARD OF THE JSC “LATVIJAS GĀZE”

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

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

Aigars Kalvītis, 1966
Chairman of the Board

Latvian University of Agriculture, Master’s Degree in Economics

Denis Emelyanov, 1979
Vice-Chairman of the Board

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

Elita Dreimane, 1968
Member of the Board

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

Inga Āboliņa, 1974
Member of the Board

Stockholm School of Economics in Riga, Executive MBA

LATVIJAS GĀZE GROUP IN SHORT

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

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

The natural gas distribution segment provides natural gas distribution services in Latvia.

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

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

STRUCTURE OF LATVIJAS GĀZE GROUP AS OF 31 DECEMBER 2021

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

STRATEGY AND OBJECTIVES

OUR OBJECTIVE

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

OUR MISSION

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

OUR VISION

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

LATVIJAS GĀZE GROUP`S FOCUS

Latvijas Gāze group comprising the natural gas sales & trading segment and the natural gas distribution 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 supplies through:

1. **PRICE COMPETITIVENESS**
   We continuously work towards improving the competitiveness of our natural gas purchase portfolio as well as to improve our cost efficiency and effectiveness with regard to the provision of our products and services. We are dedicated to offering competitive natural gas prices and to ensuring affordable distribution tariffs to all our 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**
   Latvijas Gāze group is working on improving the quality and availability of its products and services. We review and improve our business and sales processes with the aim to make the provision of products and services to our customers faster and simpler.

4. **EFFECTIVE MANAGEMENT**
   Latvijas Gāze group strives to fully implement the principles of the Corporate Governance Code developed by the Corporate Governance Advisory Board, ensuring the equality of all shareholders, a professional supervision, and transparency. A key role in our business is played by IT systems that facilitate an effective management of both the distribution infrastructure as well as the natural gas sales & trading business.

5. **PROFESSIONAL PERSONNEL – FONTS**
   Latvijas Gāze group employs a large staff of specialists with many different professional backgrounds. Given the paramount role of safety and security of gas supply, we pay particular attention to the qualification of our technical specialists and to labour safety. The sales & trading segment as well as the distribution segment provide their employees with a modern working environment and operate in compliance with clearly defined personnel policies to ensure an efficient performance and recruitment.

6. **SAFETY AND SECURITY OF GAS SUPPLY**
   In its gas distribution segment Latvijas Gāze group strives to ensure both the physical safety of the infrastructure, as well as to guarantee the distribution capacity necessary to satisfy the natural gas demand in Latvia. Commercially Latvijas Gāze group focuses on ensuring trustful, safe and flexible gas supplies at competitive prices.

7. SUSTAINABLE INVESTMENT

Investments in gas supply safety are closely related to the improvement of efficiency and environmental factors. The distribution segment observes high standards for the diagnostics of the natural distribution network, thus reducing the risk of an emergency and leaking of methane and defining as main priorities the implementation of safe and reliable infrastructure of the system operator, securisation of smart distribution service, paying attention towards the digitalisation of customer service, day-to-day maintenance, development of distribution assets processes and promotion of natural gas as an efficient source of energy.

8. SUSTAINABILITY

In compliance with the climate neutrality goals set by the European Union for 2050, the focus of Latvijas Gāze is on compensating for the environmental impact caused by customers by creating projects that allow reducing GHG emissions. In accordance with the European Union proposal package Fit for 55, the European Commission's Hydrogen and Gas Market Decarbonisation Package, the Methane Strategy and the targets set in the Renewable Energy Directive, Latvijas Gāze's ambition is to become a biomethane producer and include it in the natural gas network. In addition to the implemented Energy Management System according to ISO 50 001 standard, in 2021 Latvijas Gāze has implemented an Environmental Management System, which is certified in accordance with the ISO 14 001 standard and has performed CO2 emissions calculations. Based on established environmental policies and CO2 emission calculations, Latvijas Gāze has planted 2,000 birches, thus offsetting 3 year CO2 emissions.

9. NETWORK DEVELOPMENT AND CUSTOMER ATTRACTION

The distribution segment of Latvijas Gāze group plans to develop further the distribution network and to attract new customers through the realization of new gasification projects in populated areas and analysing options for the implementation of off-grid solutio

SHARES AND SHAREHOLDERS OF THE JSC “LATVIJAS GĀZE”

SHARES AND SHAREHOLDERS

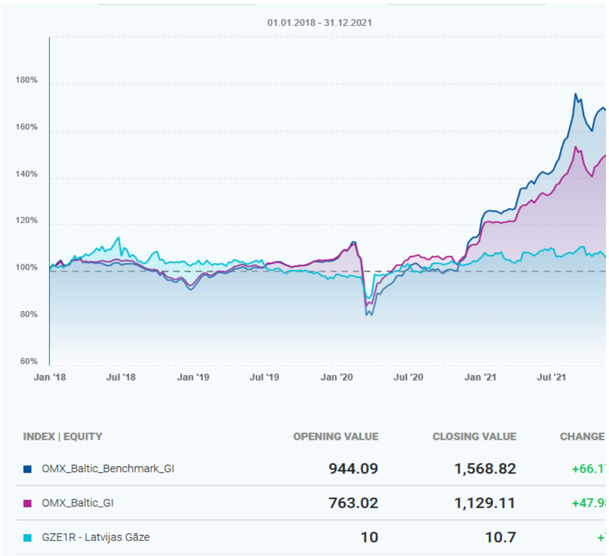
The shares of the JSC “Latvijas Gāze” are listed on the Nasdaq Riga stock exchange since February 15, 1999, and its ticker code is GZE1R since August 1, 2004. The total number of securities has not changed since 1999. The total number of shareholders of JSC “Latvijas Gāze” as of 31.12.2021 was 6 631.

COMPANY’S SHARE PRICE, OMX RIGA GI AND OMX BALTIC GI INDEX CHANGES (01.01.2018. – 31.12.2021.)

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

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

Source: Nasdaq Baltic



Source: Nasdaq Baltic

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

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

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

On 31st of December 2021, in terms of stock market capitalization, the JSC “Latvijas Gāze”, the market capitalization value of the Company amounted to 426.93 million EUR, which is by 1.9% more, compared to the 2020.

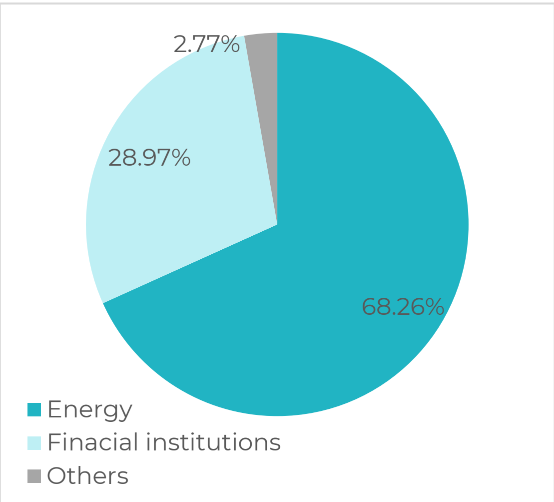
SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2018.-31.12.2021.)

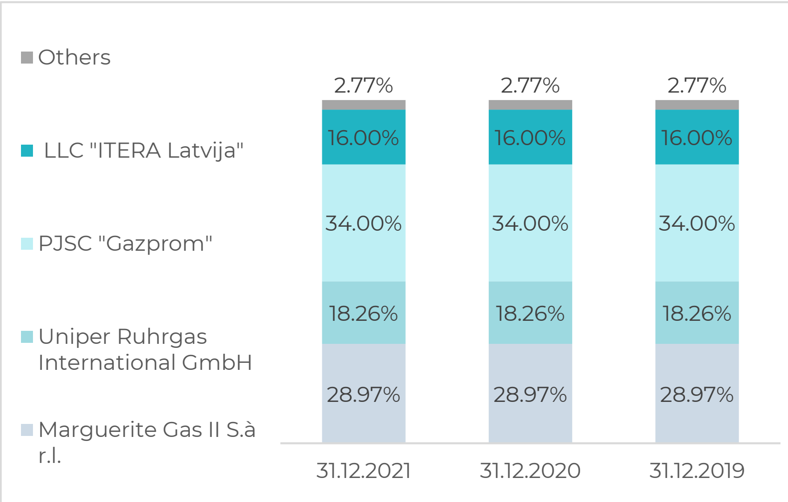
Source: Nasdaq Baltic

INFORMATION ON SHARE TRANSACTIONS (2019 –2021)

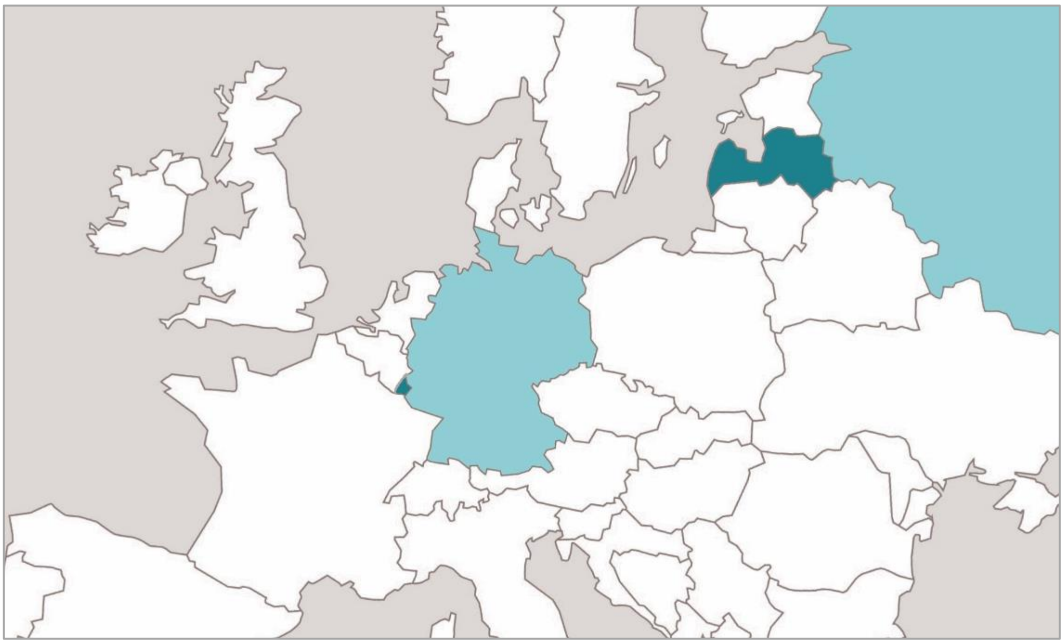
	2021	2020	2019
Share price (EUR)			
First	10.50	9.90	10.20
Highest	11.10	10.80	10.60
Lowest	10.10	8.10	9.60
Average	10.71	10.01	10.16
Last	10.70	10.50	9.90
Change (From First to Last share price)	1.90%	6.06%	-2.94%
Number of transactions	3 030	1 800	968
Number of shares traded	81 665	77 226	85 768
Turnover (million EUR)	0.87	0.77	0.87
Capitalization (million EUR)	427	419	395

COMPOSITION OF SHAREHOLDERS, 31.12.2021





GEOGRAPHICAL DISTRIBUTION OF THE MAJOR SHAREHOLDERS



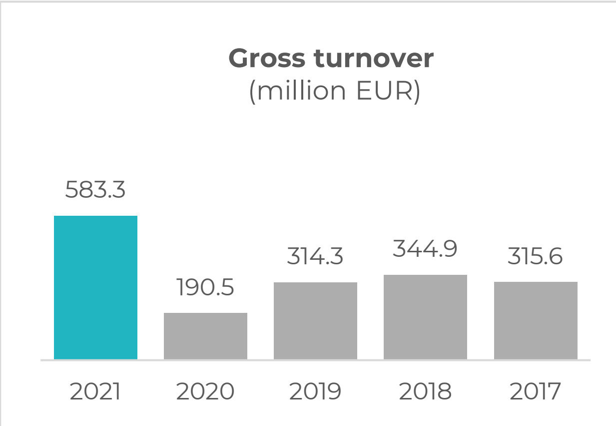
— Russia (PAS Gazprom)
— Luxembourg (Marguerite GAS I S.À R.L.)
— Germany (Uniper Ruhrgas International GMBH)
— Latvia (SIA Itera Latvija)

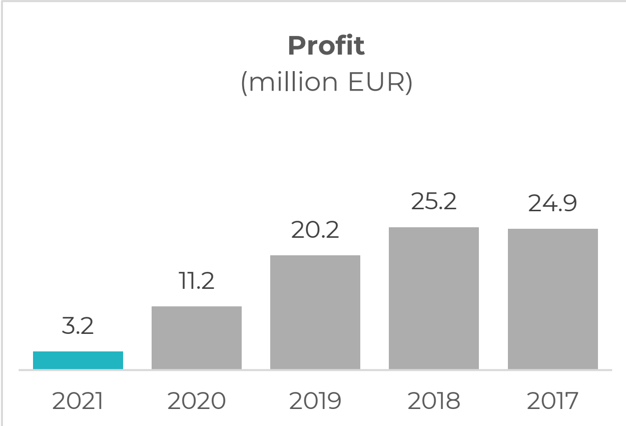
SHARES OWNED BY MEMBERS OF THE GOVERNING BODIES OF THE JSC "LATVIJAS GĀZE"

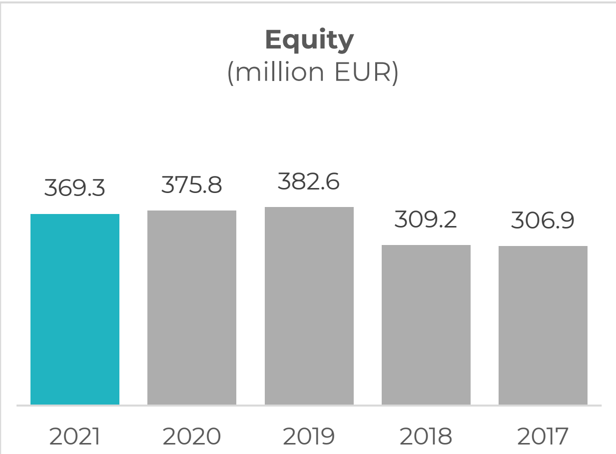
		At the date of signing financial statements
Management Board		**Number of shares**
Chairman of the Board	Aigars Kalvītis	None
Deputy Chairman of the Board	Denis Emelyanov	None
Member of the Board	Elita Dreimane	None
Member of the Board	Inga Āboliņa	None
Council		
Member of the Council	Kirill Seleznev	None
Member of the Council	Juris Savickis	None
Member 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	Eriks Atvars	None

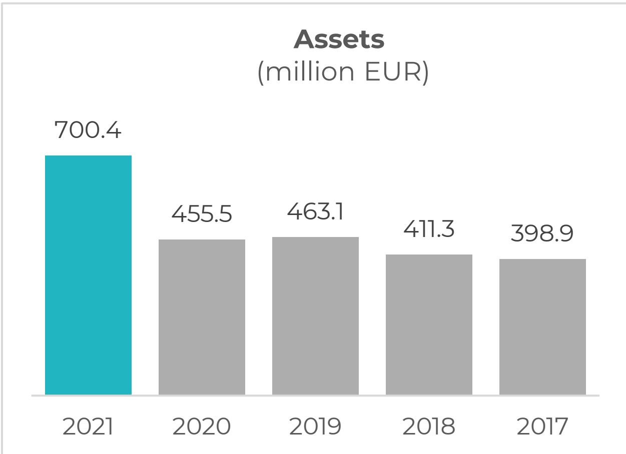
LATVIJAS GĀZE GROUP FACTS AND FIGURES

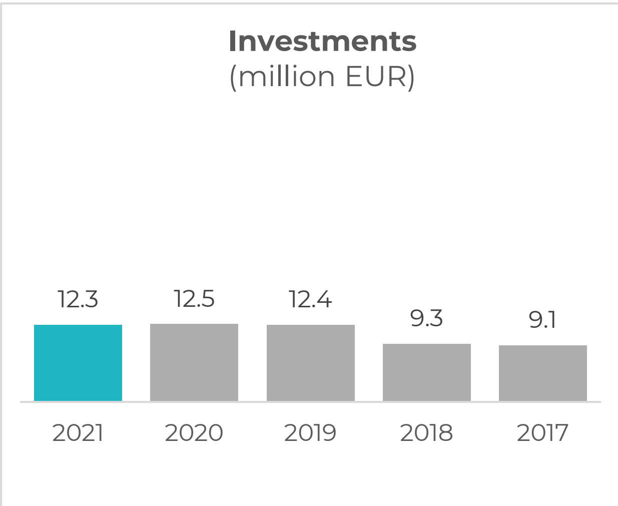
FINANCIAL INDICATORS

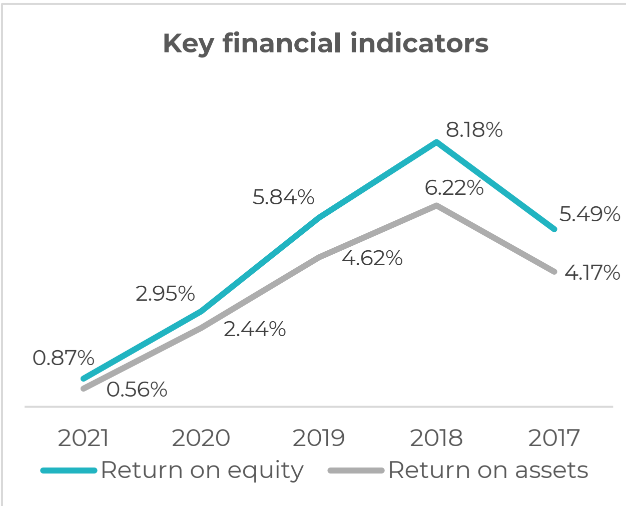




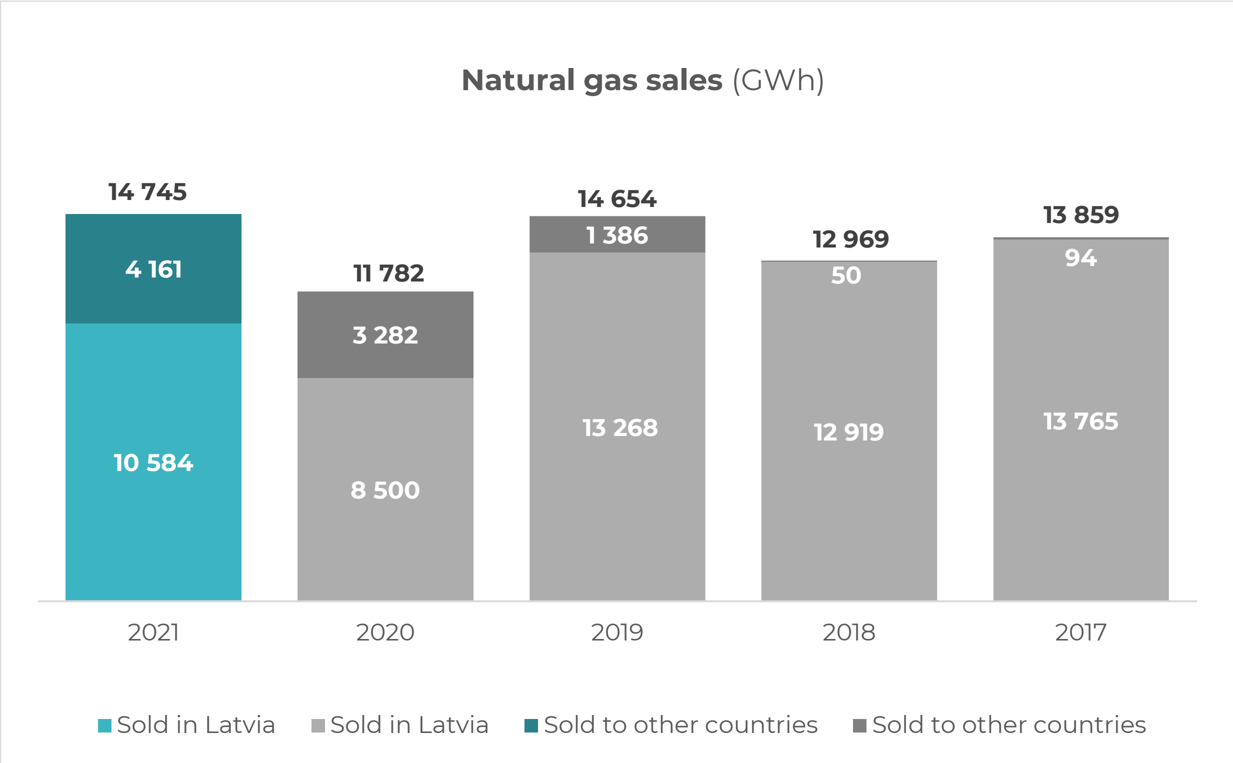




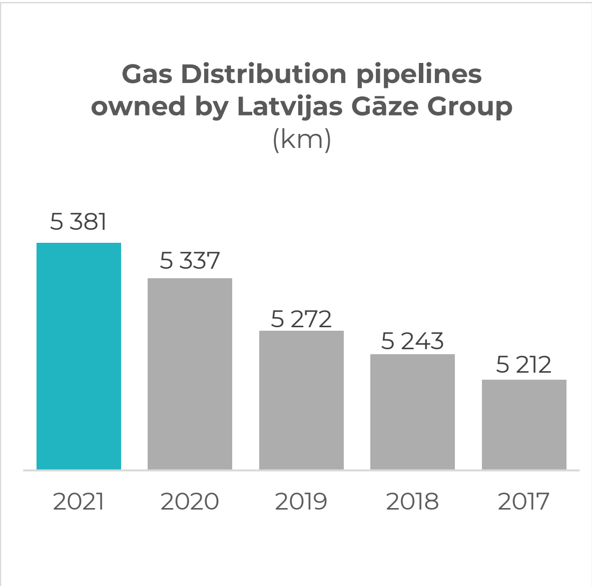


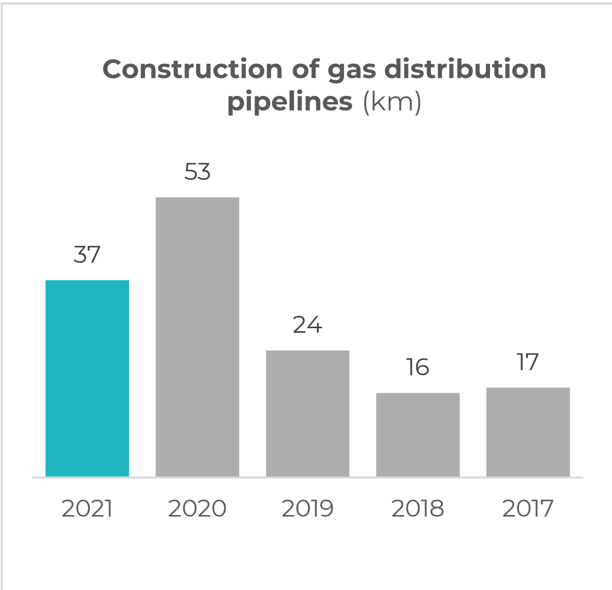


NATURAL GAS VOLUMES

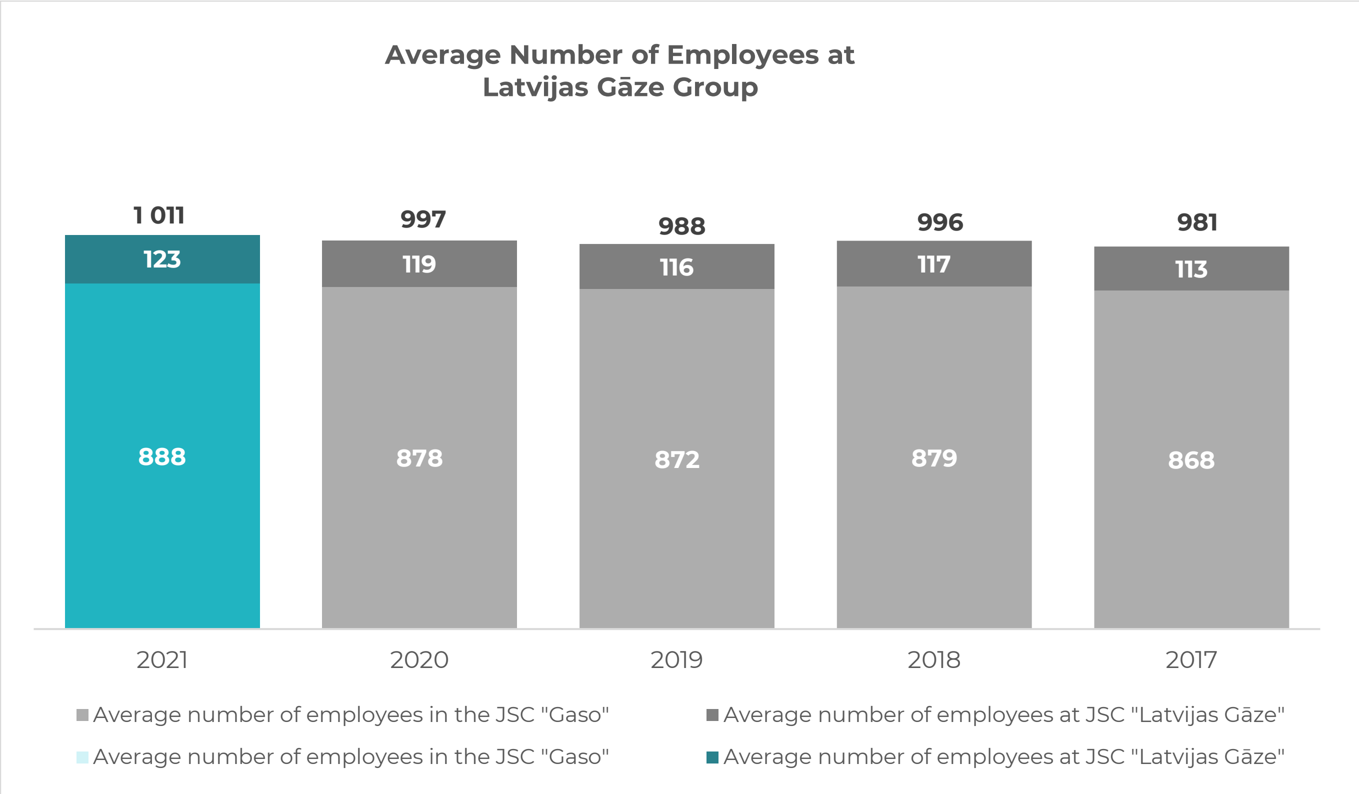


DISTRIBUTION SYSTEM



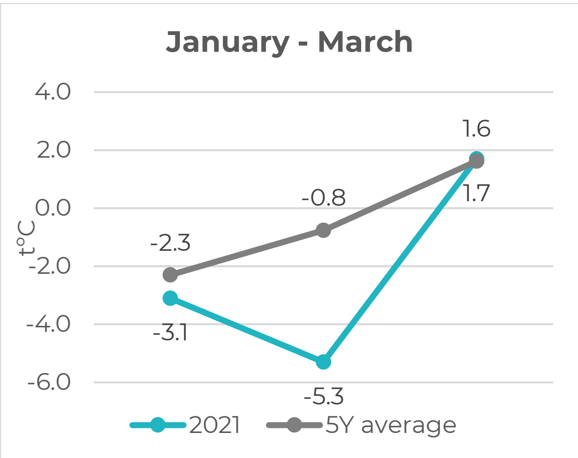


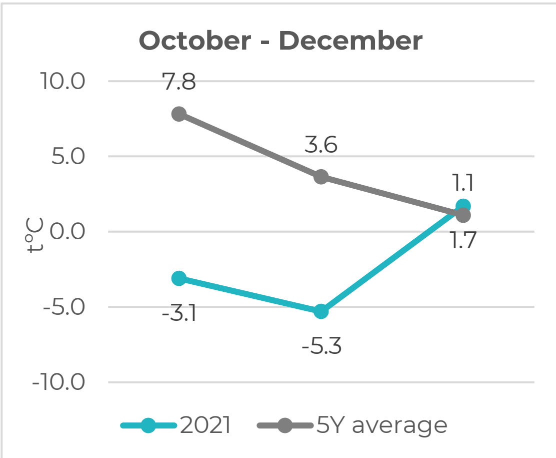
EMPLOYEES



GRAPHICAL REPRESENTATION OF FACTORS INFLUENCING COMPANY' BUSINESS ENVIRONMENT

In Latvia the air temperature is one of the main factors influencing demand patterns during the heating season, as can be seen from the graphical representation below - the air temperature in January-March, 2021 and October-December, 2021 has been lower than the five-year average.





MANAGEMENT REPORT

Colder temperature during heating season and significantly higher natural gas prices were the two main factors, which influenced the JSC "Latvijas Gāze" performance in 2021. Colder temperature increased JSC "Latvijas Gāze" sales and utilization of JSC "Gaso" distribution network.

JSC "Latvijas Gāze" results were heavily impacted by negative revaluation of derivatives as JSC "Latvijas Gāze" executed hedges to lock into margin for index-price linked sales contracts for winter period (October 2021 - March 2022). According to accounting policy, JSC "Latvijas Gāze" has to recognize marked-to-market value of derivatives every month, however profit from these natural gas sales contracts will only be recognized once the allocated inventory will be depleted during withdrawal season. Inventory is not revaluated based on market prices and its book value is recognized based on purchase price. Consequently, the negative value of derivatives was partially compensated in Q4 2021 and significant positive result will be reported as early as Q1 2022 once further underlying hedge asset – inventory will be depleted.

Natural gas prices posted significant gains during 2021 on the back of low gas storage inventories in Europe, robust economic recovery and higher European Union Allowance (EUA) prices. Particularly unprecedented price increase was observed during 2H 2021 when winter natural gas price almost tripled on the back of supply disruptions, lower gas flows from Russia. Moreover, nuclear production closure in Europe and lower renewable output further boosted price volatility.

In 2021, JSC "Latvijas Gāze" sold 14 859 GWh of natural gas to customers in Latvia and abroad. Compared to the same period in 2020, sales volumes have increased by 25%. Sales volumes to foreign counterparties accounted for 28% of the total sales volumes. JSC "Latvijas Gāze" successfully managed to compensate domestic share loss with sales abroad.

JSC "Latvijas Gāze" profit in Q4 is 170 million EUR that fully covered year to date losses.

The Group's net turnover in 2021 reached 583.3 million EUR – a 206% increase compared to 2020. This is mainly due to considerably higher natural gas price compared to 2020. Additionally, the air temperature was below three-year average in the heating period, which increased demand for natural gas, and higher natural gas sales compared to 2020 contributed to higher turnover. The average price of natural gas in 2021 was four times higher compared to the average price in 2020. The Group's profit in 2021 amounted to 3.2 million EUR and was 71% lower in comparison to the 2020 when profit amounted to 11.2 mllion EUR. Decrease is attributable to negative derivative revaluation as winter natural gas price continued to increase. Part of compensating effect was observed in Q4 2021 as JSC "Latvijas Gāze" depleted underlying asset – inventory, thus recognizing the gains of hedged item. JSC "Latvijas Gāze" profit in Q4 is 170 million EUR that fully recovered year to date losses.

The economic performance of the distribution segment managed by JSC "Gaso" depends on the overall natural gas demand and volumes transported through the distribution network over the year. Cold weather during heating period in 2021, boosted utilization of JSC "Gaso" distribution system as a result "Gaso" financial results in 2021 have significantly improved. During 2021, JSC "Gaso" continued to develop a safe and available natural gas distribution infrastructure, with major investments made in construction and reconstruction of gas pipelines and shut-off devices, reconstruction of technological equipment, and development of information technologies and computing equipment.

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

Group`s key figures	2021	2020	2019
Natural gas sales, GWh	14 745	11 782	14 654
Number of employees, average	1 011	997	988
Length of distribution lines, km	5 381	5 337	5 272

Group`s key financial figures	2021	2020	2019
	EUR'000	EUR'000	EUR'000
Net turnover	**583 342**	**190 494**	**314 349**
EBITDA	**17 993**	**26 462**	**35 627**
EBITDA, %	**3.1**	**13.9**	**11.33**
EBIT	**4 335**	**12 943**	**22 857**
EBIT, %	0.7	6.8	7.27
Net profit	**3 240**	**11 189**	**20 190**
Net profit margin, %	0.6	5.9	6.42
Earnings per share, EUR	0.08	0.28	0.51
P/E	133.75	37.50	19.41
Current ratio	1.22	3.76	4.16
ROCE	0.01	0.03	0.05
Dividends / net profit		0.96	0.87

Alternative Performance Measures (APM)	Formulas
EBITDA *(Profit before income tax, interest, depreciation and amortization)*	EBITDA = Profit of the year + Corporate income tax + Financial expense - Financial income + Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets
EBITDA,% *(or EBITDA margin)*	EBITDA, % = $\frac{EBITDA}{Revenue\ from\ contracts\ with\ customers}$ x 100%
EBIT*(Profit before income tax and interest)*	EBIT= Profit of the year + Corporate income tax + Financial expense - Financial income
EBIT,% *(or EBIT margin)*	EBIT,% = $\frac{EBIT}{Revenue\ from\ contracts\ with\ customers}$ x 100%

Net profitability *(or Commercial profitability)* The indicator reflects how much the company earns from each of the EUR received from customers	Net profitability, %= $\frac{\textit{Profit of the year}}{\textit{Revenue from contracts with customers}}$ x 100%
P/E Ratio *(Relationship between Share Price and Earnings per Share)*	P/E= $\frac{\textit{Last share price}}{\textit{Earnings per share for the reporting year}}$
Return on equity (ROE) *(Company's earnings ratio on the company's equity source - shareholders)* The indicator reflects the effective use of equity capital by the company	Return on equity,% = $\frac{\textit{Profit of the year}}{\textit{Average annual equity value*}}$ x 100%
Return on assets (ROA) *(The amount of profit earned by the company on the assets used)* The indicator reflects how effectively company is profiting from the use of its assets	Return on assets,% = $\frac{\textit{Profit of the year}}{\textit{Average annual asset value**}}$ x 100%
Current ratio The indicator measures Company's ability to pay short-term obligations that matures within one year.	Current ratio = $\frac{\textit{Current assets}}{\textit{Current liabilities}}$
Return on capital employed (ROCE) The indicator measures the effective use of available capital by the company.	Return on capital employed = $\frac{\textit{EBIT}}{\textit{Capital employed}}$
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 = $\frac{\textit{Dividends paid}}{\textit{Net income}}$

** Average equity value is calculated by adding the equity value at the beginning of the financial period and at the end of the financial period and dividing the amount by 2*
*** Average asset value is calculated by adding the value of assets at the beginning of the financial period and at the end of the financial period and dividing the amount by 2*

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

GENERAL MARKET AND INDUSTRY ENVIRONMENT

Cold start of the winter combined, lower renewable output, nuclear outages in Europe and increase in Carbon Emission Allowances (EUA) futures boosted natural gas price. As natural gas is global commodity, Europe faced severe competition with Asia to procure natural gas. Lower natural gas inventories in Europe dramatically increased price volatility.

The latest economic review by the International Monetary Fund[1] (IMF) expects global growth to moderate from 5.9 in 2021 to 4.4 percent in 2022—half a percentage point lower for 2022 than in the previous World Economic Outlook (WEO), largely reflecting forecast markdowns in the two largest economies. Global growth is expected to slow to 3.8 percent in 2023. The forecast is conditional on adverse health outcomes declining to low levels in most countries by end-2022, assuming vaccination rates improve worldwide and therapies against Covid become more effective. Elevated inflation is expected to persist with ongoing supply chain disruptions and high energy prices continuing in 2022. Assuming inflation expectations stay well anchored, inflation should gradually decrease as supply-demand imbalances wane in 2022 and monetary policy in major economies responds. Due to the warfare, resulting global sanctions and its impact on global economic climate the predictions may change compared to what was issued by end of January 2022.

According to the latest macroeconomic forecasts of the Bank of Latvia[2] (LB) as revised in March 2022, Latvia's GDP will grow by 1.8% in 2022 (decrease by 2.4% compared to December report) and 3.2% in 2023. Decline in economic activity caused by the Russia military invasion in Ukraine is likely to be more pronounced this year if the warfare continues or escalates and sanctions are expanded. The effects of cessation of trade with the aggressor countries can be estimated relatively precisely. However, the impact of the possible commodity shortage and deteriorating confidence is far less clear cut, and in the event of adverse developments it can reduce production, consumption and investment. This may result in a more pronounced decline in economic activity this year and a delay in acceleration of growth. Further escalation of the war would also sustain higher resource prices and inflation. Latvia's inflation projections for 2022 and 2023 have been revised upwards to 9.5% and 3.7% respectively (from 6.1% in 2022 and 2.9% in 2023 in the December inflation forecast) on account of the rising global energy and food prices, which have increased further since the outbreak of the war in Ukraine.

KEY EVENTS DURING THE REPORTING PERIOD

- **On April 6, 2021,** the state of emergency in Latvia, which was in force from November 6, 2020 related to the spread of coronavirus ended. JSC "Latvijas Gāze" continues serving its customers only remotely, with the customer service centre remaining closed. When and where possible JSC "Latvijas Gāze" employees are working remotely to minimize risks associated with the spread of coronavirus.
- **On June 15, 2021,** JSC "Latvijas Gāze" held its annual Meeting of Shareholders.
- **On June 29, 2021,** JSC "Latvijas Gāze" has concluded amendments to the existing overdraft agreement with OP Corporate Bank plc, increasing credit line from 30 million euros to 75 million euros. 75 million euros credit line was be available until 2nd January 2022 afterwards credit line decreased back to 30 million euros as per original agreement that expires on 31 May, 2023.
- **On July 1, 2021,** the new tariffs for households of the natural gas and distribution system operator Gaso has entered into force. The changes are related to both the increase in the natural gas prices in the global markets and the amendments to the service tariff of distribution system operator Gaso, which was approved by the Public Utilities Commission on 30 April this year.
- **On September 28, 2021** JSC "Latvijas Gāze" management of the board signed amendments to the existing overdraft agreement with OP Corporate Bank plc, increasing credit line from 75 million euros to 100 million euros. 100 million euros credit line was available until 2nd February 2022 afterwards credit line decreased back to 30 million euros as per original agreement that expires on 31 May 2023. There was critical need for additional funding as winter price doubled compared to August settled price.
- **In November, 2021,** JSC Latvijas Gāze received the internationally recognized ISO 14001 standard certificate, which confirms that the company's management complies with international standards and best practices.
- **From January 1, 2022**, JSC "Latvijas Gāze" natural gas tariffs for households increased from 54.2% to 93%, depending on the amount of consumption.

[1] https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022
[2] https://www.macroeconomics.lv/latvijas-banka-has-revised-its-macroeconomic-forecasts

OPERATING RESULTS OF THE BUSINESS SEGMENTS

Sales & trading segment: In 2021, the sales & trading segment operated by the JSC "Latvijas Gāze" had an asset value of 374.7 million EUR, which was by 189% higher in comparison to 2020. The increase in asset value is attributable to high gas price environment, which significantly increased the inventory value and consequently – receivables due to higher sales prices, as well as collateral payments for derivative financial instruments. In 2021, the segment generated a net turnover of 525.4 million EUR. The significantly higher net turnover was mainly attributable to higher sales prices due to developments in global natural gas market, as well as higher sales quantities, compared to 2020. During 2021 segment's EBITDA amounted to – 8.2 million EUR, loss before taxes reached 10.1 million EUR, while in 2020 EBITDA was 6.0 million EUR, and profit before taxes was 4.6 million EUR. Sales and trading segment bottom line was negatively impacted by derivative revaluation, however it has been fully compensated in first quarter of 2022 once withdrawal season ends. Disciplined risk management approach during high volatility environment set basis for the strongest winter season (October 2021 – March 2022) performance.

Distribution segment: At the end of 2021, the distribution segment operated by the JSC "Gaso" had an asset value of 325.7 million EUR. In the reporting period, the distribution segment generated a net turnover of 57.9 million EUR and EBITDA of 26.2 million EUR (increase by 18% and 28%, compared to the same period of 2020, respectively). Distribution services are regulated and form the main source of revenues for JSC "Gaso". The increase in net turnover was mainly caused by higher utilization of the Latvian natural gas distribution system, because of lower temperatures during the heating months. The segment's profit before taxes amounted to 13.8 million EUR in 2021 and was by 71% higher, compared to 2020.

LONG-TERM GAS SUPPLIES

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

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

INVESTMENTS

JSC "Latvijas Gāze" in 2021 have invested approximately 0.8 million EUR to ensure efficient operations, communication and services to customers and to strengthen digital transformation processes. In 2022 the investments are planned to be around 1 million EUR in order to ensure, that "Latvijas Gāze" employees are flexible to work remotely, and to move from stabilization to improvement phase, therefore, 0.5 million EUR will be invested in Client portal and Billing system, as well as Customer Service processes.

In 2022 JSC "Latvijas Gāze" will have several essential projects to strengthen Cybersecurity maturity level, based on global Cybersecurity threat growth. One of the biggest projects will be SIEM implementation, which will allow to detect possible threats quicker and reacted to them in accordance to the laws and regulations.

The modernization of the existing IT infrastructure and the digitalization of the Company's sales processes will continue to play a key role in serving customers with the best products and services at the most competitive price also in the future.

Apart from its continued investments into upgrading IT systems and infrastructure the Company's budget for 2022 foresees dedicated funds for the further improvement and modernization of customer care operations. Moreover, the JSC "Latvijas Gāze" plans to make selective investments into exploring and developing new business areas towards sustainability and climate neutrality.

FINANCIAL RISK MANAGEMENT

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

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

The group's ***liquidity risk*** mainly stems from the distinct seasonality of the natural gas business. To ensure security of supply for the winter months the Company usually injects significant natural gas quantities into the Inčukalns Underground Gas Storage ("IUGS") during the injection season starting in early summer. While the Company needs to ensure the availability of respective cash reserves to finance the injection of natural gas into the storage during the summer months, customers will typically consume and subsequently pay most of the natural gas only during the winter period. Additionally, Company is exposed to liquidity risk due to collateral management process. Collateral management is the process of two parties exchanging assets in order to reduce credit risk associated with any unsecured financial transactions between them. In terms of JSC "Latvijas Gāze" it is derivative transactions that are secured with cash as a collateral. To actively monitor and manage the liquidity risk the Company continuously improves its internal cash planning tools and instruments. To take account of the increased importance of a systematic and rigorous cash management in a competitive and highly volatile market the Company has in place a dedicated treasury function. JSC "Latvijas Gāze" management of the board signed amendments to the existing overdraft agreement with OP Corporate Bank plc, increasing credit line from 75 million euros to 100 million euros. JSC "Latvijas Gāze" has concluded amendments to the existing overdraft agreement with OP Corporate Bank plc, Latvian branch: 100 million credit line limit is prolonged until 28th February, 2022. From 1st March 2022 unitl 31st May 2023, credit line will be 50 million EUR – a 20 million EUR increase from the initial credit line agreement amount.

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

FUTURE PROSPECTS

JSC "Latvijas Gāze" forecasts that significant positive result will be reported as early as Q1 2022 once further underlying hedge asset – inventory will be depleted which sets basis for the strongest winter season (October 2021 – March 2022) performance.

Following the Fit For 55 package, EU Methane strategy and objectives for transportation sector put forward in the Renewables Directive, supporting both a motivational system for organic waste recovery and the demand side for the use of bio methane in transport the Company will respond through economically sustainable answers to the challenge of combating climate change and giving access to energy resources in an efficient and sustainable way, overall. One of these measures to reduce the environmental impact is the participation in a project that will neutralise greenhouse gas (GHG) emissions from the offices and employees of JSC "Latvijas Gāze".

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

Finally, the Company plans to explore additional markets and has set up an internal project group to analyse opportunities for expanding its business into new segments. The analysis puts a particular focus on business opportunities arising around CNG and biomethane.

Notwithstanding the hardship brought by geopolitical situation and EU focus to reduce the reliance on Russian gas "Latvijas Gāze" group will continue to fulfil its obligations towards the customers and business partners. Latvijas Gāze sees its future role in satisfying arising natural gas supply-demand gaps. Latvijas Gāze will continue its strong risk management and trading strategy to ensure good ground for solid results, which inter alia is supported by the historically strongest 2022 first quarter result.

TRANSACTIONS WITH RELATED PARTIES

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

JSC "Latvijas Gāze" is party to ISDA 2002 Master Agreement with Gazprom Marketing and Trading Limited, which is a wholly owned subsidiary of the Gazprom group of companies.

JSC "Latvijas Gāze" executed derivative transactions with Gazprom Marketing and Trading Limited to hedge and optimize its trading portfolio. Last derivative deals are of March, 2022 and settlement in early April. Those deals were agreed and executed before the relevant sanction regime against Russian federation was set. Respecting the requirements of the sanction regime currently in force, JSC "Latvijas Gāze" does not plan to carry out new transactions Gazprom Marketing and Trading Limited.

CORPORATE MANAGEMENT REPORT AND REMUNERATION REPORT

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COVID-19 IMPACT

The management of the Latvijas Gāze group complies with all the necessary safety measures to keep its customers and employees safe. There was no impact from COVID-19 in 2021.

SUBSEQUENT EVENTS

On January 25, 2022, the Cabinet of Ministers of the Republic of Latvia adopted a new draft law on measures addressing the extreme increase in the energy resource prices and amendments to a number of Cabinet regulations, approving new measures of additional support for an immediate reduction of the increase in the energy resource prices in the total bills of individuals and businesses.

On January 31, 2022, JSC Latvijas Gāze has concluded amendments to the existing overdraft agreement with OP Corporate Bank plc, Latvian branch 100 million credit line (overdraft) limit on prolongation until 28th February, 2022. From 1st March 2022 until 31st May 2023, credit line will be 50 million EUR – a 20 million EUR increase from the initial credit line agreement amount.

In February 2022 Russia military invasion in Ukraine has prompted United States, European Union, United Kingdom, and other major economies to impose an extraordinary set of coordinated economic sanctions against Russia. The measures aim to limit customary trade and financial relations with Russia. However, the natural gas sector, the natural gas itself and the transactions and payments for it is not an object of the sanctions at the date of issuance of these financial statements. Exception has been applied to this sector from overall sanctions regime. According to the said exemption mechanism the duties and liabilities arising from the long term natural gas supply agreement concluded in 1999 with PJSC "Gazprom" are executed in duly and timely manner.

On March 31, 2022 the Presidential Decree of the Russian Federation No.172 "On a special procedure of fulfilment of obligations towards Russian natural gas suppliers by foreign buyers" was issued. It presumes that starting April 1, 2022, supplies of natural gas under external trade agreements of the PJSC "Gazprom" on supply of natural gas to a number of foreign countries as well as under external trade agreements of the PJSC "Gazprom" on supply of natural gas with foreign entities registered in those countries shall be paid for in Russian rubles only. The details followed in Instruction of Authorized Bank Gazprombank on Opening Type K Special Account Denominated in Rubles and Type K Special Accounts Denominated in Foreign Currencies on Payments Settlement for Natural Gas Supply. The financial impact cannot be fully and reliably assessed at the current moment because the event is very recent and the practical implications are yet to be determined and therefore management is currently still evaluating and assessing the situation.

On 6th April, 2022 the Parliament Committee on Economic, Agricultural, Environmental and Regional Policy in Latvia commenced the review of Amendments to Energy Law, which inter alia envisage to impose a ban on natural gas supplies from Russia to Latvia. Based on information publicly available it is currently planned that the Committee will continue the discussion of the draft law in the committee after two weeks – on 20 April 2022. According to public information, the government will discuss a proposal of the date by which the ban on Russian natural gas imports will be introduced. It should be noted that European Union has so far not adopted a common position in support of a ban on Russian natural gas imports. These aspects point to the complexity and ambiguity of the issue, as the protection of households and the internal energy security of the country is also important. In order for such a decision to be taken, the issue has yet to be debated in Latvian parliament in several readings. While there is not set a specific deadline for this proposal and the situation is continuously developing, the financial impact cannot be fully and reliably assessed at the current moment and management is currently still evaluating and assessing the situation including the options to expand the trade in Europe and diversifying the sourcing of the natural gas.

Management assesses all these subsequent events as non-adjusting and is of the opinion that the impact of those events will not cause any uncertainties on the going concern of the group and the company for the 12 months following the approval of these financial statements by Management Board.

STATEMENT OF THE BOARD RESPONSIBILITY

The Board of the Joint Stock Company "Latvijas Gāze" is responsible for the preparation of the "Latvijas Gāze" Group consolidated and the JSC "Latvijas Gāze" financial statements for 2021 (further – Financial statements), which consist of the Company's and the Company's and its subsidiary (further - Group's) financial statements.

Financial statements for 2021 have been prepared in compliance with the International Financial Reporting Standards adopted by the European Union.

According to the information available to the management of the Company, the Financial statements provide a true and fair view of the Company's and the Group's assets, liabilities, financial position, operational results and cash flows in all key aspects.

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on 20 April 2022, and they are signed on behalf of the Board by:

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

* DOCUMENT SIGNED WITH SECURE ELECTRONIC SIGNATURE AND CONTAINS TIME STAMP

FINANCIAL STATEMENTS

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

CORPORATE INFORMATION

Company	Latvijas Gāze, Joint Stock Company
LEI code	097900BGMO0000055872
Registration number, place and date of registration	Unified registration number 40003000642 Riga, Latvia, 25 March 1991 re-registered in Commercial Register on 20 December 2004
Address	A.Briāna 6, Riga, Latvia, LV-1001
Major shareholders	PJSC Gazprom (34.0%) Marguerite Gas II.S.a.r.l. (28.97%) Uniper Ruhrgas International GmbH (18.26%) ITERA Latvija SIA (16.0%)
Financial period	1 January – 31 December 2021
Name and address of the auditor	PricewaterhouseCoopers SIA Kr. Valdemāra street 21-21 Riga, LV-1010, Latvia Responsible certified auditor: Jana Smirnova Certified auditor Certificate No.188

STATEMENT OF PROFIT OR LOSS

	Note	Group 2021	Group 2020	Company 2021	Company 2020
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue from contracts with customers	**2**	**583 342**	**190 494**	**530 224**	**142 708**
Other income	3	1 472	2 850	422	1 828
Raw materials and consumables used	4	(339 528)	(131 301)	(337 952)	(129 677)
Personnel expenses	5	(28 956)	(26 331)	(5 557)	(5 277)
Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets	6	(13 658)	(13 519)	(1 280)	(1 183)
Net fair value losses on financial derivatives	23	(189 564)	-	(189 564)	-
Other operating expenses	7	(8 773)	(9 250)	(3 506)	(3 922)
Dividends received from subsidiary		-	-	8 379	8 778
Operating profit		**4 335**	**12 943**	**1 166**	**13 255**
Financial expense		(671)	(260)	(668)	(260)
Profit before taxes		**3 664**	**12 683**	**498**	**12 995**
Corporate income tax		(424)	(1 494)	(424)	(1 494)
Profit for the period		**3 240**	**11 189**	**74**	**11 501**
		EUR	EUR	EUR	EUR
Earnings per share (basic and diluted)	16	0.081	0.280	0.002	0.288

STATEMENT OF COMPREHENSIVE INCOME

	Note	Group 2021	Group 2020	Company 2021	Company 2020
		EUR'000	EUR'000	EUR'000	EUR'000
Profit for the period		**3 240**	**11 189**	**74**	**11 501**
Other comprehensive income - items that will not be reclassified to profit or loss					
Remeasurement of post-employment benefit obligations	19	998	(348)	30	(3)
Total other comprehensive income		**998**	**(348)**	**30**	**(3)**
Total comprehensive income for the period		**4 238**	**10 841**	**104**	**11 498**

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on 20 April 2022, and they are signed on behalf of the Board by:

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

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BALANCE SHEET

	Note	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
		EUR'000	EUR'000	EUR'000	EUR'000
Non-current assets					
Intangible assets	8	9 639	9 177	4 926	5 057
Property, plant and equipment	9	307 446	309 971	2 304	2 534
Right-of-use assets		19	40	206	295
Investment in subsidiary	10	-	-	194 534	194 534
Trade receivables	12	86	8	5	5
Total non-current assets		**317 190**	**319 196**	**201 975**	**202 425**
Current assets					
Inventories	11	123 574	42 220	122 278	40 854
Pre-payments for inventories		29 338	8 046	29 297	8 035
Trade receivables	12	129 411	28 306	128 188	25 339
Derivative financial instruments	23	1 179	624	1 179	624
Other financial assets at amortised cost	14	447	1 573	361	1 513
Cash restricted from being used	24	86 030	-	86 030	-
Other current assets	15	2 270	1 348	1 009	739
Cash and cash equivalents		10 962	54 236	1 087	44 968
Total current assets		**383 211**	**136 353**	**369 429**	**122 072**
TOTAL ASSETS		**700 401**	**455 549**	**571 404**	**324 497**

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

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BALANCE SHEET (continued)

	Note	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
		EUR'000	EUR'000	EUR'000	EUR'000
LIABILITIES AND EQUITY					
Equity					
Share capital	16	55 860	55 860	55 860	55 860
Share premium		20 376	20 376	20 376	20 376
Reserves		182 940	188 432	204 521	204 491
Retained earnings		110 126	111 169	5 534	16 233
Total equity		**369 302**	**375 837**	**286 291**	**296 960**
Liabilities					
Non-current liabilities					
Provisions		688	700	-	-
Borrowings	17	-	22 167	-	-
Lease liabilities		-	-	119	187
Deferred income	18	14 094	18 318	-	-
Employee benefit obligations	19	1 512	2 305	29	61
Total non-current liabilities		**16 294**	**43 490**	**148**	**248**
Current liabilities					
Trade payables	20	51 992	5 725	54 721	8 202
Interest-bearing loans and borrowings	17	61 161	3 500	38 994	-
Lease liabilities		21	21	89	89
Deferred income	18	2 934	1 079	-	-
Derivative financial instruments	23	112 076	3 688	112 076	3 688
Other liabilities	21	86 621	22 209	79 085	15 310
Total current liabilities		**314 805**	**36 222**	**284 965**	**27 289**
Total liabilities		**331 099**	**79 712**	**285 113**	**27 537**
TOTAL LIABILITIES AND EQUITY		**700 401**	**455 549**	**571 404**	**324 497**

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on 20 April 2022, and they are signed on behalf of the Board by:

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reva-luation reserve	Employee benefits revaluation reserve	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2019 (restated)	**55 860**	**20 376**	**195 087**	**510**	**110 719**	**382 552**
Transactions with owners						
Dividends (see Note 16)	-	-	-	-	(17 556)	(17 556)
Total transactions with owners	**-**	**-**	**-**	**-**	**(17 556)**	**(17 556)**
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(6 817)	-	6 817	-
Comprehensive income						
Profit for the year	-	-	-	-	11 189	11 189
Other comprehensive income	-	-	-	(348)	-	(348)
Total comprehensive income	**-**	**-**	**-**	**(348)**	**11 189**	**10 841**
31 December 2020	**55 860**	**20 376**	**188 270**	**162**	**111 169**	**375 837**
Transactions with owners:						
Dividends (see Note 16)	-	-	-	-	(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**	**181 780**	**1 160**	**110 126**	**369 302**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on 20 April 2022, and they are signed on behalf of the Board by:

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

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COMPANY'S STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Employee benefits revaluation reserve	Reorgani-sation reserve	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2019 (restated)	**55 860**	**20 376**	**(51)**	**204 545**	**22 288**	**303 018**
Transactions with owners						
Dividends (see Note 16)	-	-	-	-	(17 556)	(17 556)
Total transactions with owners	**-**	**-**	**-**	**-**	**(17 556)**	**(17 556)**
Comprehensive income:						
Profit for the year	-	-	-	-	11 501	11 501
Other comprehensive income	-	-	(3)	-	-	(3)
Total comprehensive income	**-**	**-**	**(3)**	**-**	**11 501**	**11 498**
31 December 2020	**55 860**	**20 376**	**(54)**	**204 545**	**16 233**	**296 960**
Transactions with owners:						
Dividends (see Note 16)	-	-	-	-	(10 773)	(10 773)
Total transactions with owners	**-**	**-**	-	**-**	**(10 773)**	**(10 773)**
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**	**(24)**	**204 545**	**5 534**	**286 291**

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on 20 April 2022, and they are signed on behalf of the Board by:

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STATEMENT OF CASH FLOWS

	Note	Group 2021	Group 2020	Company 2021	Company 2020
Cash flow from operating activities		EUR'000	EUR'000	EUR'000	EUR'000
Profit before corporate income tax		**3 664**	**12 683**	**498**	**12 995**
Adjustments:					
- depreciation of property, plant and equipment and right-of-use assets	6	11 383	11 497	373	450
- amortisation of intangible assets	6	2 275	2 022	907	733
- movement in provisions		(1)	1	(1)	1
- income from participating interests		-	-	(8 379)	(8 778)
- (profit) / losses from long-term asset write-off		537	399	(2)	(4)
- interest expenses		515	186	509	186
Changes in operating assets and liabilities:					
- in accounts receivable		(189 739)	4 937	(188 528)	5 182
- in inventories		(81 353)	7 885	(81 424)	8 018
- in advances for inventories		(21 293)	(2 216)	(21 262)	(2 207)
- in accounts payable		220 391	(41)	218 875	1 580
Corporate income tax paid		(424)	(1 494)	(424)	(1 494)
Net cash inflow/(used in) from operating activities		**(54 045)**	**35 859**	**(78 858)**	**16 662**
Cash flow from investing activities					
Payments for property, plant and equipment	9	(10 167)	(7 046)	(63)	(205)
Payments for intangible assets	8	(3 164)	(2 242)	(972)	(943)
Proceeds from sale of property, plant and equipment		93	137	14	24
Dividends received	22	-	-	8 379	8 778
Net cash inflow from /(used in) investing activities		**(13 238)**	**(9 151)**	**7 358**	**7 654**
Cash flow from financing activities					
Overdraft/factoring received		38 994	-	38 994	-
Loan paid		(3 500)	(3 500)	-	-
Leases paid		(23)	(25)	(93)	(93)
Interest paid		(689)	(386)	(509)	(186)
Dividends paid	16	(10 773)	(17 556)	(10 773)	(17 556)
Net cash outflow from/(used in) financing activities		**24 009**	**(21 467)**	**27 619**	**(17 835)**
Net cash flow		**(43 274)**	**5 241**	**(43 881)**	**6 481**
Cash and cash equivalents at the beginning of the reporting period		**54 236**	**48 995**	**44 968**	**38 487**
Cash and cash equivalents at the end of the reporting period		**10 962**	**54 236**	**1 087**	**44 968**

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on 20 April 2022, and they are signed on behalf of the Board by:

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

* DOCUMENT SIGNED WITH SECURE ELECTRONIC SIGNATURE AND CONTAINS TIME STAMP

NOTES TO FINANCIAL STATEMENTS

1. Segment information

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

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

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

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

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

Group 2021	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
EBITDA	**(8 232)**	**26 244**	**17 992**
Depreciation and amortisation	(1 212)	(12 446)	(13 658)
Financial expense	(665)	(6)	(671)
(Loss)/Profit before taxes	**(10 109)**	**13 793**	**3 664**

Group 2020	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
EBITDA	**6 000**	**20 462**	**26 462**
Depreciation and amortisation	(1 115)	(12 404)	(13 519)
Financial expense	(260)	-	(260)
Profit before taxes	**4 625**	**8 058**	**12 683**

Company / Gas trade	2021	2020
	EUR'000	EUR'000
EBITDA	**2 446**	**14 438**
Depreciation and amortisation	(1 280)	(1 183)
Financial expense	(668)	(260)
Profit before taxes	**498**	**12 995**

Group 2021	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	842	11 505	12 347
Segment assets 31.12.2021	374 692	325 709	700 401

Group 2020	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant, equipment and intangible assets	1 177	11 258	12 435
Segment assets 31.12.2020	129 530	326 019	455 549

Company / Gas trade	2021	2020
	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	842	1 177
Segment assets 31.12	571 404	324 497

Assets	JSC “Latvijas Gāze”	JSC "Gaso"	Investment	Intercompany receivables/ payables	Rent	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets 31.12.2021	571 404	331 306	(194 534)	(7 588)	(187)	700 401
Assets 31.12.2020	324 497	331 152	(194 534)	(5 310)	(255)	455 549

Assets 31.12.2021	Segment assets	Investment	Intercompany receivables/ payables	Rent	Total company
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
JSC “Latvijas Gāze”	374 692	194 534	1 991	187	571 404
JSC "Gaso"	325 709	-	5 597	-	331 306

Assets 31.12.2020	Segment assets	Investment	Intercompany receivables/ payables	Rent	Total company
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
JSC “Latvijas Gāze”	129 530	194 534	178	255	324 497
JSC "Gaso"	326 020	-	5 132	-	331 152

2. Revenue from contracts with customers

Group 2021	Gas trade Latvia	Gas trade Other countries	Gas distribution Latvia	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	424 587	102 978	53 515	581 080
Inter-segment revenue	(4 793)	-	-	(4 793)
Connection, balancing and other service fees recognised as revenue	2 487	172	3 253	5 912
Other revenue	-	-	1 143	1 143
	422 281	**103 150**	**57 911**	**583 342**

Group 2020	Gas trade Latvia	Gas trade Other countries	Gas distribution Latvia	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	100 587	41 132	46 967	188 686
Inter-segment revenue	(1 301)	-	-	(1 301)
Connection, balancing and other service fees recognised as revenue	877	112	1 057	2 046
Other revenue	-	-	1 063	1 063
	100 163	**41 244**	**49 087**	**190 494**

Company 2021	Gas trade Latvia	Gas trade Other countries	Total
	EUR'000	EUR'000	EUR'000
Segment revenue	424 587	102 978	527 565
Other revenue (balancing services)	2 487	172	2 659
	427 074	**103 150**	**530 224**

The Company`s sales to legal entities comprised 95% and sales to household customers comprised 5% of total sales.

Company 2020	Gas trade Latvia	Gas trade Other countries	Total
	EUR'000	EUR'000	EUR'000
Segment revenue	100 587	41 132	141 719
Other revenue (balancing services)	877	112	989
	101 464	**41 244**	**142 708**

The Company`s sales to legal entities comprised 88% and sales to household customers comprised 12% of total sales.

3. Other income

	Group 2021	Group 2020	Company 2021	Company 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Net fair value gains on financial derivatives	-	738	-	738
Penalties collected from customers	403	747	302	669
Decrease in provisions for bad debts, net	-	90	-	154
Other	1 069	1 275	119	267
	1 472	**2 850**	**422**	**1 828**

4. Raw materials and consumables used

	Group 2021	Group 2020	Company 2021	Company 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	338 116	129 886	337 907	129 628
Costs of materials, spare parts and fuel	1 412	1 415	45	49
	339 528	**131 301**	**337 952**	**129 677**

5. Personnel expenses

	Group 2021	Group 2020	Company 2021	Company 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	22 161	20 031	4 279	4 028
State social insurance contributions	5 047	4 690	908	905
Life, health and pension insurance	1 406	1 324	184	189
Other personnel costs	342	286	186	155
	28 956	**26 331**	**5 557**	**5 277**
Average number of employees	1 011	997	123	119

Salaries of the Council and the Board	Group 2021	Group 2020	Company 2021	Company 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	2 603	2 089	1 307	1 258
State social insurance contributions	519	478	191	269
Life, health and pension insurance	113	111	45	45
Other personnel costs	103	76	-	-
	3 338	**2 754**	**1 543**	**1 572**

6. Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets

	Group 2021	Group 2020	Company 2021	Company 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Amortisation of intangibles	2 275	2 022	907	733
Depreciation and impairment of property, plant and equipment	11 427	11 515	284	361
Depreciation of rights to use assets	21	21	89	89
Capitalised depreciation	(65)	(39)	-	-
	13 658	**13 519**	**1 280**	**1 183**

7. Other operating expenses

	Group 2021	Group 2020	Company 2021	Company 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Selling and advertising costs	822	799	480	550
Expenses related to premises (rent, electricity, security and other services)	1 486	1 411	212	211
Donations, financial support	450	785	342	712
Office and other administrative costs	1 769	1 875	749	853
Taxes and duties	876	1 005	522	609
Costs of IT system maintenance, communications and transport	1 907	1 960	731	952
Losses from writeoff and sale of property, plant and equipment	539	-	-	-
Increase in provisions for bad debts, net	574	-	411	-
Other costs	350	1 415	59	35
	8 773	**9 250**	**3 506**	**3 922**

8. Intangible assets

	Group 2021	Group 2020	Company 2021	Company 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Cost				
As at the beginning of period	**24 029**	**20 967**	**6 459**	**5 468**
Additions	2 737	3 062	776	991
Disposals	(295)	-	-	-
As at the end of period	**26 471**	**24 029**	**7 235**	**6 459**
Amortisation				
As at the beginning of period	**14 852**	**12 830**	**1 402**	**669**
Amortisation	2 275	2 022	907	733
Disposals	(295)	-	-	-
As at the end of period	**16 832**	**14 852**	**2 309**	**1 402**
Net book value as at the end of the period	**9 639**	**9 177**	**4 926**	**5 057**

The intangible assets include fully depreciated intangible assets with a total historical cost of 7 333 thousand EUR (Group) and 56 thousand EUR (Company) (31.12.2020: 7 207 thousand EUR (Group) and 56 thousand EUR (Company)). The most part of intangible assets of the Group and the Company consists of software. As at 31 December 2021 the Group had payables for intangible assets for a total of 675 thousand EUR (as at 31 December 2020: 1 102 thousand EUR), and the Company has payables for intangible assets for a total of 134 thousand EUR (as at 31 December 2020: 330 thousand EUR).

In compliance with the climate neutrality goals set by the European Union for 2050, the focus of Latvijas Gāze is on compensating for the environmental impact caused by customers by creating projects that allow reducing GHG emissions. In accordance with the European Union proposal package Fit for 55, the European Commission's Hydrogen and Gas Market Decarbonisation Package, the Methane Strategy and the targets set in the Renewable Energy Directive, Latvijas Gāze's ambition is to become a biomethane producer and include it in the natural gas network. In addition to the implemented Energy Management System according to ISO 50 001 standard, in 2021 Latvijas Gāze has implemented an Environmental Management System, which is certified in accordance with the ISO 14 001 standard and has performed CO2 emissions calculations. Based on established environmental policies and CO2 emission calculations, Latvijas Gāze has planted 2,000 birches, thus offsetting 3 year CO2 emissions.

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					
31.12.2020	**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**

As at 31 December 2021, the Group has payables for property, plant and equipment for a total of EUR 1 326 thousand.

Group	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2019	**650 929**	**38 835**	**16 443**	**1 079**	**707 286**
Additions	6 159	2 163	1 051	-	9 373
Transfers	-	-	404	(404)	-
Disposals	(1 374)	(747)	(413)	-	(2 534)
31.12.2020	**655 714**	**40 251**	**17 485**	**675**	**714 125**
Depreciation					
31.12.2019	**358 636**	**23 998**	**12 002**	**-**	**394 636**
Calculated	7 814	2 389	1 312	-	11 515
Disposals	(943)	(669)	(385)	-	(1 997)
31.12.2020	**365 507**	**25 718**	**12 929**	**-**	**404 154**
Net book value as of 31.12.2020	**290 207**	**14 533**	**4 556**	**675**	**309 971**
Net book value as of 31.12.2019	**292 293**	**14 837**	**4 441**	**1 079**	**312 650**

As at 31 December 2020, the Group has payables for property, plant and equipment for a total of EUR 1 350 thousand.

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**

As at 31 December 2021, the Group has payables for property, plant and equipment for a total of EUR 3 thousands.

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construc-tion	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2019	**1 811**	**-**	**1 593**	**1**	**3 405**
Additions	-	-	186	-	186
Disposals	-	-	(59)	-	(59)
31.12.2020	**1 811**	**-**	**1 721**	**-**	**3 532**
Depreciation					
31.12.2019	**18**	**-**	**658**	**-**	**676**
Calculated	72	-	289	-	361
Disposals	-	-	(39)	-	(39)
31.12.2020	**90**	**-**	**908**	**-**	**998**
Net book value as of 31.12.2020	**1 721**	**-**	**813**	**-**	**2 534**
Net book value as of 31.12.2019	**1 793**	**-**	**935**	**1**	**2 729**

As at 31 December 2020, the Company has no payables for property, plant and equipment.

The fixed assets include fully depreciated fixed assets with a total historical cost of 17 086 thousand EUR (the Group) and 465 thousand EUR (the Company) (at 31.12.2020: 12 185 thousand EUR (the Group) and 443 thousand EUR (the Company)).

In 2019, the Group carried out the revaluation of buildings, constructions and machinery and equipment.

Included in the tables above within "Land, buildings, constructions" is the land owned by the Group and the Company with the cost and net book value of 1 610 thousand EUR (the Group) as at 31.12.2021 and 110 thousand EUR (the Company) (as at 31.12.2020: 1 559 thousand EUR (the Group) and 110 thousand (the Company)). The land is not subject to revaluation.

Revaluation effect (see Note 26)

In 2019, the Group carried out the revaluation of buildings, constructions, machinery and equipment of the Distribution segment. Considering the unique nature and use of the assets, revaluation was based on Level 3 data, meaning that the data are not freely observable for the relevant type of assets.

The revaluation was performed by an external expert using the depreciated replacement cost method. According to this method, the initial value of assets is determined according to the prices, requirements and applied materials at the time of the valuation. The key assumptions during the revaluation process are associated with the materials cost and the cost of the average construction prices at the time of revaluation. For the determination of values, data available to the Group about similar constructions of facilities in recent years is used. A significant section of the revaluation consists of the revaluation of gas distribution pipelines. In case of an increase in the average construction cost in the country or a significant increase in the cost of materials, the replacement cost will increase, too. If the cost of construction or materials decreases, the replacement cost of the assets will decrease accordingly. No economic obsolescence test was performed as tariffs for services cover all revalued amount.

In the valuation exercise, both the cost and accumulated depreciation are revalued. The asset's physical, functional and technical depreciation are taken into account as key factors.

As a result of the revaluation, in 2019, the gross asset amount was increased by 105 452 thousand EUR and the accumulated depreciation was increased by 30 756 thousand EUR. As a result of the revaluation, a gain of 74 540 thousand EUR was recognised in the statement of comprehensive income (in 2019), while a gain of 854 thousand EUR was included in the profit and loss account (in 2019).

The table below presents the approximate estimated carrying amounts for the revalued asset groups if the assets were carried at their historic cost basis:

Group's revaluated assets at net book value	31.12.2021	31.12.2020
	EUR'000	EUR'000
Buildings	104 569	104 508
Machinery and Equipment	11 294	10 481

10. Investment in subsidiary

	Company
	EUR'000
Invested during reorganisation 01.12.2017	194 534
Balance sheet value 31.12.2021 and 31.12.2020	**194 534**

Shares held	31.12.2021	31.12.2020
JSC "Gaso"	**100%**	**100%**

	Subsidiary's equity 31.12.2021	Subsidiary's equity 31.12.2020	Subsidiary's profit 2021	Subsidiary's profit 2020
	EUR'000	EUR'000	EUR'000	EUR'000
JSC "Gaso"	**277 545**	**273 411**	**11 545**	**8 466**

11. Inventories

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	122 278	40 854	122 278	40 854
Materials and spare parts	1 366	1 437	-	-
Allowance for slow-moving inventory	(70)	(71)	-	-
	123 574	**42 220**	**122 278**	**40 854**

12. Trade receivables

Trade receivables	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Long-term receivables (nominal value)	86	8	5	5
	86	**8**	**5**	**5**
Short-term receivables (nominal value)	135 304	35 896	133 557	32 519
Allowance for impairment of short-term receivables	(5 893)	(7 590)	(5 369)	(7 180)
	129 411	**28 306**	**128 188**	**25 339**

Allowance for impairment of bad and doubtful receivables	Group 2021	Group 2020	Company 2021	Company 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Allowance at the beginning of the year	**7 590**	**8 366**	**7 180**	**8 020**
Expense included in profit or loss statement	2 518	91	2 336	-
Income included in profit or loss statement	(1 944)	(181)	(1 925)	(154)
Net changes included in profit or loss statement	**574**	**(90)**	**411**	**(154)**
Bad debts written off	(2 271)	(686)	(2 222)	(686)
Allowance at the end of the year	**5 893**	**7 590**	**5 369**	**7 180**

Provisions for debts were made based on an assessment of financial position and business activity of certain customer segments. The final losses may differ from those currently estimated because the particular amounts are periodically revised and changes are reflected in the profit or loss statement.

13. Taxes

Group Tax movement	Liabilities* 31.12.2020	Receivable 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	1 848	-	82 957	(64 479)	20 326	-
Excise tax	891	-	6 042	(6 092)	841	-
Social security contributions	696	-	7 356	(7 316)	736	-
Corporate income tax	-	-	424	(424)	-	-
Personal income tax	353	-	3 966	(3 932)	387	-
Real estate tax	-	-	195	(195)	-	-
Natural resource tax	11	-	18	(29)	-	-
	3 799	**-**	**100 958**	**(82 467)**	**22 290**	**-**

Group Tax movement	Liabilities* 31.12.2019	Receivable 31.12.2019	Calculated 2020	Paid 2020	Liabilities* 31.12.2020	Receivable 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	3 839	-	25 296	(27 287)	1 848	-
Excise tax	892	-	5 983	(5 984)	891	-
Social security contributions	701	-	7 010	(7 015)	696	-
Corporate income tax	-	-	1 494	(1 494)	-	-
Personal income tax	338	-	3 606	(3 591)	353	-
Real estate tax	-	-	194	(194)	-	-
Natural resource tax	6	-	14	(9)	11	-
	5 776	**-**	**43 597**	**(45 574)**	**3 799**	**-**

Company Tax movement	Liabilities* 31.12.2020	Receivable 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**	**-**

* See Note 21.

Company Tax movement	Liabilities* 31.12.2019	Receivable 31.12.2019	Calculated 2020	Paid 2020	Liabilities* 31.12.2020	Receivable 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Value added tax	2 774	-	16 738	(18 613)	899	-
Excise tax	887	-	5 960	(5 958)	889	-
Social security contributions	101	-	1 355	(1 352)	104	-
Corporate income tax	-	-	1 494	(1 494)	-	-
Personal income tax	33	-	801	(780)	54	-
Real estate tax	-	-	13	(13)	-	
	3 795	**-**	**26 361**	**(28 210)**	**1 946**	**-**

14. Other financial assets at amortised cost

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Accrued income	90	1 313	4	1 253
Reserved funds	357	260	357	260
	447	**1 573**	**361**	**1 513**

15. Other current assets

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Deferred charges	2 079	1 245	999	736
Other receivables	181	103	10	3
	2 270	**1 348**	**1009**	**739**

16. Shares and shareholders

	31.12.2021 % of total share capital	31.12.2021 Number of shares	31.12.2020 % of total share capital	31.12.2020 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.	28.97	11 560 645	28.97	11 560 645
Itera Latvija SIA	16.00	6 384 001	16.00	6 384 001
PJSC "Gazprom" *(including registered (closed issue) shares 7 285 740)*	34.00	13 566 701	34.00	13 566 701
Bearer (public issue) shares	2.77	1 102 913	2.77	1 102 913
	100.00	**39 900 000**	**100.00**	**39 900 000**

As at 31 December 2021 and as at 31 December 2020, the registered, signed and paid share capital consisted of 39 900 000 shares with a par value of 1.40 EUR each. All shares have equal voting rights and rights to dividends. The Company has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as the basic earnings per share. Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

Dividends payable are not accounted for until they have been declared at the annual general meeting.

Earnings per share/ Group	Earnings per share 2021	Earnings per share 2020
Net profit attributable to shareholders (a) EUR'000	**3 240**	**11 189**
Ordinary shares as at 1 January (number, thousand)	39 900	39 900
Ordinary shares as at 31 December (number, thousand)	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b) (number, thousand)	39 900	39 900
Basic earnings per share during the year (a/b) in EUR	**0.081**	**0.280**

Earnings per share / Company	Earnings per share 2021	Earnings per share 2020
Net profit attributable to shareholders (a) EUR'000	**74**	**11 501**
Ordinary shares as at 1 January (number, thousand)	39 900	39 900
Ordinary shares as at 31 December (number, thousand)	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b) (number, thousand)	39 900	39 900
Basic earnings per share during the year (a/b) in EUR	**0.002**	**0.288**

17. Interest-bearing loans and borrowings

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Loan from JSC "SEB bank"				
Long-term part of the loan	-	22 167	-	-
Short-term part of the loan (i.e. less than 12 months)	22 167	3 500	-	-
Overdraft from OP Corporate Bank plc Latvia Branch				
- overdraft	2 474	-	2 474	-
Factoring liabilities	36 520	-	36 520	-
	61 161	**25 667**	**38 994**	**-**

In 2017 the Company received a long-term loan of 35 000 thousand EUR for 5 years. Under the reorganisation, the Company transferred this loan to the newly established acquiring JSC "Gaso". The loan has a repayment term of 5 years starting 2018, with an option to extend the repayment term upon agreement, and an interest rate of 0.72% plus 6-month EURIBOR. The loan is not secured with a pledge. As the loan matures in October 2022, the JSC "Gaso" has classified all liabilities for the loan as short-term. However, in order to ensure the JSC "Gaso" operational sustainability, the management of JSC "Gaso" has launched negotiations with several credit institutions on refinancing options for the existing loan. If the negotiation process is challenging or lengthy, then JSC "Latvijas Gāze" will look into ways to support it.
The Company has overdraft limit up to 100 thousand EUR Overdraft interest rate is fixed % p.a. plus 3 month EURIBOR.

In 2021, the Company has entered into two recourse's factoring agreements with a fixed rate plus 3 months EURIBOR. Factoring Agreement used to receive instant receipt of the buyers' payments, which improves Company cash flow.

The carrying amounts of the trade receivables include receivables, which are subject to a factoring arrangement. Under this arrangement, Latvijas Gāze has transfered the relevant receivables to the factor in exchange for cash and is prevented from selling or pleding the receivables. However, Latvijas Gāze has retained late payment and credit risk. The group therefore continues to recognise the transferred assets in their entirety in its balance sheet. The amount repayable under the factoring agreement is presented as secured borrowing. The group considers that the held to collect business model remains appropriate for these receivables and hence continues measuring them at amortised cost.

The relevant carrying amounts are as follows:

Factoring	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Transferred receivables	**40 679**	**-**	**40 679**	**-**
Associated secured borrowing (bank loans)	**36 520**	**-**	**36 520**	**-**

Management considers that in substance the factor collects the amounts receivable on the entity's behalf and retains the cash in settlement of the separate financing transaction, the group therefore presents the cash inflows received from the bank as financing cash inflows and the subsequent payments by the debtor as both operating cash inflows and financing cash outflows.

18. Deferred income

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Deferred income from residential and corporate customers' contributions to construction of gas pipelines:				
Long-term part	14 094	18 318	-	-
Short-term part	2 934	1 079	-	-
	17 028	**19 397**	**-**	**-**

Changes of deferred income

	Group 2021	Group 2020	Company 2021	Company 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Balance at the beginning of the year	**19 397**	**19 572**	**-**	**92**
Received from residential and corporate customers during reporting year	1 855	974	-	-
Included in income of reporting year	(4 224)	(1 149)	-	(92)
Total transfer to next years	**17 028**	**19 397**	**-**	**-**

19. Employment and post-employment benefit obligations

	Group 2021	Group 2020	Compan 2021	Compan 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Obligations at the beginning of the reporting year	**2 305**	**1 757**	**61**	**57**
Recognised in profit or loss statement	422	355	-	2
Paid	(217)	(154)	(2)	(1)
Revaluations due to changes in actuarial assumptions – other comprehensive income	(998)	347	(30)	3
Obligations at the end of the reporting year	**1 512**	**2 305**	**29**	**61**

Assumptions used in calculations of obligations	2021	2020
Discount rates, %	0.00235%	0.0025%
Company's employee rotation rate,%	22.02%	13.89%
Group's employee rotation rate,%	4.84%	5.01%
Employee retirement age, years	64-65	63.75-65
Wage growth,%	4.00%	4.00%
Contributions to private pension fund,%	5.00%	5.00%
Compulsory social security contributions (employees),%	23.59%	23.59%
Compulsory social security contributions (retired),%	20.77%	20.77%

Assumptions used in calculations of obligations			Assumption changes effect on accruals			
			Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
Changes in assumptions, pp						
Discount rate	+ 0.5pp	Accruals decrease by	0.009%	0.0001%	0.004%	3.95%
Employee rotation rate	+ 0.5pp	Accruals decrease by	0.18%	0.26%	0.53%	0.01%
Employee retirement age	+1 years	Accruals decrease by	3.12%	0.73%	18.95%	11.11%
Wage growth	+0.5pp	Accruals increase by	0.43%	0.23%	0.05%	3.52%
Contributions to private pension fund	+0.5pp	Accruals increase by	0.02%	0.02%	0.02%	0.34%
Compulsory social security contributions	+0.5pp	Accruals increase by	0.09%	0.12%	0.09%	0.39%

Assumptions used in calculations of obligations			Assumption changes effect on accruals			
			Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
Changes in assumptions pp						
Discount rate	-0.5pp	Accruals increase by	0.009%	0.0001%	0.004%	4.28%
Employee rotation rate	-0.5pp	Accruals increase by	0.18%	0.26%	0.53%	0.01%
Employee retirement age	-1 year	Accruals increase by	4.58%	0.98%	26.32%	3.69%
Wage growth	-0.5pp	Accruals decrease by	0.43%	0.18%	0.05%	3.29%
Contributions to private pension fund	-0.5pp	Accruals decrease by	0.02%	0.02%	0.02%	0.34%
Compulsory social security contributions	-0.5pp	Accruals decrease by	0.09%	0.09%	0.09%	0.39%

Accruals were calculated on the assumption that the discount rate in 2021 was 0.00235% (the Group and the Company and in 2020 was 0.0025% (the Group and the Company)), i.e., equals to the average annual rate of return of treasury securities with the initial maturity of five years and more, effective in the last two issues of such securities (source: State Treasury).

The 4.84% (the Group) and 22.02% (the Company) (2020: 5.01% (the Group) and 13.89% (the Company)) assumption of employee turnover rate, in turn, resulted from a calculation methodology based on the proportion between the number of employees having left the company (on their own initiative) and the number of employees in the reporting period.

The assumption of employee retirement age is based on Article 8.1 of the transitional provisions of the law “On State Pensions” (hereinafter – the Law) adopted on 2 November 1995 whereby the age of eligibility for retirement pension as per Section 11 Paragraph one of the Law, – 62 to 65 years – shall increase gradually and is specified for each year individually. As of 31 December 2021, it is 64.25 years (as of 31 December 2020, it is 64 years).

The assumptions concerning the increase of salaries corresponds to the estimated inflation figure for the next year, which, according to the latest forecasts by the Bank of Latvia, will be around 3.2 -6.1 % on 2021. It is also assumed as only variable for up to six years and constant afterwards. And also Group’s increase in personnel expenses is taken into account. In the last few years, the Company and the Group kept it at 4%.The 5% assumption of contributions to private pension fund is based on Group’s employee agreement.

The assumptions concerning the mandatory state social security contributions for employees and pensioners have been made pursuant to the general provisions of the calculation methodology using the next year’s rates of mandatory state social security contributions as per Cabinet Regulations No. 786 “Regulations on the distribution of the rate of mandatory state social security contributions among types of state social security” approved on 17.12.2020 – 23.59% and 20.77% respectively.

20. Trade payables

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR’000
Payables to related parties (Note 22)	8 059	-	13 656	5 132
Payables to third parties	43 933	5 725	41 065	3 070
	51 992	**5 725**	**54 721**	**8 202**

21. Other liabilities

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Prepayments received	56 950	11 872	56 822	11 813
Value added tax	20 326	1 848	19 597	899
Accrued costs	4 702	4 324	1 198	1 153
Excise tax	841	891	841	889
Vacation pay reserve	1 577	1 250	260	215
Salaries	1 005	878	175	169
Social security contributions	736	696	116	104
Personnel income tax	387	353	62	54
Natural resource tax	-	11	-	-
Other current liabilities	97	86	14	14
	86 621	**22 209**	**79 085**	**15 310**

The increased received prepayments are related to changes in global gas market industry.

22. Related party transactions

No individual entity exercises control over the Company. The Company and the Group engaged in the following transactions with entities disclosed below, which own or owned more than 20% of the shares that deemed to provide a significant influence over the Company – PJSC "Gazprom" and the companies under its control. JSC "Latvijas Gāze" subsidiary JSC "Gaso" was established in 2017.

Income or expenses	Group 2021	Group 2020	Company 2021	Company 2020
	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"	-	-	5 037	1 567
Dividend income				
JSC "Gaso"	-	-	8 379	8 778
Purchases of natural gas				
PJSC "Gazprom"	395 926	102 199	395 926	102 199
PJSC "Gazprom Export"	860	2 248	860	2 248
Expenses on natural gas distribution and other related services				
JSC "Gaso"	-	-	35 513	32 293
Net fair value losses on financial derivatives				
"Gazprom Marketing and Trading Limited"	37 710	-	37 710	-

Related party payables and receivables	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Receivables from related companies				
JSC "Gaso"	-	-	1 991	178
"Gazprom Marketing and Trading Limited"	-	8	-	8
PJSC "Gazprom"	236	-	236	-
Advance payments to related entities				
PJSC "Gazprom"	29 137	6 356	29 137	6 356
PJSC "Gazprom Export"	-	1 004	-	1 004
Payables to related companies for natural gas and services				
JSC "Gaso"	-	-	5 597	5 132
PJSC "Gazprom"	5 083	-	5 083	-
"Gazprom Marketing and Trading Limited"	2 976	-	2 976	-

23. Derivative financial instruments

Net fair value losses of financial derivatives amounted to 189 564 thousand EUR originated from financial hedging activities. 78 667 thousand EUR out of this amount is attributable to operational activities during the 12 months reporting period, calculated as the sum of (3 064) thousand EUR (reverse of previous year accruals), plus the net amount paid in 2021 amounting to 81 731 thousand. The remaining amount for outstanding derivatives of 110 897 thousands EUR is evaluated on a marked-to-market basis as of the balance sheet date and is attributable to 2022 operational activity.

As at 31 December 2021 and 31 December 2020, derivative financial instruments consist of natural gas swap agreements.

As at 31 December 2021 derivative financial instruments included in balance sheet as assets are 1179 thousand EUR (31.12.2020: 624 thousand EUR) and as liabilities - 112 076 thousand EUR (31.12.2020: 3 688 thousand EUR).

Natural gas swaps

As at 31 December 2021 the Company has 7 natural gas price swap contracts in force with total outstanding natural gas purchase volume of 416 827 MWh and notional value of 36 426 thousands. EUR. Natural gas swap of the volume of purchase contracts are concluded for the maturities from one month to one season with expiration date during the period of 1 January 2022 to 31 October 2022. The Company has also 59 natural gas price swap agreements in force with a total outstanding natural gas sales volume of 2 244 386 MWh and a notional value of 86 367 thousand EUR. Natural gas swap of the volume of sale contracts are concluded for the maturities from one month to one season with expiration date during the period of 1 January 2022 to 31 March 2022.

24. Financial risk management

Fair value

Financial assets and liabilities	Level	Group 31.12.2021	Group 31.12.2020	Group 31.12.2021	Company 31.12.2020
		EUR'000	EUR'000	EUR'000	EUR'000
Trade receivables	3	129 411	28 306	128 188	25 339
Accrued income	3	90	1 313	3	1 253
Derivative financial instruments	2	1 179	624	1 179	624
Reserved funds	2	357	260	357	260
Cash restricted from being used	2	86 030	-	86 030	-
Cash and cash equivalents	2	10 962	54 236	1 087	44 968
Financial assets		**228 029**	**84 739**	**216 844**	**72 444**
Borrowings	3	61 161	25 667	38 994	-
Lease liabilities	3	21	21	208	276
Accrued expenses	3	4 702	4 324	1 198	1 153
Derivative financial instruments	2	112 076	3 688	112 076	3 688
Trade payables	3	51 992	5 725	54 721	8 202
Financial liabilities		**229 952**	**39 425**	**207 197**	**13 319**

The fair value of 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 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.

Description of fair value measurement for buildings, constructions, equipment and machinery is disclosed in Note 26, Revaluation of buildings, constructions, equipment and machinery section.

Offsetting financial assets and financial liabilities

Agreements between the Group and the counterparties allows for offsetting in specific single transaction based on delivery date/month. The following financial assets and financial liabilities are subject to offsetting:

Offsetting financial assets and financial liabilities	Group and Company 31.12.2021
	EUR'000
Financial assets	
Gross amounts of recognised financial assets	6 879
Gross amounts of recognised financial assets set off in the statement of financial position	(5 700)
Net amounts of financial assets presented in the balance sheet	**1 179**
Financial liabilities	
Gross amounts of recognised financial liabilities	117 776
Gross amounts of recognised financial liabilities set off in the statement of financial position	(5 700)
Net amounts of financial liabilities presented in the balance sheet	**112 076**

Credit risk

The Group and the Company are exposed to credit risk, which is a risk of material losses arising in case of a counterparty not being able to fulfil its contractual obligations to the Group and the Company. Credit risks arise from cash and cash equivalents, as well as credit exposure to customers, including outstanding receivables.

Concentration of credit risk

Trade receivables and accrued income	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Trade receivables and accrued income				
Impaired	5 648	7 507	5 134	7 103
Not overdue	124 674	25 601	123 389	22 601
Overdue less than 90 days, but not impaired	4 867	3 916	4 833	3 882
Overdue more than 90 days, but not impaired	205	185	205	185
Trade receivables and accrued income, gross	**135 394**	**37 209**	**133 561**	**33 771**
Allowance for impairment of bad and doubtful debts	(5 893)	(7 590)	(5 370)	(7 180)
Trade receivables and accrued income, net	**129 501**	**29 619**	**128 191**	**26 591**
Other financial assets				
Cash restricted from being used	86 030	-	86 030	-
Derivative financial instruments	1 179	624	1 179	624
Total exposure to credit risk	**216 710**	**30 243**	**215 400**	**27 215**

In the reporting year, Latvijas Gāze group remained exposed to a high risk of customer concentration – five largest customers together accounted for 49% of the sales volume of 2021 (63% of 2020), from which the single one largest customer accounted for 28% (40% in 2020). Payment discipline is closely monitored for biggest customers.

Credit risk management practices

To minimise credit risks the Company has put in place several risk management measures. For the largest customers the Company uses individual credit risk evaluation, which include several practices such as initial credit limit assessment, detailed monitoring of financial measures, as well as a regular billing practice to avoid accumulation of current debt. In case of initial doubts, clients are placed for regular monitoring at the Board level, and, if necessary, additional collaterals are required to secure the provision of services and the sale of natural gas. For smaller customers the Company has a credit control process in place, describing the basic steps for monitoring the progress and managing the communication with the clients in order to avoid the accumulating of debtors. The provisions for bad debts are made according to accounting standards. The credit risk of the subsidiary relates mainly to its largest customers. Major part of subsidiary's trade debtors as at 31 December 2021 paid their debts in January 2022. Receivables that are not individually assessed for impairment are classified into groups of receivables based on days overdue and are collectively assessed for impairment.

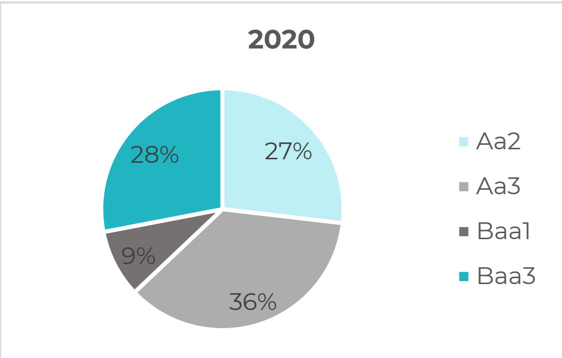
The expected credit losses (ECL) model is used according to IFRS 9 for the recognition of impairment losses. There is a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. In practice, these rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. For trade receivables the Group and the Company use operational simplifications specified in IFRS 9.

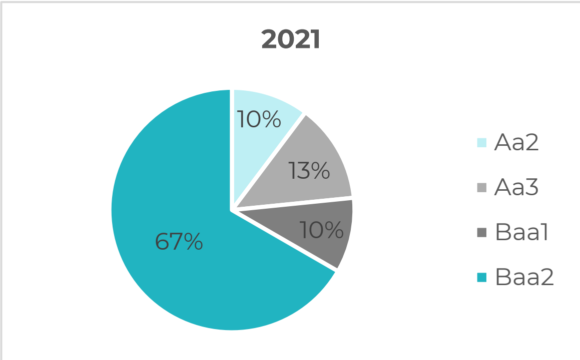
ECL rate applied	31.12.2021	31.12.2020
Receivables from natural gas wholesales and distribution services to the gas traders	0.075%	0.06%
Households	1.51%	1.3%
Distribution other receivables overdue for 1-90 day	10%	7%
Receivables overdue for more than 90 days	100%	100%
Other recoverable receivables	0.03-0.15%	0.02%-0.12%

For managing the credit risk associated with cash and cash equivalents, the Company has approved a financial asset management policy. Based on internal guidelines all credit institutions with which the Company cooperates are graded once in a quarter, taking into account their financial measures as well as non-financial indicators. Based on the assessment, limits for current accounts with one institution are defined and regularly monitored.

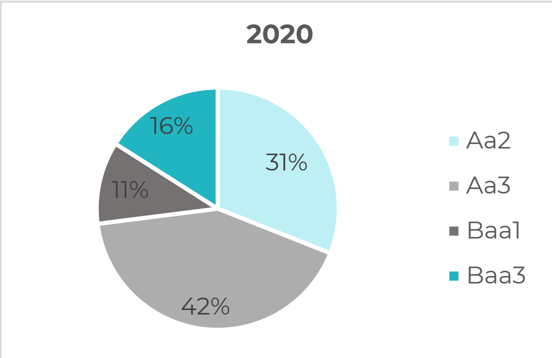
Due to low or even negative interest rates as at 31 December 2021 and 31 December 2020, cash and cash equivalents of the Group and the Company represented only current account balances with credit institutions.

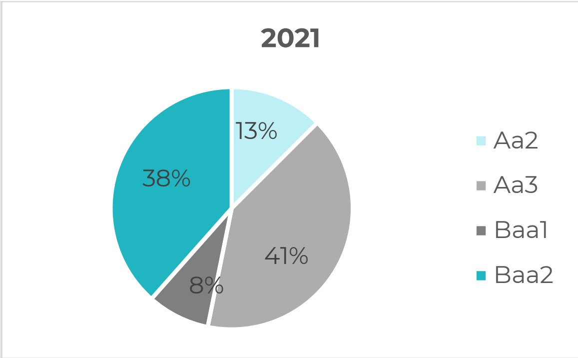
As a part of an internal assessment, the Group and the Company also analyse the Moody's Investor Services credit rating of a particular credit institution or its ultimate parent. Based on such assessment, outstanding cash and cash equivalents of Latvijas Gāze group can be summarised as follows (grouped by long term rating):





The Company's cash and cash equivalents can be summarised as follows (grouped by long-term rating):





Liquidity risk

Liquidity risk is associated with the ability of the Group and the Company to settle their obligations within the agreed due dates. Due to the high seasonality of operations of the Group and the Company, cash inflows are also exposed to high fluctuations within the year and most of revenues are generated during the first and the fourth quarter of the year. At the same time operational costs related to maintenance works are distributed evenly through the year, while dividend payments from the prior year are usually released in the third quarter of the year. In order to ensure the JSC "Gaso" operational sustainability, the management of JSC "Gaso" has launched negotiations with several credit institutions on refinancing options for the existing loan. If the negotiation process is challenging or lengthy, then JSC "Latvijas Gāze" will look into ways to support it.

Additionally, as the Company manages its market risk via derivatives, Company is exposed to liquidity risk due to obligations under Credit Support Annex (CSA) with some derivative counterparties. CSA defines the terms for the provision of collateral by the parties in derivative transactions. In 2021 natural gas price volatility was significantly higher thus Company was required to post collateral against outstanding derivative positions. Financial resources that are held on accounts of different financial partners as a guarantee for the derivative transactions are presented as "cash restricted from being used". As of 31st December, 2021 the Company transferred 86 030 thousand EUR as collateral. The Company met all margin calls and did not face any forced liquidation of its derivative positions.

The collateral return in the amount of 7 810 thousand EUR was due on 30.12.2021 and the amount of 3 290 thousand EUR was due on 31.12.2021, however the Company's receiving bank wasn't able to timely process electronic transfer due to holiday and internal process. Collateral return payment (7 810 thousand EUR and 3 290 thousand EUR) was processed by receiving bank and received by the Company on 3 January 2022. As the Company has not received the payment as of 31 December 2021, 86 030 thousand EUR collateral booked in position Cash restricted from being used includes the amount not received.

The Group and the Company use cash flow planning tools to manage liquidity risk. The Group and the Company prepare cash flow forecast to identify operational cash flow requirements. In 2021 and 2020 the Group attracted short term credit line, factoring and loans.

Division of financial liabilities by maturity date, as at 31 December 2021, Group:

	2022	2-5 years	Total	Carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000
Interest-bearing loans and borrowings	61 283	-	61 283	61 161
Leases	21	-	21	21
Trade payables and accrued costs	56 694	-	56 694	56 694
Derivative financial instruments	112 076	-	112 076	112 076
	230 074	**-**	**230 074**	**229 952**

Division of financial liabilities by maturity date, as at 31 December 2020, Group:

	2021	2-5 years	Total	Carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000
Interest-bearing loans and borrowings	3 673	22 289	25 963	25 667
Leases	21	-	21	21
Trade payables and accrued costs	10 049	-	10 049	10 049
Derivative financial instruments	3 688	-	3 688	3 688
	17 431	**22 476**	**39 721**	**39 425**

Division of financial liabilities by maturity date, as at 31 December 2021, Company:

	2022	2-5 years	Total	Carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000
Leases	89	119	208	208
Trade payables and accrued costs	55 919	-	55 919	55 919
Derivative financial instruments	112 076	-	112 076	112 076
Interest-bearing loans and borrowings	38 994	-	38 994	38 994
	207 078	**119**	**207 197**	**207 197**

Division of financial liabilities by maturity date, as at 31 December 2020, Company:

	2021	2-5 years	Total	Carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000
Leases	90	187	277	276
Trade payables and accrued costs	9 355	-	9 355	9 355
Derivative financial instruments	3 688	-	3 688	3 688
	13 133	**187**	**13 320**	**13 319**

As at 31 December 2021 and 31 December 2020, derivative financial instruments consist of natural gas swap agreements.

Capital risk management

The Group's and the Company's objectives when managing capital are to safeguard the Group's and the Company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital. The Group and the Company perform management of the capital, based on proportion of borrowed capital against total capital. This indicator is calculated as proportion of total liabilities, less cash and cash equivalents, to the total capital of the Group or the Company. Liabilities include all long term and short-term liabilities, but total capital includes all liabilities and equity. This indicator is used to evaluate the Group's and the Company's capital structure as well as their solvency.

As at 31 December 2021 and 31 December 2020 the proportion of borrowed capital to total capital was as follows:

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Total liabilities	331 099	79 712	285 113	27 537
(Cash and cash equivalents)	(10 962)	(54 236)	(1 087)	(44 968)
(Reserved funds)	(357)	(260)	(357)	(260)
(Deferred income)	(17 028)	(19 397)	-	-
Net total liabilities	**302 752**	**5 819**	**283 669**	**(17 691)**
Total equity and liabilities	700 401	455 549	571 404	324 497
Borrowed capital proportion to total capital	**43.23%**	**1.28%**	**49.64%**	**(5.45%)**

Market risk

Market risk is the risk that changes due to market factors, such as changes in foreign exchange rates, interest rates and commodity prices can affect the Group's or Company's profits. As at 31.12.2021 the Group and the Company had a cash balance in foreign currencies of 3.4 thousand USD (3 thousand EUR), as at 31.12.2020 the Group and the Company had a cash balance in foreign currencies of 7 thousand USD (6 thousand EUR). The Group and the Company have no other assets or liabilities in foreign currencies.

The Company faces a market risk arising from gas price fluctuation, a sales and purchase timing difference and the mismatch between purchase and sales pricing concepts. JSC “Latvijas Gāze” prioritizes internal market risk mitigation by negotiating supply agreement terms and working with its sales portfolio to the extent it is possible. In addition, the Company mitigates price risk by entering into derivative transactions.

The Company enters into natural gas swaps contracts with commodity companies and banks. The Company executes natural gas swaps in order to mitigate commodity market risk for its natural gas portfolio as well as portfolio optimization if that is commercially viable. All commodity derivatives are measured at fair value and fair value gains or losses are included in statement of profit or loss.

Sensitivity analysis

To measure price increase impact on revaluation of derivatives, sensitivity analysis was performed, based on market prices as of 31 December 2021, applying value at risk calculation methodology (see table below). The coefficient is calculated based on natural gas price changes in percentage. Natural gas swaps concluded with expiration date during the period of 1 January 2022 to 31 October 2022. As January’s prices are calculated and determined in December the coefficient is not applied for January.

In a result of sensitivity analysis, if natural gas price increases up to value at risk coefficient, then JSC “Latvijas Gāze” potential losses in next year from revaluation of derivatives will reach 15 454 thous. EUR. The negative value of derivatives would be compensated once underlying hedge asset – inventory will be depleted.

Periods	Potential natural gas price increase compared to 31/12/2021
01.02.2022	22.4%
01.03.2022	21.2%
01.04.2022	19.2%
01.05.2022	19.2%
01.06.2022	19.2%
01.07.2022	17.7%
01.08.2022	17.7%
01.09.2022	17.7%
01.10.2022	17.1%

Interest rate risk

Other financial assets and liabilities are non-interest bearing or interest rates are fixed, except for borrowings and factorings. As the Group and the Company account for all financial assets and liabilities at amortized cost, they are not subject to fair value interest rate risk.

The entire Group's and the Company's borrowings and factorings are subject to interest rates based on a EURIBOR rate plus a fixed premium.

Interest rate risk is not material for the Group and the Company.

Group and company do not use derivatives in order to mitigate interest rate risk.

25. Other risk management

Compliance risk

Compliance risk is the risk that the Group and the Company may incur losses, be subject to legal obligations, be subject to sanctions, or be in bad standing due to the Group and the Company's 's failure to comply or violate compliance laws, regulations and standards. The Management Board of the Company and the Management Board of its Subsidiary closely monitor changes in regulatory enactments, as well as the operation of the Company's and its Subsidiary's internal control processes in order to ensure compliance with existing regulatory requirements and timely preparation of necessary future business changes.

The Group and the Company use the following methods to prevent and reduce the compliance risk:

- develop and update regulatory documents in accordance with regulatory enactments of the Republic of Latvia;
- ensure the participation of the Legal Department in the development of the Group's and the Company's regulatory documents;
- if a finding of non-compliance is made, promptly take the necessary measures to remedy the non-compliance;
- use standardized forms and texts for contracts, notices, terms of service and other documents intended for clients in dealings with clients or potential clients;
- where appropriate, train unit staff on compliance risk issues.

26. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates, which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in the process of applying the Group's and the Company's accounting policies.

This note provides information about the areas that involved higher degree of judgment or complexity which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong.

Revaluation of buildings, constructions, equipment and machinery

The management determines the fair value and the remaining useful life of buildings and constructions and equipment and machinery based on valuations performed by independent certified valuators in accordance with real estate valuation standards and based on the average construction costs relevant for the reporting year when valuation is performed, less subsequent depreciation. The Group's internal policy is to perform the revaluations with sufficient regularity, when there are indications that the average construction costs and/or purchase prices related to the buildings, gas distribution system and equipment have changed significantly which could lead to the carrying amount of such assets differing materially from that which would be determined using fair value at the end of the reporting period, but at least once every five years.

Once a year, management estimates the residual value of property, plant and equipment, its possible decline and updates its estimate of the cost of constructing assets, taking into account available information such as official statistics and procurement prices offered by construction companies.

In assessing the market situation in 2021, GASO's management has identified that the change in building and construction market prices were not significant to create a material difference between the carrying amount and fair value of the assets, as a result of which no revaluation of property, plant and equipment was performed in 2021.

Estimation of fair value of derivative financial instruments

The management determines the fair value of derivatives financial instruments regularly on a marked-to-market basis.

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.

More details of derivative financial instruments are disclosed on Note 23 and Note 24, fair value section.

Estimation of remaining useful life

The Group and the Company annually estimate the useful life of intangible assets and property, plant and equipment and make adjustments if the forecasts differ. These estimates are based on the previous experience as well as on the industry practice and revised at the end of every reporting period. In the past, the actual useful life of assets has occasionally exceeded the estimate.

Impairment of trade receivables and accrued income

The loss allowance for financial assets, including trade receivables and accrued income, is based on assumptions about risk of default and the expected loss rates. The Group and the Company use their judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's and the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. As individual assessment is not possible due to the large number of individual client 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. Details of the key assumptions and inputs used to estimate expected credit losses are disclosed in Note 24 Credit risk section.

Determination whether the entity acts as a principal or an agent in provision of certain services

The management has determined that the Group acts as an agent for natural gas transmission services and the Company acts as an agent for natural gas transmission and distribution services as they do not control the respective services before they are transferred to the customer. The following arguments support the above-mentioned conclusion:

- The Group (in relation to transmission services) and the Company (in relation to transmission and distribution services) neither owns nor operates any of the assets necessary to provide respective services.
- The customers do not perceive getting the different elements/services from different providers. From the customer´s perspective, there is no other value added apart from the only one benefit, i.e. a supply of gas (including its transmission and distribution), in particular, there are no alternative service providers, and all gas trading companies must enter into agreements with transmission and distribution operators.
- Any issues related to the physical transportation of natural gas through the distribution or transmission network, the measurement of natural gas transported through the systems, and repairing or modernizing pipes is fully under the control of distribution and transmission operators and cannot be influenced by gas trading companies.
- The moment of the transmission & distribution and the sale and transfer to the end-user are not separated due to the nature of business. Nevertheless, only the providers of transmission and distribution services are capable to track the quantities delivered and they reconcile the quantities between themselves as the infrastructure is fully under the control of transmission and distribution operators.
- Transmission and distribution services are subject to a regulated non-discriminatory tariff approved by a local regulatory body. Any expenditure incurred in providing these services including the volume of capital expenditure which may impact future tariffs, is the responsibility of transmission and distribution operators.
- The end-users are charged with a transmission and distribution fixed fee calculated based on a formula: regulated tariff for distribution/transmission x quantity delivered. The Company passes on the costs for distribution and transmission services to the customers without adding any additional fees or charges.

Determination whether the entity acts as a principal or agent in collecting and paying excise duty

The management has determined that with regard to excise duty, the Company acts as an agent by collecting the excise duty on behalf of the government. As a result, the excise tax is deducted from the net revenue (similar to other sales taxes) rather than included in both revenue and cost of sales as such a presentation reflects the substance of the arrangements.

The following considerations support the judgements made by the management:

- Although the "production" and "sale" (a transfer to the end-user) are not really separated due to the nature of business, the triggering event to pay the excise tax is a "delivery" to the end user. This indicates that the excise duty is paid close to the transfer to end customer and therefore it is closer in nature to a sales tax.
- The excise duty is clearly separate from the selling price and it is shown separately on the invoices to commercial clients. A change in the tax would result in an equivalent change in the amount passed through to the customer. Even in a non-typical situation when the gas would be given to end-user free of charge, the excise tax needs to be calculated as it follows from the requirement of the law. This is considered a strong indicator that the entity is collecting the tax on behalf of the government.
- One may argue that there are indicators which may support a gross treatment (e.g. the pricing is based on physical quantity, not tied to value of revenue/the selling price or a failure by customer to pay does not provide the rights to claim the tax back). Nevertheless, in the view of management, in the context of the arrangements they do not have to be regarded as superior and decisive in order to conclude on an accounting treatment with respect to the excise duty.

Non-recognition of deferred tax liability

Deferred tax liability is not recognised in the consolidated financial statements of the Group in relation to the taxable temporary differences associated with investment in subsidiary (arising from existence of untaxed with corporate income tax retained earnings in subsidiary, arisen after 1 January 2018) as the management has determined that subsidiary's profit for the years ended from 31 December 2018 to 31 December 2021 will not be distributed in the foreseeable future. The management exercised significant judgement in interpreting the longevity of the period described as "foreseeable future". In the management's opinion, in the current business environment, it is not possible to develop reliable business plans and forecasts for a period of time exceeding 3-5 years, despite the fact that the subsidiary in question operates in a regulated industry with regulated tariffs and is a monopoly provider of natural gas transmission services in Latvia, therefore, the period of foreseeable future cannot exceed 5 years or even less. Management's judgement is based also on the following considerations.

- The subsidiary will first distribute the retained earnings accumulated till 31 December 2017 to take an advantage of new corporate income tax regime which permits the tax payers to distribute the said retained earnings without levying tax on such distributions (as these retained profits have been taxed under previous tax regime);
- It is estimated that the time period while the "previous" retained earnings are fully distributed will exceed 5 years;
- It is assumed that in the consecutive years, after the distribution of "previous" retained earnings, the subsidiary will distribute dividends from current earnings not exceeding annual profit amount.

Control over subsidiary

While the JSC "Gaso" is given a statutorily independence in terms of running the gas distribution business, the overall corporate control by JSC "Latvijas Gāze", in its capacity as a parent entity, is fully retained. The normal corporate control rights by the parent group entity over the distribution subsidiary are expressly acknowledged in Art 45(3)(3) of the Latvian Energy Law (which provision, in its turn, transposes a rule specified in Art.26(2)(c) of the Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC). Particularly, in the context of IFRS 10 “Consolidated financial statements”, the critical aspect of control is ensured by the fact that the power to appoint the Council of JSC “Gaso” lies with the Board of the JSC “Latvijas Gāze” (with the consent of the Council of the Company) acting in its capacity as sole shareholder of JSC “Gaso”. Council of JSC “Gaso”, in its turn, appoints the Board of JSC “Gaso”, which is in charge of operational activities that significantly affect the subsidiary’s returns.

27. Summary of significant accounting policies

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

Basis of preparation

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

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

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

These financial statements have been approved for issue by the Board of Directors of the Company on 20 April 2022. In accordance with the requirements of the Commercial Law, the Company announces the Annual Shareholders' Meeting after receiving the auditor's report and the Supervisory Board's report, simultaneously sending the Annual Report to the Company's shareholders.

New Accounting Pronouncements

Standards or interpretations effective for the first time for the annual periods beginning on or after 1 January 2021 or not yet adopted by the EU

Certain new or revised standards and interpretations have been issued that are mandatory for the Group’s annual periods beginning on or after 1 January 2021, and which the Group and the

Company have not early adopted. No significant impact on the financial statements of the Group and the Company is expected from these standards or interpretations.

Standards or interpretations effective for the first time for the annual periods beginning 1 January 2021

- **Covid-19-Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 June 2020)**. The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification.
- **Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021**). *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:*

Standards or interpretations effective for the first time for the annual periods beginning after 1 January 2021 or not yet adopted by the EU

- **Amendments to IFRS 4 – deferral of IFRS 9** (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IFRS 10 and IAS 28 –** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after a date to be determined by the IASB, not yet adopted by the EU).
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021, not yet adopted by the EU).
- **Amendments to IAS 1 –** Classification of liabilities as current or non-current (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period.
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS9, IFRS16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022).

There are no new or revised standards or interpretations that are not yet effective that are expected to have a material impact on the Company or the Group.

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.

More details are disclosed on note 23 and note 24.

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.

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

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

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

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

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

Excise duty

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

Sale of services – natural gas distribution

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

Connection fees

When connecting to the gas network, the customers have to pay a connection fee. The management has concluded that the connection fees do not represent a separate performance obligation from the ongoing provision of network distribution services, and thus the revenue from connection fees is deferred and recognised as revenue over the estimated customer relationship period. Connection fees received from customers are carried in the statement of financial position as “Deferred income” within long-term liabilities. Up to and including the 2020 reporting period, the revenue from connection fees were recognised over 30 years. However, in 2021, the average customer relationship period was revised with new estimates, assuming 20 years as the average customer relationship period. Thus, the net impact in the 2021 reporting period was an increase in revenue by 2 155 thousand EUR. Assuming that the deferred revenue will be accounted till the end of the estimated average customer relationship period, the revenue increase in the next years will be as follows: by 1 821 thousand EUR in 2022, by 1 425 thousand EUR in 2023, by 1 126 thousand EUR in 2024, and by 733 thousand EUR in 2025.

Contract assets and contract liabilities related to contracts with customers

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

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

Financing component

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

Property, plant and equipment

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

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

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

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

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

	years
Buildings	20 - 100
Constructions, including gas distribution system	20 - 70
Machinery and equipment	5 - 30
Other fixed assets	2 - 15

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

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

Intangible assets

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

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

Impairment of non-financial assets

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

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

Inventories

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

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

Leases

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

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Discount rate applied to measure lease liabilities as at 31 December 2021 and 31 December 2020 is 3.33%.

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

Right-of-use assets

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the expected lease term on a straight-line basis. If the Group or the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group and the Company 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 or the Company.

Principles of consolidation

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

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

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

Reorganisation and investment in subsidiary

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

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

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

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

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

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

Segment reporting

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

Share capital and dividend authorised

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

Trade and other payables

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

Borrowings and borrowing costs

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

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

Provisions

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

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

Employee benefits

Wages, salaries and bonus plans

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

Social security and pension contributions

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

Vacation pay accrual

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

Post-employment and other employee benefits

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

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

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

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

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

Income tax

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

The Group recognise deferred tax liability for taxable temporary differences associated with investment in subsidiary (arising from existence of untaxed retained earnings arisen after 1 January 2018 in subsidiary) except to the extent that it is probable that the temporary difference will not reverse in the foreseeable future, i.e., the untaxed retained earnings will not be distributed from subsidiary to the parent company in foreseeable future. In the reporting periods ended 31 December 2021 and 31 December 2020 the management of the Group did not recognise the deferred tax liability in the consolidated financial statement related to the above.

Related parties

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

28. Remuneration of certified auditors company

	Group 2021	Group 2020	Company 2021	Company 2020
	EUR'000	EUR'000	EUR'000	EUR'000
Statutory audit	49	46	31	31
Non-audit services	2	2	-	1
	51	**48**	**31**	**32**

29. Contingent liabilities

The Company has a long-term agreement with PJSC Gazprom based on "take or pay" rules that determine the minimum quantity to be purchased in the respective period. If the entity is not able to consume the agreed volume, legal obligations might arise.

Financial obligations arising from long-term gas purchases (agreement effective until 2030) are calculated based on the same principles that govern internal budgeting. The resulting long-term obligations as of the balance sheet date amounted to approximately 2.49 billion EUR on 31 December 2021.

According to the Commercial law of Republic of Latvia, in the case of reorganization, the incumbent company bears solidary responsibility together with the newly established company with regard to the liabilities that originated prior to reorganisation and were transferred to the newly established company, and whose settlement date occurs within five years after the reorganization date. As at 31 December 2021 and 31 December 2020, the Group and the Company are not aware of any existing liabilities that they would be liable for in relation to the above.

As at 31 December 2021 as a part of financial guarantees OP bank 102 thousands EUR and SEB bank has reserved 250 thousand EUR (31.12.2020: SEB bank 260 thousand EUR).

The following table summarised other contracted commitments at the end of reporting year:

Commitments	Group 31.12.2021	Group 31.12.2020	Group 31.12.2021	Company 31.12.2020
	EUR'000	EUR'000	EUR'000	EUR'000
Contracted and unfinished	**1 327**	**860**	**562**	**696**

Contingent liabilities for warranties

As at 31 December 2021 Latvijas gāze has entered into three performance security guarantees within the framework of the natural gas procurement tender, with the terms until 22 February, 30 April and 31 May 2022 for the total amount of 1.4 million EUR. Potential unfavorable financial risks have not been identified, as the natural gas reserves in the portfolio of JSC "Latvijas Gāze" pumped into the Inčukalns Underground Gas Storage Facility are sufficient to fulfill the obligations assumed with the above-mentioned customers in full.

Contingent liabilities related to the corporate income tax from distributable profit of the Company

When the net profit for 2021 will be distributed, corporate income tax liabilities will arise (20/80 from net amount distributed to shareholders). Dividends received from the subsidiary will not give rise to additional tax liability in the hands of the Company when distributed further to the shareholders of the Company. Pursuant to the note in paragraph 16, and assuming that the Company does not plan to distribute the profit of 2021 in 2022, no corporate income tax is planned on dividends.

30. Subsequent events

On January 25, 2022, the Cabinet of Ministers adopted a new draft law on measures addressing the extreme increase in the energy resource prices and amendments to a number of Cabinet regulations, approving new measures of additional support for an immediate reduction of the increase in the energy resource prices in the total bills of individuals and businesses.

On January 31, 2022, JSC Latvijas Gāze has concluded amendments to the existing overdraft agreement with OP Corporate Bank plc, Latvian branch 100 million credit line (overdraft) limit on prolongation until 28th February, 2022. From 1st March 2022 until 31st May 2023, credit line will be 50 million EUR – a 20 million EUR increase from the initial credit line agreement amount.

In February 2022 Russia military invasion in Ukraine has prompted United States, European Union, United Kingdom, and other major economies to impose an extraordinary set of coordinated economic sanctions against Russia. The measures aim to limit customary trade and financial relations with Russia. However, the natural gas sector, the natural gas itself and the transactions and payments for it is not an object of the sanctions at the date of issuance of these financial statements. Exception has been applied to this sector from overall sanctions regime. According to the said exemption mechanism the duties and liabilities arising from the long term natural gas supply agreement concluded in 1999 with PJSC "Gazprom" are executed in duly and timely manner.

On March 31, 2022 the Presidential Decree of the Russian Federation No.172 "On a special procedure of fulfilment of obligations towards Russian natural gas suppliers by foreign buyers" was issued. It presumes that starting April 1, 2022, supplies of natural gas under external trade agreements of the PJSC "Gazprom" on supply of natural gas to a number of foreign countries as well as under external trade agreements of the PJSC "Gazprom" on supply of natural gas with foreign entities registered in those countries shall be paid for in Russian rubles only. The details followed in Instruction of Authorized Bank Gazprombank on Opening Type K Special Account Denominated in Rubles and Type K Special Accounts Denominated in Foreign Currencies on Payments Settlement for Natural Gas Supply. The financial impact cannot be fully and reliably assessed at the current moment because the event is very recent and the practical implications are yet to be determined and therefore management is currently still evaluating and assessing the situation.

On 6th April, 2022 the Parliament Committee on Economic, Agricultural, Environmental and Regional Policy in Latvia commenced the review of Amendments to Energy Law, which inter alia envisage to impose a ban on natural gas supplies from Russia to Latvia. Based on information publicly available it is currently planned that the Committee will continue the discussion of the draft law in the committee after two weeks – on 20 April 2022. According to public information, the government will discuss a proposal of the date by which the ban on Russian natural gas imports will be introduced. It should be noted that European Union has so far not adopted a common position in support of a ban on Russian natural gas imports. These aspects point to the complexity and ambiguity of the issue, as the protection of households and the internal energy security of the country is also important. In order for such a decision to be taken, the issue has yet to be debated in Latvian parliament in several readings. While there is not set a specific deadline for this proposal and the situation is continuously developing, the financial impact cannot be fully and reliably assessed at the current moment and management is currently still evaluating and assessing the situation including the options to expand the trade in Europe and diversifying the sourcing the natural gas.

Management assesses all these subsequent events as non-adjusting and is of the opinion that the impact of those events will not cause any uncertainties on the going concern of the group and the company for the 12 months following the approval of these financial statements by Management Board.

Laima Dudiča
Chief Accountant
Head of Accounting and Reporting Department

* DOCUMENT SIGNED WITH SECURE ELECTRONIC SIGNATURE AND CONTAINS TIME STAMP

CONSOLIDATED CORPORATE SOCIAL RESPONSIBILITY REPORT (NON FINANCIAL REPORT)

Prepared under Section 56.4 of the Financial Instrument Market Law

JSC "Latvijas Gāze"

Place of registration	Riga, Latvia
Registration number	40003000642
Address	Aristida Briāna iela 6, Riga, Latvia, LV-1001
Website	www.lg.lv

AS "Gaso"

Place of registration	Riga, Latvia
Registration number	40203108921
Address	Vagonu iela 20, Riga, Latvia, LV-1009
Website	www.gaso.lv

Abbreviations

UN	United Nations
CNG	Compressed natural gas
CSB	Central Statistics Bureau
EU	European Union
GRP	Gas regulation point
CSR	Corporate social responsibility
ILO	International Labour Organisation
GHG	Greenhouse gases

Contact details

E-mail address for suggestions and questions regarding the report:
investor.relations@lg.lv

BOARD STATEMENT

The JSC "Latvijas Gāze" has been the leading and most reliable natural gas supplier for many years and is now actively expanding its presence in other countries of the region in a bid to become the customers' first choice in the Baltic and Finnish natural gas market. The subsidiary of the JSC "Latvijas Gāze", the JSC "Gaso", is the only natural gas distribution system operator in Latvia.

The JSC "Latvijas Gāze" has prepared its fifth corporate social responsibility report. The report explains the key risks and measures taken and assesses the impact of the measures. On a Group level, by corporate social responsibility the JSC "Latvijas Gāze" understands a systematic process analysis where it assesses the impact of its actions upon the environment, employees, customers, business and society and sets the principles that follow from its impact assessment and values. The analysis of the existing processes of corporate social responsibility and the implementation of new processes at the company is a kind of brand of the company's reputation and quality, ensuring as transparent corporate environment as possible and thus enhancing the company's reputation, recognition and employees' satisfaction, reducing the business risks and raising the company's value. The JSC "Latvijas Gāze" fully supports the values of the UN Global Compact in the domains of human rights, labour rights, environment and anti-corruption and is committed to continue paying attention to improving the performance of the companies covered as far as the matters discussed in the report are concerned.

The report was reviewed and approved by the Board of the JSC "Latvijas Gāze" on April __, 2022 (Board meeting minute No. __) as part of the consolidated annual accounts (non-financial report) and its preparation in accordance with the law has been verified by a certified auditor.

The report is signed on behalf of the Board by:

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

* DOCUMENT SIGNED WITH SECURE ELECTRONIC SIGNATURE AND CONTAINS TIME STAMP

INTRODUCTION

The consolidated Corporate social responsibility report of the JSC "Latvijas Gāze" for the year 2021 is its fifth, follows the guidelines of the UN *Global Compact* (*www.unglobalcompact.org*), and contains the non-financial information set out in Directive 2014/95/EU of the European Parliament and of the Council and the Financial Instrument Market Law. This report, as the methodology of its preparation evolves, uses a number of new key performance indicators, also considering the recommendations included in *Nasdaq ESG Reporting Guide 2.0 (2019)* for companies listed on stock exchange[1].

The description of the business model of the JSC "Latvijas Gāze" and the JSC "Gaso" and other general information regarding the Group and its operations is included in the Management report of the consolidated financial statements. Information on the corporate governance model of the JSC "Latvijas Gāze" and its elements is presented in the Corporate governance report. The report details the Group's policy in the respective domain, the main risks, the measures for prevention or mitigation thereof, and the relevant performance indicators. The report is connected with other documents of the JSC "Latvijas Gāze" where the values of the *UN Global Compact* are integrated, such as the *Employees' Code of Conduct* and the *Whistleblowing system, the Sanction risk assessment and the Risk management policy*. The Report has been prepared in Latvian, English and Russian and is published on Nasdaq Baltic as well as permanently available on the Latvijas Gāze website.

The performance indicators refer to a five- or two-year period depending on data availability. The data calculation methods have not been substantially changed from the previous report.

[1] The report presents the following indicators of *Nasdaq ESG Metrics*: E3, E5, E7, S3, S4, S6 – S10, G4, G7 – G10

10 PRINCIPLES OF UN GLOBAL COMPACT

HUMAN RIGHTS

Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2 make sure that they are not complicit in human rights abuses.

EMPLOYEES

Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4 the elimination of all forms of forced and compulsory labour;

Principle 5 the effective abolition of child labour; and

Principle 6 the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

Principle 7 Businesses should support a precautionary approach to environmental challenges;

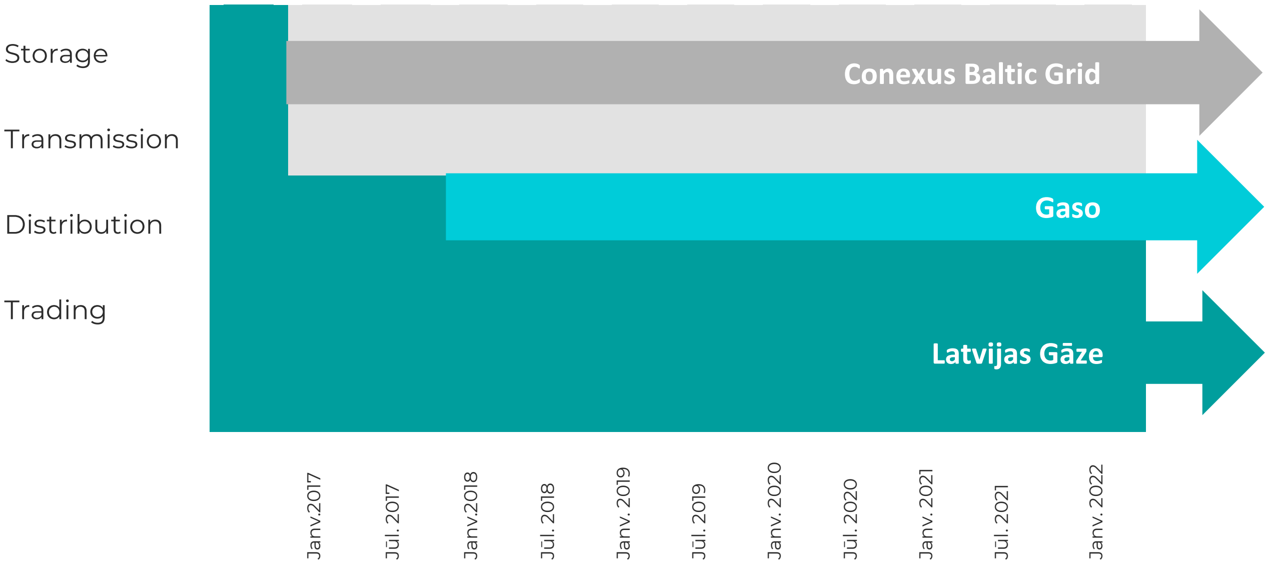
Principle 8 undertake initiatives to promote greater environment responsibility; and

Principle 9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

REORGANIZATION OF LATVIJAS GĀZE



The last six years represent three major stages of development of the JSC "Latvijas Gāze" – (1) operation as a monopoly, (2) unbundling into a transmission operator, distribution operator and natural gas trader, as well as (3) the present operation in the open market.

From its foundation in 1991 onwards, the JSC "Latvijas Gāze" operated as the sole and unified natural gas storage, transmission, distribution and trading operator. In fulfilment of the natural gas market transformation requirements of the European Union, since January 1, 2017, transmission and storage has been unbundled into the JSC "Conexus Baltic Grid" which is currently unrelated to the JSC "Latvijas Gāze" and the JSC "Gaso". Furthermore, since December 1, 2017, natural gas distribution has been entirely transferred to the JSC "Gaso" whose sole owner is the JSC "Latvijas Gāze" which, in turn, remains active in natural gas trading.

HUMAN RIGHTS

Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2 make sure that they are not complicit in human rights abuses.

RESPECT FOR HUMAN RIGHTS AT THE COMPANY

POLICY AND RISKS

The Latvian regulatory framework of human rights is essentially designed to be directly applied within organisations, and both the JSC "Latvijas Gāze" and the JSC "Gaso" fully meet these requirements.

The Group's objective is not to allow any violations of human rights in its business and to take an active stance towards customers, partners and employees, and to facilitate eradication of such violations in any action and partnership via the Corporate social responsibility report as well as the *Code of Conduct* and the *Whistleblowing system*.

Respect for human rights is closely linked with the Group's effectiveness and substantially reduces the Group's operational risks.

MEASURES

The JSC "Latvijas Gāze" and the JSC "Gaso" see respect for human rights as the very minimum of any company's standard of conduct. The Group fully complies with the regulatory framework of Latvia, the European Union, the Council of Europe, and the UN (contained by the Universal Declaration of Human Rights) that meets the highest human rights standards. The Group does not in any way become involved in and is opposed to any violations of human rights and takes an active stance in this regard towards customers, partners and employees as well.

The professional qualification and experience of the Board members of the JSC "Latvijas Gāze" and the JSC "Gaso" proves the management's profound understanding of the role of human rights in the Group's work. The Group fully ensures the protection of first-generation (right to life, health and political beliefs), second-generation (socioeconomic rights), and third-generation (solidarity, right to environment, personal data protection etc.) human rights in respect of both its employees and customers.

In addition to the regulatory stipulations, the Group regularly conducts environment quality measurements at workplaces. As concerns customers, in order to enable disabled persons to enter all facilities, environmental reconstruction and improvement takes place on a regular basis. Such access options are in place at all facilities reconstructed since 2017.

There has also been implemented the *Whistleblowing system* at the JSC "Latvijas Gāze" and the *Whistleblowing procedure at the JSC "Gaso"* which provide an option to report violations, including those of human rights.

STAFF HEALTH AND SAFETY

WORKING HOURS, REMUNERATION AND ABSENCES

POLICY AND RISKS

The Latvian regulatory framework of labour protection is directly applicable and the Group devotes substantial resources towards fully meeting these requirements. This is one of the Group's priority areas of corporate social responsibility, especially given the specific nature of the JSC "Gaso". Specifically, more than a half of employees at the JSC "Gaso" are tasked with the direct maintenance of the natural gas distribution system which entails an increased risk because of the explosiveness and inflammability of gas and the health impact of other harmful working environment factors.

The Group's objective is to provide a safe working environment so as to avoid any working environment risk or mitigate its impact to the extent possible.

MEASURES

Employees are ensured a safe working environment harmless to health, including appropriate workplaces, technical resources, and individual means of protection. As required under regulations, the Group develops a labour protection and fire safety plan and conducts and internal monitoring of working environment. Employees are instructed on labour protection and fire safety pursuant to a schedule depending on work specifics. At least once per year there is training held on how to act in the event of fire. An assessment of risks of working environment and explosive environment is also conducted once per year. Based on such assessments, the deficiencies found are either eliminated or mitigated.

Accidents at work are constantly registered and analysed. Employees undergo mandatory health checks pursuant to a schedule depending on work specifics. Employees are provided with health and accident insurance. The work equipment and machinery is regularly inspected and serviced in line with the manufacturer requirements.

Under the *Whistleblowing system* introduced at the Group, it is also possible to report violations that endanger employees' health and safety.

The main challenges of 2021 in terms of staff health and safety were the same as in 2020, i.e., the COVID-19 pandemic which left impact upon the internal labour organisation and the organisation of interaction with customers and partners.

Already in 2020, the JSC "Latvijas Gāze" successfully implemented – and in 2021 further improved – a number of measures on a Group level that have enabled it to prevent the spread of the said disease at the company and expose employees to minimum risk by allowing them to work remotely and providing them with the technical supply necessary. It has also implemented an efficient procedure of reporting possible illness, maintaining the company's operational effectiveness and continuity.

PRIVACY AND DATA SECURITY

POLICY AND RISKS

Given the substantial number of employees and customers, the Group pays special attention to privacy and personal data protection and security. When it comes to personal data protection, Latvia has a stringent regulatory framework based on the directly applicable EU General Data Protection Regulation 2016/679. In line with the principles of the regulation, the Group has developed an internal procedure of personal data protection that encompasses a policy of personal data protection and rules of its implementation.

The Group's objective is to ensure a full protection and security of personal data for both employees and customers.

Due to the COVID-19 pandemic the Group faces the challenge of balancing a person's right to medical data protection and the public interests. In this situation the Group follows the regulatory framework issued in the country and the recommendations of the Latvian Centre for Disease Prevention and Control (SPKC) and the Data State Inspectorate that envisage a variety of measures to be taken (the necessity to notify SPKC of cases of disease at work, identify the contact persons, notify the head of the structural unit and the Personnel Department of the person's possible illness etc.) and data submission to SPKC.

MEASURES

The Group both complies with the regulatory requirements and takes reasonable and proactive measures to streamline processes. The Group has implemented the improvements put forward following the audit of personal data processing and carries out assessments of legitimacy and protection of personal data processing. The processes envisaged in the internal regulatory enactments governing personal data protection and their control mechanisms have been implemented. Much attention is devoted to staff training in the field of personal data protection, explaining the regulatory requirements and analysing examples and case studies. The Group employs an IT security manager and personal data processing specialists who regularly analyse the personal data protection and security system and take the measures needed for its improvement.

The Group systematically analyses the contractual obligations previously entered into, updating the contracting parties' duties in terms of personal data protection where necessary.

The JSC "Latvijas Gāze" has annually instructed all employees on personal data protection, discussing issues relevant to the company, especially in the segment of (individual) customer attendance. As part of the introductory training of new employees of the JSC "Latvijas Gāze", each employee having started working for the company undergoes a test of knowledge on personal data protection, followed by additional individual training if necessary.

The *Whistleblowing system* implemented at the Group envisages an option of reporting violations of personal data protection and security.

PERFORMANCE INDICATORS

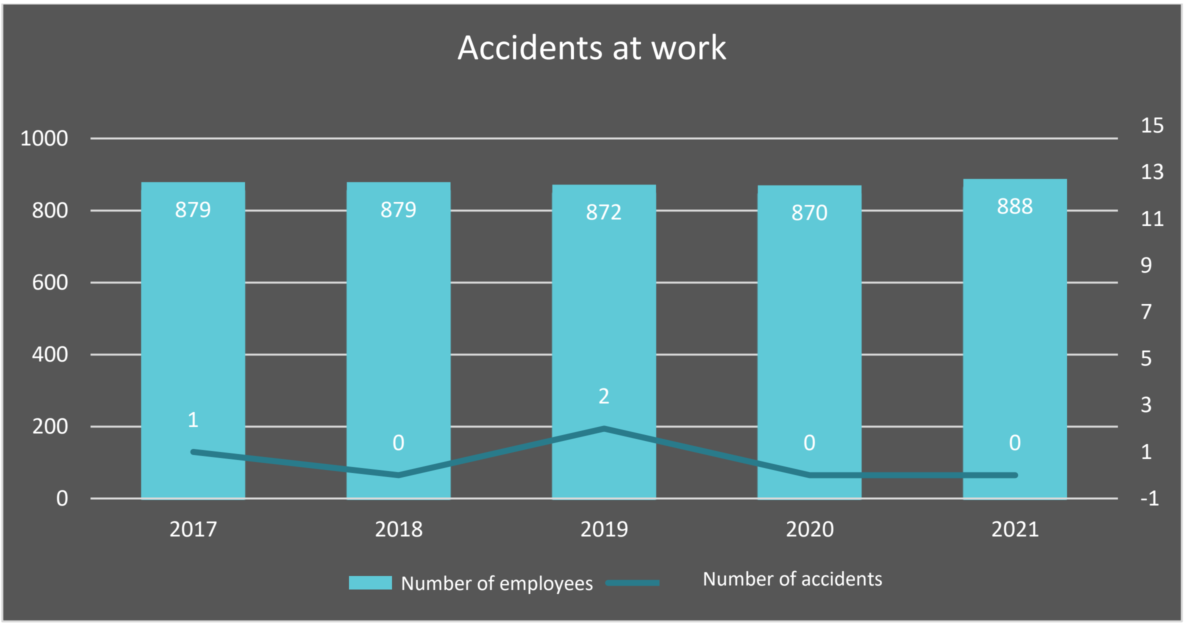
VIOLATIONS

In 2021, there were no complaints received, including from whistleblowers, over general human rights infringements in the field of staff health and labour safety or personal data protection and data security. Nor were there infringements found by the supervisory institutions.

ACCIDENTS AT WORK

In 2021, no employees suffered injuries in a road accident or while performing maintenance of the natural gas distribution network. There have been no lethal accidents in the period covered.

Accidents at work at the Group



EMPLOYEES

Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4 the elimination of all forms of forced and compulsory labour;

Principle 5 the effective abolition of child labour; and

Principle 6 the elimination of discrimination in respect of employment and occupation.

TRADE UNIONS

POLICY AND RISKS

The employees' rights to engage in trade unions and collectively bargain employment matters are ensured and bolstered.

The Group's objective is to ensure a mutually beneficial cooperation and collective bargaining in respect of decisions on the social protection of employees.

MEASURES

There are collective agreement discussion meetings held, attended by representatives of the Group's management, employees and trade unions. A labour dispute commission has been set up, featuring representatives of the employer and trade unions. Premises are made available for holding trade union meetings, as are permanent premises and means of communication for the head of the trade union. A representative of the trade union as member of the procurement commission takes part in the selection of health insurance policy for employees.

In late 2021, there were amendments made to the collective agreement signed in 2019 among the JSC "Latvijas Gāze", the JSC "Gaso" and the trade union of Latvian public utility and transport employees "LAKRS", extending it for another year – till the end of 2022.

FORCED AND CHILD LABOUR

POLICY AND RISKS

Forced and compulsory labour is nationally prohibited, as is forced child labour. The Group is firmly opposed to such forms of employment and strictly adheres to such policy

EMPLOYMENT CONDITIONS

POLICY AND RISKS

The high-intensity routine and relatively low remuneration of employees directly tasked with customer attendance is a challenge for successful work in this field. Furthermore, both the implementation of a new billing system and the impact of the COVID-19 pandemic exposes employees to increased stress, also affecting staff turnover. As for the company, losing qualified specialists exposes it to threat of failure to meet the industry standards and maintain the operational continuity, thus causing both quality risks and financial burden. In order to mitigate the said risks, the company has implemented remote work and other forms of performing professional duties.

In terms of remote work organisation, the JSC "Latvijas Gāze" has managed to recruit qualified employees away from the JSC "Latvijas Gāze" headquarters, in the regions. Furthermore, since the spring of 2020 the customer service of the JSC "Latvijas Gāze" has been working entirely remotely. Although the number of customer inquiries has grown due to gas tariff changes, the JSC "Latvijas Gāze" has successfully separated the internal functions and processes the inquiries received in a timely and quality manner.

Employees predominantly have a normal working time of 40 hours per week. Depending on the specifics and need, time credits and shift work are occasionally used. Employees are also afforded appropriate breaks and rest. There is a paid annual leave and, on top of what is stipulated by the legislation, a paid additional leave for length of service, dangerous working conditions, and additional off-days to heads of structural units.

All employees have written employment contracts signed and issued and all taxes pertaining to the employment relationship paid.

The recruitment policy is implemented so as to avoid the risk of lack of qualified specialists jeopardising compliance with the industry standards in terms of the safety and operational continuity of the natural gas distribution system.

Limiting overtime hours is a line strictly maintained on a Group level.

The number of overtime hours is monitored and controlled, with jobs scheduled so as to avoid overtime work as much as possible.

The Group's objective is to maintain a competitive staff motivation system with fair and appropriate remuneration, balance between work and rest, and targeted social guarantees, including a contract on the health, life and accident insurance of employees.

MEASURES

A number of matters pertaining to employment relationship and employees' social guarantees are governed by the collective agreement and internal rules of procedure.

Depending on the specifics and need, time credits are occasionally used. If necessary, employees work overtime and are remunerated for it in the amount and pursuant to the procedure stipulated in the Latvian laws.

The JSC "Gaso" has set up a standing pension management committee, composed of two Board members and two staff representatives and tasked with controlling the compliance of 3rd level pension contributions for employees.

Employees are systematically assessed and remunerated based on their work quality, initiative, intensity and contribution.

PREVENTION OF DISCRIMINATION

POLICY AND RISKS

The Latvian legislation extensively prohibits discrimination, and the Group complies with it, making sure that decisions in respect of employees be based on appropriate and objective criteria. A prohibition of discrimination is also stipulated by the Employees' Code of Conduct, focusing on the core principles of fair treatment and prohibition of insult. It details the guidelines for building the professional relationship among employees, including attitude and conduct, and models of actions for the settlement of possible disagreements and disputes in daily work.

The Group sees the risks associated with discrimination as low.

MEASURES

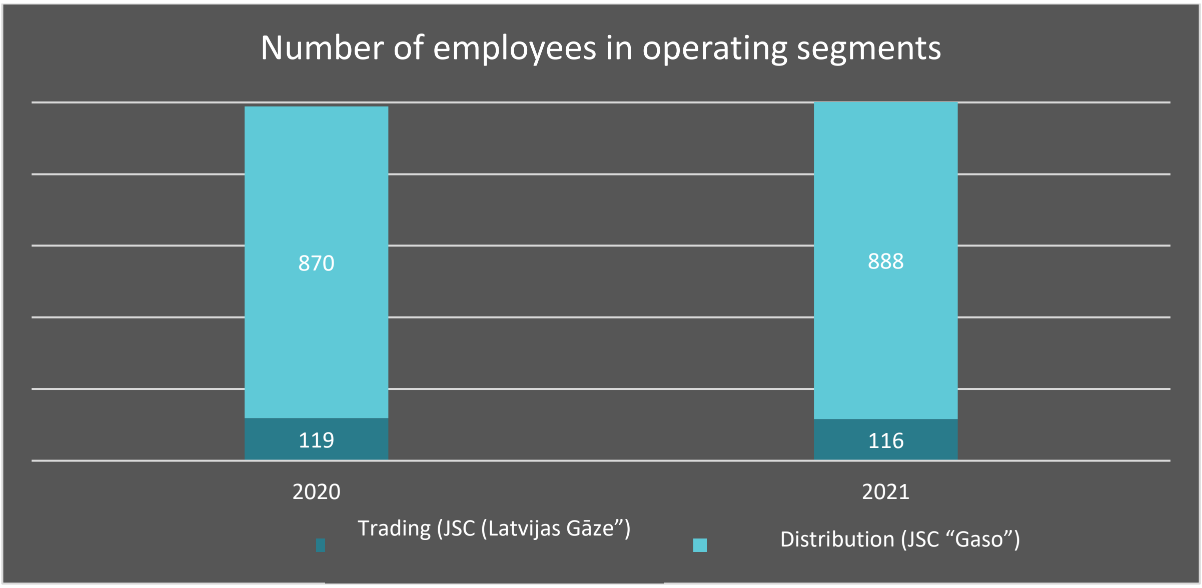
Job advertisements set out specific requirements for candidates based on the professional competences needed by the Group and are worded in a non-discriminatory way. During the recruitment process, no sensitive information about applicants, including their religious or political conviction, family status, sexual orientation, ethnic origin, political beliefs etc., is requested.

PERFORMANCE INDICATORS

INVOLVEMENT OF TRADE UNIONS

In 2021, there was no need to involve trade unions in the settlement of disputes.

NUMBER OF EMPLOYEES IN OPERATING SEGMENTS

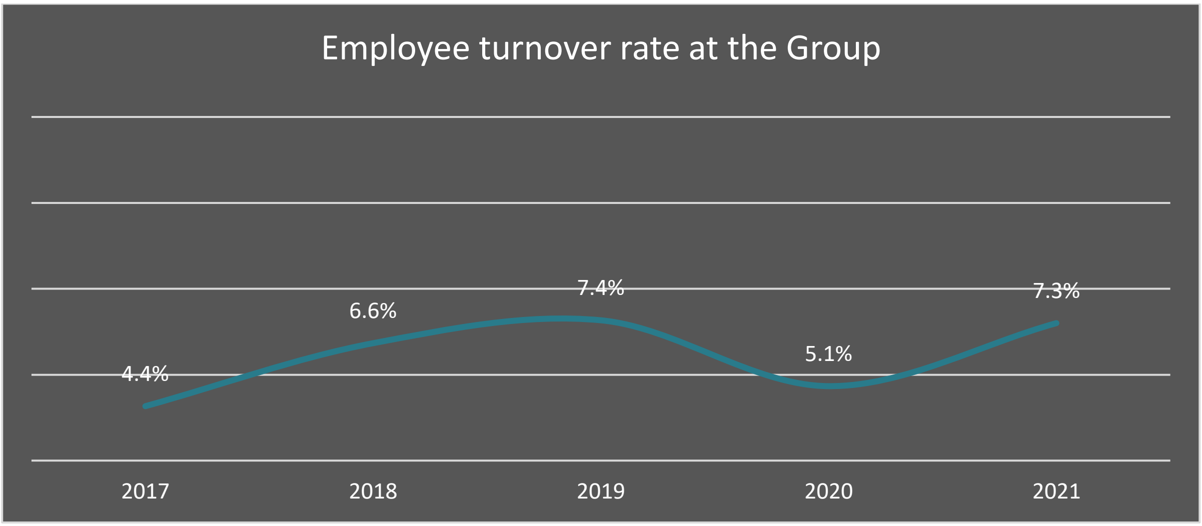


NUMBER OF EMPLOYEES SUBJECT TO THE COLLECTIVE AGREEMENT

The collective agreement is applicable to all employees of the Group. It ensures an equal treatment of employees in terms of social guarantees and envisages additional social guarantees not stipulated in the Labour Law – additional leave, additional off-days, benefits, monetary bonuses etc.

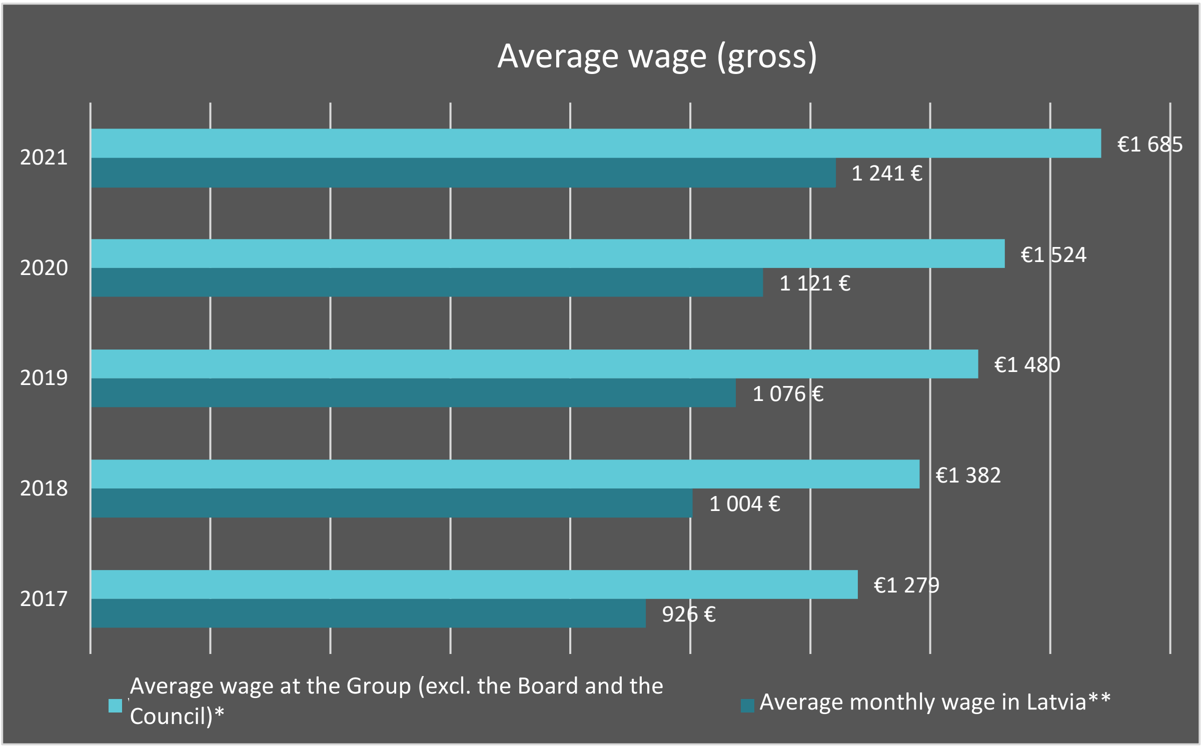
EMPLOYEE TURNOVER RATE

The dynamics of the employee rotation ratio reflects the current events in the Group and the situation in the labor market. The increase in employee rotation is related to the significant turnover of employees in the customer service sector of JSC "Latvijas gāze", taking into account the challenges caused by Covid-19 (remote customer service, thus - increasing volume of incoming calls and correspondence, etc.).



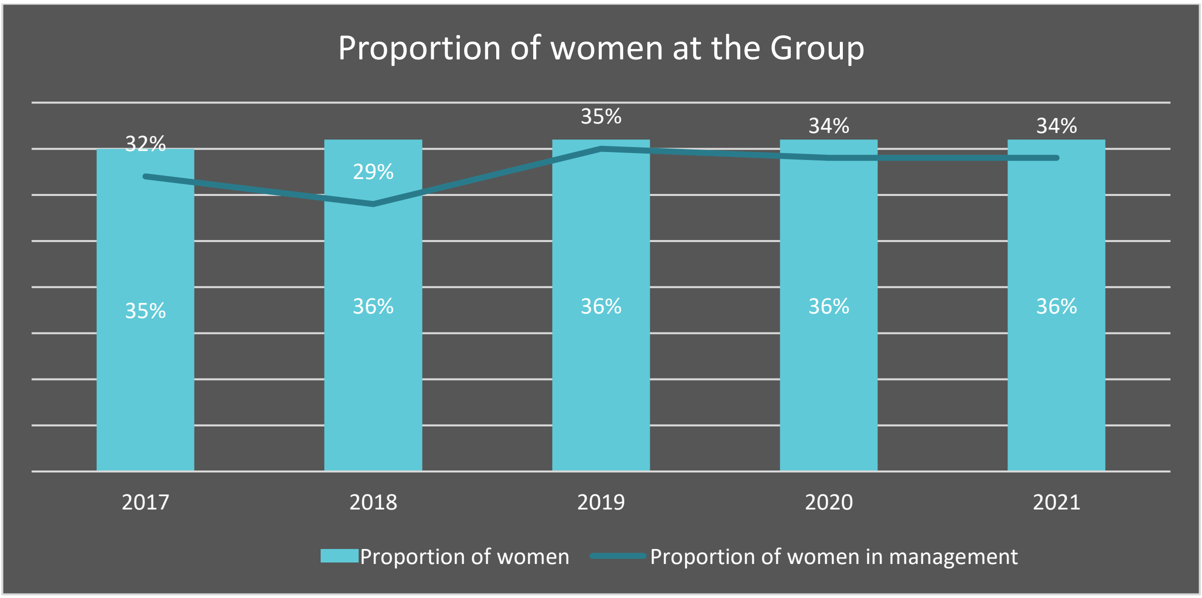
AVERAGE WAGE

The average wage at the Group is on par with the industry level.



GENDER DIVERSITY – PROPORTION OF WOMEN

The proportion of women at the Group is appropriate to the specifics of the industry. The proportion of women in management is consistent with the overall proportion of women at the Group.



VIOLATIONS

In 2021, there were no complaints received, including from whistleblowers, over discrimination at work. Nor were there infringements found by the supervisory institutions.

ENVIRONMENT

Principle 7 Businesses should support a precautionary approach to environmental challenges;

Principle 8 undertake initiatives to promote greater environment responsibility; and

Principle 9 encourage the development and diffusion of environmentally friendly technologies.

NATURAL GAS USAGE AND SUSTAINABILITY

POLICY AND RISKS

The Group both helps others acquire an environmentally friendly source of energy – natural gas – and itself takes advantage of the development of environmentally friendly technologies. As natural gas is transmitted over pipelines, its delivery does not involve substantial loss of energy and there is less carbon dioxide (CO_2) emitted in the process of transportation compared to other fuels. When it comes to usage, natural gas again involves much lower CO_2 emissions than other fuels, thus creating less of a greenhouse effect. Specifically, compared to wood products, coal and liquid fuels, natural gas generates a substantially lower permanent pollution of carbon oxide, sulphur oxides, nitrogen oxides, smoke, soot, ash and heavy metals regardless of whether used in local boilers, large boiler houses or cogeneration plants.

The use of natural gas in motor transport, too, as replacement of petrol and diesel contributes significantly towards the reduction of carbon dioxide emissions and the improvement of air quality. For instance, natural gas-powered cars generate by as much as 70% lower nitrogen oxide emissions which is important for the health of human lungs [2]. Thus, the Group works on a sustainable basis and contributes to the environmental protection.

Nationally, the most substantial environmental pollution across the natural gas usage cycle occurs at final consumers where there are natural gas losses in the internal pipeline systems and where natural gas is combusted and CO_2, nitrogen oxide and other emissions are released into the atmosphere. Overall, natural gas as product is the most environmentally friendly fuel and as replacement of other fuels improves the quality of the environment.
In line with the above policy, the Group strives to increase the use of natural gas in areas where other fossil resources are currently preferred.

MEASURES

In line with the climate neutrality targets for 2050 set out by the European Union, the JSC “Latvijas Gāze” focuses on offsetting the environmental impact generated by customers through creating projects that allow to reduce the GHG emissions. In light of the regulatory package drafted as part of the European Union’s “Fit for 55”, the European Commission’s Hydrogen and Gas Market Decarbonisation Package, the Methane strategy and the

[2] Source: *NGVA Europe*: https://www.ngva.eu/policy-priorities/air-quality/.

objectives set out in the Renewables Directive, the ambition of the JSC "Latvijas Gāze" is to develop renewable resource projects, including ones using the natural gas network infrastructure and its possibilities. In 2021, apart from the ISO 50 001 energy management standard, the JSC "Latvijas Gāze" implemented an environment management control system pursuant to the ISO 14 001 standard and calculated its CO_2 emissions. Having regard to the environmental policy and the results of the calculations, the JSC "Latvijas Gāze" has planted 2,000 birches, thus neutralising its CO_2 emissions of 3 years.

Taking responsibility for the environmental impact of the Group's business, an *Environmental policy* and *Environmental code* has been implemented. It analyses the potential of mitigating the environmental impact of the product sold by the Group – natural gas – and identifies the resulting objectives. It is the business of the JSC "Gaso" that accounts for almost all environmental impact of the Group. The human impact of the product and the services provided is one of the key risks in the domain of corporate social responsibility since natural gas is inflammable, explosive and asphyxiant in enclosed spaces. The consequences of a natural gas explosion are potentially disastrous. The main risks are associated with outdated infrastructure and gas appliances owned by consumers and human action both when consuming natural gas and making unwarranted manipulations of gas appliances. These risks are minimised through regular and systematic technical supervision of the natural gas distribution system and audits and tightness tests of internal gas pipelines pursuant to the regulatory requirements.

Across the natural gas supply and usage chain, it is the final consumers that can contribute significantly to the mitigation of the environmental impact. The Group believes that through educational and information measures it is possible to achieve a decisive improvement in public awareness of the positive and negative impact of natural gas usage in areas where individual contributions and efforts can yield a material reduction in the environmental impact.

In order to educate its customers and other stakeholders on ways of saving energy resources, including natural gas, the Group has drawn up an *Energy efficiency brochure* and systematically updates the company's employees and its followers on social media about specific energy resource saving methods ("education through communication"). The websites of the Group's companies – www.lg.lv and www.gaso.lv – feature dedicated energy efficiency sections.

In 2021, a section on economic driving was added to the Energy efficiency brochure. The Group also believes that much difference can be made by replacing inefficient natural gas appliances with more efficient ones, and not just among households but also in the commercial, manufacturing and energy sectors. Hence, customers are regularly informed of the latest developments in the design and construction of gas pipelines and gas-powered facilities. Customers are also encouraged to do a regular maintenance of internal natural gas pipelines and appliances to reduce natural gas loss occurring due to looseness.

CO_2 and other emissions may be further reduced by replacing petrol and diesel cars with ones powered with natural gas. CNG used in transportation generates up to 30% lower CO_2 emissions than diesel or petrol, and for other harmful emissions this difference is up 90%. It is therefore one of the current objectives of the Group to actively promote the development of CNG infrastructure in Latvia, also providing technical support and competences to businesses who invest in building CNG refuel stations.

Together with a number of energy and transport businesses, the Group has launched an initiative "Vide rītdienai!" ('Environment for Tomorrow') in order to discuss the use of more cost-effective and environmentally friendly energy in transport and to seek solutions towards accomplishing the global climate policy goals. In May 2019, with a direct involvement of the Group through CNG deliveries, a first publicly available CNG refuel station in Latvia in 14 years opened in Jēkabpils. A second such station opened in January 2020 in Riga, continuing a purposeful expansion of CNG facilities in Latvia. The year 2021 saw installation of new CNG refuel stations at the regional units of Liepāja, Jūrmala Ogre, Cēsis, Jelgava and Bauska, bringing potential savings of 10.5 MWh per year.

The Group has over 70 CNG vehicles of various applications and manufacturers available for use by its employees, as well as its own CNG refuel station.

NATURAL RESOURCE CONSUMPTION AND GHG

POLICY AND RISKS

The Group essentially uses energy and water to provide for daily needs. The Group's business – natural gas distribution and trading – does not necessitate availability of vast natural resources.

A key role in the total consumption of energy resources is played by energy efficiency of buildings, as heating accounts for approximately 65% of the Group's energy consumption. Electricity consuming appliances may be divided into a number of categories – lighting, computer hardware, household appliances, climate control appliances, technical equipment (natural gas filling equipment, compressors, instruments etc.), cathodic protection of gas pipelines. With some categories, such as cathodic protection of gas pipelines, no substantial improvement in energy efficiency is possible, while a systematic selection of, for instance, computer hardware and household appliances yields reduction in electricity consumption.

The Group has low risks when it comes to energy consumption and production, since natural gas distribution and trading does not require industry-scale manufacturing, just energy consumption for housekeeping purposes – heating, electricity supply, vehicles. The JSC "Gaso" has been issued three environmental pollution permits of category C – for the boiler houses and the cogeneration stations in Riga, Bauska and Ogre, but all these facilities produce energy for own consumption.

Overall, the key risk of the environmental impact is associated with natural gas emission from the distribution systems. In other areas, the Group's environmental impact is relatively low. The contribution of the main component of natural gas – methane – to the greenhouse effect over 100 years is rated as at least 25 times higher than that of CO_2, which is why its emission into the atmosphere needs to be limited as much as possible. There are three ways how natural gas from the distribution system ends up in the atmosphere: regular losses from the distribution networks, during repairs, and upon accidents. The most substantial pollution occurs in the first scenario. In 2020, methane accounted for 84% of the total GHG emissions of the JSC "Gaso".

In certain areas there are ways for the JSC "Gaso" to gradually reduce its environmental impact, thus contributing to the improvement of environmental quality and the mitigation of climate change. Expanding the distribution system where natural gas replaces more environmentally harmful fuels contributes to the overall reduction of pollution. However, since methane emissions are inevitable, a number of measures are taken to keep them optimally low. The JSC "Gaso" constantly monitors the networks, implements several long-term investment programmes, such as the reconstruction of service pipes and other technological assemblies, and uses state-of-the-art methods and equipment in repairs and accident elimination.

The Group's car fleet is renewed on a regular basis to secure mid-term compliance with the environmental requirements of the European Union for vehicles. The cars being equipped with the GPS and fuel metering devices has yielded fuel savings of one third, as such measurements allow for more efficient planning, selecting the optimum routes, and individual consumption tracking.

The Group sees its GHG-related risks as low since it has no industrial sources of pollution, such as high-capacity manufacturing equipment or boiler houses.

MEASURES

For heating purposes, the environmentally friendly natural gas is used – the Group produces almost all the heat it needs of natural gas and, through its cogeneration plant, about 30% of the electricity needed for own consumption. The premises at 20 Vagonu Street and 6 Aristida Briāna Street in Riga as well as most the regional units of the JSC "Gaso" have their own individual heating boiler houses that have been gradually upgraded over several years, thus making energy supply efficient.

The Group takes care of the technical condition of buildings as well as their regulatory compliance in terms of energy efficiency. It also advises external partners dealing with the maintenance and servicing of buildings in choosing energy-efficient solutions for the supply of goods and services.

The Group's energy management system has been certified and is due to be recertified in early 2022 as conforming to the new LVS EN ISO 500001:2018 standard. In addition to the energy management system implemented in compliance with the LVS EN ISO 5001 standard, the Group is also committed to a well-considered management of buildings and therefore will go for the green office certification of its buildings.

The management has put forward and approved four main objectives for 2022:

- to reduce the total electricity consumption by 1% in 2022 compared to 2021;
- to reduce the total natural gas consumption by 1% in 2022 compared to 2021;
- to reduce the average fuel consumption (litres per 100 km) by 1% in 2022 compared to 2021;
- to promote a change in staff attitude in favour of electricity and fuel saving.

Within the framework of the energy management system the Group completed 33 energy efficiency tasks in 2021 with planned energy savings of 185 MWh per year. Such activities will bring an estimated 1-2% reduction of the total energy consumption.

In 2022, the company intends to complete 35 energy efficiency tasks with planned energy savings of 130 MWh per year.

There is an internal energy audit conducted once per year and a standing working in charge of energy efficiency. A person responsible for environmental monitoring has been appointed. Quarterly there is a report prepared on the release of GHG, predominantly methane, into the atmosphere.

In 2019, the Group acquired and late in the year started using for office purposes the administrative building at 6 Aristida Briāna Street, Riga. The building has been assessed for energy efficiency and issued a valid energy certificate. Part of the company's car fleet is systematically renewed on an annual basis, thus ensuring that as a whole it meets the current environmental requirements. About one-fourth of the Group's cars use natural gas as fuel. The Group also uses smart systems for fuel consumption monitoring.

In 2022, the Group intends to consider installing an additional cogeneration plant at 20 Vagonu Street and solar panels for electricity production at regional units.

BIODIVERSITY

POLICY AND RISKS

The development of the natural gas distribution infrastructure is subject to extensive regulation, and the JSC "Gaso" complies with all regulatory requirements at the project preparation and construction stage alike. On a daily basis the JSC "Gaso" communicates with a wide range of individuals involved in development projects, gaining support and securing project completion.

When building infrastructure (natural gas distribution networks), the JSC "Gaso" is subject to the private owners' right to property and its usage and may affect protected natural sites. Hence, it is essential to cooperate with the public, the local governments, and the state authorities in charge of environmental matters.

The gasification of new housing estates often requires building gas pipelines through areas where there have been no usage restrictions before, with encumbrance caused to the owners and potential discontent to the public. It is therefore of particular importance to involve all landowners in the process, advising them of the common practical benefits from the infrastructure. The risks associated with material impact of infrastructure construction upon animal species, however, are immaterial.

The risks associated with material impact of infrastructure construction upon protected areas, species and habitats are low because there is a stringent regulatory framework in Latvia in terms of environmental protection which envisages seeking environmentally friendly solutions.

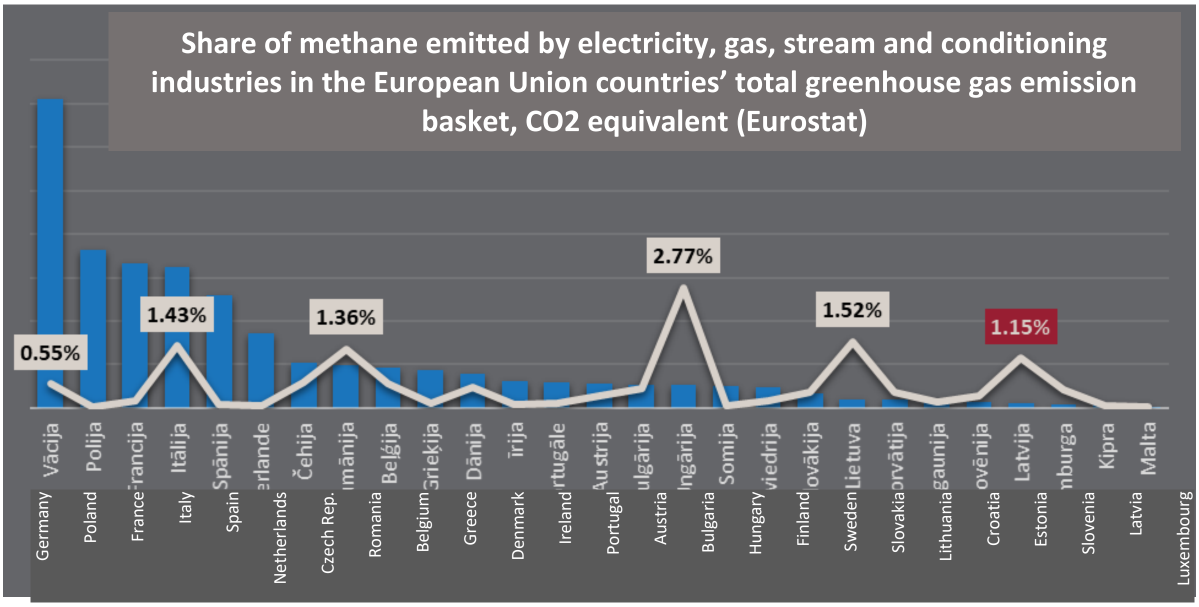
The Group's objectives are to gain broad support for the infrastructure development projects implemented by involving residents, businesses, local governments and the responsible public authorities and to ensure compliance with the environmental impact requirements and consequently a smooth course of projects, as well as to complete the construction of natural gas systems by the beginning of the heating season so as to satisfy the primary need for heating and ensure a continuous supply of natural gas.

MEASURES

The prospective distribution system development plans take into account the municipal territorial plans, the wishes of local governments and their residents and businesses, and the national and municipal restrictions on protected areas.

CONTRIBUTION OF NATURAL GAS LEAKAGES TO THE GREENHOUSE EFFECTU

Methane (the core element of natural gas) is a greenhouse gas, so its emission (occurring as continuous losses from the system or leakages upon gas pipeline ruptures or repairs) into the atmosphere is recalculated as the carbon dioxide (CO_2) emission equivalent. Compared with other European Union member states, Latvia generates low total GHG emissions, and those of methane are also low. As shown in the chart, the methane emission by the industry represented by the JSC "Gaso" accounts for just 1.55% of Latvia's total CO_2 emission equivalent, and specifically the methane emission by the distribution system operator in Latvia is just 0.11% of the total greenhouse gas emission volume[3].



The high proportion of methane emission in Latvia as compared with the figures of other European Union member states stems not so much from the scale of consuming or transporting natural gas itself (the 2016-2020 average percentage in the total consumption balance is 23% in Latvia and 23% in the European Union[4]) as from the relatively low CO_2 emission volume of other sectors in Latvia. For instance, industry in Latvia is relatively small, and the electricity consumed has been produced with relatively low CO_2 emissions.

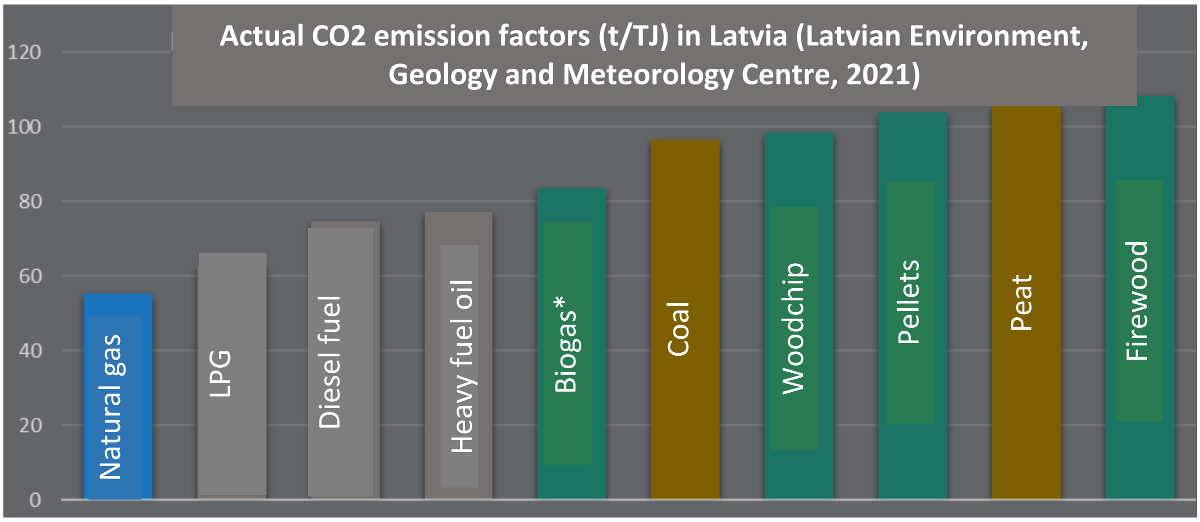
Contribution of natural gas burning to the greenhouse effect

Given the properties of natural gas, its way of burning is particularly friendly to the environment. Hence, the JSC "Gaso", through developing the availability of natural gas in

[3] The calculation uses Eurostat data on Latvia's total CO2 equivalent emissions; the Latvian Environment, Geology and Meteorology Centre report *LATVIA'S NATIONAL INVENTORY REPORT, Submission under UNFCCC and the Kyoto Protocol, Common Reporting Formats (CRF), 1990-2017,* pp.167-170 and Emission data appendices https://www.meteo.lv/lapas/sagatavotie-un-iesniegtie-zinojumi?&id=1153&nid=396 (accessed on 08.02.2021)

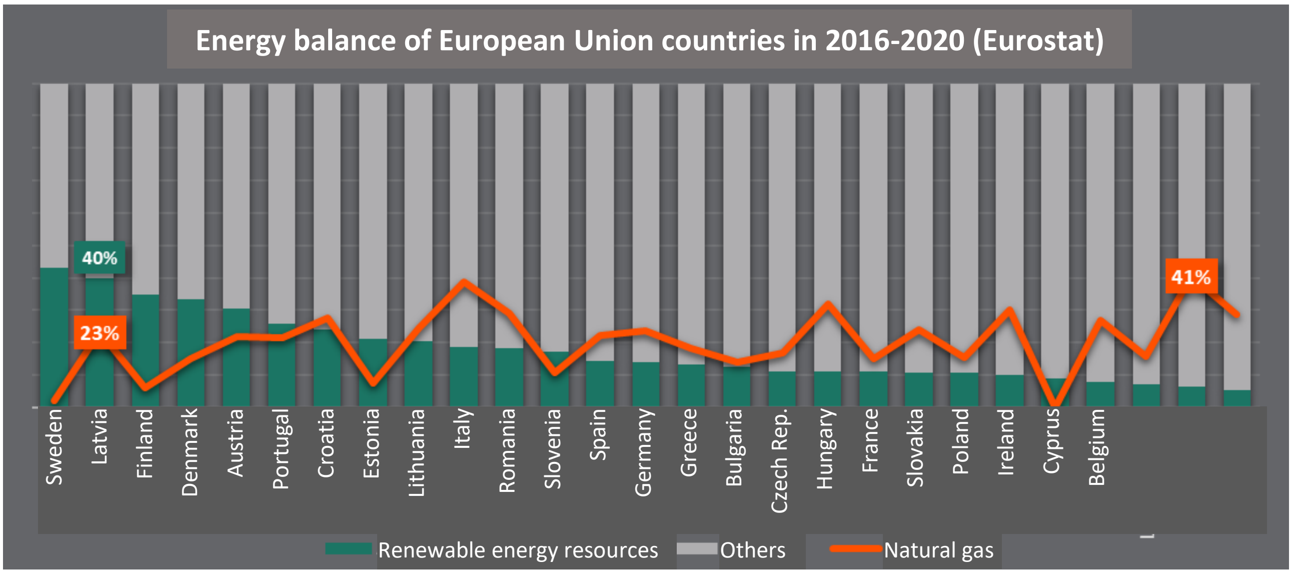
[4] Eurostat

the country and using natural gas for own consumption, sees itself as a contributor to the quality of environment and to sustainability, especially where natural gas replaces other types of fuel, as the actual CO_2 emissions of natural gas burning are lower than those of oil products and substantially lower than those of coal, peat and renewable fuels – biogas and biomass.



*Based on the Danish example: DANISH EMISSION INVENTORIES FOR STATIONARY COMBUSTION PLANTS, Scientific Report from DCE – Danish Centre for Environment and Energy, No. 102 (2014), p.107.

With 40% of renewable energy resources in the total consumption balance, Latvia is among the leaders in the European Union in the use of renewables. However, a major part – about 80% – of the volume of renewables consumed in Latvia are solid biomass fuels which generate a substantial pollution of CO_2 and other substances. Meanwhile, emission-free (hydro, solar, wind) consumption in Latvia accounts for just 14% of renewables and 6% of the total consumption.[5]



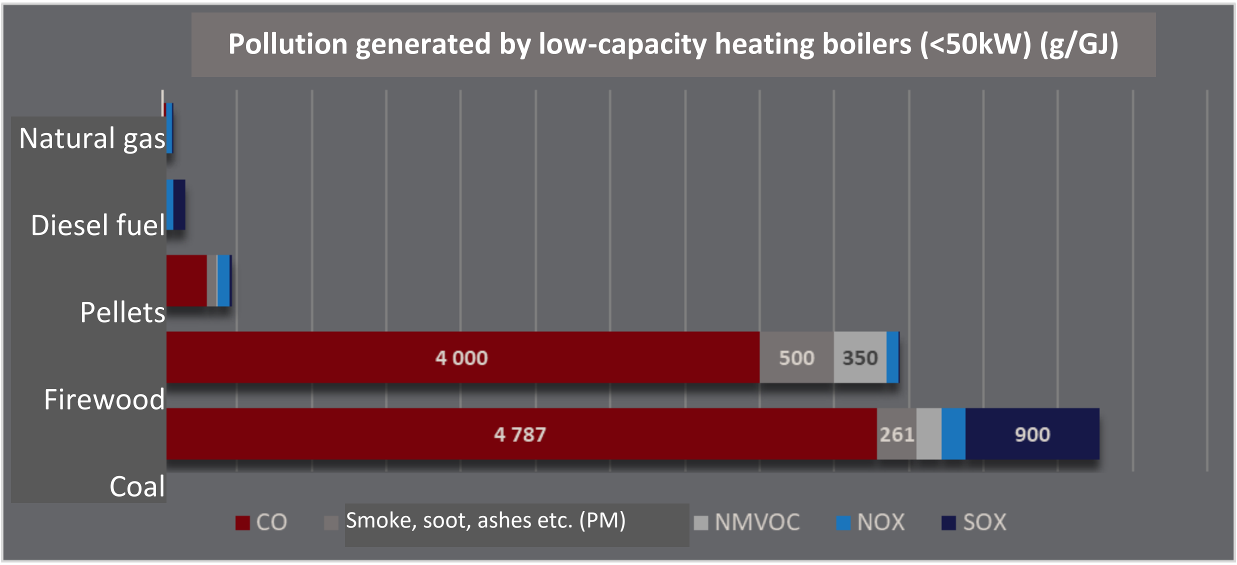
NOx, SOx, PM, heavy metal and other pollution

[5] Eurostat; average data for 2016-2020

The burning of fuels not only generates GHG emissions and contributes to the greenhouse effect but also has a direct adverse impact locally upon human health and biological organisms, as fuel combustion results in a number of emissions.

There can be identified several categories or elements of pollution that pose threat to one's health or even life when in high concentrations. CO or carbon monoxide in a closed space is a direct threat to human life[6], PM or particle matter pollution (smoke, soot, ashes etc.) are a major contributor to human respiratory diseases[7], NMVOC or non-methane volatile organic compounds directly affect one's health in closed spaces and contribute to smog in the atmosphere[8], NOx or nitrogen oxides in high concentrations cause respiratory inflammations and contribute to smog and particulate matter pollution[9], while SOx or sulphur oxides contribute to acid precipitation and particulate matter pollution[10].

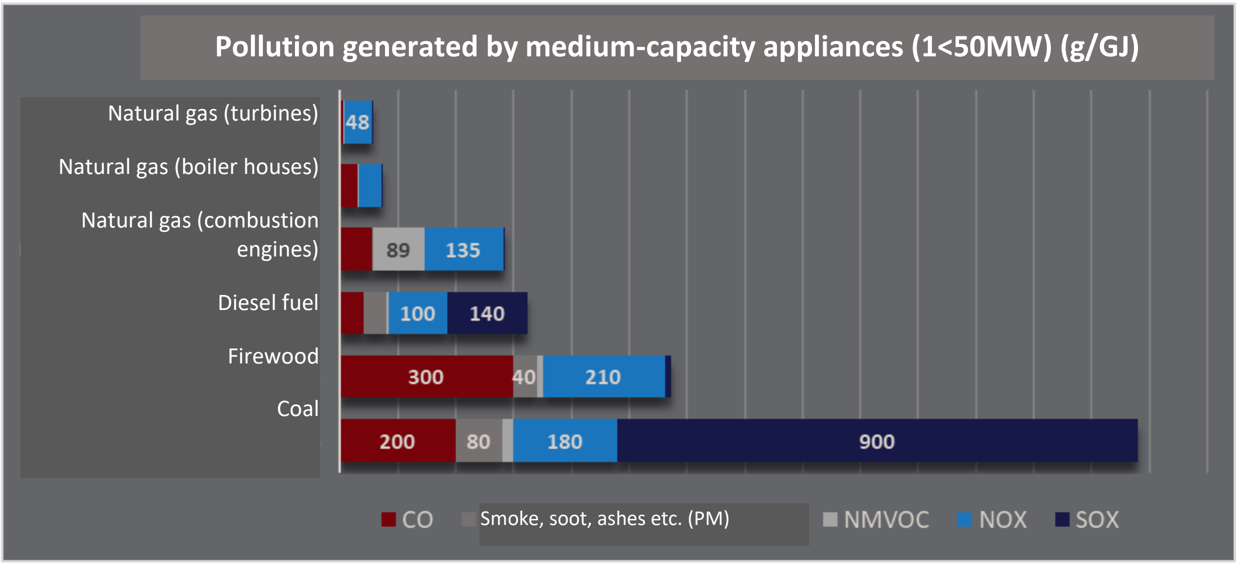
According to the data collected by the European Environment Agency, pellets and especially firewood – both widespread in Latvia – cause a substantial local pollution when used in the heating of private houses or other small areas, whereas natural gas essentially does not cause such pollution.



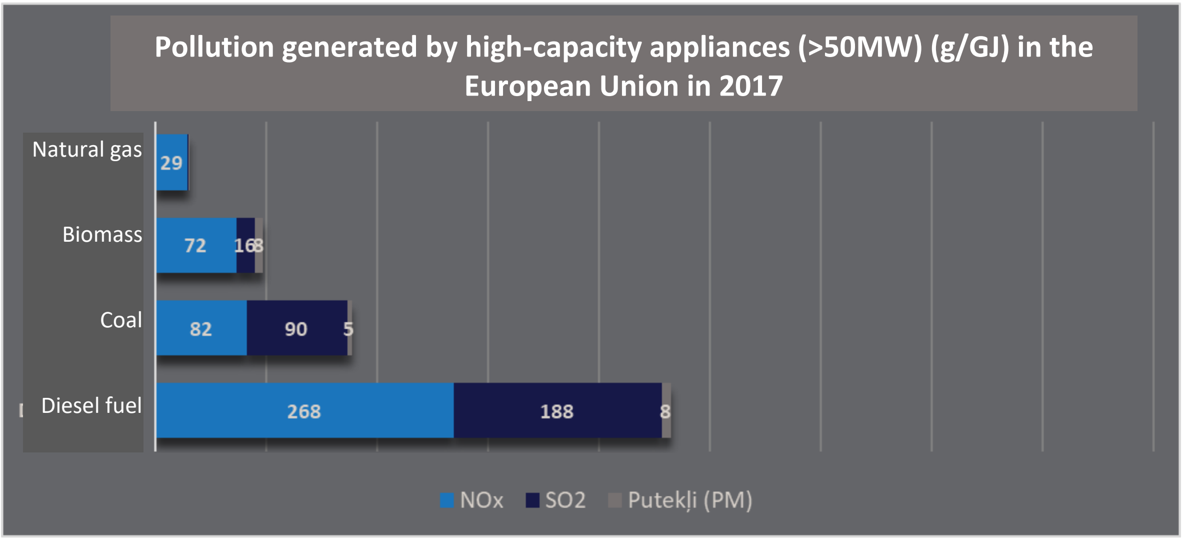
Source: European Environment Agency, Small combustion, EMEP/EEA air pollutant emission inventory guidebook 2016

In terms of local pollution, the same goes for medium- and high-capacity appliances – natural gas generates a lower overall pollution than other fossil fuels or biomass.

[6] European Environment Agency, https://www.eea.europa.eu/publications/2-9167-057-X
[7] European Environment Agency, https://www.eea.europa.eu/data-and-maps/indicators/emissions-of-primary-particles-and-5
[8] European Commission, Science for Environment Policy, Individual non-methane VOCs have large impacts on human health, 10 April 2014, Issue 369, https://ec.europa.eu/environment/integration/research/newsalert/pdf/369na5_en.pdf
[9] European Environment Agency, https://www.eea.europa.eu/data-and-maps/indicators/eea-32-nitrogen-oxides-nox-emissions-1
[10] European Environment Agency, https://www.eea.europa.eu/data-and-maps/indicators/eea-32-sulphur-dioxide-so2-emissions-1



Source: European Environment Agency, Small combustion, EMEP/EEA air pollutant emission inventory guidebook 2016



Source: European Environment Agency, https://www.eea.europa.eu/data-and-maps/daviz/evolution-of-environmental-performance-of-14#tab-dashboard-01

There is another kind of pollution brought by the burning process – heavy metals, dioxins, polychlorinated biphenyls (hydrocarbon and chlorine compounds) and other substances. In the energy sector overall, the emission of these substances does not pose a substantial harm to the environment and human health, but the scale of emissions differs greatly among different kinds of fuel. In order to acquire a general idea of the extent and impact of such pollution, one can take a look at the group of heavy metals and one hazardous substance – benzopyrene.

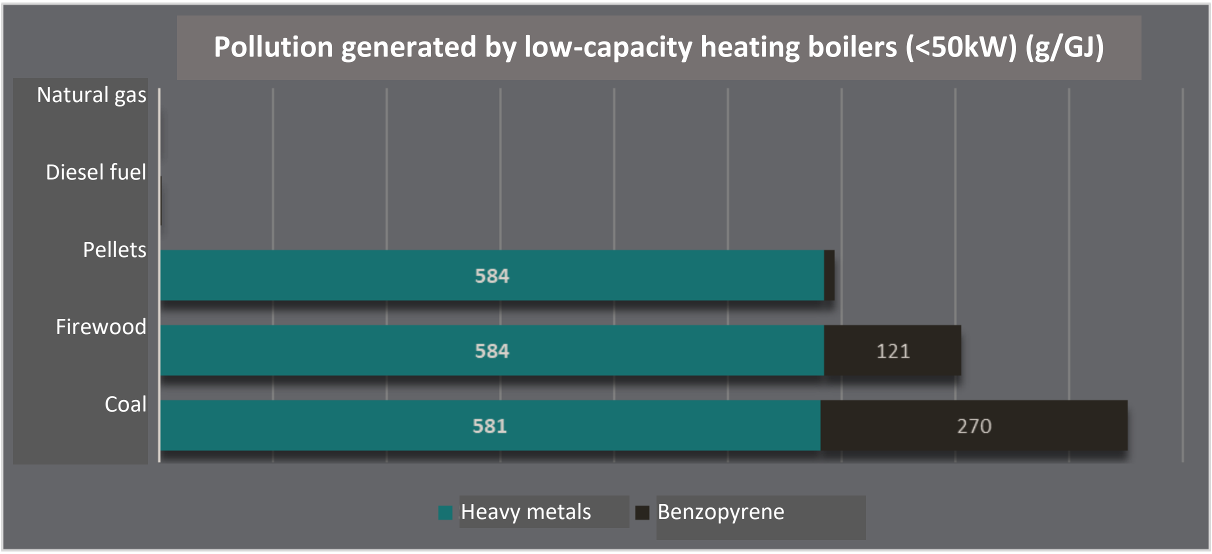
Heavy metals (lead, cadmium, mercury, arsenic, chromium, copper, nickel, selenium and zincs) affect ecosystems where they accumulate in the food chain and end up in the human body to the detriment health.[11] Overall, natural gas burning does not cause a considerable heavy metal pollution on an individual or national scale, as the emission of heavy metals

[11] European Environment Agency, https://www.eea.europa.eu/data-and-maps/indicators/eea32-heavy-metal-hm-emissions-1/assessment-9

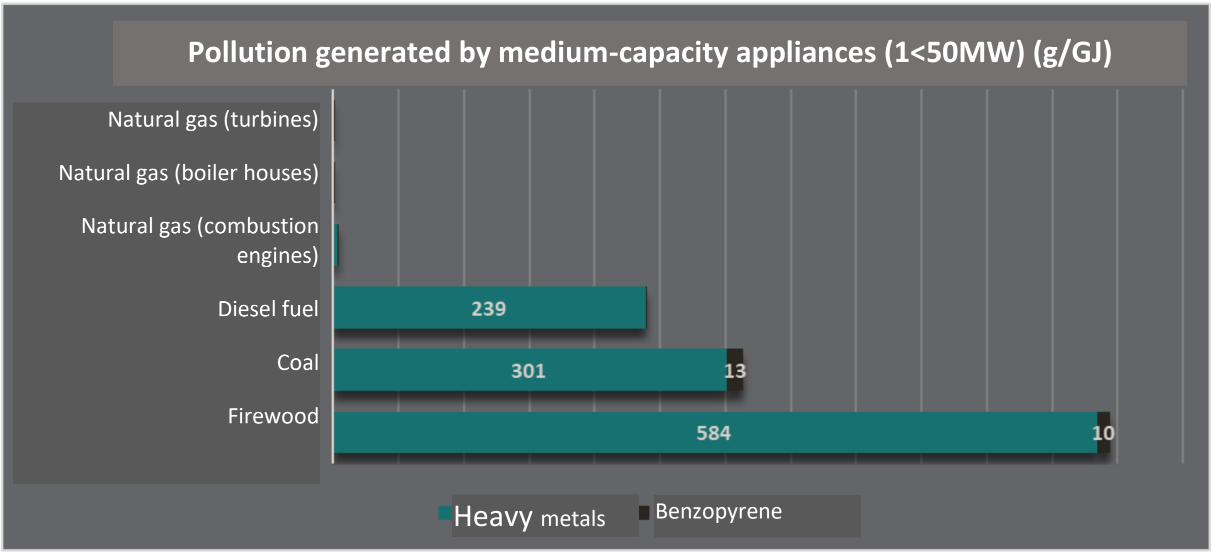
depends directly on the presence of these metals in the raw material and there is very little of them in natural gas.

Benzopyrene (C20H12) affects human health, for instance, as a cancerogene[12]. Hence, there is attention paid to its emissions. Overall, natural gas burning does not cause a considerable benzopyrene pollution on an individual or national scale.

As shown in the charts, natural gas essentially does not cause heavy metal and benzopyrene pollution, and the same is true in respect of emissions of other substances. The burning of biomass, in turn, results in pollution of heavy metals, benzopyrene, and other elements.



Source: European Environment Agency, Small combustion, EMEP/EEA air pollutant emission inventory guidebook 2016



Source: European Environment Agency, Small combustion, EMEP/EEA air pollutant emission inventory guidebook 201

[12] https://pubchem.ncbi.nlm.nih.gov/compound/benzo%28a%29pyrene

OPERATION AND POLLUTION OF NATURAL GAS DISTRIBUTION NETWORKS

POLICY AND RISKS

Overall, apart from emissions, the operation of the previously built distribution system has a negligible environmental impact, as the deforestation of protective zones and the cutting of trees takes place during the construction of system facilities and gas pipelines are predominantly located in accessible places outside forests. The key risks of environmental impact lie in natural gas emission from the distribution system. There are three ways how natural gas from the distribution system ends up in the atmosphere: regular losses from the distribution networks, during repairs, and upon accidents. The most substantial pollution occurs in the first scenario. There are no harmful chemicals used, no natural resources used, and no material amounts of waste generated in the operation of the natural gas distribution system. Gas pipeline tightness tests use nitrogen which is lighter than air and therefore vented out.

However, natural gas is a dangerous product when used improperly – the potential danger of natural gas is one of the key aspects in the work of the JSC “Gaso”. It is therefore one of the main tasks of the JSC “Gaso” to instruct people on proper conduct in the event of an accident or threat thereof. Lack of knowledge on the physical properties and use of natural gas may cause adverse consequences to consumers themselves and their property and an increased number of emergency calls and accidents to the JSC “Gaso”. Natural gas is inflammable, explosive and asphyxiant in enclosed spaces. In the event of natural gas leakage, methane release occurs.

The operation of the natural gas distribution system within the meaning of the law “On Pollution” does not constitute a polluting activity and does not require a pollution permit of category A, B or C or a GHG emission permit.

MEASURES

There is only one distribution system operator active throughout the territory of Latvia, taking care of the operation of the system and the elimination of accidents. This has a number of advantages. Firstly, there is a single Emergency service phone number for natural gas system users. Secondly, all processes are managed in a centralised manner which makes it easier to cooperate with different services and local governments in emergency situations. Thirdly, this allows for an efficient planning of routine events, such as maintenance works, equipment, vehicles etc.

Information on the safety measures to be taken when using natural gas and guidelines on the proper use of gas appliances and instructions for emergency situations are provided on the JSC “Gaso” website and the major media and distributed in the form of booklets. The JSC “Gaso” takes part in events held by local governments, public organisations and operational services to raise public awareness of the safe usage of natural gas. There are educational events held regularly at schools and various forums. The danger and composition of natural gas, conduct in the event of accidents, and other crucial information is published in the *Natural gas safety data sheet*.

A “Gaso gas school” has been established – lectures on the origin, use, appliances and danger of natural gas for three different age groups of children, an interactive mobile stand

and informational materials. In 2021, due to the circumstances related to COVID-19, the operations of „Gaso gas school" were rearranged and, taking advantage of the opportunity to address the pupils remotely, there were nine "Labā gāze" ('Good Gas') lessons delivered, with several thousands of pupils receiving a "Gaso gas school" booklets in the shape of a gas stove. In cooperation with the Gaso Training Centre, six informational "Gāzes ABC" ('Gas ABC') videos have been produced, addressing topics such as different gases, danger, safety, action. A number of additional informational videos are planned in 2022 regarding the advantages and dangers of natural gas. The clips will be used during the remote events of "Gaso gas school", at the customer service centre of the JSC "Gaso", and published on the websites of the JSC "Gaso" and other emergency services and on social media. In 2022, remote lessons of "Gaso gas school" will also be held in cooperation with „Skolas soma" and „Iespējamā misija", and there are safety booklets set to be distributed.

For many years, the company has been using technologies that allow installation and repairs of natural gas connections to be done with a negligible release of natural gas into the atmosphere. The technical monitoring of the natural gas distribution system takes place regularly, as do audits and tightness tests of internal pipelines.

At the Riga unit of the JSC "Gaso", which is in charge of more than a half of natural gas consumers, there is a separate emergency service, while other regional units have separate emergency teams. In addition to the common emergency phone 112, there is a dedicated natural gas emergency number 114 where calls are forwarded to the call operators of the Emergency Service of the JSC "Gaso".

Emergency calls and solution of emergency situations are free of charge for consumers.

The Emergency Service and local natural gas supply units of the JSC "Gaso" are under contract with the operational services and communication holders on cooperation in emergency situations. Where there is disruption to a centralised natural gas supply to multiple consumers at a time, the JSC "Gaso" notifies the customers.

The employees of the Emergency Service and the teams regularly undergo certification. Every year there are approximately 400 test calls made that include training together with other operational services. The employees are equipped with modern devices for the detection of gas leakages and the elimination of consequences.

CHEMICAL SUBSTANCES AND WASTE

POLICY AND RISKS

The Group generates various kinds of waste in the course of its business – municipal, constructional, biological, hazardous, and environmentally harmful. However, the hazardous waste is associated with the use of domestic goods – batteries, motor oils, hazardous electrical appliances etc., while the Group's direct business – the construction and running of the natural gas distribution system, and trading in natural gas – does not generate hazardous waste.

The JSC "Gaso" has three environmental pollution permits of category C – for the boiler houses heating the premises of the company's regional units in Riga, Bauska and Ogre. The JSC "Latvijas Gāze" has one – for the boiler house at 6 Aristida Briāna Street, Riga.

When it comes to waste management, the regulatory requirements are met, but in some areas a goal has been set to reduce the amount of waste, for instance, by reducing the circulation of paper through implementing an electronic document circulation system.

MEASURES

Every year there is data submitted to the State Environmental Service on the pollution of category C generated by boiler houses. Quarterly reports are made on the hazardous waste (such as accumulators) and packaging used in business, for which the Group pays natural resource tax.

The following hazardous waste is sorted and separately submitted for recycling: computer hardware, scrap metal, construction materials, tyres and batteries. Paper and plastic, too, is sorted and submitted for recycling.

PERFORMANCE INDICATORS

VIOLATIONS

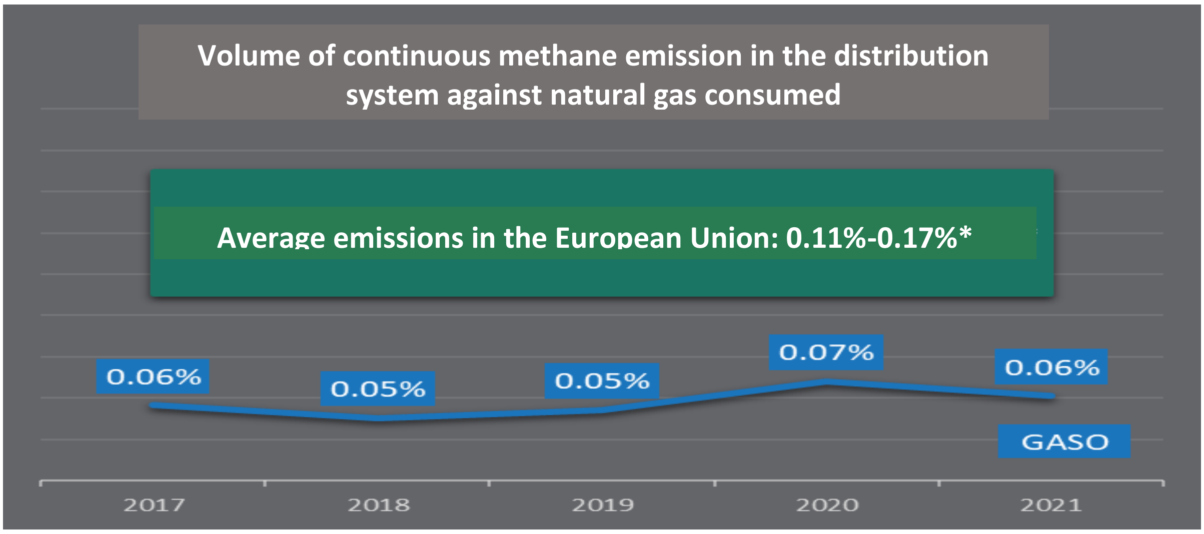
In 2021, there were no complaints received, including from whistleblowers, over environmental infringements. Nor were there infringements found by the supervisory institutions. No substantial environmental harm has been inflicted and no areas have been deforested in the course of construction and running of the distribution system.

METHANE LOSSES IN THE DISTRIBUTION SYSTEM (COMPARISON WITHIN THE INDUSTRY)

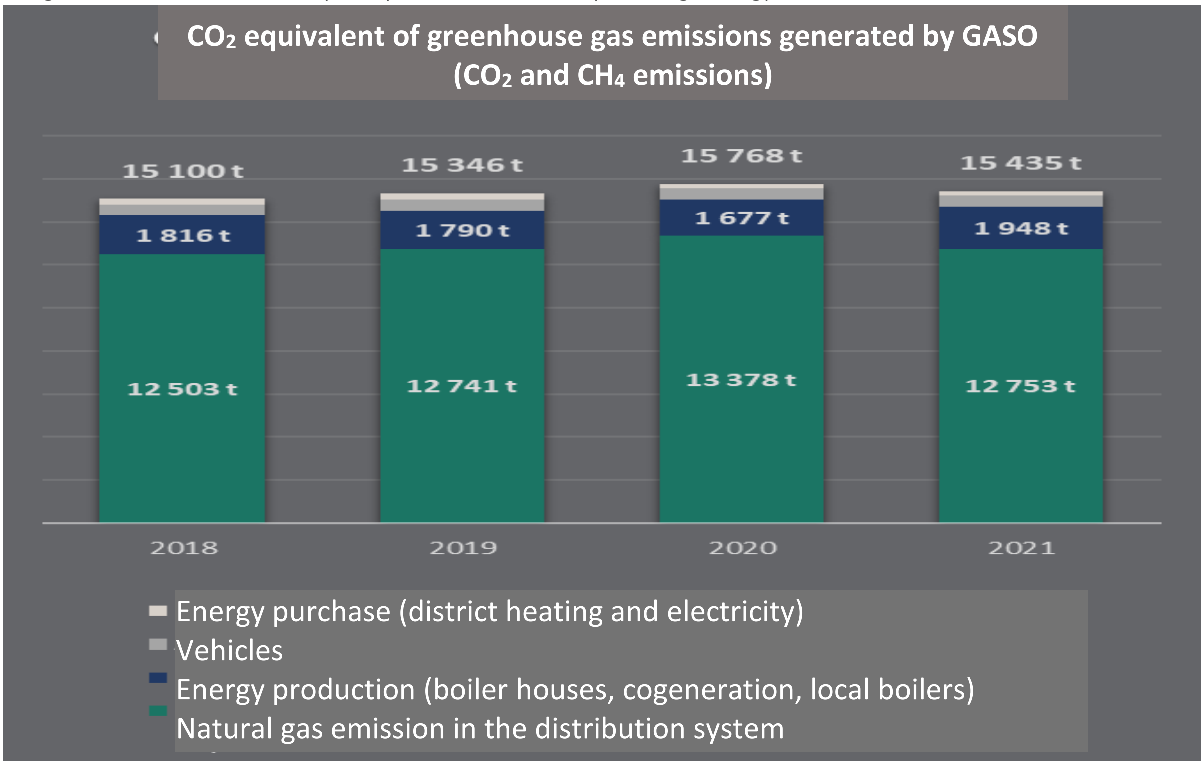
Methane, or natural gas, is a greenhouse gas. Compared to other European Union member states, Latvia generates low emissions of GHG as a whole, and the same goes for methane individually. The calculated amount of methane emission in the Latvian natural gas distribution system is approximately 2-3 times below the EU average. As natural gas emission from the distribution system is inevitable, only emissions above the EU average would represent a bad result.

The increase in the proportion of methane emission in 2021 stems from the decrease in the natural gas supply volume while the regular emissions changed very little.

Amount of methane emission in the JSC “Gaso” distribution system against natural gas consumed



* Technical Association of the European Natural Gas Industry MARCOGAZ; *Survey methane emissions for gas distribution in Europe, Update 2017*, 2018 (marcogaz.org)



The carbon footprint of the JSC "Gaso" primarily stems from the release of natural gas (methane) into the atmosphere (a CO_2 equivalent factor of 25 has been used for methane in the calculations).

The own-produced heat is much more environmentally friendly that the one supplied.

Overall, the JSC "Gaso" has a small carbon footprint given the relatively low natural gas losses in the system and the use of natural gas in own energy production and vehicles.

The increase in CO_2 emissions in 2021 results from the damage inflicted by third parties (gas pipeline rupture while digging trenches, during construction works etc.).

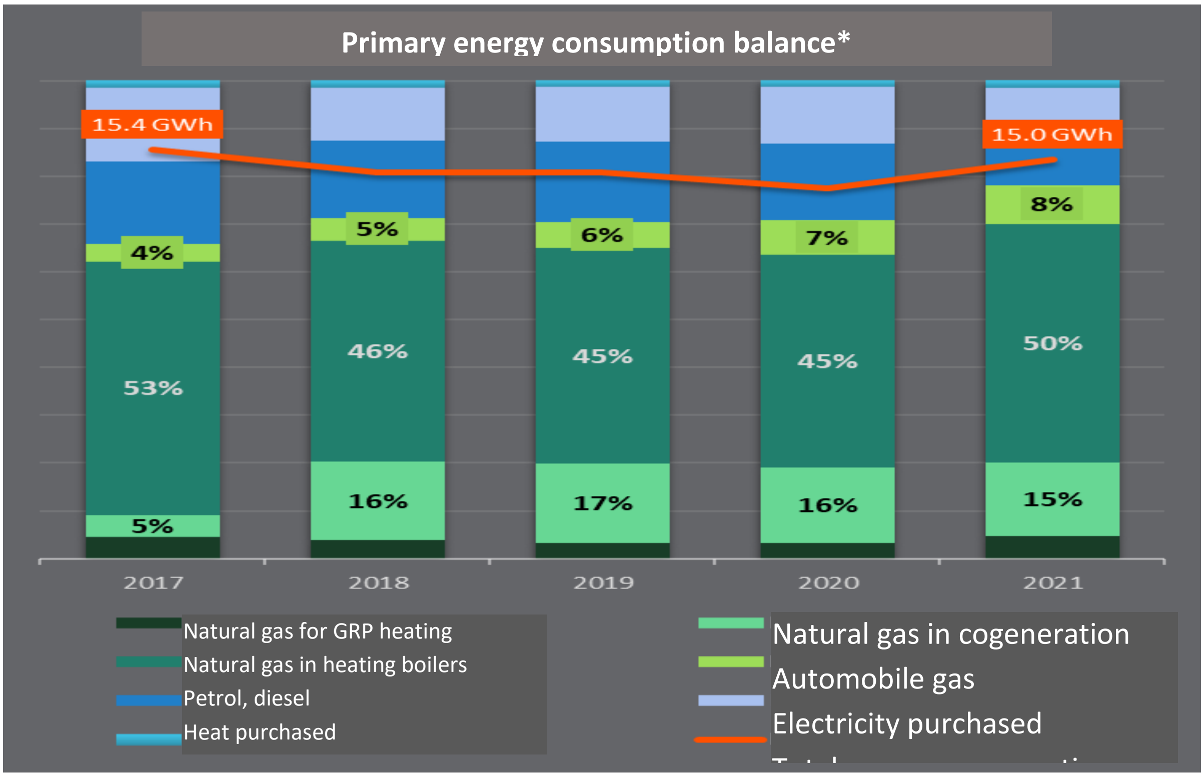
PRIMARY ENERGY CONSUMPTION BALANCE

The Group sees natural gas as a resource for a green and financially efficient housekeeping and therefore purposefully increases the use of natural gas for own consumption. Since 2016, the share of natural gas in the primary energy consumption basket has grown from 64% to 71%.

In 2021, the JSC "Gaso" itself produced of natural gas 97% of its consumed heat and 31% of its consumed electricity. Natural gas also accounted for 45% in the vehicle consumption balance, which is a substantial rise from 18% in 2017.

Overall, natural gas accounted for 78% in the primary energy consumption balance of the JSC "Gaso" in 2021, which is a substantial rise from 66% in 2017.

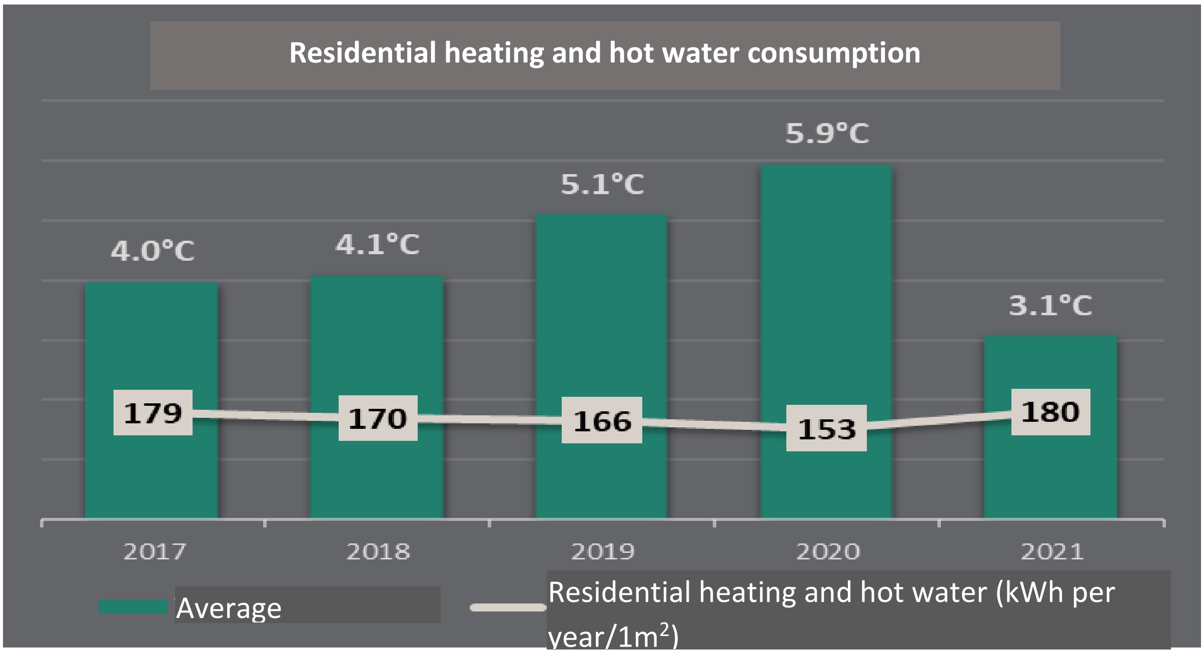
The Group also invests in the energy efficiency of buildings and equipment, which contributes to a lower or more efficient consumption. The total energy consumption has decreased by 3% since 2017. It should be noted, though, that there has been an increase against 2018-2019 due to changes in the outdoor air temperature and heating.



*The calculations for 2017 include the data of the trader and the DSO. The DSO's consumption in 2016-2017 accounted for over 90%. The primary energy consumption balance shows the energy quantity consumed, so the electricity and heat generated by the cogeneration plant is represented by the natural gas quantity consumed by the cogeneration plant.

RESIDENTIAL HEATING AND HOT WATER CONSUMPTION

A key role in residential heating and hot water consumption is played by thermal energy in the heating season. Data suggests that overall there is a correlation between the air temperature and the total consumption (a lower air temperature results in a higher consumption).

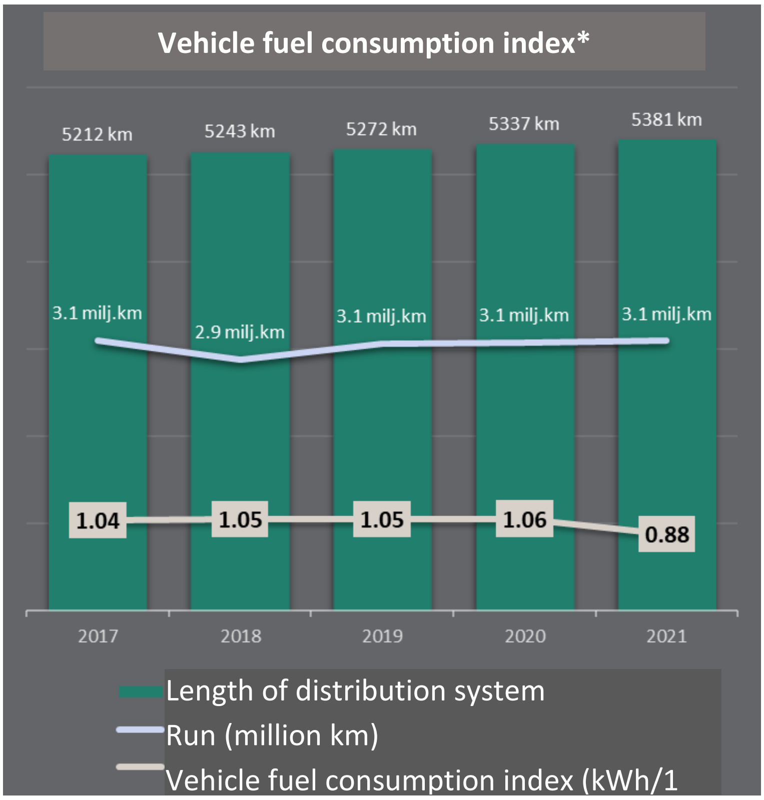


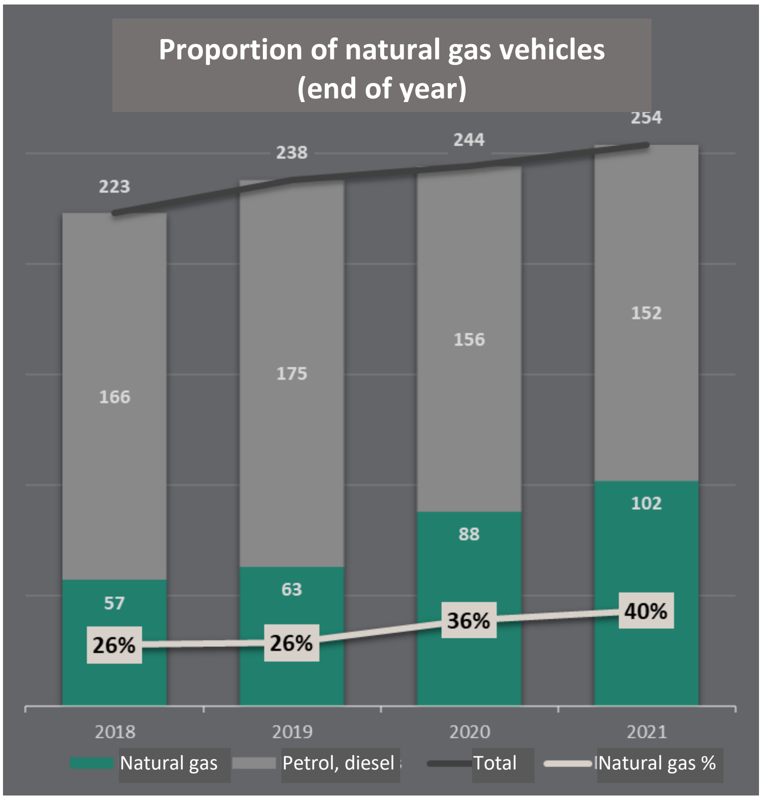
* Average air temperature in Latvia during the heating season (Jan-May and Sep-Dec); source: CSB

VEHICLE FUEL CONSUMPTION

The positive changes in the vehicle fuel consumption index in 2021 primarily stem from changes in the car fleet as a result of buying cars with smaller sized engines – for instance, switching from 1.6 l petrol engines to 1 l natural gas engines which consume less fuel for the same run.

In 2020 and 2021, the number of vehicles with natural gas engines has grown substantially (from 57 to 105), as has their proportion (from 26% to 40%). This also leaves a positive impact on the amount of both energy consumption (mostly due to engine size) and CO2 emissions (due to both engine size and natural gas).



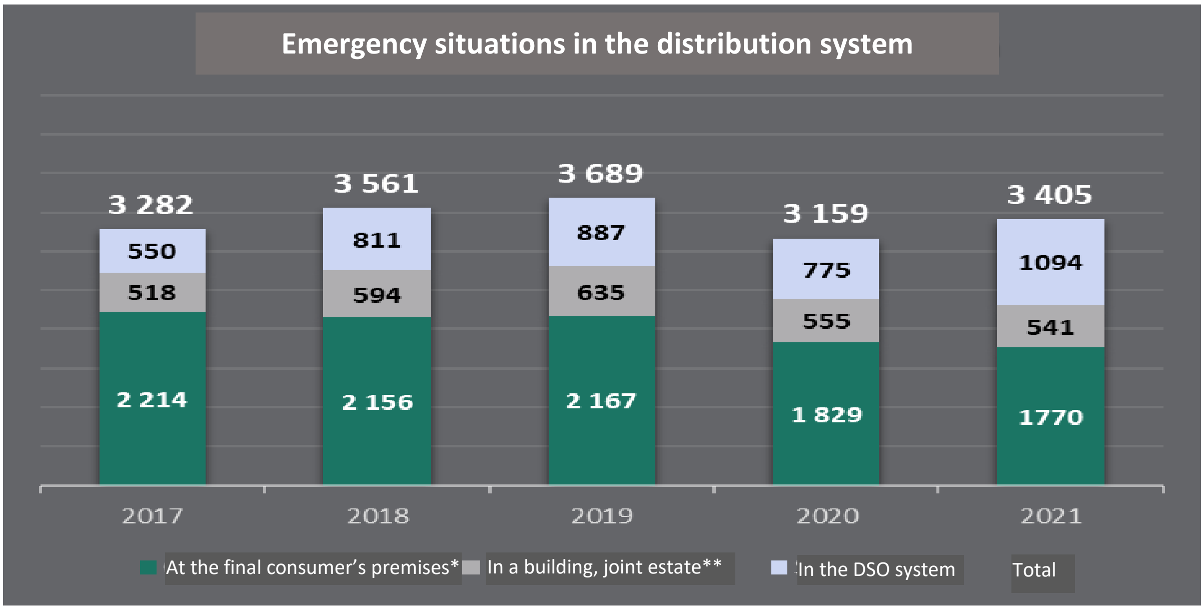


EMERGENCY SITUATIONS IN THE NATURAL GAS DISTRIBUTION SYSTEM

Since 2017, the number of final consumers has not changed much, yet the number of emergency calls has varied. The most part of emergency situations are damages to the equipment owned by final consumers. The number of those saw a gradual decrease, possibly due to several reasons, such as a gradual decrease in the number of apartment connections, consumers installing more modern hardware or being better informed how to handle natural gas etc.

The number of emergency situations in joint estates and the DSO system is highly variable regardless of other known circumstances.

Accidents (emergency situations with severe consequences) in the distribution system occur very rarely overall.

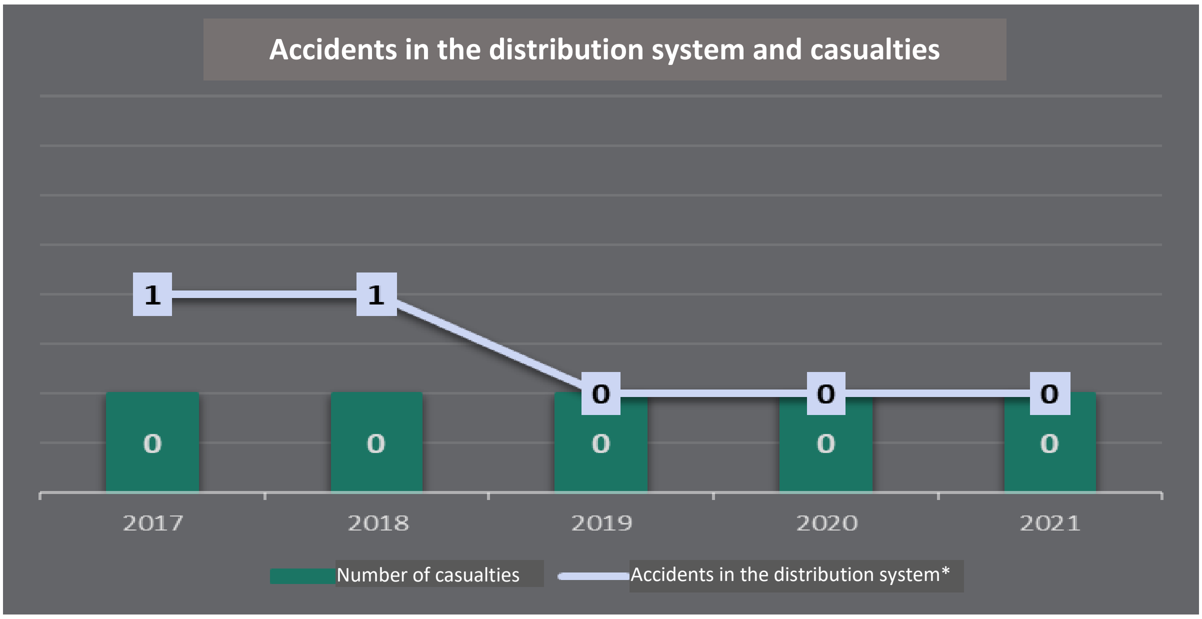


*Includes equipment whose operation falls under the final consumer's responsibility – the natural gas consumption meter, shut-off devices, natural gas hardware and gas pipelines within the final consumer's premises

** Includes facade gas pipelines at individual and apartment houses as well as riser and internal pipes up to the meter at apartment houses

ACCIDENTS IN THE DISTRIBUTION SYSTEM AND CASUALTIES

Overall there are very few accidents (emergency situations with severe consequences) in the distribution system. In 2019, 2020 and 2021, there were no emergency situations in Latvia that qualify as accident.



*Accidents are understood as situations where natural gas has caused a fire, an explosion, where there have been substantial supply disruptions, a substantial harm to the environment, where premises have been filled with gas above the lower threshold of explosion hazard or there are human casualties.

INCIDENTS INVOLVING HAZARDOUS WASTE

During the reporting period, while replacing a high-pressure shut-off device, there were residues of oil products (23 m^3) found in a natural gas distribution system pipeline and subsequently disposed of. There were no other incidents involving hazardous waste.

ANTI-CORRUPTION

Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

COMPANY'S CULTURE, PROCEDURES AND MEASURES

POLICY AND RISKS

Compliance with the regulatory requirements is one of the cornerstones of the Group's corporate governance and encompasses implementation of anti-corruption requirements. The Group does not engage in corruption or commercial bribery, fully condemns such actions, and makes a clear statement thereof to its customers, partners and employees through this report and the *Employees' Code of Conduct and Business Code of Conduct*. The ethical principles enshrined in the said codes are binding to all employees of the Group, and the Group also urges its partners to observe equivalent principles.

When it comes to procurements regarding captive household consumers, the JSC "Latvijas Gāze" and the JSC "Gaso" are public utilities and apply procurement procedures in respect of supplier selection pursuant to the Law On Procurements of Public Service Providers if the expected contract price is above the threshold set by the Cabinet of Ministers. With supplies of goods and services where the expected contract price is below this threshold, the companies apply their internal regulatory framework which lays down a detailed procedure of supplier selection, ensuring process transparency.

The Group's general approach envisages no use of intermediaries where the Group has the required competence, while agents and advisors are only hired for clear purposes defined in mutual contracts (debt collection etc.).

There is an internal regulatory framework applied whereby multiple people are involved in decision-making, thus reducing corruption risks in procurements or supplier selection and in the rendering of services. Currently being the sole provider of natural gas distribution system services, the JSC "Gaso" is aware of the risks associated with decisions on building the infrastructure necessary for customers, giving permissions etc.

Overall, potential risks of commercial bribery are present in two areas – services provided and procurements. Crucially, as concerns natural gas distribution and natural gas trading to households, these services are fully regulated by the state, including common service tariffs. Hence, the risks associated with corrupt dealings involving these services are very low.

Risks also exist in the provision of technical services of the natural gas distribution system, but, again, major decisions are not taken by one person, there are specific procedures and documentation of service provision and costing, as well as internal control mechanisms. In order for a poor bid selection in tenders not to adversely affect the company's reputation, effectiveness and service prices, the field of procurements has always been subject to detailed regulation for a transparent process of supplier selection, decision-making, contract award and performance control. The measures implemented by the company substantially reduce the risks of commercial bribery.

MEASURES

There are specific internal procedures and requirements in place that substantially reduce the risks of corruption and commercial bribery. As part of good corporate governance, particular attention is devoted to precluding corruption or commercial bribery in every facet of business in respect of both services provided and services received.

Under the Articles of Association of the JSC "Latvijas Gāze", the company is to be represented by the Chairman of the Board or by at least two Members of the Board together. In the case of the JSC "Gaso", at least two Board members are required for representation.

The JSC "Gaso" has set up standing and *ad hoc* procurement commissions. Open tenders are announced on the company's website and through the Procurement Supervision Bureau's system. The outsourced electronic procurement system MERCELL is now used with most procurements. It gives more transparency and an electronic control over tender stages and information flows, mitigating the risks of unwarranted intervention in the processes.

The companies within the Group have drawn up a procedure of drafting, conclusion, performance, control and storage of contracts. In 2021, the JSC "Gaso" drew up and approved a procurement organisation procedure.

Both financial and human resources are allotted towards maintaining the Group's compliance with the regulatory requirements and reducing the probability of the risks of non-conformity materialising. The Group regularly and actively keeps track of legislative changes using the public participation options in the process of drafting of regulatory enactments, attends public meetings, and cooperates with the responsible authorities. The Group takes an active part in the work of both major organisations of Latvian entrepreneurs – the Latvian Confederation of Employers and the Latvian Chamber of Trade and Commerce. Furthermore, there are internal regulatory documents for operational compliance drawn up and maintained.

As an issuer of publicly traded shares, the JSC "Latvijas Gāze" is subject to and strictly observes a number of requirements in respect of transparency and openness of corporate governance and circulation and disclosure of inside information.

Given the increased attention paid to Latvia in the context of compliance with global economic sanctions and prevention of money laundering, the Group has followed the statutory procedure in disclosing information on the ultimate beneficial owners, assessed the risks of sanctions and money laundering, and prepared a *Sanction risk policy* and a Sanction risk assessment covering international and national sanction risks. In this regard, the JSC "Latvijas Gāze" as a company listed on stock exchange (participant of the financial market) is monitored by the Financial and Capital Market Commission.

The JSC "Latvijas Gāze" has approved an updated general *Risk management policy* with a view to support the company's Council, Board, heads of structural units, and employees in running an effective risk management system. It defines a variety of strategic, operational and compliance risks as material to the company and lays down specific service provision and costing procedures and documentation, and establishes internal control mechanisms for identifying and managing such risks.

The Group has implemented a whistleblowing scheme enabling anyone to report possible compliance issues without fear of identification.

PERFORMANCE INDICATORS

VIOLATIONS

In 2021, there were no complaints received, including from whistleblowers, over possible infringements in the field of corruption, commercial bribery, procurements, conflicts of interest, sanctions and money laundering or competition, or manipulations on the natural gas wholesale market, and no such cases were found. There are no legal proceedings against the JSC “Latvijas Gāze” and/or the JSC “Gaso” resolved in 2021 or currently pending over anti-competitive or competition-restrictive behaviour.

TRAINING

In 2021, all employees of the JSC “Latvijas Gāze” were provided in-person training on the whistleblowing system and possibilities as well as on the main duties of the employees of the company as issuer of publicly traded shares. The employees subject to monitoring for compliance with sanctions were provided a number of courses on the system of sanctions and money laundering prevention and the measures and actions to be taken.

INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Shareholders of AS "Latvijas Gāze"

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of AS Latvijas Gāze (the "Company") and its subsidiary (together – "the Group") as at 31 December 2021, and of the Company's and Group's separate and consolidated financial performance and the Company's and Group's separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee on 20 April 2022.

What we have audited

The Company's separate and the Group's consolidated financial statements (together: the "financial statements") comprise:

- the separate and consolidated statements of profit or loss for the year then ended 31 December 2021;
- the separate and consolidated statements of comprehensive income for the year then ended;
- the separate and consolidated balance sheets as at 31 December 2021;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated statements of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on Audit Services.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiary are in accordance with the applicable law and regulations in Republic

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of Latvia and that we have not provided non-audit services that are prohibited under Article 37.[6] of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Company and its subsidiary, in the period from 1 January 2021 to 31 December 2021, are disclosed in Note 28 to the financial statements.

Our audit approach

Overview

- Overall Company materiality: EUR 5,302 thousand.
- Overall Group materiality: EUR 5,833 thousand.

- We conducted a full scope audit of the Company and its subsidiary, both of them are in Latvia.
- Our audit scope covered 100% of the Group's revenues and 100% of the Group's total assets.

- Revenue recognition (the Group and the Company)
- Fair value measurement of derivative financial instruments (the Group and the Company)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company and Group materiality separately for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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Overall Company and Group materiality	Overall materiality applied to the Company was EUR 5,302 thousand and overall materiality applied to the Group was EUR 5,833 thousand.
How we determined it	Approximately 1% of net turnover of the Company and the Group, respectively.
Rationale for the materiality benchmark applied	We chose net turnover as the base benchmark because, in our view, it is the benchmark against which the performance of the Company and the Group is most commonly measured by users of the financial statements, considering that the Company's and the Group's profit has significantly fluctuated in recent years and is no longer a determining factor in financial performance. For revenue we have chosen 1% which, based on our judgement, is within the range of acceptable quantitative materiality thresholds for this benchmark for a public interest entity.

We agreed with the Audit Committee that we would report to them the misstatements identified during our audit above EUR 530 thousand for the Company and EUR 583 thousand for the Group, as well as the misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition (the Group and the Company) As disclosed in Note 2, during the year the Group has recognised revenue of EUR 583 million from which EUR 527 million is related to the sale of natural gas, EUR 54 million is derived from regulated natural gas distribution services, and remaining EUR 2 million represents other revenue streams. As disclosed in Note 2, the Company's revenue from sale of natural gas constituted EUR 528 million and EUR 3 million represents other revenue streams. Determining the appropriate accounting policies for recognition of revenue involves some judgement as explained below. As disclosed in Note 2 with regard to Company's revenue from sale of natural gas for 2021 approximately 95% are sales to corporate customers and 5% of revenues are derived from households. As described in notes 26 and 27, the Company, a gas trading operator, considers itself as an agent in relation to the supply of natural gas	We assessed the design and operating effectiveness of the controls over revenue recognition. We have compared, on a sample basis, the revenue recognised to amounts invoiced to corporate customers and the subsequent receipt of payment from those customers. As well as compared the prices in corporate client's contracts and in issued invoices. With respect to revenue from wholesalers, we obtained turnover confirmations from the major clients at invoice level. For selected amounts receivable that were outstanding at the end of the year, we confirmed the balance with customers, and where no confirmation was received, reconciled the amounts to subsequent cash receipts.

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transmission and distribution services to the end customers. The Group is considered to be an agent in respect of natural gas transmission services. In addition, based on management's assessment, the excise tax does not form a part of revenue and, instead, the Company and the Group acts as a collection agent, in collecting the excise duty on behalf of the Government. Management judgments on whether the Company and Group act as a principal or an agent, significantly affect the determination of the amount of revenue from contracts with customers.

Management also exercises certain degree of judgement when estimating gas trade revenue for quantities delivered, but not yet billed to household customers, who settle their debts according to equalized payment schedules. Such revenue is determined using an established methodology within the Company and the Group. The judgement explained above also relates to the distribution revenue derived from the household customers of the Company and the Group.

Revenue recognition requires significant time and resources to audit due to the magnitude, therefore we have determined this as a key audit matter.

With respect to unbilled revenue to households, we tested management's assumptions in relation to consumption by reference to historical data as well as specific current year factors, including weather patterns. On a sample basis, we reconciled unbilled revenue to the subsequently billed revenue, and reconciled billed revenue to subsequent payments.

With regard to significant judgments made by the management in determination of whether the Company or the Group act as an agent or principal, we considered the indicators in the context of updated guidance provided in IFRS 15. As a part of our analysis, we considered the facts and circumstances surrounding the provision of services in question, such as, primary responsibility for fulfilling the promise to provide the specified good or service; bearing of inventory risk before the specified good or service has been transferred to a customer, and discretion in establishing the prices for the specified goods or services.

We reviewed the disclosures of key assumptions included in Notes 2, 26 and 27 to determine whether they meet disclosure requirements of IFRS.

Fair value measurement of derivative financial instruments (the Group and the Company)

As disclosed in Note 23, the Company and the Group has recognised loss from derivative financial instruments of EUR 190 million in 2021. EUR 82 million relates to net loss from realised derivative financial instruments deals and EUR 108 million relates to net loss from unrealised derivative financial instruments deals, which are open as at 31 December 2021 with a maturity date in 2022. Derivative financial instruments concluded by the Parent company of the Group consist of natural gas swap agreements. Derivative financial instruments are measured at fair value at the end of each reporting period or at transaction settlement date and accounted at fair value through profit or loss.

Considering the inherent risk of uncertainty related to significant estimates made by the Board of the Parent company of the Group, as well as the significance of these transactions on the financial statements, we considered this to be a key audit matter.

We assessed the design and operating effectiveness of the controls over derivative financial instruments recognition.

We confirmed open derivative financial instruments as at 31 December 2021 with counterparties, which are calculation agents.

We tested the valuation of open derivative financial instruments deals as at 31 December 2021 on a sample basis, by performing an independent valuations of derivative financial instruments at fair value, with support of PwC's internal valuation experts, and comparing them with results of the Company's and the Group`s valuations. We assessed the differences in the fair value measurement of derivative financial instruments between independent PwC valuations and the valuations prepared by the Parent company of the Group. In cases where the obtained results differed from those calculated by the management of the Parent company of the Group, we assessed whether these differences are within acceptable ranges, taking into account the estimates of future gas prices in the valuation.

We assessed the correctness of classification of open derivative financial instruments in the balance sheet.

For selected transactions of realised net loss from derivative financial instruments we reconciled with the subsequent invoices received from counterparties.

We reconciled the unrealised net loss from derivative financial instruments to balance sheet accruals for derivative financial instruments.

We reviewed the disclosures included in Notes 23 and 24 to determine whether they meet the disclosure requirements of IFRS.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We are the statutory auditors of the Group's only subsidiary, Joint Stock Company GASO. For the purposes of the Group audit, we performed a full scope audit of the Company and Joint Stock Company GASO thus covering 100% of the Group's revenues and total assets.

Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises:

- the Management Report of the Company as set out on pages 16 to 24 of the accompanying Annual Report
- the Statement of the Board Responsibility as set out on page 25 of the accompanying Annual Report,
- the Statement of Corporate Governance, set out in separate statement prepared by the Company's management and available on the Company's website http://www.lg.lv/ as at the date of this audit report,
- the Remuneration report, set out in separate statement prepared by the Company's management and available on the Company's website http://www.lg.lv/ as at the date of this audit report,
- the Information on the Composition of the Council and the Board of the Company, as set out on pages 5 to 6 of the accompanying Annual Report,
- the Consolidated Non-financial Report as set out on pages 78 to 113 of the accompanying Annual Report, and

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- other disclosed information including Summary Information on the Group, Information on Strategy and Objectives of the Group, the Group`s focus, Shares and Shareholders of the Company, Group`s facts and figures as set out on pages 7 to 15 of the accompanying Annual Report,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information identified above.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Management Report of the Company, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report of the Company is prepared in accordance with the requirements of the applicable legislation.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in accordance with Article 56.[1], section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.[2], section 2, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.[2], section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 59.4 of the Financial Instruments Market Law.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Management Report of the Company has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia; and
- the Statement of Corporate Governance, available on the Company's website http://www.lg.lv/ as at the date of this audit report, includes the information in accordance with Article 56.[1], section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.[2], section 2, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.[2], section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.
- the Remuneration Report, available on the Company's website http://www.lg.lv/ as at the date of this audit report, includes the information in accordance with Article 59.4 of the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Consolidated Non-financial Statement, our responsibility is to report whether the Group has prepared the Consolidated Non-financial Statement and whether the Consolidated Non-financial Statement is included in the Management Report or prepared as a separate element of the Annual Report.

We hereby report that the Group has prepared a Consolidated Non-financial Statement, and it is prepared as a separate element of the Annual Report.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material

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misstatements in the Management Report of the Company or other information identified above that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged based on our agreement by the Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements for the year ended 31 December 2021 (the "Presentation of the consolidated financial statements").

Description of a subject matter and applicable criteria

The Presentation of the consolidated financial statements has been applied by the Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Presentation of the consolidated financial statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the consolidated financial statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Board and those charged with governance

The Board of the Company is responsible for the Presentation of the consolidated financial statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the consolidated financial statements which is free from material non-compliance with the requirements of the ESEF Regulation.

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Those charged with governance are responsible for overseeing the financial reporting process, which should also be understood as the preparation of consolidated financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the consolidated financial statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 (R) - 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (ISAE 3000(R)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the consolidated financial statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000(R) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality control requirements

We apply the provisions of the International Standard on Quality Control 1 (IAASB) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the consolidated financial statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the consolidated financial statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

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Conclusion

In our opinion, based on the procedures performed, the Presentation of the consolidated financial statements complies, in all material respects, with the ESEF Regulation.

Appointment

We were first appointed as auditors of the Company and the Group for the audit of the financial statements for the year ended 31 December 1997. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 25 years. Our appointment for the year ended 31 December 2021 was by resolution of the general meeting of shareholders dated 15 June 2021.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Eva Jansen-Diener
Persona per procura

Jana Smirnova
Certified auditor in charge
Certificate No. 188

Riga, Latvia
20 April 2022

THIS DOCUMENT IS ELECTRONICALLY SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

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