LATVIJAS GĀZE GROUP CONSOLIDATED AND JSC "LATVIJAS GĀZE" UNAUDITED CONDENSED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2021

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

Riga 2022

CONTENTS

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

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

Juris Savickis, 1946
Member of the Council

Since 1996, President of LLC “ITERA Latvija”

Oliver Giese, 1967
Member of the Council

Since 2016, 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

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

Matthias Kohlenbach, 1969
Member of the Council

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

Hans-Peter Floren, 1961
Member of the Council

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

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

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

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

Since 2015, Head of Department 817 at PJSC “Gazprom

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

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

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 CO_2 emissions calculations. Based on established environmental policies and CO_2 emission calculations, Latvijas Gāze has planted 2,000 birches, thus offsetting 3 year CO_2 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 solution

SHARES AND SHAREHOLDERS OF THE JSC "LATVIJAS GĀZE"

SHARES AND SHAREHOLDERS

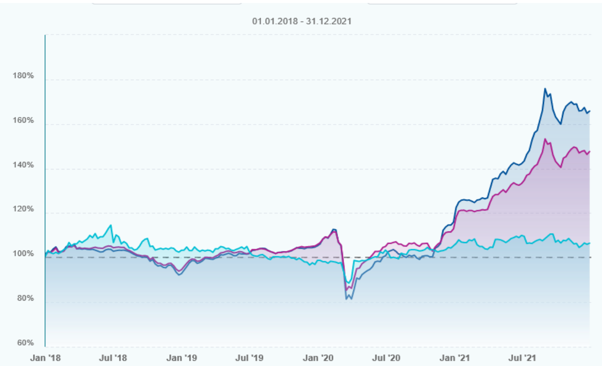
The shares of the JSC "Latvijas Gāze" are listed on the Nasdaq Riga stock exchange since February 15, 1999, and its ticker code is GZE1R since August 1, 2004. The total number of securities has not changed since 1999. The total number of shareholders of JSC "Latvijas Gāze" as of 31.12.2021 was 6 631.

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



INDEX | EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX_Baltic_Benchmark_GI	944.09	1,568.82	+66.17
OMX_Baltic_GI	763.02	1,129.11	+47.98
GZE1R - Latvijas Gāze	10	10.7	+7

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.

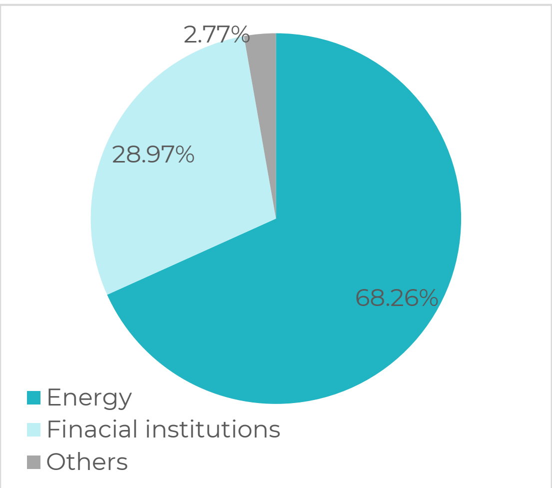
SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2018.-31.12.2021.)

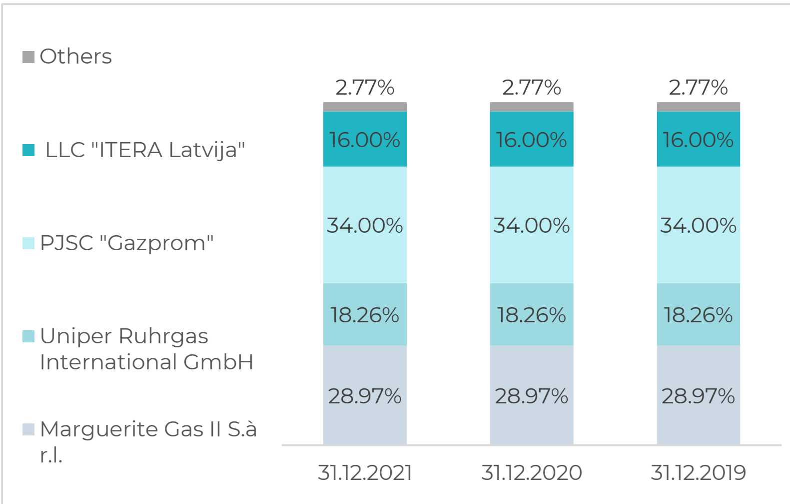
Source: Nasdaq Baltic

INFORMATION ON SHARE TRANSACTIONS (2019 –2021)

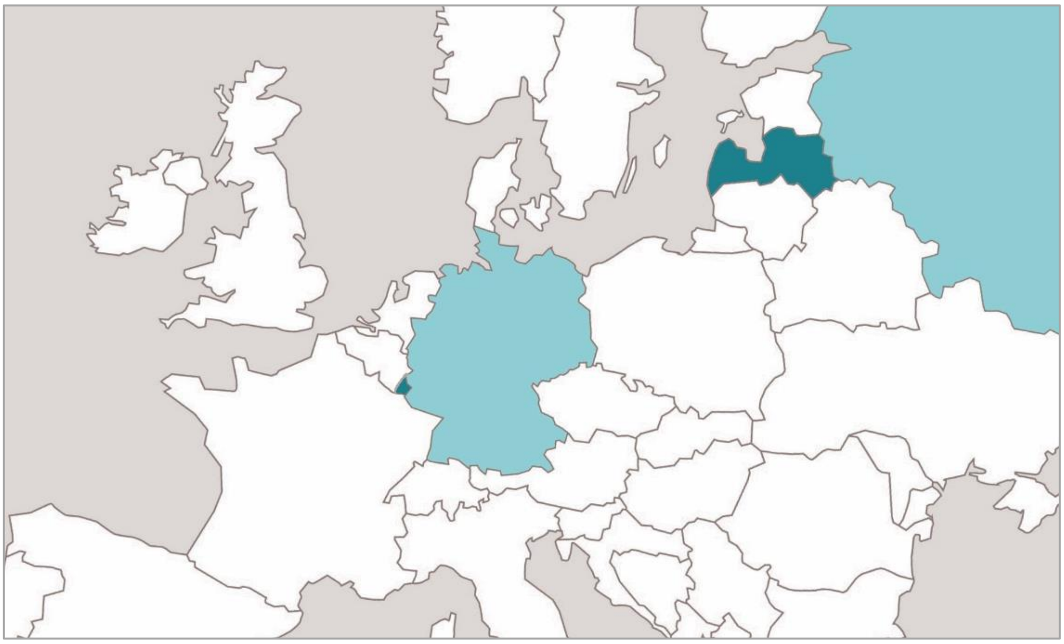
	2021	2020	2019
Share price (EUR)			
First	10.50	9.90	10.20
Highest	11.10	10.80	10.60
Lowest	10.10	8.10	9.60
Average	10.71	10.01	10.16
Last	10.70	10.50	9.90
Change (From First to Last share price)	1.90%	6.06%	-2.94%
Number of transactions	3 030	1 800	968
Number of shares traded	81 665	77 226	85 768
Turnover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



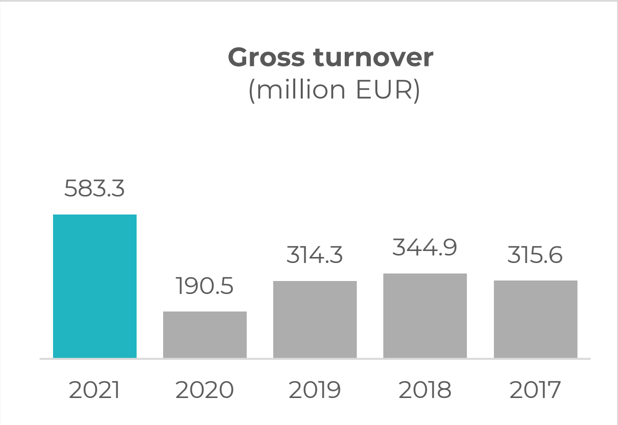
- Russia (PAS Gazprom)
- Luxembourg (Marguerite GAS I S.À R.L.)
- Germany (Uniper Ruhrgas International GMBH)
- Latvia (SIA Itera Latvija)

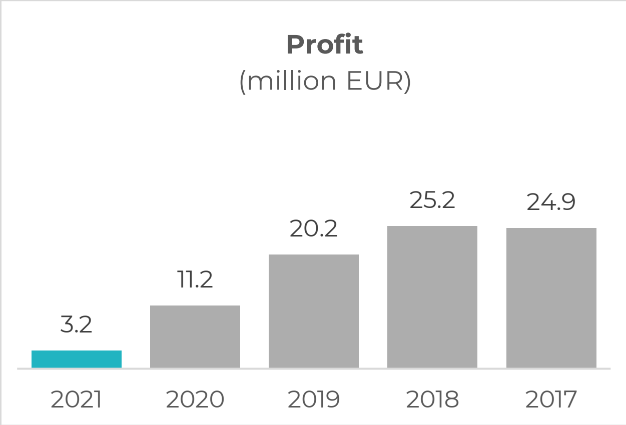
SHARES OWNED BY MEMBERS OF THE GOVERNING BODIES OF THE JSC “LATVIJAS GĀZE”

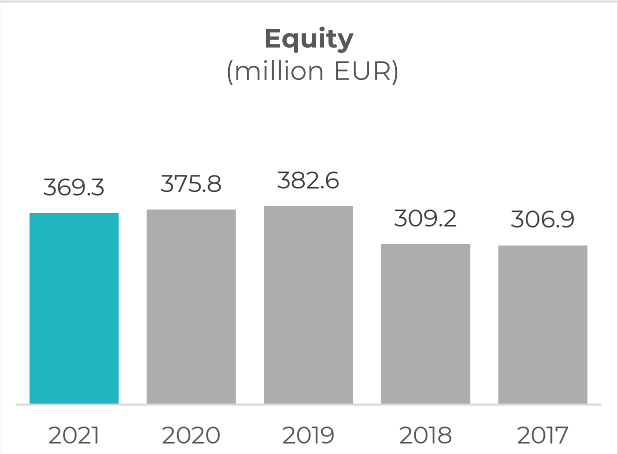
		At the date of signing financial statements
Management Board		**Number of shares**
Chairman of the Board	Aigars Kalvītis	None
Deputy Chairman of the Board	Denis Emelyanov	None
Member of the Board	Elita Dreimane	None
Member of the Board	Inga Āboliņa	None
Council		
Member of the Council	Kirill Seleznev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

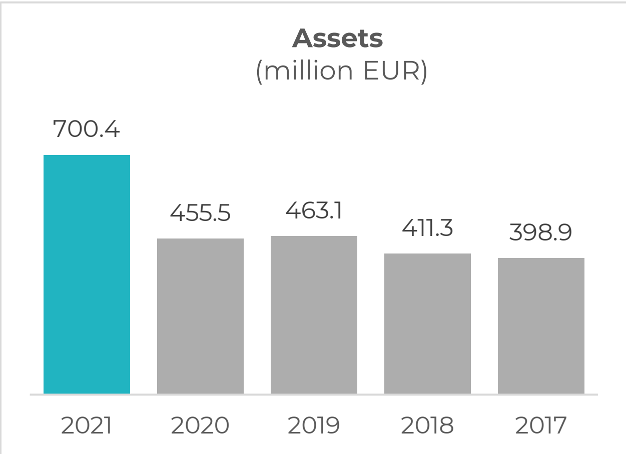
LATVIJAS GĀZE GROUP FACTS AND FIGURES

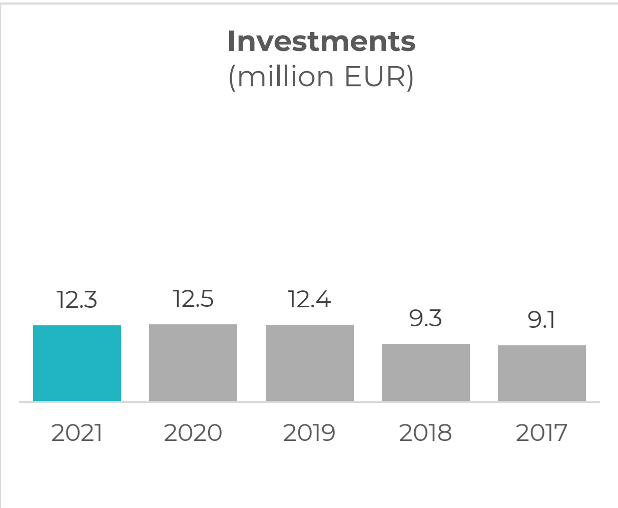
FINANCIAL INDICATORS

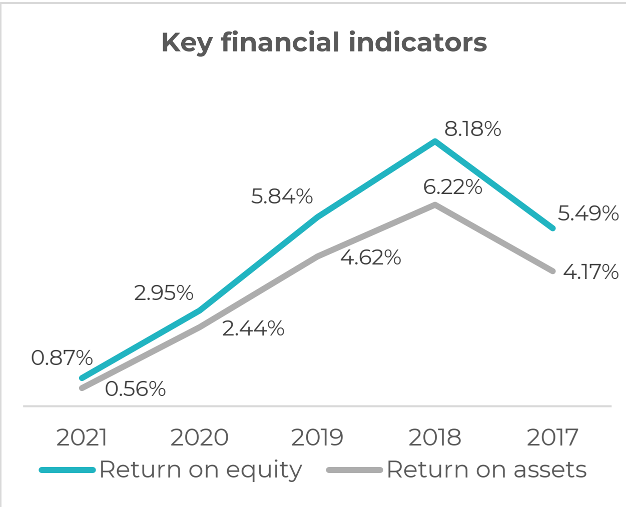




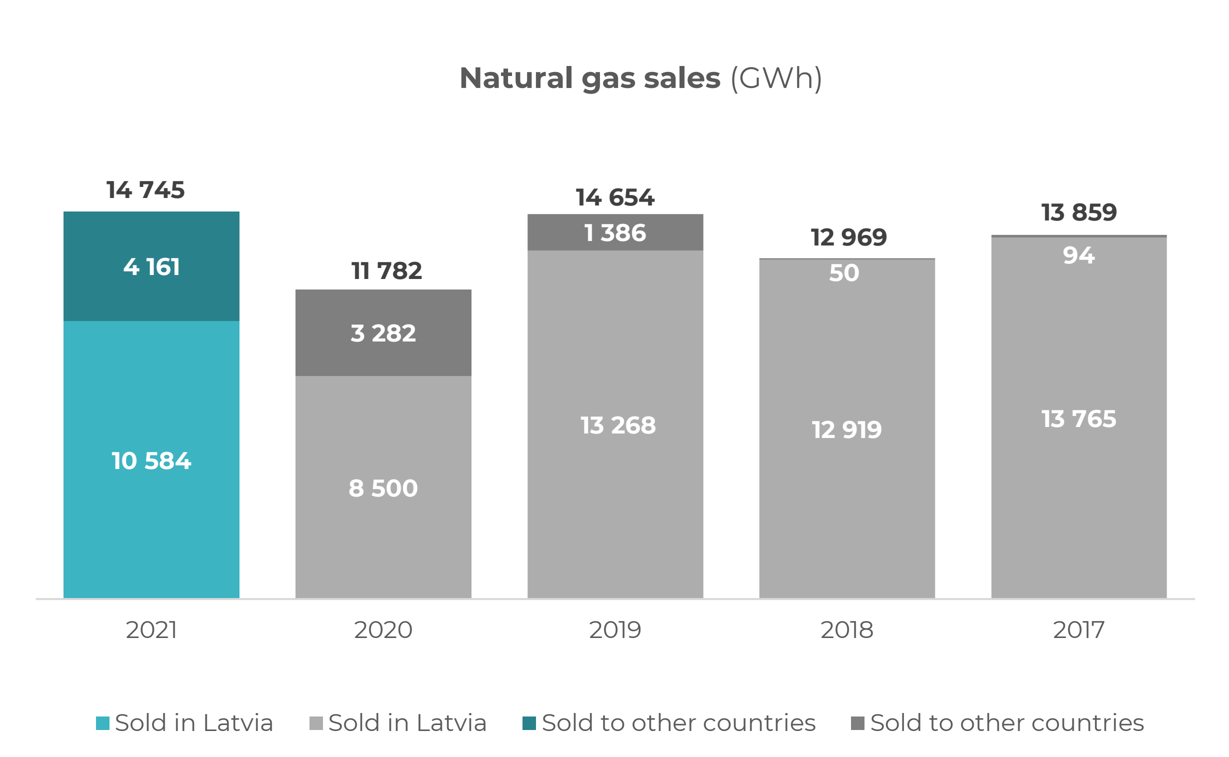




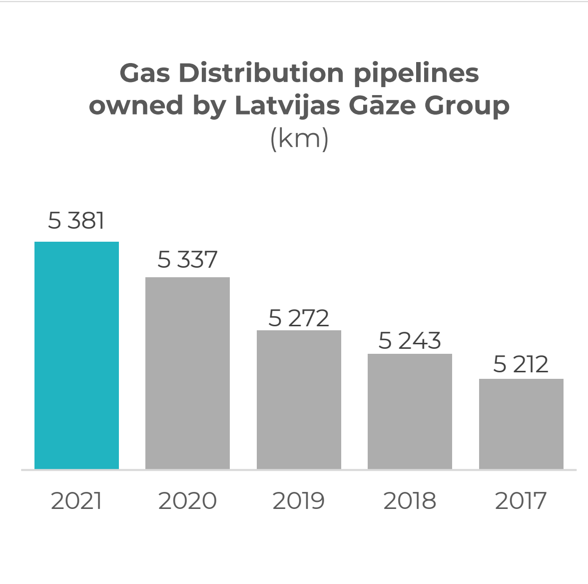


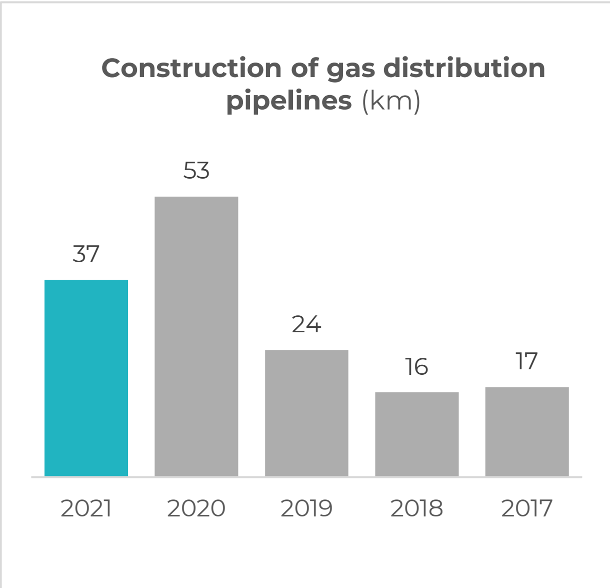


NATURAL GAS VOLUMES

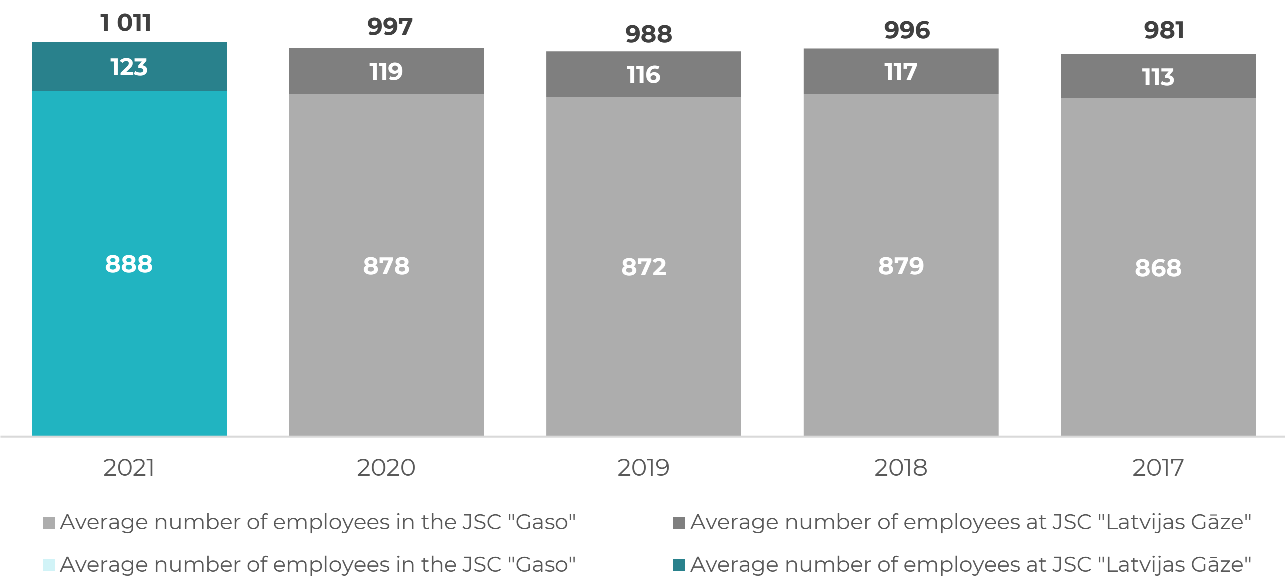


DISTRIBUTION SYSTEM



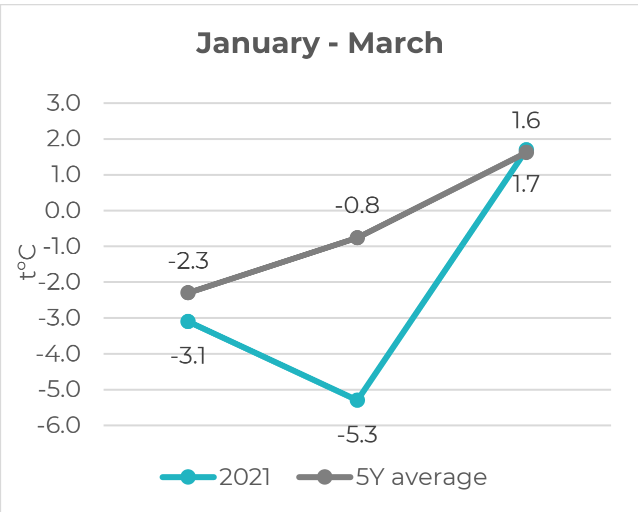


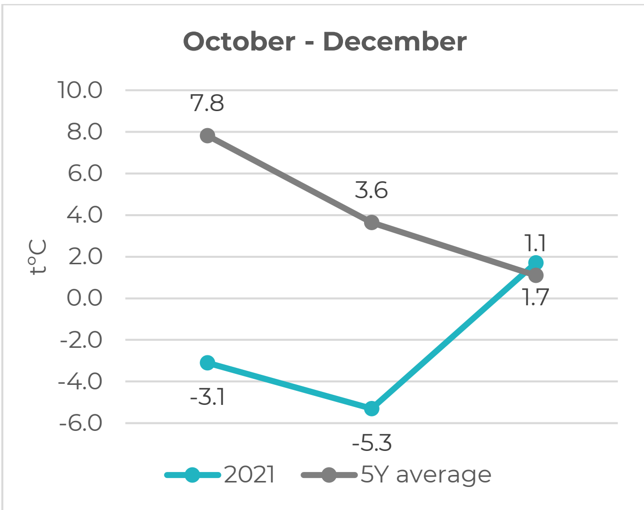
EMPLOYEES



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, %= $\frac{Profit\ of\ the\ year}{Revenue\ from\ contracts\ with\ customers}$ x 100%
P/E Ratio *(Relationship between Share Price and Earnings per Share)*	P/E=$\frac{Share\ price\ 31.12.2019}{Earnings\ per\ share for\ the\ reporting\ year}$
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,% = $\frac{Profit\ of\ the\ year}{Average\ annual\ equity\ value*}$ 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,% = $\frac{Profit\ of\ the\ year}{Average\ annual\ asset\ value**}$ x 100%
Current ratio The indicator measures Company's ability to pay short-term obligations that matures within one year.	Current ratio = $\frac{Current\ assets}{Current\ liabilities}$
Return on capital employed (ROCE) The indicator measures the effective use of available capital by the company.	Return on capital employed = $\frac{EBIT}{Capital\ employed}$
Dividend payout ratio The indicator reflects total amount of dividends paid out to shareholders relative to the net income of the company.	Dividend payout ratio = $\frac{Dividends\ paid}{Net\ income}$

** 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 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.

According to the latest macroeconomic forecasts of the Bank of Latvia[2] (LB) as revised in December 2021, Latvia's GDP will grow by 4.6% in 2021 (decrease by 0.7% compared to September report) and 4.2% in 2022. Near-term economic growth is dampened by new surges in Covid-19 cases, particularly in Europe, new variants of the virus and tightening of the measures to limit virus spread. Shortages of materials, equipment and labour as well as the progressively rising costs, particularly those of energy, also have a downward effect on economic growth. Meanwhile, Latvia's inflation forecast has been revised upwards to 3.2% in 2021 and to 6.1% in 2022 from 2.8% and 4.0% in the September forecast respectively. The soaring energy prices have resulted in an upward revision of the inflation projections, and the spike will be higher than previously expected. An upward revision in inflation projections for 2023 to 2.9% was determined by an increase in production costs.

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,** 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.

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 is negatively impacted by derivative revaluation, however it will be 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 consist of long-term natural gas supplies as well as booked storage and transmission capacities, thus contributing to the Latvia and region long-term stability of gas provision.

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. 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 EUR credit line limit is prolonged until 28th February, 2022. From 1st March 2022 until 31st May 2023, credit line is increased from 30 million EUR to 50 million EUR.

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 can neutralise greenhouse gas (GHG) emissions from the offices and employees of JSC "Latvijas Gāze". Calculations have been made and it has been established that the main sources of GHG emissions JSC "Latvijas Gāze" are heat, electricity, and transport. To neutralize CO2 emisions, JSC "Latvijas Gāze" has decided to plant 2,000 birch trees this year, which will compensate the emissions generated by the company over three years, absorbing 560 tons of CO2 emissions and releasing oxygen, thus making the environment greener. Specially prepared and certified birch seedlings were planted, the birch plantation will be registered, regularly maintained, and protected for 40 years.

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.

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

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. Under the Agreement JSC “Latvijas Gāze” executes part of its derivative transactions.

CORPORATE MANAGEMENT REPORT AND REMUNERATION REPORT

www.lg.lv

COVID-19 IMPACT

The management of the Latvijas Gāze group complies with all the necessary safety measures to keep its customers and employees safe. There is currently not enough information to reliably measure the impact of the state of emergency upon the Group’s financial performance.

SUBSEQUENT EVENTS

On 25 January 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 31 January 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 is prolonged until 28 February 2022. From 1^{st} March 2022 until 31^{st} May 2023, credit line (overdraft) is increased from 30 million EUR to 50 million EUR.

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 23 February 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

FINANCIAL STATEMENTS

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

CORPORATE INFORMATION

Company	Latvijas Gāze, Joint Stock Company
LEI code	097900BGMO0000055872
Registration number, place and date of registration	Unified registration number 40003000642 Riga, Latvia, 25 March 1991 re-registered in Commercial Register on 20 December 2004
Address	A.Briāna 6, Riga, Latvia, LV-1001
Corporate management report and Non-financial report	www.lg.lv
Major shareholders	PJSC Gazprom (34.0%) Marguerite Gas II.S.a.r.l. (28.97%) Uniper Ruhrgas International GmbH (18.26%) ITERA Latvija SIA (16.0%)
Financial period	1 January – 31 December 2021

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)
Other operating expenses	7	(198 337)	(9 250)	(193 070)	(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**

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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
ASSETS					
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
Other debtors	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
Other financial assets at amortised cost	14	447	1 573	361	1 513
Other current assets	15	89 479	1 972	88 218	1 363
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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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	88 512	5 725	91 241	8 202
Interest-bearing loans and borrowings	17	24 641	3 500	2 474	-
Lease liabilities		21	21	89	89
Deferred income	18	2 934	1 079	-	-
Other liabilities	21	198 697	25 897	191 161	18 998
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**

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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 Restatd	EUR'000 Restated
31 December 2019 (restated)	**55 860**	**20 376**	**195 087**	**510**	**110 719**	**382 552**
Transactions with owners						
Dividends	-	-	-	-	(17 556)	(17 556)
Total transactions with owners	**-**	**-**	**-**	**-**	**(17 556)**	**(17 556)**
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(6 817)	-	6 817	-
Comprehensive income						
Profit for the year	-	-	-	-	11 189	11 189
Other comprehensive income	-	-	-	(348)	-	(348)
Total comprehensive income	**-**	**-**	**-**	**(348)**	**11 189**	**10 841**
31 December 2020	**55 860**	**20 376**	**188 270**	**162**	**111 169**	**375 837**
Transactions with owners:						
Dividends	-	-	-	-	(10 773)	(10 773)
Total transactions with owners	**-**	**-**	**-**	**-**	**(10 773)**	**(10 773)**
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(6 490)	-	6 490	-
Comprehensive income						
Profit for the year	-	-	-	-	3 240	3 240
Other comprehensive income	-	-	-	998	-	998
Total comprehensive income	**-**	**-**	**-**	**998**	**3 240**	**4 238**
31 December 2021	**55 860**	**20 376**	**181 780**	**1 160**	**110 126**	**369 302**

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

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STATEMENT OF CASH FLOWS

	Note	Group 2021	Group 2020	Company 2021	Company 2020
		EUR'000	EUR'000	EUR'000	EUR'000
Cash flow from operating activities					
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 exclusions		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		256 911	(41)	255 395	1 580
Corporate income tax paid		(424)	(1 494)	(424)	(1 494)
Net cash outflow from operating activities		**(17 525)**	**35 859**	**(42 338)**	**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 investing activities		**(13 238)**	**(9 151)**	**7 358**	**7 654**
Cash flow from financing activities					
Overdraft received	17	2 474	-	2 474	-
Loan paid		(3 500)	(3 500)	-	-
Leases paid	17	(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 financing activities		**(12 511)**	**(21 467)**	**(8 901)**	**(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**

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NOTES TO FINANCIAL STATEMENTS

1. Segment information

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

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

The distribution segment provides natural gas distribution services in Latvia. The JSC "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)
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, 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 and 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 87% and sales to household customers comprised 13% 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
Net fair value losses on financial derivatives	189 564	-	189 564	-
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 exclusion and sale of property, plant and equipment	539	-	-	-
Increase in provisions for bad debts, net	574	-	411	-
Other costs	350	1 415	59	35
	198 337	**9 250**	**193 070**	**3 922**

In 2021 Other operating expenses includes a net amount of 189 564 thousand EUR originating 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 EUR. The remaining amount for outstanding derivatives of 110 897 thousand EUR is evaluated on a marked-to-market basis as of the balance sheet date and is attributable to 2022 operational activity.

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 1 326 thousand EUR.

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 1 350 thousand EUR.

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					
31.12.2020	**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 3 thousands EUR.

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2019	**1 811**	**-**	**1 593**	**1**	**3 405**
Additions	-	-	186	-	186
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 December 2021 and 110 thousand EUR (the Company) (as at 31 December 2020: 1 559 thousand EUR (the Group) and 110 thousand (the Company)). The land is not subject to revaluation.

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)	134 304	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**

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**	**-**

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**	**-**

* See Note 21.

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
Derivative financial instruments	1 179	624	1 179	624
Advance receivables	86 040	-	86 040	-
Other receivables	181	103	-	3
	89 479	**1 972**	**88 218**	**1 363**

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

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.

Earnings per share/ Group	Earnings per share 2021	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	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	-
	24 641	**25 667**	**2 474**	**-**

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

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
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	Company 2021	Company 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)	348	(30)	3
Obligations at the end of the reporting year	**1 512**	**2 306**	**29**	**61**

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)	9 737	-	15 334	5 132
Payables to third parties	78 775	5 725	75 907	3 070
	88 512	**5 725**	**91 241**	**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
Derivative financial instruments	112 076	3 688	112 076	3 688
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
	198 697	**25 897**	**191 161**	**18 998**

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
Other expenses				
"Gazprom Marketing and Trading Limited"	37 725	-	37 725	-
Financial transactions				
"Gazprom Marketing and Trading Limited"	22	19	22	19

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"	4 654	-	4 654	-

23. 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 and cash equivalents	2	10 962	54 236	1 087	44 968
Financial assets		**141 999**	**84 739**	**130 814**	**72 444**
Borrowings	3	24 641	25 667	2 474	-
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	88 512	5 725	91 241	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 24, Revaluation of buildings, constructions, equipment and machinery section.

24. 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.

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. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8.
- **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:*

- For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

- End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy 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).
- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture -** Amendments to IFRS 10 and IAS 28 (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).
- **Classification of liabilities as current or non-current – Amendments to IAS 1** (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. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.
- **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).

- The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

- The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

- IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

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.

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.

Factoring

In 2021, the Company has entered into two recourse 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.

Revenue from contracts with customers

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

Sale of natural gas – wholesale

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

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

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

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

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

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

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

Excise duty

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

Sale of services – natural gas distribution

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

Connection fees

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

Contract assets and contract liabilities related to contracts with customers

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

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

Financing component

The Group and the Company do not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

Consequently, the Group and the Company do not adjust any of the transaction prices for the time value of money.

Property, plant and equipment

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

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

Assets purchased, but not ready for the intended use or under installation process are classified under “Assets under construction”. 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 (accounting policy applied since 1 January 2019)

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 revalues its land and buildings that are presented within property, plant and equipment, they have chosen not to do so for the right-of-use buildings held by the Group or the Company.

Principles of consolidation

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

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

There is only one subsidiary in the consolidated group – JSC “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.

25. 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.

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).

26. Subsequent events

On 25 January 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 31 January 2022, JSC Latvijas Gāze has concluded amendments to the existing overdraft agreement with OP Corporate Bank plc, Latvian branch 100 million EUR credit line (overdraft) limit is prolonged until 28 February 2022. From 1 March 2022 until 31 May 2023, credit line (overdraft) is increased from 30 million EUR to 50 million EUR.