2022

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

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

Latvijas gāze

CONTENTS

LETTER TO SHAREHOLDERS

Dear shareholder,

The Latvijas Gāze group has completed a challenging financial year 2022. Under the influence of geopolitical events and regulatory changes, the European natural gas markets saw demand substantially surpass supply, which lead to a rapid price rise and fluctuations. Latvia's natural gas supply, while technically not directly connected to the Western Europe, entirely depends on economic and political developments not just in the Baltics but also in Europe and globally, as the natural gas price in Latvia is linked to the Western European natural gas hub indexes. Despite this, the Latvijas Gāze group achieved positive operating results.

In the summer of 2022, prompted by the geopolitical situation, European countries built bigger natural gas reserves for the heating season to ensure natural gas availability and security in the region. This posed a major challenge to the natural gas supply networks. Up to March 2022, the JSC "Latvijas Gāze" purchased natural gas under the long-term natural gas supply agreement signed with the PJSC "Gazprom". Since April 2022, the JSC "Latvijas Gāze" has successfully reoriented natural gas supplies and, within the constraints of the regulatory framework, purchased natural gas, including of Russian origin, from alternative natural gas suppliers. Since October 2022, the JSC "Latvijas Gāze" has been purchasing natural gas of other than Russian origin from alternative natural gas suppliers in the European Union.

Despite the abovementioned challenges, the JSC "Latvijas Gāze" continued its operations, ensuring an uninterrupted supply of gas to its customers, including fulfilment of its obligations as Public Trader towards more than 340 000 households. Now the JSC "Latvijas Gāze" is actively preparing for the opening of the household market as of 1 May 2023 in order to be able to maintain high-quality services for competitive prices going forward.

In 2022, the Company's shareholders adopted a decision on launching the Company's reorganisation process or the reduction of its share capital. In fulfilment of the shareholders' decision, it was decided to sell the JSC "Gaso", with the sale set to be completed within 2023. Aware of the global threat to information systems and technologies, the JSC "Latvijas Gāze" continues projects towards strengthening cyber security. Furthermore, there is continuous work on rolling out advanced IT solutions for customer care, geared towards an efficient provision of services and the associated increase in customer satisfaction.

The customers' growing demands and competition as well as changes in people's values determine our future. The main remit of the JSC "Latvijas Gāze" is to ensure the security and continuity of Latvia's gas supply and to achieve operational and commercial excellence where the customer still remains the main focus.

Yours sincerely,
Aigars Kalvītis

COUNCIL OF THE JSC “LATVIJAS GĀZE”

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

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

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

Juris Savickis, 1946
Vice-Chairman of the Council

President, LLC “ITERA Latvija”

Oliver Giese, 1967
Vice-Chairman of the Council

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

Nicolàs Merigó Cook, 1963
Member of the Council

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

Matthias Kohlenbach, 1969
Member of the Council

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

Hans-Peter Floren, 1961
Member of the Council

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

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

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

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

Head of Department 817, PJSC “Gazprom”

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

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

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

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

Ēriks Atvars, 1972
Member of the Council

Unicredit Corporate and Investment Banking (Germany)

MANAGEMENT BOARD OF THE JSC “LATVIJAS GĀZE”

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

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

Aigars Kalvītis, 1966
Chairman of the Board

Latvian University of Agriculture, Master’s Degree in Economics

Denis Emelyanov, 1979
Member of the Board, Vice-Chairman of the Board

Gubkin Russian State University of Oil and Gas, Faculty of Economics and Management – Economist-Manager, Economics and Oil and Gas Enterprise Management

Elita Dreimane, 1968
Member of the Board

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

Egīls Lapsalis, 1979
Member of the Board

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

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

LATVIJAS GĀZE GROUP IN BRIEF

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

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

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

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

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

STRUCTURE OF THE LATVIJAS GĀZE GROUP AS AT 31 DECEMBER 2022

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

STRATEGY AND OBJECTIVES

OUR OBJECTIVE

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

OUR MISSION

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

OUR VISION

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

LATVIJAS GĀZE GROUP'S FOCUS

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

1. PRICE COMPETITIVENESS

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

2. QUALITY OF PRODUCT

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

3. QUALITY OF SERVICE

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

4. EFFECTIVE MANAGEMENT

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

5. PROFESSIONAL PERSONNEL

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

6. SAFETY AND SECURITY OF GAS SUPPLY

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

7. SUSTAINABLE INVESTMENT

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

8. SUSTAINABILITY

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

SHARES AND SHAREHOLDERS OF THE JSC "LATVIJAS GĀZE"

SHARES AND SHAREHOLDERS

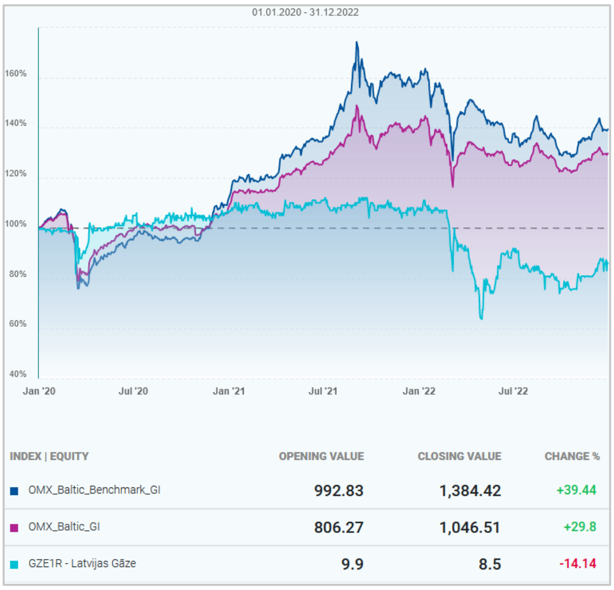
The shares of the JSC "Latvijas Gāze" have been listed on the Nasdaq Riga Stock Exchange since 15 February 1999, and its ticker code is GZE1R as of 1 August 2004. The total number of shareholders of the JSC "Latvijas Gāze" as at 31 December 2022 was 6 739.

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

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

Source: Nasdaq Baltic

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



Avots: Nasdaq Baltic

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

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

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

On 31 December 2022, the market capitalisation of the JSC "Latvijas Gāze" amounted to 339.15 million EUR, which is 21% less than in the respective period of 2021.

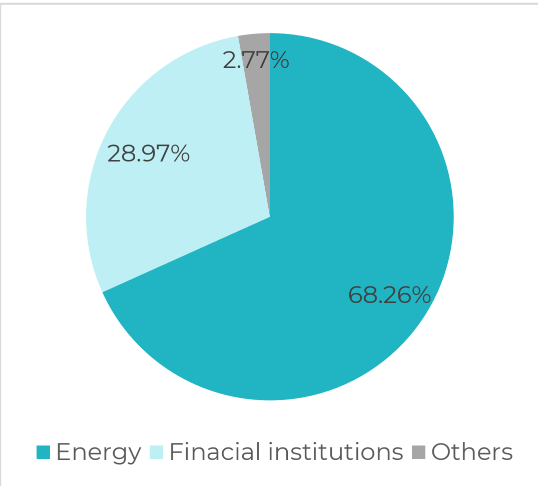
SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2020-31.12.2022)

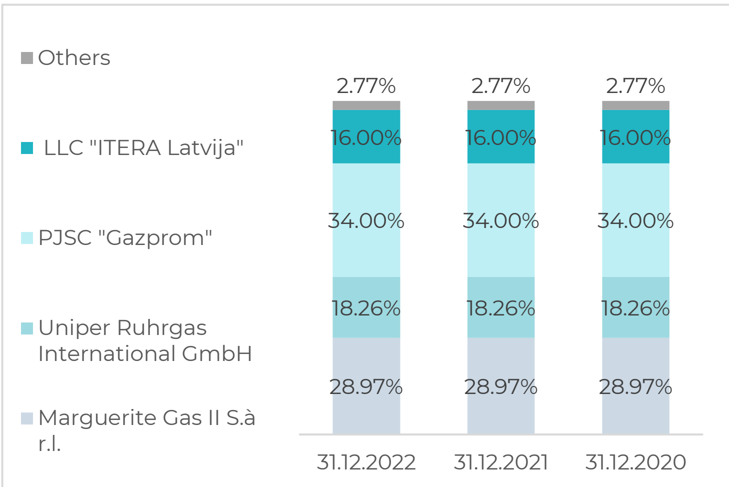
Source: Nasdaq Baltic

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

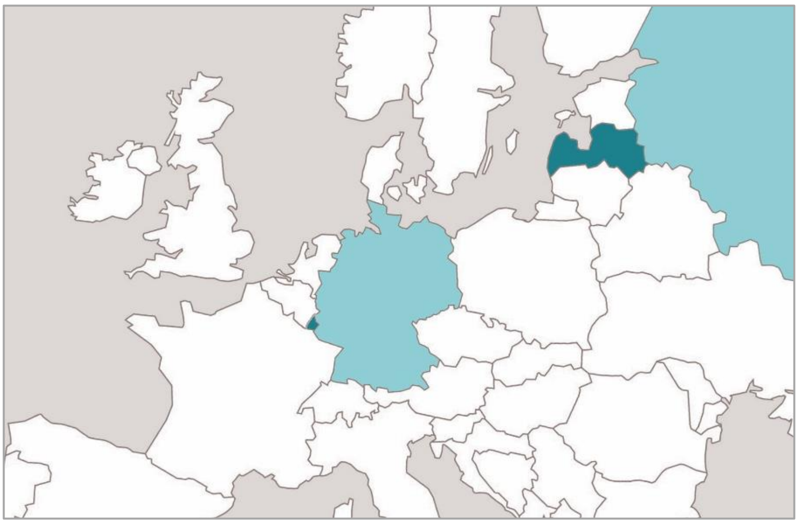
	12M 2022	12M 2021	12M 2020
Share price (EUR):			
First	10.60	10.50	9.90
Highest	11.10	11.10	10.80
Lowest	6.20	10.10	8.10
Average	8.58	10.71	10.01
Last	8.50	10.70	10.50
Change (from first to last share price)	-19.81%	1.90%	6.06%
Number of transactions	3 844	3 030	1 800
Number of shares traded	84 377	81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

SHAREHOLDER STRUCTURE AS AT 31.12.2022





GEOGRAPHICAL DISTRIBUTION OF MAJOR SHAREHOLDERS



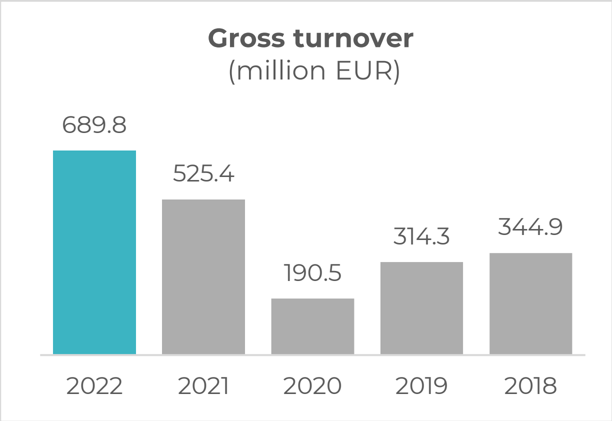
- Russia (PJSC Gazprom)
- Luxemburg (Marguerite Gas II S.à r.L.)
- Germany (Uniper Ruhrgas International GmbH)
- Latvia (LLC Itera Latvija)

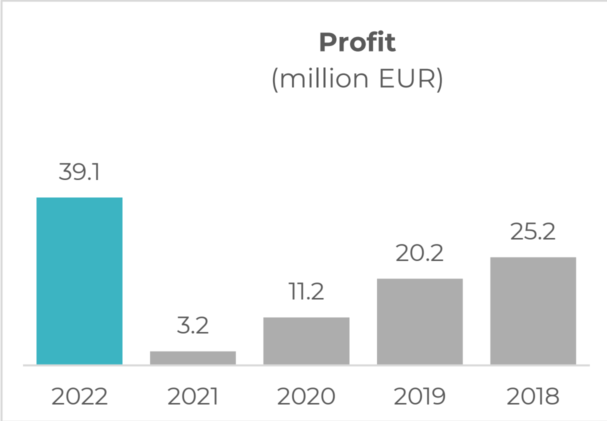
SHARES OWNED BY MEMBER OF THE GOVERNING BODIES OF THE JSC "LATVIJAS GĀZE"

		At the date of signing financial statements
Board		**Number of shares**
Chairman of the Board	Aigars Kalvītis	None
Member of the Board, Vice-Chairman of the Board	Denis Emelyanov	None
Member of the Board	Elita Dreimane	None
Member of the Board	Egīls Lapsalis	None
Council		
Chairman of the Council	Kirill Seleznev	None
Vice-Chairman of the Council	Juris Savickis	None
Vice-Chairman of the Council	Oliver Giese	None
Member of the Council	Nicolas Merigo Cook	None
Member of the Council	Matthias Kohlenbach	None
Member of the Council	Hans-Peter Floren	None
Member of the Council	Elena Mikhaylova	None
Member of the Council	Vitaly Khatkov	None
Member of the Council	Oleg Ivanov	None
Member of the Council	Yury Ivanov	None
Member of the Council	Ēriks Atvars	None

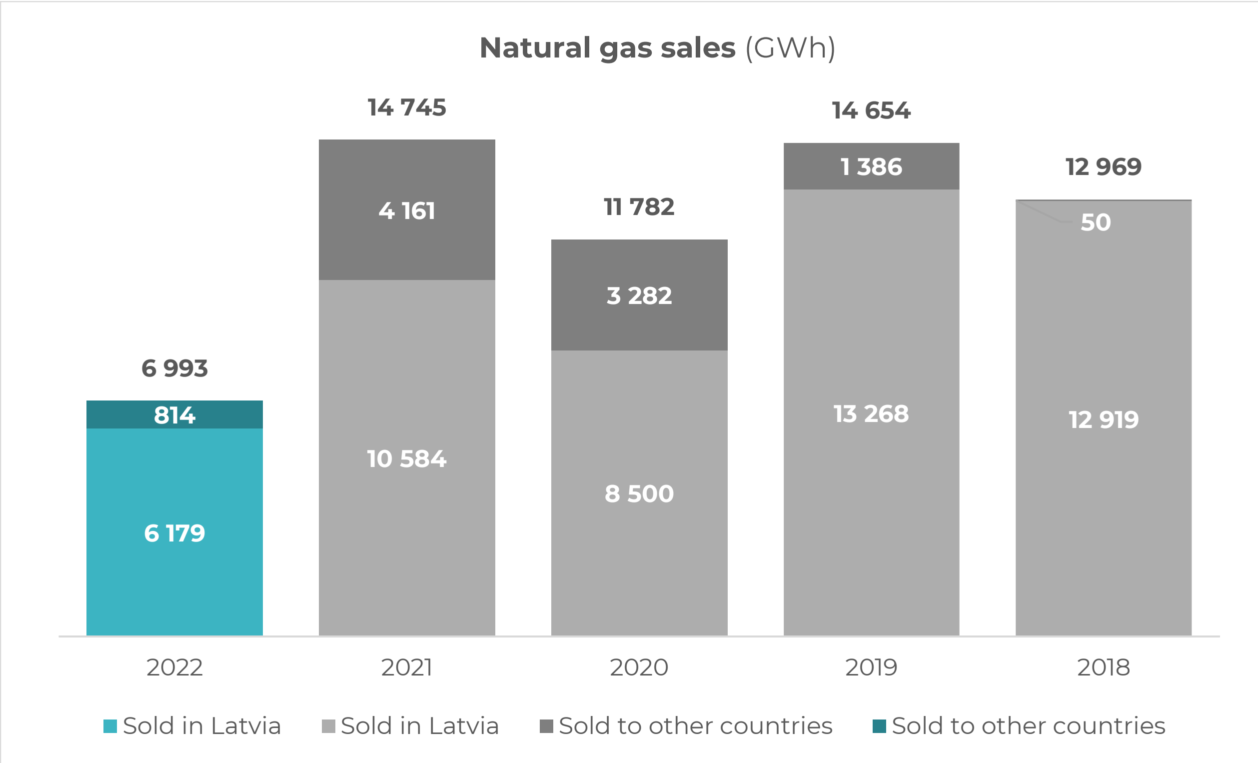
LATVIJAS GĀZE GROUP'S FACTS AND FIGURES

FINANCIAL INDICATORS

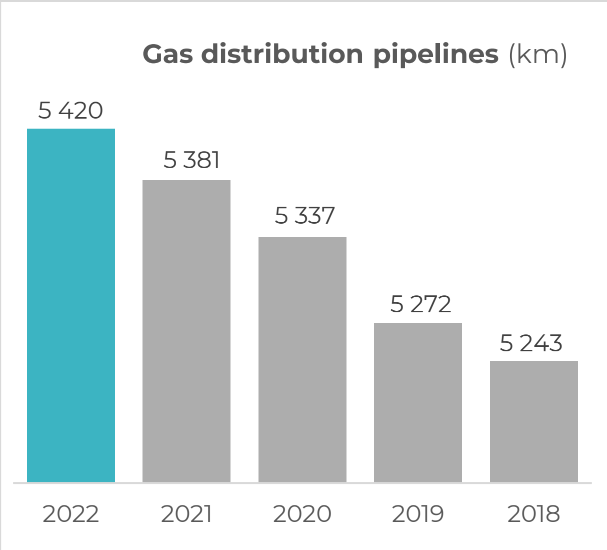


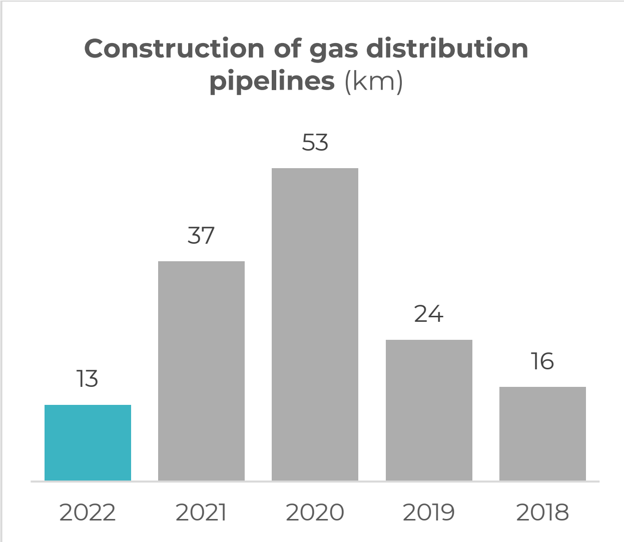


NATURAL GAS VOLUMES

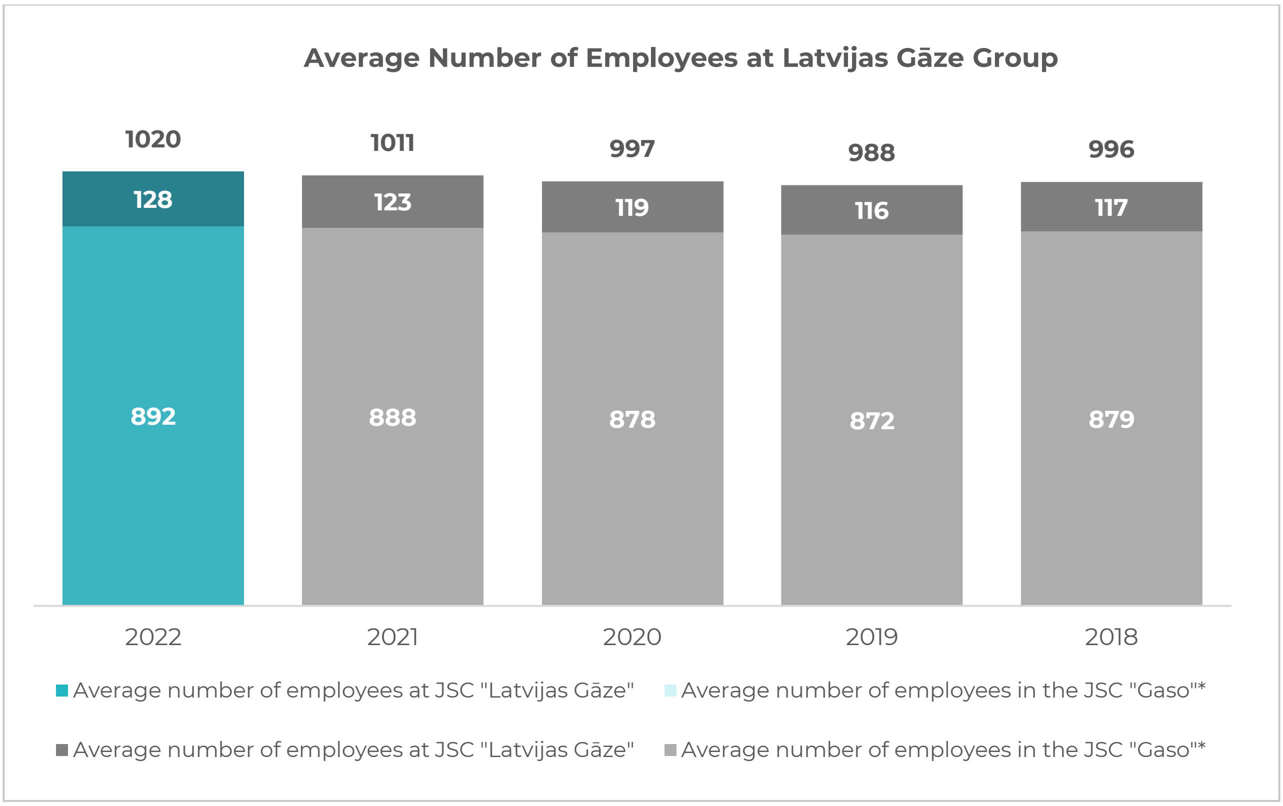


DISCONTINUED OPERATIONS – NATURAL GAS DISTRIBUTION VOLUMES





EMPLOYEES



*Discontinued operations

MANAGEMENT REPORT

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

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

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

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

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

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

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

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

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

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

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

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

Alternative Performance Measures (APM)	Formulas
EBITDA *(Profit before income tax, interest, depreciation and amortization)*	EBITDA = Profit of the year before extraordinary dividends + Corporate income tax + Financial expense - Financial income + Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets + revaluation on investments
EBITDA,% *(or EBITDA margin)*	EBITDA, % = $\frac{EBITDA}{Revenue\ from\ contracts\ with\ customers}$ x 100%
EBIT*(Profit before income tax and interest)*	EBIT= Profit of the year before extraordinary dividends + Corporate income tax + Financial expense - Financial income
EBIT,% *(or EBIT margin)*	EBIT,% = $\frac{EBIT}{Revenue\ from\ contracts\ with\ customers}$ x 100%
Net profitability *(or Commercial profitability)* The indicator reflects how much the company earns from each of the EUR received from customers	Net profitability, %= $\frac{Profit\ of\ the\ year}{Revenue\ from\ contracts\ with\ customers}$ x 100%
P/E Ratio *(Relationship between Share Price and Earnings per Share)*	P/E=$\frac{Last\ share\ price}{Earnings\ per\ share for\ the\ reporting\ year}$
Current ratio The indicator measures Company's ability to pay short-term obligations that matures within one year.	Current ratio = $\frac{Current\ assets}{Current\ liabilities}$
Return on capital employed (ROCE) The indicator measures the effective use of available capital by the company.	Return on capital employed = $\frac{EBIT}{Capital\ employed}$
Dividend payout ratio The indicator reflects total amount of dividends paid out to shareholders relative to the net income of the company.	Dividend payout ratio = $\frac{Dividends\ paid}{Net\ income}$

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

GENERAL MARKET AND INDUSTRY ENVIRONMENT

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

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

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

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

KEY EVENTS DURING THE REPORTING PERIOD

- **On 24 February 2022,** Russia military invasion in Ukraine prompted United States, European Union, United Kingdom, and other major economies to impose an extraordinary set of coordinated economic sanctions against Russia in order to limit customary trade and financial relations with Russia.

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

PERFORMANCE OF OPERATING SEGMENTS

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

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

NATURAL GAS SUPPLIES

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

FINANCIAL RISK MANAGEMENT

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

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

The group's ***liquidity risk*** mainly stems from the seasonal nature of the natural gas business. To ensure security of supply for the winter months the Company usually injects significant natural gas quantities into the Inčukalns Underground Gas Storage ("IUGS") during the injection season starting in early summer. While the Company needs to ensure the availability of respective cash reserves to finance the injection of natural gas into the storage during the summer months, customers will typically consume and subsequently pay most of the natural gas only during the winter period. In order to mitigate liquidity risk, Company prioritized natural hedge (internal market risk mitigation). Currently, Latvijas Gāze operates without borrowed capital because on 25 November 2022 it reached an agreement with the Latvian branch of OP Corporate Bank plc on an early termination of the overdraft contract. Short-term liquidity is good and the early termination of the contract has not adversely affected the Company.

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

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

CORPORATE GOVERNANCE REPORT AND REMUNERATION REPORT

Available on: www.lg.lv

FUTURE PROSPECTS

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

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

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

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

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

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

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

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

SUGGESTED DISTRIBUTION OF THE COMPANY'S PROFIT

	2022
	EUR
Company's profit for the reporting year	**40 823 737**
Extraordinary dividends in 2022 (36.7% of total profit)	14 999 992
Suggested profit distribution after extraordinary dividends:	
Dividends to shareholders (49.8% of total profit)	**20 349 000**
Dividends per one share of 20 349 000 (EUR/1 share)	**0.51**
Profit retained	5 474 745

SUBSEQUENT EVENTS

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

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

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

STATEMENT OF BOARD RESPONSIBILITY

The Board of the Joint Stock Company “Latvijas Gāze” is responsible for the preparation of the Latvijas Gāze group consolidated and Joint Stock Company “Latvijas Gāze” financial statements for 2022 (hereinafter – the Financial statements), which consist of the financial statements of the Company and its subsidiary (hereinafter – the Group) and the financial statements of the Company.

The Financial statements for 2022 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union.

According to the information available to the management of the Company, the Financial statements provide a true and fair view of the Group’s and the Company’s assets, liabilities, financial position, operational results and cash flows. The management report contains a clear overview of the business development and operational results of the capital company and the consolidation group, as well as the substantial risks and unclear circumstances faced by the consolidation group.

The Financial statements were approved by the Board of the JSC “Latvijas Gāze” on 19 April 2023, and they are signed on behalf of the Board by:

Aigars Kalvītis Chairman of the Board	Elita Dreimane Member of the Board	Egīls Lapsalis 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, date and place of registration	Unified registration number 40003000642 Riga, Latvia, 25 March 1991, re-registered in the Commercial Register on 20 December 2004
Address	A.Briāna 6, Riga, Latvia, LV-1001
Major shareholders	PJSC Gazprom (34.0%) Marguerite Gas II.S.a.r.l. (28.97%) Uniper Ruhrgas International GmbH (18.26%) ITERA Latvija SIA (16.0%)
Financial period	1 January – 31 December 2022
Name and address of the auditor	Nexia Audit Advice, JSC Baznīcas street 31-14 Riga, LV-1010, Latvia Responsible certified auditor: Marija Jansone Certificate No. 25

STATEMENT OF PROFIT OR LOSS

	Note	Group 2022	Group (reclassified) 2021	Company 2022	Company 2021
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue from contracts with customers	2	**689 752**	**525 431**	**702 604**	**530 224**
Other income	3	1 174	422	1 174	422
Raw materials and consumables used	4	(562 244)	(338 195)	(562 020)	(337 952)
Personnel expenses	5	(6 458)	(5 557)	(6 458)	(5 557)
Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets	6	(1 312)	(1 212)	(1 380)	(1 280)
Net fair value losses on financial derivatives	7	(10 633)	(189 564)	(10 633)	(189 564)
Other operating expenses	8	(8 193)	(3 385)	(8 358)	(3 506)
Revaluation expenses of related companies	9	-	-	(72 534)	-
Gross profit		**102 086**	**(12 060)**	**42 395**	**(7 213)**
Financial expenses		(392)	(665)	(392)	(668)
Dividends received from subsidiary		-	-	-	8 379
Profit before taxes		**101 694**	**(12 725)**	**42 003**	**498**
Corporate income tax		(1 179)	(424)	(1 179)	(424)
Profit for the period for continuing operations		**100 515**	**(13 149)**	**40 824**	**74**
Profit or loss from discontinued operations	9	(61 442)	16 389	-	-
Profit for the period before extraordinary dividends		**39 073**	**3 240**	**40 824**	**74**
Extraordinary dividends		(15 000)	-	(15 000)	-
Profit for the period after extraordinary dividends		**24 073**	**3 240**	**25 824**	**74**

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

Aigars Kalvītis
Chairman of the Board

Elita Dreimane
Member of the Board

Egīls Lapsalis
Member of the Board

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

STATEMENT OF COMPREHENSIVE INCOME

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

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Chairman of the Board

Elita Dreimane
Member of the Board

Egīls Lapsalis
Member of the Board

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

BALANCE SHEET

	Note	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets	10	4 333	9 639	4 333	4 926
Property, plant and equipment	11	2 371	307 446	2 371	2 304
Right-of-use assets		-	19	119	206
Investment in subsidiary		-	-	-	194 534
Trade receivables	13	25	86	25	5
Total non-current assets		**6 729**	**317 190**	**6 848**	**201 975**
Current assets					
Inventories	12	120 509	123 574	120 509	122 278
Pre-payments for inventories		63	29 338	63	29 297
Trade receivables	13	76 870	129 411	81 951	128 188
Derivative financial instruments		-	1 179	-	1 179
Other financial assets at amortised cost	14	5 850	447	5 850	361
Cash restricted from being used		-	86 030	-	86 030
Other current assets	15	554	2 270	554	1 009
Investments held for sale	9	170 225	-	122 000	-
Cash and cash equivalents		41 237	10 962	41 237	1 087
Total current assets		**415 308**	**383 211**	**372 164**	**369 429**
TOTAL ASSETS		**422 037**	**700 401**	**379 012**	**571 404**

Aigars Kalvītis Chairman of the Board	Elita Dreimane Member of the Board	Egīls Lapsalis Member of the Board	Laima Dudiča Chief Accountant, Head of the Accounting and Reporting Department

BALANCE SHEET (continued)

	Note	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
		EUR'000	EUR'000	EUR'000	EUR'000
LIABILITIES AND EQUITY					
Equity					
Share capital	17	55 860	55 860	55 860	55 860
Share premium		20 376	20 376	20 376	20 376
Reserves		(20)	182 940	(20)	204 521
Retained earnings		235 903	110 126	235 903	5 534
Total equity		**312 119**	**369 302**	**312 119**	**286 291**
Liabilities					
Non-current liabilities					
Provisions		-	688	-	-
Lease liabilities		-	-	51	119
Deferred income	19	-	14 094	-	-
Employee benefit obligations	20	39	1 512	39	29
Total non-current liabilities		**39**	**16 294**	**90**	**148**
Current liabilities					
Trade payables	21	33 419	51 992	37 327	54 721
Interest-bearing loans and borrowings	18	-	61 161	-	38 994
Lease liabilities		21	21	89	89
Deferred income	19	-	2 934	-	-
Derivative financial instruments		-	112 076	-	112 076
Other liabilities	22	26 987	86 621	26 987	79 085
Dividends unpaid		2 400	-	2 400	-
Liabilities directly related to investments held for sale	9	47 052	-	-	-
Total current liabilities		**109 879**	**314 805**	**66 803**	**284 965**
Total liabilities		**109 918**	**331 099**	**66 893**	**285 113**
TOTAL LIABILITIES AND EQUITY		**422 037**	**700 401**	**379 012**	**571 404**

Aigars Kalvītis
Chairman of the Board

Elita Dreimane
Member of the Board

Egīls Lapsalis
Member of the Board

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Aigars Kalvītis
Chairman of the Board

Elita Dreimane
Member of the Board

Egīls Lapsalis
Member of the Board

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

COMPANY'S STATEMENT OF CHANGES IN EQUITY

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

Aigars Kalvītis
Chairman of the Board

Elita Dreimane
Member of the Board

Egīls Lapsalis
Member of the Board

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

STATEMENT OF CASH FLOWS

	Note	Group 2022	Group (reclassified) 2021	Company 2022	Company 2021
		EUR'000	EUR'000	EUR'000	EUR'000
Cash flow from operating activities					
Profit before tax from continuing operations		**101 694**	**(12 725)**	**42 003**	**498**
Profit before tax from discontinued operations	9	**(61 442)**	**16 389**	**-**	**-**
Adjustments:					
- depreciation of property, plant and equipment and right-of-use assets	11	365	373	365	373
- amortisation of intangible assets	10	1 014	907	1 014	907
- movement in provision		13	-	13	(1)
- (profit) / losses from long-term asset write-off		5	-	5	(2)
- income from participating interest		-	-	-	(8 379)
- interest expenses		286	509	286	509
- losses on impairment of investments		-	-	72 534	-
Changes in operating assets and liabilities:					
- in accounts receivable		133 592	(189 742)	128 376	(188 528)
- in inventories		1 769	(81 353)	1 769	(81 424)
- in advances for inventories		29 234	(21 293)	29 234	(21 262)
- in accounts payable		(186 836)	220 391	(181 568)	218 875
- paid corporate income tax		(1 179)	(424)	(1 179)	(424)
Net cash flow from operating activities of discontinued operations		81 490	12 993	-	-
Net cash inflow from operating activities		**100 005**	**(53 975)**	**92 852**	**(78 858)**
Cash flow from investing activities					
Payments for property, plant and equipment	11	(402)	(63)	(402)	(63)
Payments for intangible assets	10	(421)	(972)	(421)	(972)
Proceeds from sale of property, plant and equipment		52	14	52	14
Dividends received	23	-	-	-	8 379
Net cash flow from investing activities of discontinued operations		(6 180)	(12 217)	-	-
Net cash outflow from investing activities		**(6 951)**	**(13 238)**	**(771)**	**7 358**
Cash flow from financing activities					
Overdraft/factoring received		(38 994)	38 994	(38 994)	38 994
Leases paid		(51)	(93)	(51)	(93)
Interest paid		(286)	(509)	(286)	(509)
Dividends paid		(12 600)	(10 773)	(12 600)	(10 773)
Net cash flow from financing activities discontinued operations		(973)	(3 680)	-	-
Net cash outflow from financing activities		**(52 904)**	**23 939**	**(51 931)**	**27 619**
Net cash flow		**40 150**	**(43 274)**	**40 150**	**(43 881)**
incl. Net cash flow from discontinued operations		74 337	(26 885)	-	-
Cash and cash equivalents at the beginning of the reporting period		**10 962**	**54 236**	**1 087**	**44 968**
Reclassified cash from discontinuing operations		**(9 875)**	**-**	**-**	**-**

Cash and cash equivalents at the end of the reporting period	**41 237**	**10 962**	**41 237**	**1 087**

Aigars Kalvītis Chairman of the Board	Elita Dreimane Member of the Board	Egīls Lapsalis Member of the Board	Laima Dudiča Chief Accountant, Head of the Accounting and Reporting Department

NOTES

1. Segment information

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

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

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

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

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

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

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

2. Revenue from contracts with customers

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

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

3. Other income

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

4. Raw materials and consumables used

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

5. Personnel expenses

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

Average number of employees	Group 2022	Group (reclassified) 2021	Company 2022	Company 2021
Members of the Council	11	11	11	11
Members of the Board	4	4	4	4
Other employees	107	108	107	108
TOTAL	**122**	**123**	**122**	**123**

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

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

	Group 2022	Group 2021	Company 2022	Company 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Amortisation of intangibles	1 014	907	1 014	907
Depreciation and impairment of property, plant and equipment	279	284	279	284
Depreciation of rights to use assets	19	21	87	89
	1 312	**1 212**	**1 380**	**1 280**

7. Derivative financial instruments

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

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

8. Other operating expenses

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

9. Operations to be discontinued

In 2022, following a decision on reorganisation by the Company's shareholders, it was decided to sell the Company's 100% investment in the JSC "Gaso".

Hence, as of 31 December 2022 the investment is classified in the Company's separate financial statements and the Group's consolidated statement as "Investments held for sale" and is accounted pursuant to International Financial Reporting Standard 5 (hereinafter – IFRS 5).

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

- The Company's holding in the JSC "Gaso" as an individual asset in the Company's separate financial statements – "Investments held for sale";

- The assets and liabilities of the JSC “Gaso” as a disposal group in the consolidated financial statements, or “Investments held for sale” and “Liabilities directly associated with investments held for sale”.
- The assets are measured at the lowest between their book value and fair value less selling costs.

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

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

Reclassification of balance sheet items of operations to be discontinued

Discontinued operation 2022	Discontinued assets and liabilities	Transactions excluded from consolidation	Group
	EUR'000	EUR'000	EUR'000
Discontinued operations assets, incl.:	**327 762**	**(3 908)**	**323 854**
- *Long-term assets**	*304 335*	-	*304 335*
- *Short-term assets*	*23 427*	*(3 908)*	*19 519*
Recognised impairment of the investment in statement of profit or loss	**(72 534)**	**-**	**(72 534)**
Held for sale in statement of changes in equity	**(81 095)**	**-**	**(81 095)**
Assets held for sale	**174 133**	**(3 908)**	**170 225**
Liabilities directly associated with assets held for sale, incl.: **	**(52 133)**	**5 081**	**(47 052)**
- *Long-term liabilities*	*(35 152)*	-	*(35 152)*
- *Short-term liabilities*	*(16 981)*	*(5 081)*	*(11 900)*
Net value of assets held for sale	**122 000**	**1 173**	**123 173**

*Long-term assets include fully depreciated property, plant and equipment with a total initial value of 14 960 thousand EUR (31.12.2021: 16 621 thousand EUR) which the JSC “Gaso” keeps using. In the reporting year, it has capitalised depreciation in the amount of 59 thousand EUR (2021: 65 thousand EUR) and loan interest costs in the amount of 215 thousand EUR (2021: 135 thousand EUR).

**Liabilities directly associated with assets held for sale include a loan. In August 2022, the JSC “Gaso” signed a loan contract worth 26,300 thousand EUR with the JSC “Rietumu Banka”. The repayment deadline of the loan is 21 August 2027. The interest rate of the loan is 3% plus 3-month EURIBOR. The loan has been secured with a financial pledge. The purpose of the loan is the refinancing of the obligations towards the JSC "SEB banka" and the development of the company’s long-term business investments. As at August 2022, the outstanding portion of the JSC “SEB banka” loan was 19 884 thousand EUR.

10. Intangible assets

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

11. Property, plant and equipment

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

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

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2021	**1 811**	**-**	**1 760**	**-**	**3 571**
Additions	-	-	262	140	402
Disposals	-	-	(267)	-	(267)
31.12.2022	**1 811**	**-**	**1 755**	**140**	**3 706**
Accumulated depreciation					
31.12.2021	**162**	**-**	**1 105**	**-**	**1 267**
Calculated	72	-	206	-	278
Disposals	-	-	(210)	-	(210)
31.12.2022	**234**	**-**	**1 101**	**-**	**1 335**
Net book value as of 31.12.2022	**1 577**	**-**	**654**	**140**	**2 371**
Net book value as of 31.12.2021	**1 649**	**-**	**655**	**-**	**2 304**

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2020	**1 811**	**-**	**1 721**	**-**	**3 532**
Additions	-	-	66	-	66
Disposals	-	-	(27)	-	(27)
31.12.2021	**1 811**	**-**	**1 760**	**-**	**3 571**
Accumulated 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**

Property, plant and equipment includes fully depreciated property, plant and equipment with a total initial value of 677 thousand EUR (Group), with 14 960 thousand EUR reclassified to discontinued operations, and 677 thousand EUR (Company) (31.12.2021: 17 086 thousand EUR (Group) and 465 thousand EUR (Company)).

The aforementioned tables "Land, buildings, constructions" include land owned by the Group and the Company with an initial and residual book value of 110 thousand EUR as at 31 December 2022, from which land of discontinued operations worth 1 570 thousand EUR and 110 thousand EUR (Company) has been excluded (31.12.2021: 1 680 thousand EUR (Group) and 110 thousand EUR (Company)). Land is not subject to revaluation.

12. Inventories

	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	120 509	122 278	120 509	122 278
Materials and spare parts	-	1 366	-	-
Allowance for slow-moving inventory	-	(70)	-	-
	120 509	**123 574**	**120 509**	**122 278**

13. Trade receivables

Trade receivables	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Long-term receivables (nominal value)	25	86	25	5
	25	**86**	**25**	**5**
Short-term receivables (nominal value)	85 356	135 304	90 437	133 557
Allowance for impairment of short-term receivables	(8 486)	(5 893)	(8 486)	(5 369)
	76 870	**129 411**	**81 951**	**128 188**

Allowance for impairment of bad and doubtful receivables	Group 2022	Group 2021	Company 2022	Company 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Allowance at the beginning of the year	**5 369**	**7 590**	**5 369**	**7 180**
Expense included in profit or loss statement	6 098	2 518	6 098	2 336
Income included in profit or loss statement	(2 756)	(1 944)	(2 756)	(1 925)
Net changes included in profit or loss statement	**3 342**	**574**	**3 342**	**411**
Bad debts written off	(225)	(2 271)	(225)	(2 222)
Allowance at the end of the year	**8 486**	**5 893**	**8 486**	**5 369**

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.

14. Other financial assets at amortised cost

	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Accrued income	4	90	4	4
Reserved funds	5 846	357	5 846	357
	5 850	**447**	**5 850**	**361**

15. Other current assets

	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Deferred charges	554	2 079	554	999
Other receivables	-	191	-	10
	554	**2 270**	**554**	**1009**

16. Taxes

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

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

*See Note 22

17. Shares and shareholders

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

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

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

The dividends payable are not accounted until announced at the annual shareholders' meeting. At the 2023 general meeting, the management will suggests paying dividends of 0.51 EUR per share for 2022. These financial statements do not reflect the dividends payable in future but those will be accounted under equity in the 2023 financial statements as distribution of retained earnings for 2022. In 2022, there were extraordinary dividends paid in the amount of 15 000 thousand EUR (0.37593985 EUR per share). There were no dividends paid to shareholders for 2021.

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

18. Interest-bearing loans and borrowings

	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Loan				
- short-term part of the loan (i.e. less than 12 months)	-	22 167	-	-
Overdraft from OP Corporate Bank plc Latvia Branch				
- overdraft	-	2 474	-	2 474
Factoring liabilities	-	36 520	-	36 520
	-	**61 161**	**-**	**38 994**

In the 2022 report, discontinued operation liabilities, including loans, are disclosed under "Liabilities directly associated with assets held for sale".

On 25 November 2022, an agreement was reached with the Latvian branch of OP Corporate Bank plc on early termination of the overdraft contract. As at 31.12.2022, the Company has repaid both overdraft and factoring liabilities.

19. Deferred income

	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Deferred income from residential and corporate customers' contributions to construction of gas pipelines:				
Long-term part	-	14 094	-	-
Short-term part	-	2 934	-	-
	-	**17 028**	**-**	**-**

In the 2022 report, discontinued operation liabilities, including deferred income, are disclosed under "Liabilities directly associated with assets held for sale".

20. Employment and post-employment benefit obligations

	Group 2022	Group 2021	Company 2022	Company 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Obligations at the beginning of the reporting year	**29**	**2 305**	**29**	**61**
Recognised in profit or loss statement	16	422	16	-
Paid	(2)	(217)	(2)	(2)
Revaluations due to changes in actuarial assumptions – other comprehensive income	(4)	(998)	(4)	(30)
Obligations at the end of the reporting year	**39**	**1 512**	**39**	**29**

In the 2022 report, discontinued operation liabilities, including employment and post-employment benefit obligations, are disclosed under "Liabilities directly associated with assets held for sale".

Assumptions used in calculations of obligations	2022	2021
Discount rates, %	0.031855%	0.00235%
Company's employee rotation rate,%	23.90%	22.02%
Group's employee rotation rate,%	8.52%	4.84%
Employee retirement age, years	64-65	64-65
Wage growth,%	4.00%	4.00%
Contributions to private pension fund,%	5.00%	5.00%
Compulsory social security contributions (employees),%	23.59%	23.59%
Compulsory social security contributions (retired),%	20.77%	20.77%

Assumptions used in calculations of obligations			Assumption changes effect on accruals			
			Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
Changes in assumptions, pp						
Discount rate	+ 0.5pp	Accruals decrease by	0.075%	0.009%	0.033%	0.004%
Employee rotation rate	+ 0.5pp	Accruals decrease by	0.22%	0.18%	0.36%	0.53%
Employee retirement age	+1 years	Accruals decrease by	12.98%	3.12%	27.24%	18.95%
Wage growth	+0.5pp	Accruals increase by	0.085%	0.43%	0.04%	0.05%
Contributions to private pension fund	+0.5pp	Accruals increase by	0.02%	0.02%	0.02%	0.02%
Compulsory social security contributions	+0.5pp	Accruals increase by	0.09%	0.09%	0.09%	0.09%

Assumptions used in calculations of obligations			Assumption changes effect on accruals			
			Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
Changes in assumptions pp						
Discount rate	-0.5pp	Accruals increase by	0.075%	0.009%	0.033%	0.004%
Employee rotation rate	-0.5pp	Accruals increase by	0.22%	0.18%	0.37%	0.53%
Employee retirement age	-1 year	Accruals increase by	9.37%	4.58%	20.11%	26.32%
Wage growth	-0.5pp	Accruals decrease by	0.08%	0.43%	0.04%	0.05%
Contributions to private pension fund	-0.5pp	Accruals decrease by	0.02%	0.02%	0.02%	0.02%
Compulsory social security contributions	-0.5pp	Accruals decrease by	0.09%	0.09%	0.09%	0.09%

The calculations were made using an assumption that the discount rate was 0.031855% in 2022 (Group and Company) and 0.00235% in 2021 (Group and Company), i.e., equal to the average annual rate of return on treasury securities with an initial maturity of five years or more as per last two issues of such securities (source: State Treasury).

The 8.52% (Group) and 23.90% (Company) (4.84% (Group) and 22.02% (Company) in 2021) assumption of the employee turnover rate was calculated by a methodology based on the proportion between the number of employees having left the company (by own initiative) and the number of employees in the reporting period.

The assumption of employee retirement age is based on Article 8.1 of the Transitional Provisions of the Law On State Pensions (hereinafter – the Law) adopted on 2 November 1995 whereby the age of eligibility for old-age pension set out in Section 11 Paragraph one of the Law – 62 to 65 years – shall increase gradually and be specified for each year individually. As at 31 December 2022, it is 64.5 years (as at 31 December 2021 – 64.25 years).

The assumption of salary increase is consistent with the inflation rate for the next year as forecast by the Bank of Latvia, i.e., 17.3-10.9% in 2023, assuming that it may only be variable for the next six years and remains constant thereafter and considering the increase in the Group's personnel costs. At the Company and the Group, this assumption has now been unchanged at 4% for several year. The 5% assumption of contributions to a private pension fund is based on the Group's Collective agreement.

The assumptions of mandatory state social security contributions for employees and pensioners have been made pursuant to the general terms of the calculation methodology which use the next year's rates of mandatory state social security contributions as per Cabinet Regulations No. 786 "Regulations on the distribution of the rate of mandatory state social security contributions among types of social security" adopted at the government meeting of 17.12.2020 where these rates have been set at 23.59% and 20.77% respectively.

21. Trade payables

	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Payables to related parties (Note 23)	-	8 059	3 908	13 656
Payables to third parties	33 419	43 933	33 419	41 065
	33 419	**51 992**	**37 327**	**54 721**

In the 2022 report, discontinued operation liabilities, including trade payables, are disclosed under "Liabilities directly associated with assets held for sale".

22. Other liabilities

	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Prepayments received	11 784	56 950	11 784	56 822
Value added tax	12 345	20 326	12 345	19 597
Accrued costs	1 609	4 702	1 609	1 198
Excise tax	457	841	457	841
Vacation pay reserve	359	1 577	359	260
Salaries	158	1 005	158	175
Social security contributions	139	736	139	116
Personnel income tax	111	387	111	62
Other current liabilities	25	97	25	14
	26 987	**86 621**	**26 987**	**79 085**

In the 2022 report, discontinued operation liabilities, including other liabilities, are disclosed under "Liabilities directly associated with assets held for sale".

23. Related party transactions

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

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

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

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

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

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

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

24. Financial risk management

Fair value

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

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

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

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

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

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

Quoted market prices – Level 1

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

Valuation techniques using observable inputs – Level 2

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

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

Valuation technique using significant unobservable inputs - Level 3

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

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

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

Derivative financial instruments

As at 31 December 2021, derivative financial instruments were comprised of natural gas swap contracts. As at 31 December 2022, there are no active natural gas swap contracts either at the Group or Company level.

Unrestricted cash

In 2021, the Company was exposed to liquidity risk due to liabilities resulting from commitments undertaken under a Credit Support Annex (CSA) with some counterparties. A CSA lays down conditions how the parties shall provide collateral in financial derivative transactions. The cash held in the counterparties' accounts as collateral for financial derivative transactions is disclosed under "Unrestricted cash". In 2021, the natural gas prices fluctuated much more and the Company had to provide collateral for the unsettled financial derivative positions. As the settlement of financial derivative transactions became due and the hedged asset – inventories – was sold, the counterparties of financial derivative transactions have fully repaid the collateral to the Company, and as at 31 December 2022 the Company has no unrestricted cash.

Credit risk

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

Trade receivables and accrued income	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Trade receivables and accrued income				
Impaired	8 162	5 648	8 162	5 134
Not overdue	69 669	124 674	74 750	123 389
Overdue less than 90 days, but not impaired	7 453	4 867	7 453	4 833
Overdue more than 90 days, but not impaired	97	205	97	205
Trade receivables and accrued income, gross	**85 381**	**135 394**	**90 462**	**133 561**
Allowance for impairment of bad and doubtful debts	(8 486)	(5 893)	(8 486)	(5 370)
Trade receivables and accrued income, net	**76 895**	**129 501**	**81 976**	**128 191**
Other financial assets				
Cash restricted from being used	-	86 030	-	86 030
Derivative financial instruments	-	1 179	-	1 179
Total exposure to credit risk	**76 895**	**216 710**	**81 976**	**215 400**

Credit risk management practices

In order to mitigate credit risk, the Company introduced a number of credit risk management procedures. For the largest customers, the Company uses individual credit risk assessment which includes several practices, such as initial credit limit assessment, detailed monitoring of financial figures as well as frequent billing to avoid debt accumulation. In case of initial doubts, customers are subject to regular monitoring at the Board level and, if necessary, additional collateral is required to secure the provision of services and the sale of natural gas. For smaller customers, the Company has approved a detailed credit control process describing the basic steps of progress monitoring and the mandatory communication with customers to avoid debt accumulation. Provisions are made based on accounting standards. Receivables that are not individually assessed for impairment are classified into groups by number of days overdue and collectively assessed for impairment.

For managing the credit risk associated with cash and cash equivalents, the Company has approved a financial asset management policy. Based on the internal guidelines, all credit institutions which the Company deals with are quarterly graded by their financial and non-financial indicators. Based on the assessment, limits for current accounts with one institution are set and regularly monitored.

Liquidity risk

Liquidity risk is associated with the Group's and the Company's ability to settle their obligations within the agreed due dates. Due to the distinct seasonality of the Group's and the Company's business, cash inflows are exposed to major fluctuations within a year, and most of revenue is gained in the first and fourth quarter while the operating costs associated with maintenance are spread evenly throughout the year, and dividends for the previous year are normally paid out in the third quarter.

In order to manage liquidity risk, the Group and the Company use cash flow planning tools. The Group and the Company prepare yearly, quarterly and monthly cash flows to identify operational cash flow requirements.

Division of financial liabilities by maturity date, as at 31 December 2022, Group:

	2023	2-5 years	Total	Carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000
Leases	21	-	21	21
Trade payables and accrued costs	35 028	-	35 028	35 028
	35 049	**-**	**35 049**	**35 049**

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

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

Division of financial liabilities by maturity date, as at 31 December 2022, Company:

	2023	2-5 years	Total	Carrying amount
	EUR'000	EUR'000	EUR'000	EUR'000
Leases	89	30	119	119
Trade payables and accrued costs	35 028	-	35 028	35 028
	35 117	**30**	**35 147**	**35 147**

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

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

As at 31 December 2021, derivative financial instruments were comprised of natural gas swap contracts. As at 31 December 2022, there are no active natural gas swap contracts either at the Group or Company level.

Capital risk management

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

As at 31 December 2022 and 31 December 2021 the proportion of borrowed capital to total capital was as follows:

	Group 31.12.2022	Group 31.12.2021	Company 31.12.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Total liabilities	109 918	331 099	66 893	285 113
(Cash and cash equivalents)	(41 237)	(10 962)	(41 237)	(1 087)
(Reserved funds)	(5 846)	(357)	(5 846)	(357)
(Deferred income)	-	(17 028)	-	-
Net total liabilities	**62 835**	**302 752**	**19 810**	**283 669**
Total equity and liabilities	422 037	700 401	379 012	571 404
Borrowed capital proportion to total capital	**14.89%**	**43.23%**	**5.23%**	**49.64%**

Market risk

Market risk is the risk that changes in market factors, such as foreign currency rates, interest rates or commodity prices, may affect the Group's or the Company's profit. As at 31 December 2022, the Group and the Company have no cash balances in foreign currencies, As at 31 December 2021, there was a foreign currency cash balance of 3.4 thousand USD (3 thousand EUR). The Group and the Company have no other assets or liabilities in foreign currencies.

In its business, the Company faces market risk resulting from natural gas price fluctuations, differences between the time of sale and the time of purchase, and differences between the sale and purchase pricing models. The JSC "Latvijas Gāze" prioritises internal market risk mitigation through revising the supply agreement and managing its trading portfolio as far as possible.

Interest rate risk

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

25. Other risk management

Compliance risk

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

The following approaches are used to manage compliance risk:
- regular monitoring of regulatory enactments, changes and amendments thereto, implementing the relevant requirements in the Company's operation and updating the internal regulatory enactments as appropriate;
- coordination of cooperation agreements and regular performance monitoring;
- timely preparation and submission of summaries and reports, processing and fulfilment of requests from supervisory authorities and other external institutions;
- updating of the Company's internal regulatory enactments and assessment of the actual compliance, monitoring of execution of Board resolutions and orders, elimination of faults found during internal and external inspections;
- introduction of whistleblowing system at the Company – reporting of violations that extend beyond infringements of personal interests and concern the Company and the interests or its employees or general public;
- timely identification and elimination of conflicts of interest;
- tax risk management.

26. Critical accounting estimates and judgements

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

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

Revaluation of buildings, constructions, equipment and machinery

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

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

In 2019, a revaluation of property, plant and equipment took place at the Group. Based on the market situation in 2022 and the results of asset impairment test calculations, it was found that changes in the construction market prices have not been sufficient to cause a substantial difference between the carrying amount and fair value of an asset, which is why there was no revaluation of property, plant and equipment carried out in 2022.

Recoverable amount of property, plant and equipment

The Group conducts an impairment test on assets if there are events and circumstances that indicate a potential impairment. If necessary based on the test results, the value of assets is written down to their recoverable amount. if the future situation changes, a further impairment may be recognised or a previously recognised impairment may be partially or fully reversed.

Estimation of remaining useful life

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

Impairment of trade receivables and accrued income

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

Post-employment benefit obligations

Based on the conditions of the Group's Collective agreements as to the post-employment benefits expected to be paid to employees in future, the Group has calculated the accrued post-employment benefit obligations pursuant to a methodology developed on the basis of the actuarial mathematics methods and the International Financial Reporting Standards using the prospective calculation method and the projected unit method. The calculations use a discount rate equal to the annual average rate of return on the Latvian treasury securities with an initial maturity of five years or more as per last two issues of such securities. Accruals are calculated for each employee individually based on the situation as at 31 December of each reporting year and annually updated, including an update for 31 December 2022. Along with the calculation of post-employment benefit obligations, there are accruals made for the employer's compulsory state social security contributions and contributions to private pension funds.

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

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

The following considerations support the judgements made by the management:

- Although the "production" and "sale" (a transfer to the end-user) are not really separated due to the nature of business, the triggering event to pay the excise tax is a "delivery" to the end user. This indicates that the excise duty is paid close to the transfer to end customer and therefore it is closer in nature to a sales tax.
- The excise duty is clearly separate from the selling price and it is shown separately on the invoices to commercial clients.

Control over subsidiary

The JSC "Latvijas Gāze" owns 100% in the subsidiary JSC "Gaso", unified registration No. 40203108921, legal address: Vagonu iela 20, Riga, Latvia, LV-1009.

	Subsidiary's equity 31.12.2022	Subsidiary's equity 31.12.2021	Subsidiary's profit 2022	Subsidiary's profit 2021
	EUR'000	EUR'000	EUR'000	EUR'000
JSC "Gaso"	**275 629**	**277 545**	**(1 751)**	**11 545**

Although the JSC "Gaso" has been granted statutory independence in gas distribution business, the general corporate control by the JSC "Latvijas Gāze" as parent company fully remains. The parent company's ordinary rights to corporate control over the distribution subsidiary have been explicitly recognised in Section 45 Paragraph three Clause 3 of the Latvian Energy law (which, in turn, transposes the provision contained by Article 26(2)(c) of Directive 2009/73/EC of- the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC). Specifically in the context of IFRS 10 "Consolidated financial statements", the critical aspect of control is provided by the fact that the authority to appoint the JSC "Gaso" Council lies with the JSC "Latvijas Gāze" Board (subject to consent of the Company's Council), acting as the sole shareholder of the JSC "Gaso". The JSC "Gaso" Council, in turn, appoints the JSC "Gaso" Board, responsible for the operating activities which substantially affect the subsidiary's profit.

27. Summary of significant accounting policies

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

Basis of preparation

The consolidated and separate financial statements (financial statements) of the JSC "Latvijas Gāze" are prepared in accordance with the International Accounting Standards 34 "Interim Financial Reporting" and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted for use in the European Union, and are presented together in one document.

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

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

The financial statements were approved for publishing by the Company's Board on 19 April 2023. Under the Commercial Law, the Company announces a general meeting of shareholders following the receipt of the auditor's opinion and the Council report, also sending the annual report to the Company's shareholders.

Adoption of new and revised standards, amendments and interpretations

Standards and amendments taking effect in reporting years starting on or after 1 January 2022 or not adopted for use in the EU

There have been new or revised standards and interpretations issued which are mandatory for reporting periods starting on or after 1 January 2022 and which the Group and the Company have not adopted early. These standards or interpretations are not expected to have a material impact on the Group's and the Company's financial statements.

Standards and amendments taking effect in the reporting year

— **Amendments to IFRS 3: Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37:** Provisions, Contingent Liabilities and Contingent Assets, Annual improvements for 2018-2020 (issued on 14 May 2020) (effective for reporting periods starting on or after 1 January 2022.

Standards and amendments taking effect in reporting years starting on or after 1 January 2023 or not adopted for use in the EU

Amendments to standards:

- **Amendments to IFRS 17: Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information** (issued on 9 December 2021) (effective for reporting periods starting on or after 1 January 2023).
- **Amendments to IAS 12 "Income taxes": Deferred Tax related to Assets and Liabilities arising from a Single Transaction** (issued on 7 May 2021) (effective for reporting periods starting on or after 1 January 2023).
- **Amendments to IAS 1: Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies** (issued on 12 February 2021) (effective for reporting periods starting on or after 1 January 2023).
- **Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates** (issued on 12 February 2021) (effective for reporting periods starting on or after 1 January 2023).

New standards:

- **IFRS 17: Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)** (effective for reporting periods starting on or after 1 January 2023).

Standards, amendments and interpretations issued but not yet adopted by the EU

Amendments to standards:

- **Amendments to IAS 1: Presentation of Financial Statements** (effective for reporting periods starting on or after 1 January 2024):
  - **Classification of Liabilities as Current or Non-current** (issued on 23 January 2020);
  - **Classification of Liabilities as Current or Non-current – Deferral of Effective Date** (issued 15 July 2020);
  - **Non-current Liabilities with Covenants** (issued on 31 October 2022).
- **Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback** (issued on 22 September 2022) (effective for reporting periods starting on or after 1 January 2024).

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

Financial instruments

Financial assets classification

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

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

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

Recognition and derecognition

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 of financial assets

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.

Recognition and derecognition of financial assets

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group and the Company commits 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 or ownership.

Revenue from contracts with customers

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

Sale of natural gas – wholesale

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

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

Sale of services – natural gas distribution

The JSC "Gaso" provides natural gas distribution services to the gas traders who sell the natural gas to end users. The revenue from the provision of services is recognised in the period when the services are rendered which corresponds to revenue recognition over time as the end user receives and uses the benefit or the provided service at the same time as the gas is delivered (distributed).

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

The Company sells natural gas to end users – corporate customers and households. Revenue is recognised based on the actual quantities delivered up to the end of the reporting period, normally one month, as the gas sold is priced on a per quantity basis.

Households settle their debts according to equalized payment schedules with end-dates not necessarily coinciding with calendar year-end, based on the actual consumption during previous settlement year.

Connection fees

When connecting to the gas network, the customers have to pay a connection fee to the JSC "Gaso", the revenue from connection fees is deferred and recognised as revenue over the estimated customer relationship period. Connection fees received from customers are carried in the statement of financial position as "Deferred income" within long-term liabilities.

Up to and including the 2020 reporting period, the revenue from connection fees were recognised over 30 years. However, in 2021, the average customer relationship period was revised with new estimates, assuming 20 years as the average customer relationship period. Thus, the net impact in 2022 was an increase in revenue by 1,821 thousand EUR (in 2021: 2 155 thousand EUR). Assuming that the deferred revenue will be accounted till the end of the estimated average customer relationship period, the revenue increase in the next years will be as follows: 1 425 thousand EUR in 2023, 1 126 thousand EUR in 2024, and 733 thousand EUR in 2025.

Excise duty

The excise duty is levied on the natural gas delivered to the end user and is calculated on the basis of fixed rate per quantity delivered depending upon purpose of use of natural gas by the end user.

Contract assets and contract liabilities related to contracts with customers

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

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

Financing component

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

Property plant and equipment

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

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

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

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

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

Buildings:	20 – 100 years
Constructions, including gas distribution system:	20 – 70 years

Machinery and equipment:	5 – 20 years
Other fixed assets :	2 – 10 years

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

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

Intangible assets

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

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

Impairment of non-financial assets

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

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

Inventories

Inventories are stated in the balance sheet at the lower of cost and net realisable value. The cost of natural gas is composed of the gas purchase price and is determined using FIFO (first in first out) method.

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

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

Leases

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable by the Group and the Company under residual value guarantees;
- the exercise price of a purchase option if the Group and the Company are reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group and the Company exercising that option.

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

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

Right-of-use assets

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

- Right-of-use assets are measured at cost comprising the following;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs and
- restoration costs.

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

Cash and cash equivalents

Cash consists of current account balances and short-term deposits, if any, with an initial maturity of up to 90 days that are easily convertible into cash and not exposed to a material risk of changes in value.

For non-cash payments, the Company uses debit cards issued by the credit institution.

Cash in foreign currencies are recalculated into EUR by the exchange rate set by the European Central Bank.

Equity

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

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

Other reserves are subject to consent of the Council.

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

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

Assets held for sale and discontinued operations

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

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

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

- the assets have to be available for immediate sale in their current condition;
- the sale of assets has to be highly probable.

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

- book value;
- fair value less selling costs.

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

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

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

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

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

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

Principles of consolidation

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

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

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

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

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

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

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

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

Segment reporting

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

Share capital and dividend authorised

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

Trade and other payables

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

Borrowings and borrowing costs

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

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

Provisions

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

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

Provisions are measured at present value based on the management's best estimate of the costs necessary to fulfil the current obligation at the end of the reporting period.

Employee benefits

Wages, salaries and bonus plans

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

Social security and pension contributions

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

Vacation pay accrual

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

Post-employment and other employee benefits

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

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

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

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

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

Income tax

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

Related parties

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

28. Remuneration of certified auditors company

	Group 2022	Group 2021	Company 2022	Company 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Mandatory audit of financial statement and consolidated financial statement	42	49	28	31
Performance of non-audit assignments	-	2	-	-
	258	**51**	**258**	**31**

29. Contingent liabilities

The Company has a valid long-term contract with the PJSC "Gazprom" on "take or pay" conditions which specify the minimum quantity to be bought over a given period. In 2022, the parties signed an agreement on not raising complaints against each other over failure to meet obligations under this contract.

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

When the net profit of 2022 is distributed, corporate income tax liabilities will arise (20/80 of the net amount distributed to the shareholders). Assuming that the distribution of the 2022 profit is proposed as stated in Note 17 (20 349 thousand EUR or 0.51 EUR per share), the corporate income tax will amount to approximately 5 087 thousand EUR, which will be recognised in the Group's and the Company's profit or loss for the period when the shareholders approve the decision on distribution.

Proposal of profit distribution

	2022
	EUR
Company's profit for the reporting year	**40 823 737**
Extraordinary dividends in 2022 (36.7% of total profit)	14 999 992
Suggested profit distribution after extraordinary dividends:	
Dividends to shareholders (49.8% of total profit)	**20 349 000**
Dividends per one share of 20 349 000 (EUR/1 share)	**0,51**
Profit retained	5 474 745

30. Subsequent events

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

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

The JSC "Gaso" is a holder of critical infrastructure. Having regard of this and the requirements of the Law On the International and National Sanctions of the Republic of

Latvia, the necessary changes in the governance structure of the JSC "Gaso" will be made in due time pursuant to Regulation No. 2023/427.

During the period from the final day of the reporting year up to the day of signing of this separate and consolidated financial statements, there have been no other events that necessitate adjustments to this separate or consolidated financial statement.

Aigars Kalvītis Chairman of the Board	Elita Dreimane Member of the Board	Egīls Lapsalis Member of the Board	Laima Dudiča Chief Accountant, Head of the Accounting and Reporting Department

CONSOLIDATED CORPORATE SOCIAL RESPONSIBILITY REPORT (NON FINANCIAL REPORT)

Prepared under Section 56.4 of the Financial Instrument Market Law

JSC "Latvijas Gāze"

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

AS "Gaso"

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

Abbreviations

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

Contact details

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

BOARD STATEMENT

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

The report was reviewed and approved by the Board of the JSC “Latvijas Gāze” on April 19, 2023 as part of the consolidated annual accounts (non-financial report) and its preparation in accordance with the law has been verified by a certified auditor.

The report is signed on behalf of the Board by:

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

INTRODUCTION

The consolidated Corporate social responsibility report of the JSC "Latvijas Gāze" for the year 2022 is its fifth, follows the guidelines of the UN *Global Compact* (*www.unglobalcompact.org*), and contains the non-financial information set out in Directive 2014/95/EU of the European Parliament and of the Council and the Financial Instrument Market Law. This report, as the methodology of its preparation evolves, uses a number of new key performance indicators, also considering the recommendations included in *Nasdaq ESG Reporting Guide 2.0 (2019)* for companies listed on stock exchange[1].

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

In regard to the obligation to disclose information on compliance with sustainable investments and meeting the criteria of sustainable business under the EU regulatory framework on sustainability in investment and disclosure, one has to refer to Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2022 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (Text with EEA relevance) (hereinafter – the Sustainable investment regulation). In the 2022 reporting period, there were natural gas distribution and trading services provided within the Group, and these do not qualify as sustainable investments under the current classification of the sustainable investment regulation.

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

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

10 PRINCIPLES OF UN GLOBAL COMPACT

HUMAN RIGHTS

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

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

EMPLOYEES

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

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

Principle 5 the effective abolition of child labour; and

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

ENVIRONMENT

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

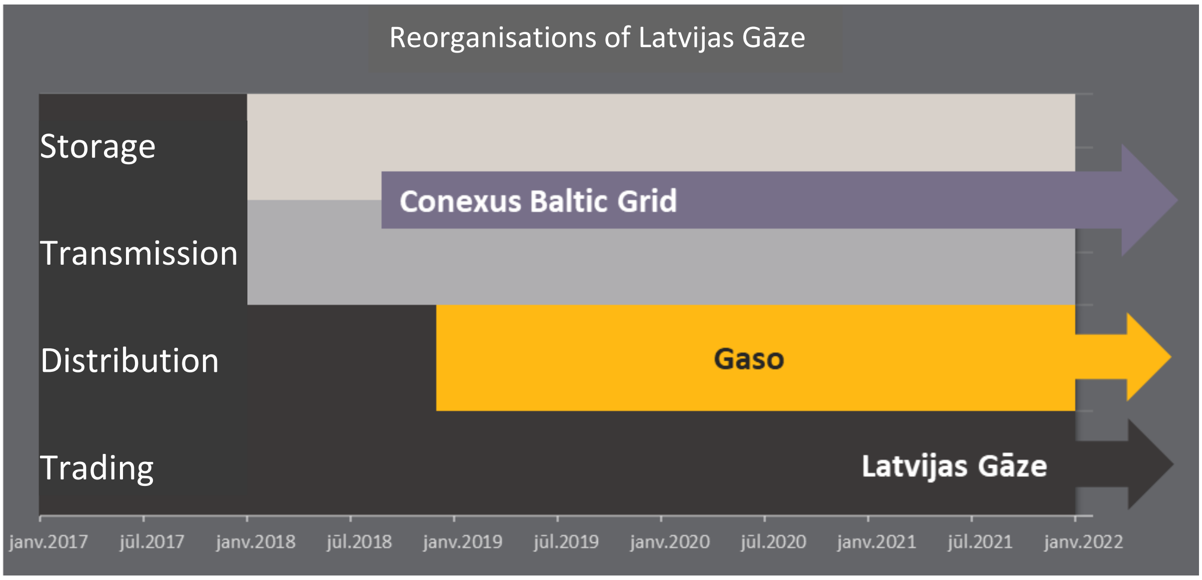
Principle 8 undertake initiatives to promote greater environment responsibility; and

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

ANTI-CORRUPTION

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

REORGANISATION OF LATVIJAS GĀZE



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

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

On August 8, 2022, the shareholders of the JSC "Latvijas Gāze" passed a decision on launching the Company's reorganisation process or the reduction of its equity capital.

The Board of the JSC "Latvijas Gāze" in execution of the shareholder's decision of August 8, 2022 has launched the process of selling the gas distribution operator JSC "Gaso" which it owns. The process is expected to be completed within 2023.

HUMAN RIGHTS

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

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

RESPECT FOR HUMAN RIGHTS AT THE COMPANY

POLICY AND RISKS

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

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

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

MEASURES

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

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

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

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

STAFF HEALTH AND SAFETY

WORKING HOURS, REMUNERATION AND ABSENCES

POLICY AND RISKS

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

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

MEASURES

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

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

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

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

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

PRIVACY AND DATA SECURITY

POLICY AND RISKS

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

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

MEASURES

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

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

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

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

PERFORMANCE INDICATORS

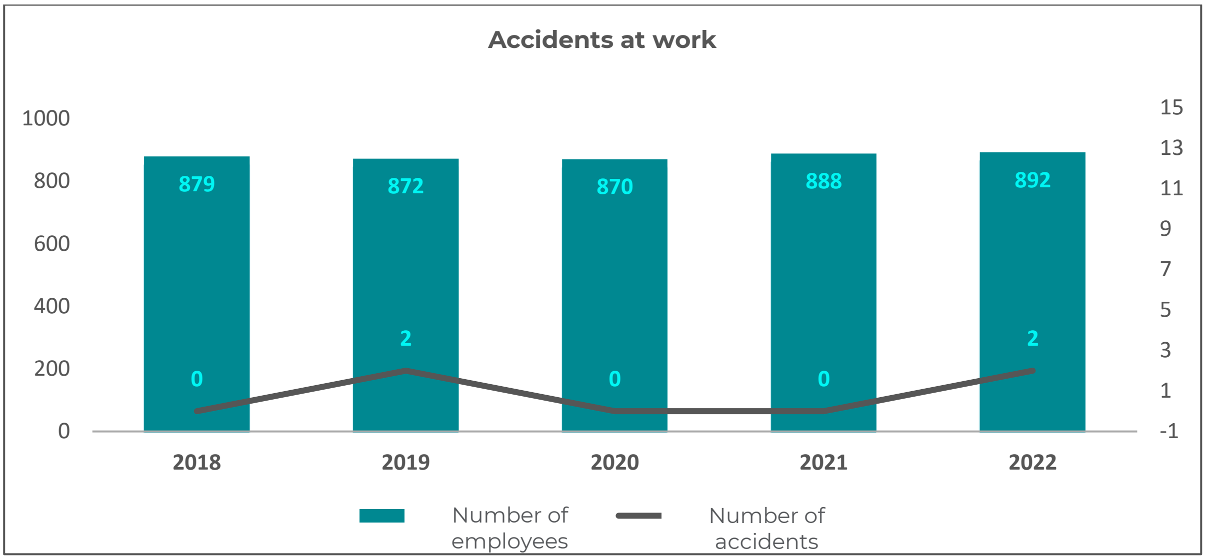
VIOLATIONS

In 2022, there were no complaints received, including from whistleblowers, over general human rights infringements in the field of staff health and labour safety or personal data protection and data security. Nor were there infringements found by the supervisory institutions.

ACCIDENTS AT WORK

In 2022, two accidents occurred to employees of the JSC "Gaso" while performing their professional duties. Both employees have recovered and returned to work. Both incidents were followed by a non-routine assessment of working environment risks and an unplanned briefing on labour protection at work. There have been no lethal accidents in the period covered.

Accidents at work at the Group



EMPLOYEES

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

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

Principle 5 the effective abolition of child labour; and

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

TRADE UNIONS

POLICY AND RISKS

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

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

MEASURES

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

In late 2022, the JSC "GASO" and the trade union of Latvian public utility and transport employees "LAKRS" extended the collective agreement by another year – till the end of 2023. The JSC "Latvijas Gāze", in turn, developed and adopted an internal regulatory enactment "Procedure how the Joint Stock Company "Latvijas Gāze" provides employees with social guarantees" (adopted at the JSC "Latvijas Gāze" Board meeting of 08.12.2022 (minutes No. 49 (2022)). The said procedure lays down the employees' rights and guarantees of social support which improve their position compared to the external regulatory framework (additional off-days, additional leaves of absence, monetary bonuses to employees on important life events, and other benefits).

FORCED AND CHILD LABOUR

POLICY AND RISKS

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

EMPLOYMENT CONDITIONS

POLICY AND RISKS

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

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

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

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

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

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

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

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

MEASURES

A number of matters pertaining to employment relationship and employees’ social guarantees are governed by the collective agreement, the internal rules of procedure, as well as the internal regulatory enactment “Procedure how the Joint Stock Company “Latvijas Gāze” provides employees with social guarantees”.

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

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

When rolling out new technologies, improving the information technology systems, or taking other similar measures, the employer provides training and/or retaining for employees and supports their continuing education – an employee who studies at any educational establishment without discontinuing work is granted an education leave of 10 (ten) working days per academic year (without keeping salary). For taking a state exam or writing a diploma paper, an educational leave of 20 (twenty) working days per academic year is granted, keeping salary during that time.

PREVENTION OF DISCRIMINATION

POLICY AND RISKS

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

The Group sees the risks associated with discrimination as low.

MEASURES

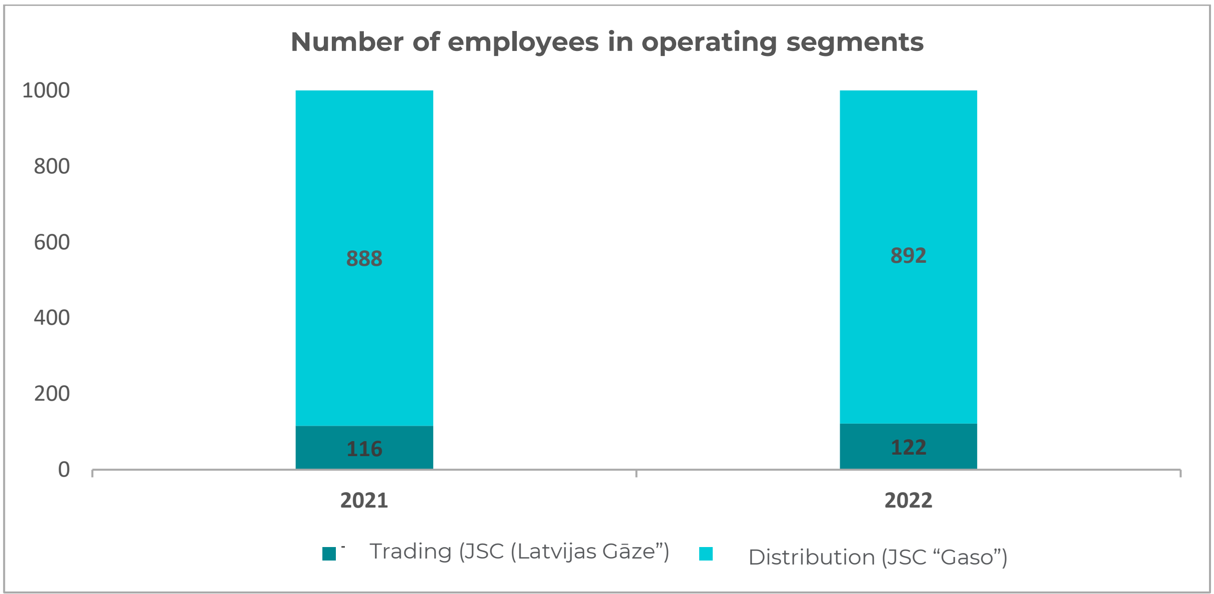
Job advertisements set out specific requirements for candidates based on the professional competences needed by the Group and are worded in a non-discriminatory way. During the recruitment process, no sensitive information about applicants, including their religious or political conviction, family status,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

PERFORMANCE INDICATORS

INVOLVEMENT OF TRADE UNIONS

In 2022, there was no need to involve trade unions in the settlement of disputes.

NUMBER OF EMPLOYEES IN OPERATING SEGMENTS

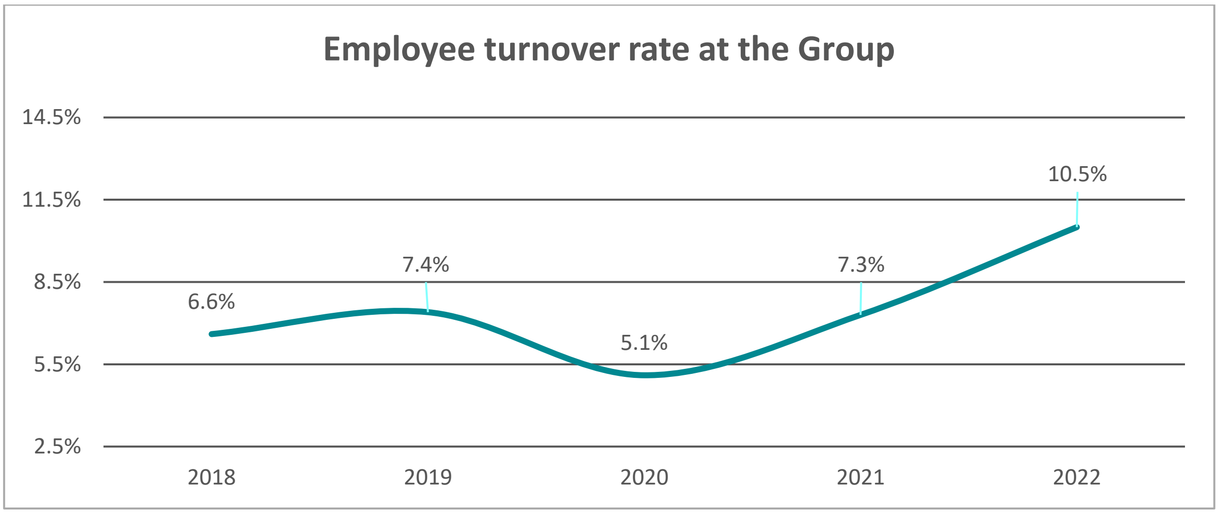


NUMBER OF EMPLOYEES SUBJECT TO THE COLLECTIVE AGREEMENT

In 2022, the collective agreement is applicable to all employees of the Group. It ensures an equal treatment of employees in terms of social guarantees and envisages additional social guarantees not stipulated in the Labour Law – additional leave, additional off-days, benefits, monetary bonuses etc.

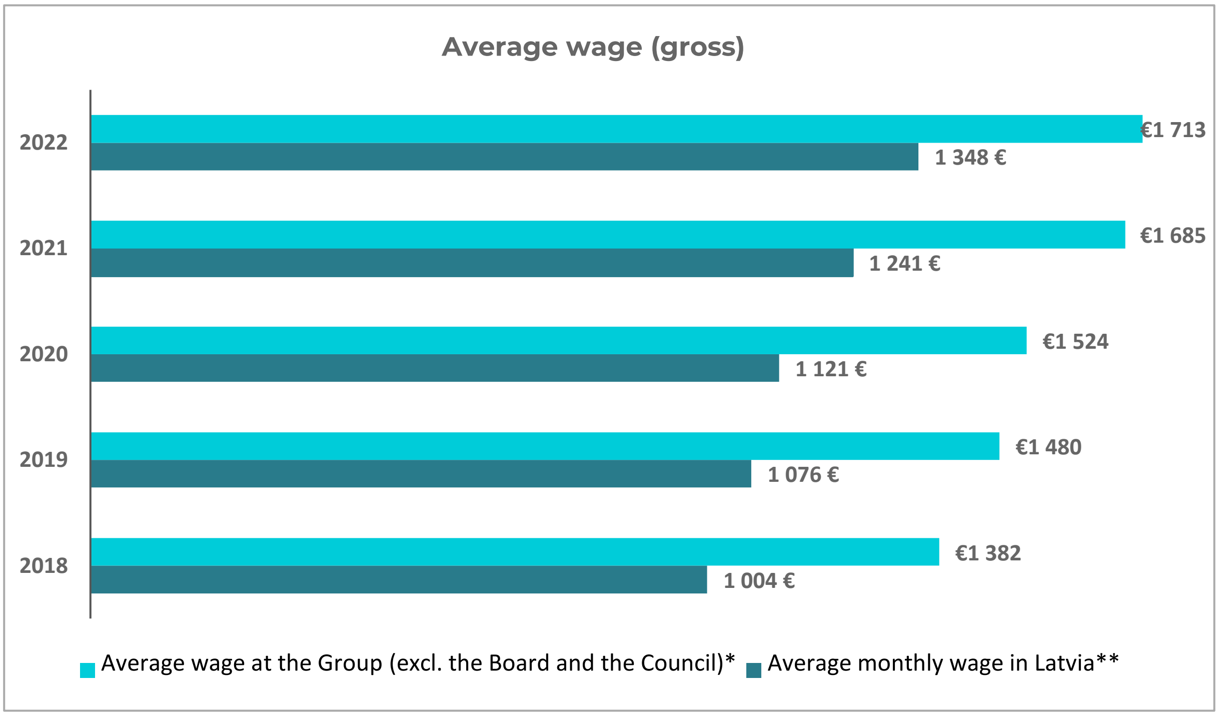
EMPLOYEE TURNOVER RATE

The development of the employee turnover rate reflects the events at the Group and the situation in the labour market. The increase in this rate stems from the high turnover in the customer service sector of the JSC "Latvijas Gāze" following the rapid increase in customer interest (the number of incoming calls and the volume of correspondence has almost doubled due to the geopolitical situation, the rise in prices in the energy market, etc.). Turnover has also been high among employees representing the information technology sector due to high demand for these specialists and the remuneration policy in the labour market.



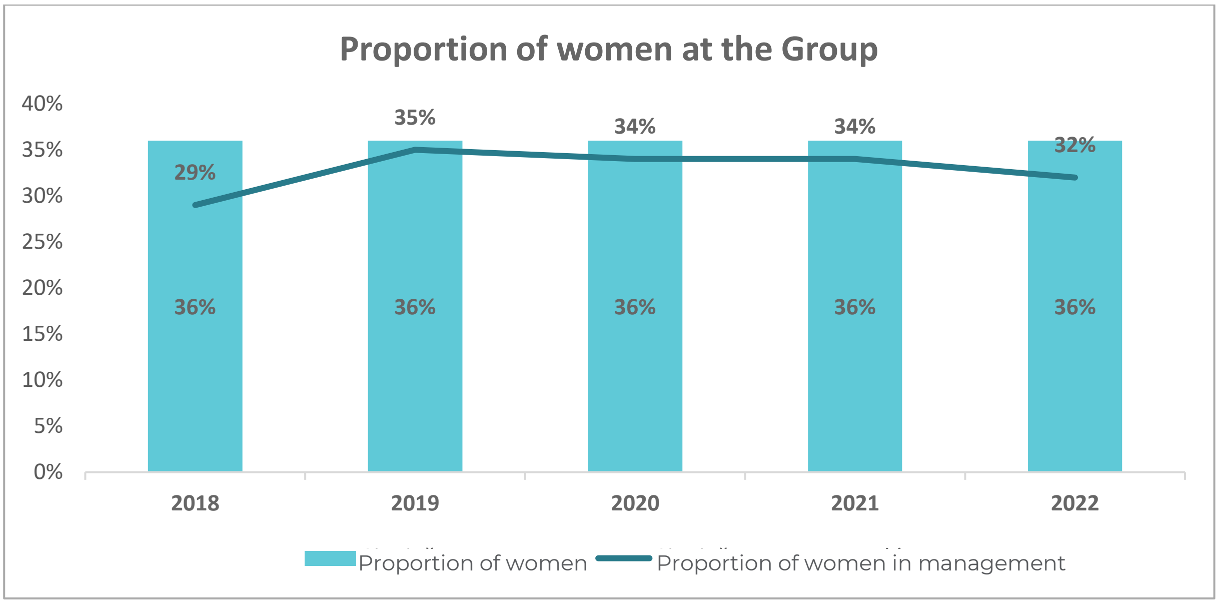
AVERAGE WAGE

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



GENDER DIVERSITY – PROPORTION OF WOMEN

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



VIOLATIONS

In 2022, there were no complaints received, including from whistleblowers, over discrimination at work.

Nor were there infringements found by the supervisory institutions.

ENVIRONMENT

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

Principle 8 undertake initiatives to promote greater environment responsibility; and

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

NATURAL GAS USAGE AND SUSTAINABILITY

POLICY AND RISKS

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

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

Nationally, the most substantial environmental pollution across the natural gas usage cycle occurs at final consumers where there are natural gas losses in the internal pipeline systems and where natural gas is combusted and CO_2, nitrogen oxide and other emissions are released into the atmosphere. Overall, natural gas as product is the most environmentally friendly fuel and as replacement of other fuels improves the quality of the environment.

In line with the above policy, the Group strives to increase the use of natural gas in areas where other fossil resources are currently preferred.

Based on the criteria listed in the sustainable investment regulation, the JSC “GASO” can achieve sustainability through building systems of hydrogen or other low-emission gases or adapting the existing systems for the transportation of such gases.

The JSC “Latvijas Gāze” can achieve sustainability through accomplishing the objective of biogas production/trading which is aligned with the business development directions set out in the Company’s strategy.

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

MEASURES

In line with the climate neutrality targets for 2050 set out by the European Union, the JSC "Latvijas Gāze" focuses on offsetting the environmental impact generated by customers through creating projects that allow to reduce the GHG emissions. In light of the regulatory package drafted as part of the European Union's "Fit for 55", the European Commission's Hydrogen and Gas Market Decarbonisation Package, the Methane strategy and the objectives set out in the Renewables Directive, the ambition of the JSC "Latvijas Gāze" is to develop renewable resource projects, including ones using the natural gas network infrastructure and its possibilities. In 2021, apart from the ISO 50 001 energy management standard, the JSC "Latvijas Gāze" implemented an environment management control system pursuant to the ISO 14 001 standard and calculated its CO_2 emissions. Having regard to the environmental policy and the results of the calculations, the JSC "Latvijas Gāze" has planted 2,000 birches, thus neutralising its CO_2 emissions of 3 years.

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

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

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

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

CO_2 and other emissions may be further reduced by replacing petrol and diesel cars with ones powered with natural gas. CNG used in transportation generates up to 30% lower CO_2

emissions than diesel or petrol, and for other harmful emissions this difference is up 90%. It is therefore one of the current objectives of the Group to actively promote the development of CNG infrastructure in Latvia, also providing technical support and competences to businesses who invest in building CNG refuel stations.

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

The Group has over 130 CNG vehicles of various applications and manufacturers available for use by its employees, as well as its own CNG refuel station.

NATURAL RESOURCE CONSUMPTION AND GHG

POLICY AND RISKS

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

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

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

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

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

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

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

MEASURES

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

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

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

The management has put forward and approved four main objectives for 2023:
- to reduce the total electricity consumption by 4% in 2023 compared to 2022;
- to reduce the average fuel consumption (litres per 100 km) by 1% in 2023 compared to 2022;
- to promote a change in staff attitude in favour of electricity and fuel saving.

Within the framework of the energy management system the Group completed 41 energy efficiency tasks in 2022 with planned energy savings of 1140 MWh per year. Such activities will bring an estimated 11.7% reduction of the total energy consumption.

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

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

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

BIODIVERSITY

POLICY AND RISKS

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

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

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

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

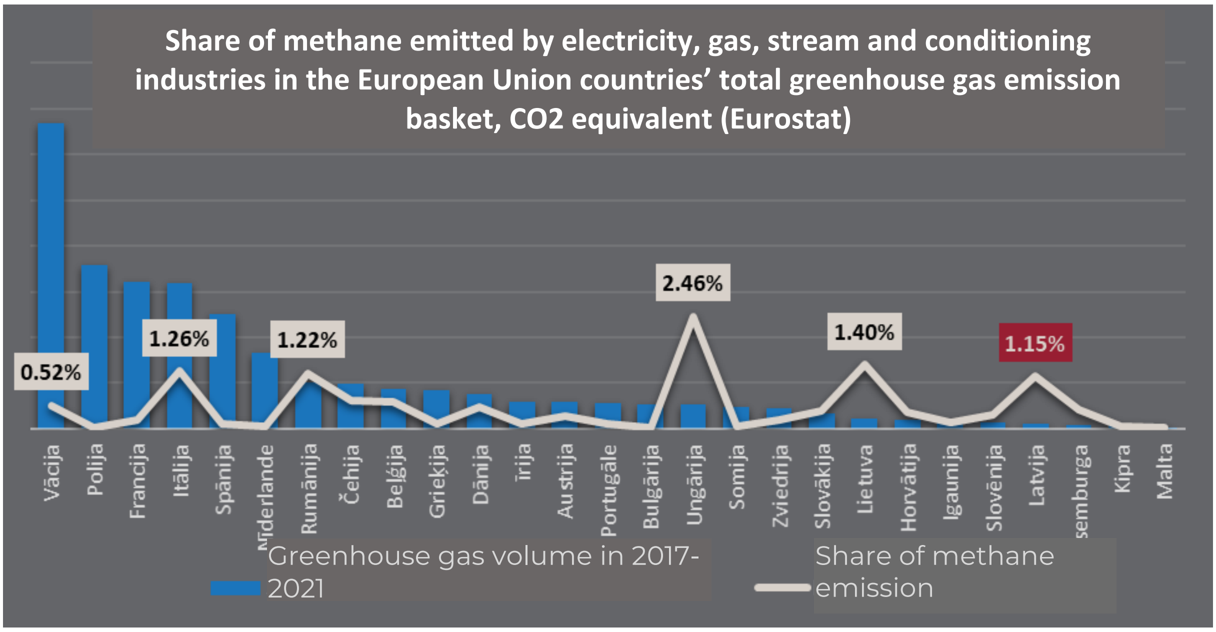
The Group's objectives are to gain broad support for the infrastructure development projects implemented by involving residents, businesses, local governments and the responsible public authorities and to ensure compliance with the environmental impact requirements and consequently a smooth course of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

MEASURES

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

CONTRIBUTION OF NATURAL GAS LEAKAGES TO THE GREENHOUSE EFFECTU

Methane (the core element of natural gas) is a greenhouse gas, so its emission (occurring as continuous losses from the system or leakages upon gas pipeline ruptures or repairs) into the atmosphere is recalculated as the carbon dioxide (CO_2) emission equivalent. Compared with other European Union member states, Latvia generates low total GHG emissions, and those of methane are also low. As shown in the chart, the methane emission by the industry represented by the JSC "Gaso" accounts for just 1.15% of Latvia's total CO_2 emission equivalent, and specifically the methane emission by the distribution system operator in Latvia is just 0.13% of the total greenhouse gas emission volume[3].



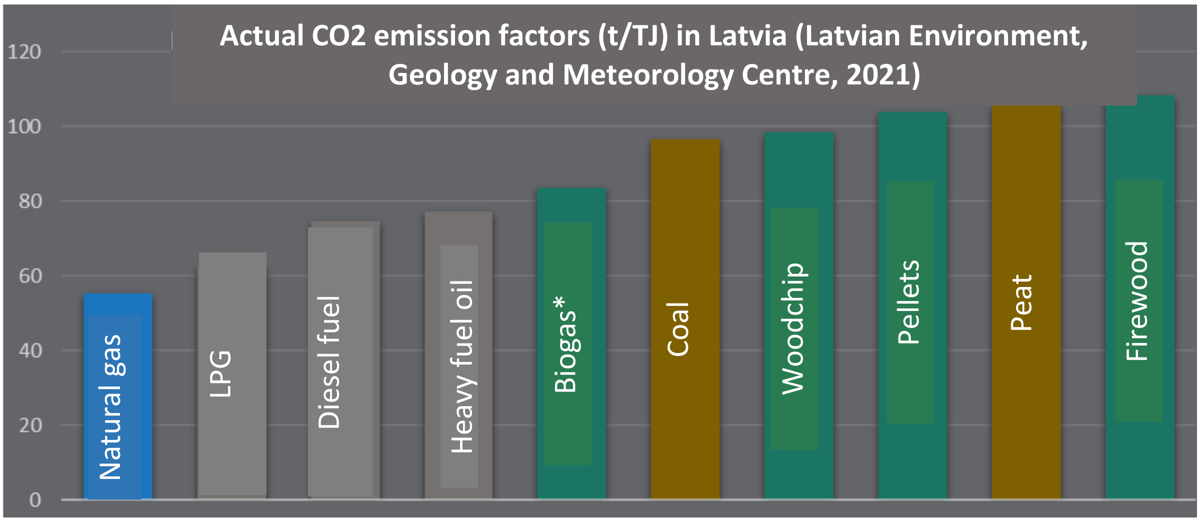
The high proportion of methane emission in Latvia as compared with the figures of other European Union member states stems not so much from the scale of consuming or transporting natural gas itself (the 2017-2021 average percentage in the total consumption balance is 22% in Latvia and 23% in the European Union[4]) as from the relatively low CO_2 emission volume of other sectors in Latvia. For instance, industry in Latvia is relatively small, and the electricity consumed has been produced with relatively low CO_2 emissions.

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

[4] Eurostat

Contribution of natural gas burning to the greenhouse effect

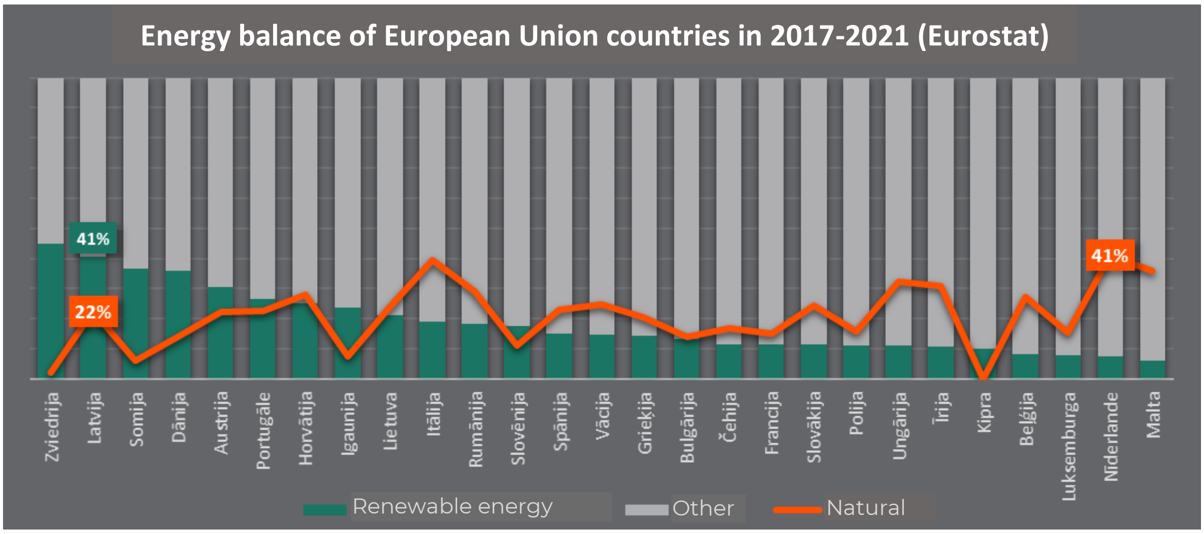
Given the properties of natural gas, its way of burning is particularly friendly to the environment. Hence, the JSC "Gaso", through developing the availability of natural gas in the country and using natural gas for own consumption, sees itself as a contributor to the quality of environment and to sustainability, especially where natural gas replaces other types of fuel, as the actual CO_2 emissions of natural gas burning are lower than those of oil products and substantially lower than those of coal, peat and renewable fuels – biogas and biomass.



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

With 41% of renewable energy resources in the total consumption balance, Latvia is among the leaders in the European Union in the use of renewables. However, a major part – about 80% – of the volume of renewables consumed in Latvia are solid biomass fuels which generate a substantial pollution of CO_2 and other substances. Meanwhile, emission-free (hydro, solar, wind) consumption in Latvia accounts for just 14% of renewables and 6% of the total consumption.[5]

[5] Eurostat; average data for 2017-2021



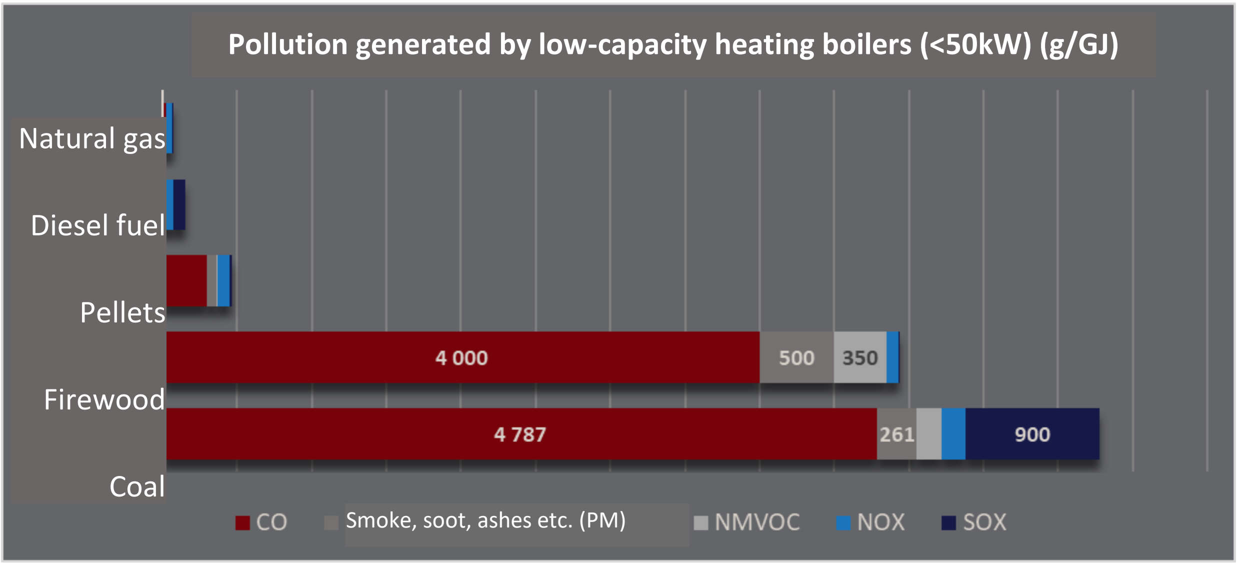
NOx, SOx, PM, heavy metal and other pollution

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

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

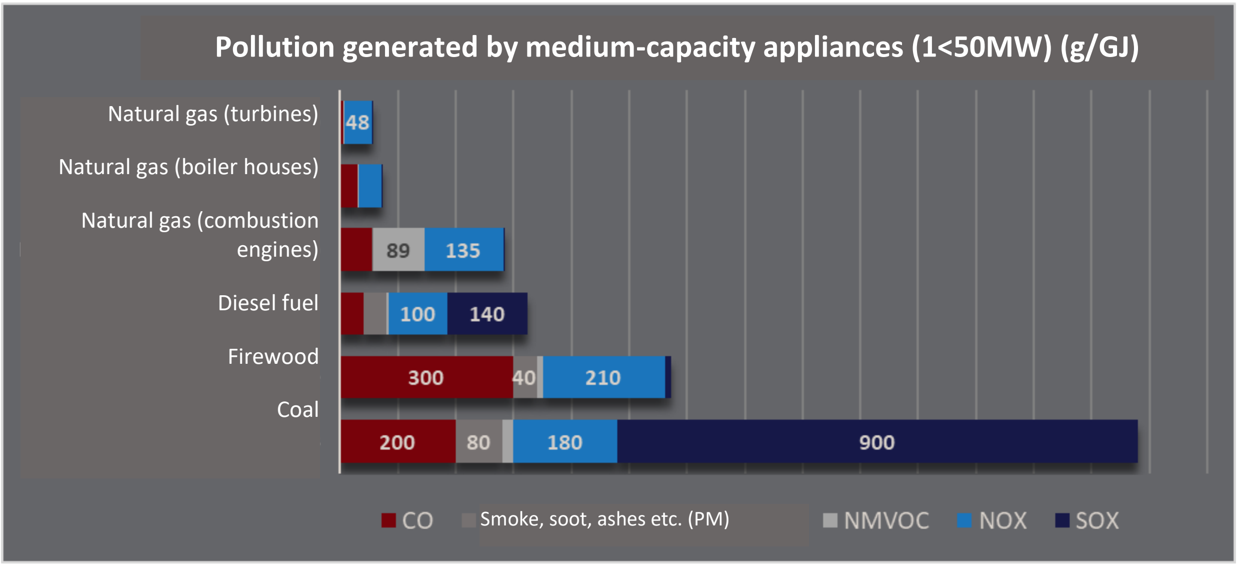
According to the data collected by the European Environment Agency, pellets and especially firewood – both widespread in Latvia – cause a substantial local pollution when used in the heating of private houses or other small areas, whereas natural gas essentially does not cause such pollution.

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

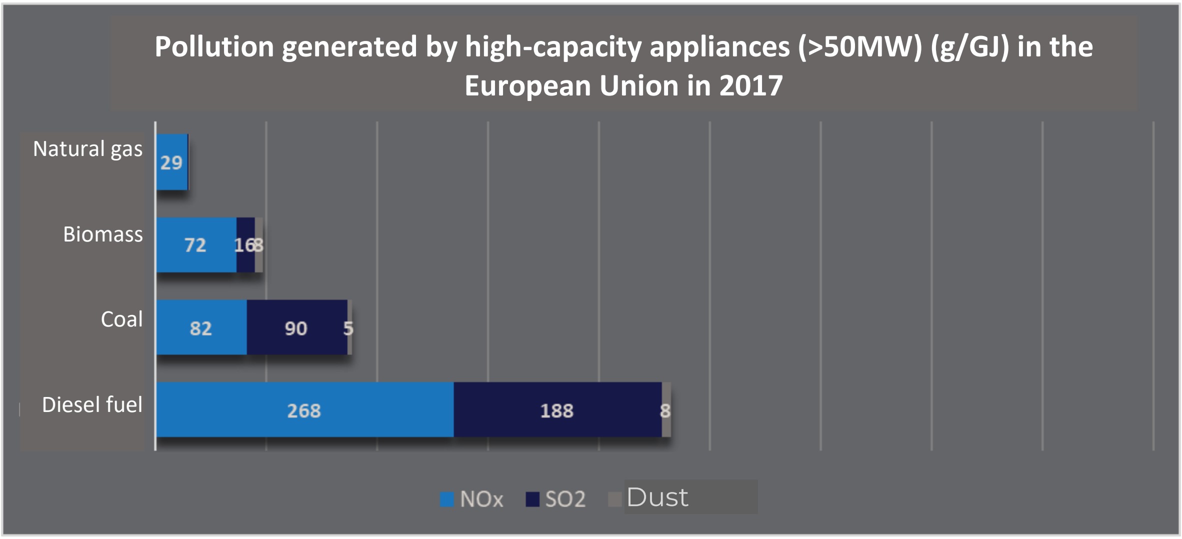


Source: European Environment Agency, Small combustion, EMEP/EEA air pollutant emission inventory guidebook 2016

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



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



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

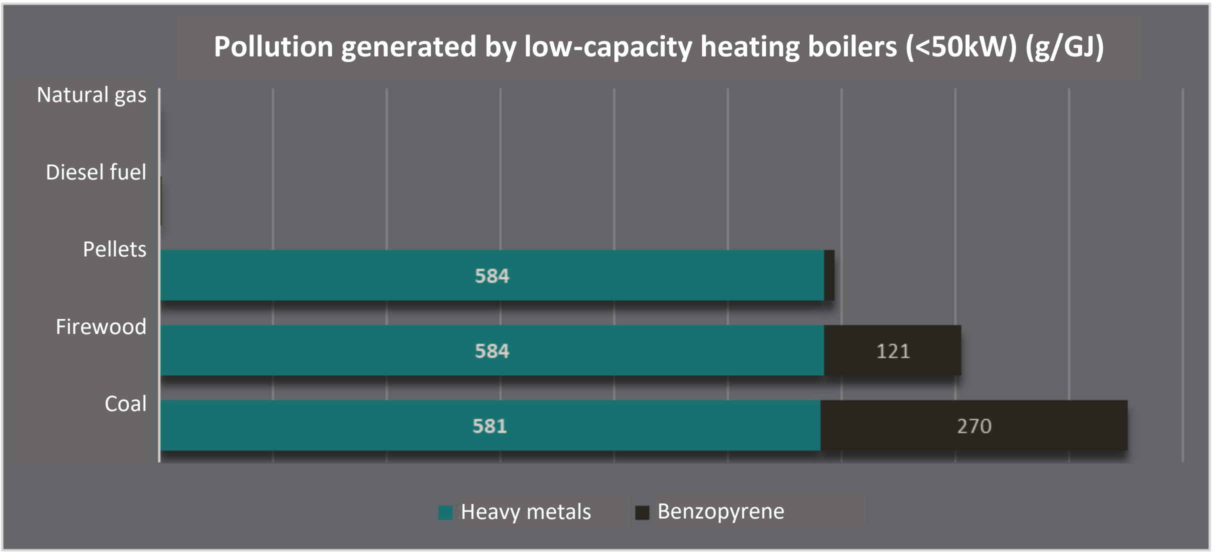
There is another kind of pollution brought by the burning process – heavy metals, dioxins, polychlorinated biphenyls (hydrocarbon and chlorine compounds) and other substances. In the energy sector overall, the emission of these substances does not pose a substantial harm to the environment and human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

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

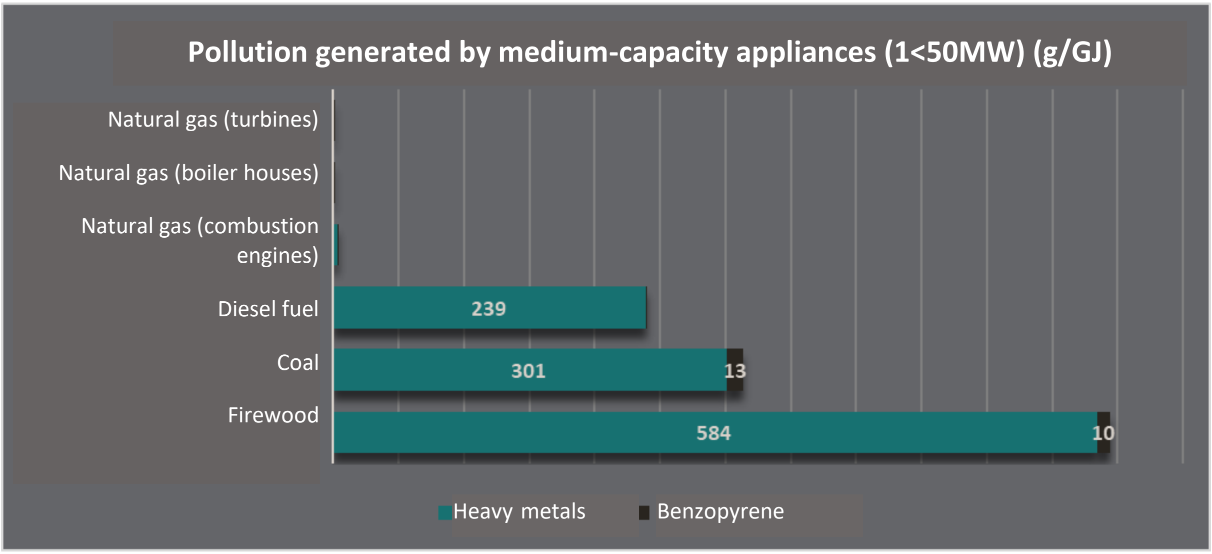
Benzopyrene (C20H12) affects human health, for instance, as cancerogenic[12]. Hence, there is attention paid to its emissions. Overall, natural gas burning does not cause a considerable benzopyrene pollution on an individual or national scale.

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

[11] European Environment Agency, https://www.eea.europa.eu/data-and-maps/indicators/eea32-heavy-metal-hm-emissions-1/assessment-9
[12] https://pubchem.ncbi.nlm.nih.gov/compound/benzo%28a%29pyrene



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



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

OPERATION AND POLLUTION OF NATURAL GAS DISTRIBUTION NETWORKS

POLICY AND RISKS

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

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

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

MEASURES

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

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

A “Gaso gas school” has been established – lectures on the origin, use, appliances and danger of natural gas for three different age groups of children, an interactive mobile stand and informational materials. In 2021, due to the circumstances related to COVID-19, the operations of „Gaso gas school” were rearranged and, taking advantage of the opportunity to address the pupils remotely, there were nine “Labā gāze” (‘Good Gas’) lessons delivered, with several thousands of pupils receiving a “Gaso gas school” booklets in the shape of a gas stove. In cooperation with the Gaso Training Centre, six informational “Gāzes ABC” (‘Gas ABC’) videos have been produced, addressing topics such as different gases, danger, safety, action. A number of additional information videos, lectures on the origin, use, appliances and dangers of natural gas were prepared in 2022, as well as an interactive mobile stand and informational materials for “Gāzes ABC” regarding the advantages and dangers of natural gas. The clips were used during the remote events of “Gaso gas school”, at the customer service centre of the JSC “Gaso”, and published on the websites of the JSC “Gaso” and other emergency services and on social media. In 2022, remote lessons of “Gaso gas school” were also held in cooperation with „Skolas soma” and „Iespējamā misija”.

A number of additional informational videos are planned for “Gāzes ABC” in 2023 regarding the advantages and dangers of natural gas, as well as in-person participation in the events held by municipalities, public organisations and emergency services, educating people, educating people on the safe use of natural gas. Also planned is co-operation with the event “Mazais stiprinieks” (‘Little Strongman’), educating both young and adult residents of 20 towns and cities of Latvia on the safe use of natural gas.

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

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

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

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

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

CHEMICAL SUBSTANCES AND WASTE

POLICY AND RISKS

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

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

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

MEASURES

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

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

PERFORMANCE INDICATORS

VIOLATIONS

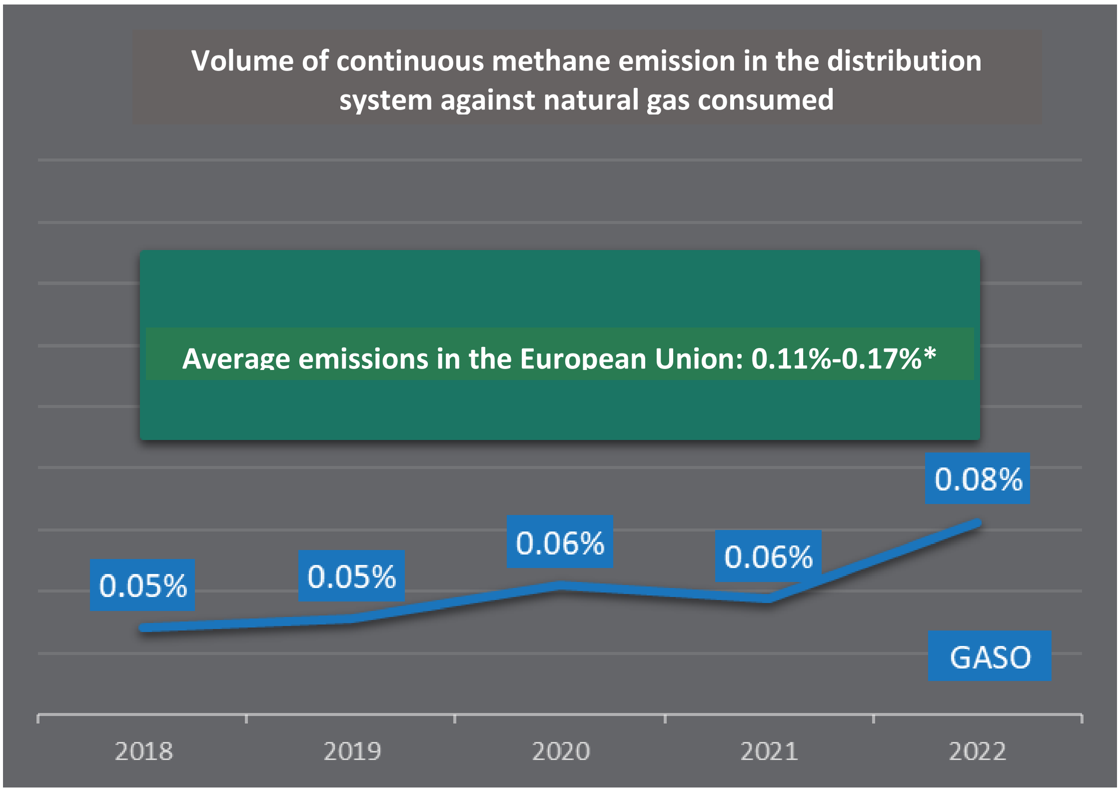
In 2022, there were no complaints received over the environmental impact generated by the Group. There was one incident involving hazardous waste – an unknown person placed 0.8 t of hazardous waste – asbestos-containing slate and other construction waste – on a forest land owned by the JSC "Gaso" without approval from the JSC "Gaso". The JSC "Gaso" immediately reported this to the Municipal Police of the Ropaži County. The waste was disposed of in compliance with the regulatory requirements by handing it over to a waste management company. Nor were there infringements found by the supervisory institutions. No substantial environmental harm has been inflicted and no areas have been deforested in the course of construction and running of the distribution system.

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

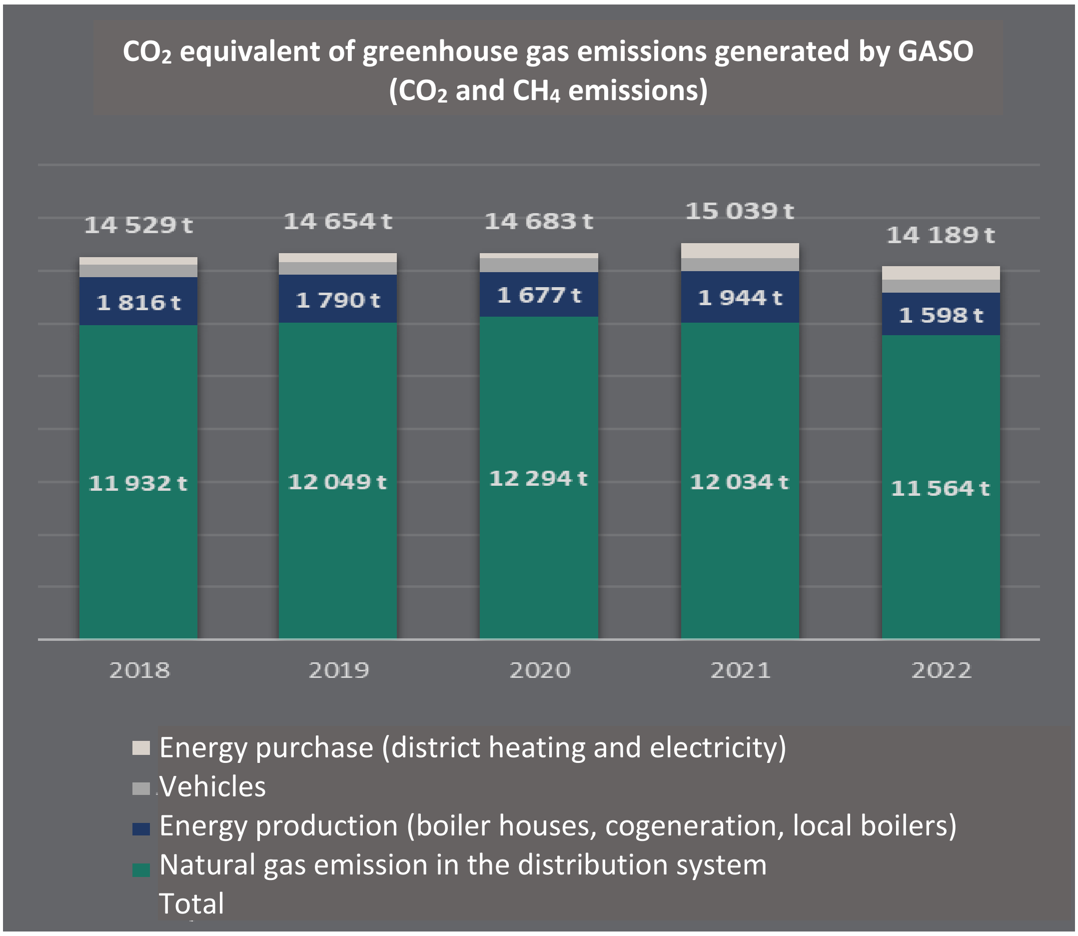
Methane, or natural gas, is a greenhouse gas. Compared to other European Union member states, Latvia generates low emissions of GHG as a whole, and the same goes for methane individually. The calculated amount of methane emission in the Latvian natural gas distribution system is approximately 2-3 times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

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

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



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



The carbon footprint of the JSC "Gaso" primarily stems from the release of natural gas (methane) into the atmosphere (a CO_2 equivalent factor of 25 has been used for methane in the calculations). In 2022, natural gas emission accounted for 82% of the total SEG emissions of the JSC "Gaso".

The second biggest source of emissions (11%) is own-produced heat, cold and electricity used for own needs.

Vehicles and purchased energy (heat and electricity), in turn, account for another 4% each.

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

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

In 2022, the emissions of CO2 equivalent decreased by 850 tons, with one half of the decrease achieved through reduced emissions from accidents in the natural gas distribution system and the other half achieved in the production and purchase of energy as a result of energy-saving measures amid the high energy resource prices.

PRIMARY ENERGY CONSUMPTION BALANCE

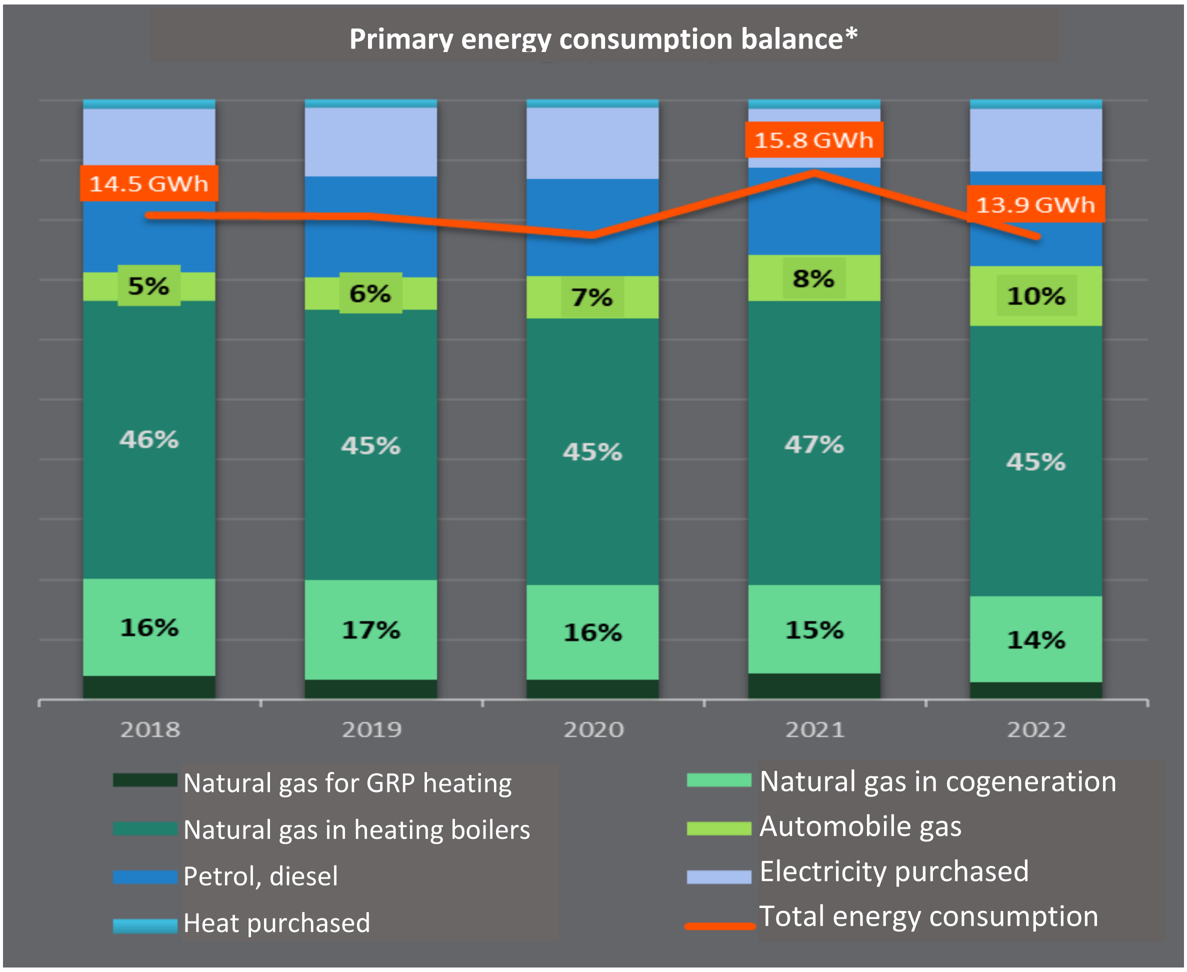
The Group sees natural gas as a resource for a green and financially efficient housekeeping and therefore purposefully increases the use of natural gas for own consumption. Since 2017, the share of natural gas in the primary energy consumption basket has grown from 64% to 72%.

In 2022, the JSC "Gaso" itself produced of natural gas 97% of its consumed heat and 29% of its consumed electricity. Natural gas also accounted for 39% in the vehicle consumption balance, which is a substantial rise from 23% in 2018.

Overall, natural gas accounted for 72% in the primary energy consumption balance of the JSC "Gaso" in 2022. The share of natural gas even saw a slight decrease against 2021 due to substantial heat-saving measures. Importantly, heat production is both energy-intensive (55% of all consumption on average in 2018-2022) and almost fully powered by natural gas (97%).

The Group also invests in the energy efficiency of buildings and equipment, which contributes to a lower or more efficient consumption. The total energy consumption has decreased by 4% since 2018 and by 12% compared to 2021. It should be noted, though, that the heating months of 2021 were the coldest in five years on average, forcing more heat consumption.

The fact that the outdoor air temperature during the heating season in 2018 was similar as in 2022 suggests that the energy resource saving measures carried out in 2022 have yielded a substantial decrease in energy consumption.

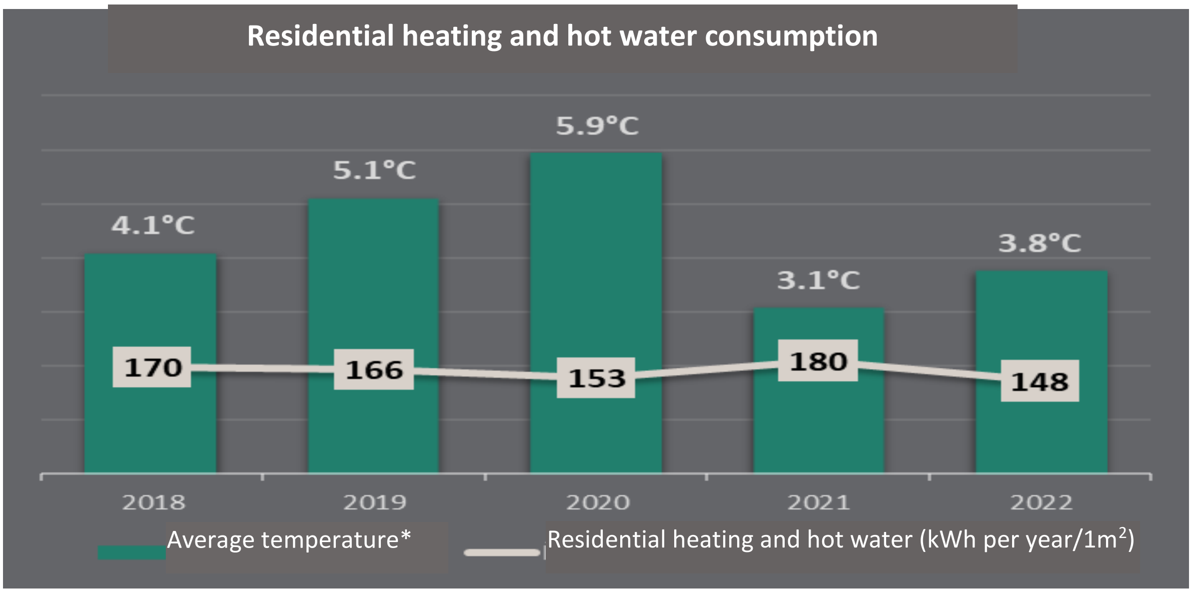


*The calculations for 2017 include the data of the trader and the DSO. The DSO's consumption in 2016-2017 accounted for over 90%. The primary energy consumption balance shows the energy quantity consumed, so the electricity and heat generated by the cogeneration plant is represented by the natural gas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

RESIDENTIAL HEATING AND HOT WATER CONSUMPTION

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

In the autumn of 2022, the JSC "Gaso" carried out a number of energy resource saving measures which yielded a 18% decrease in heat consumption.

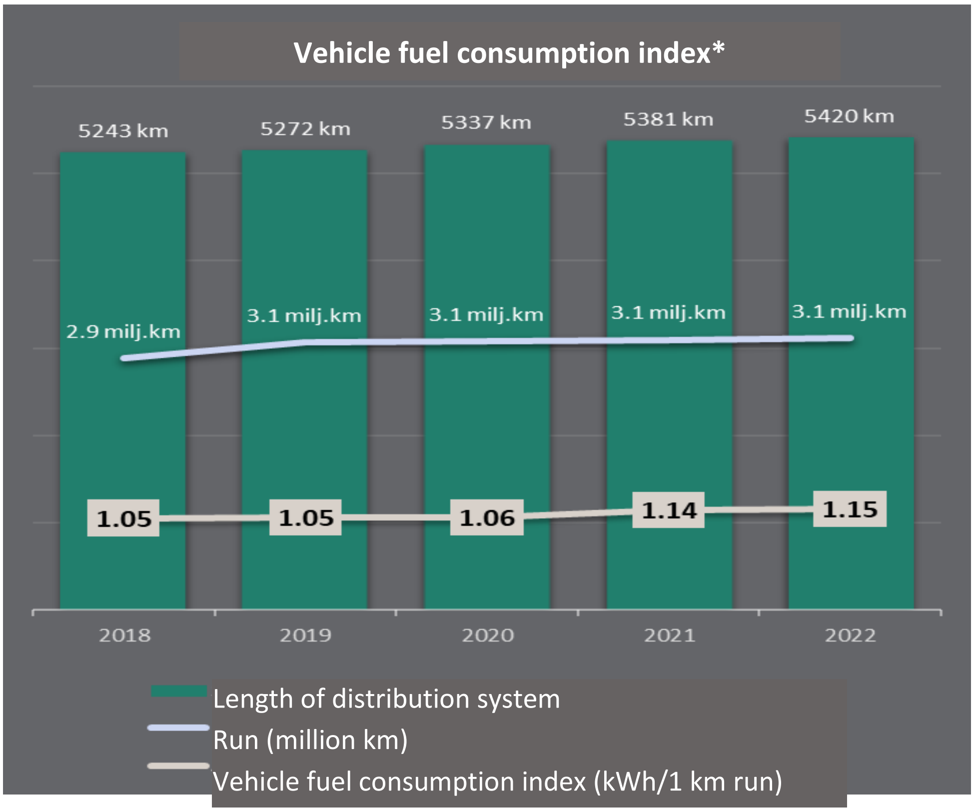


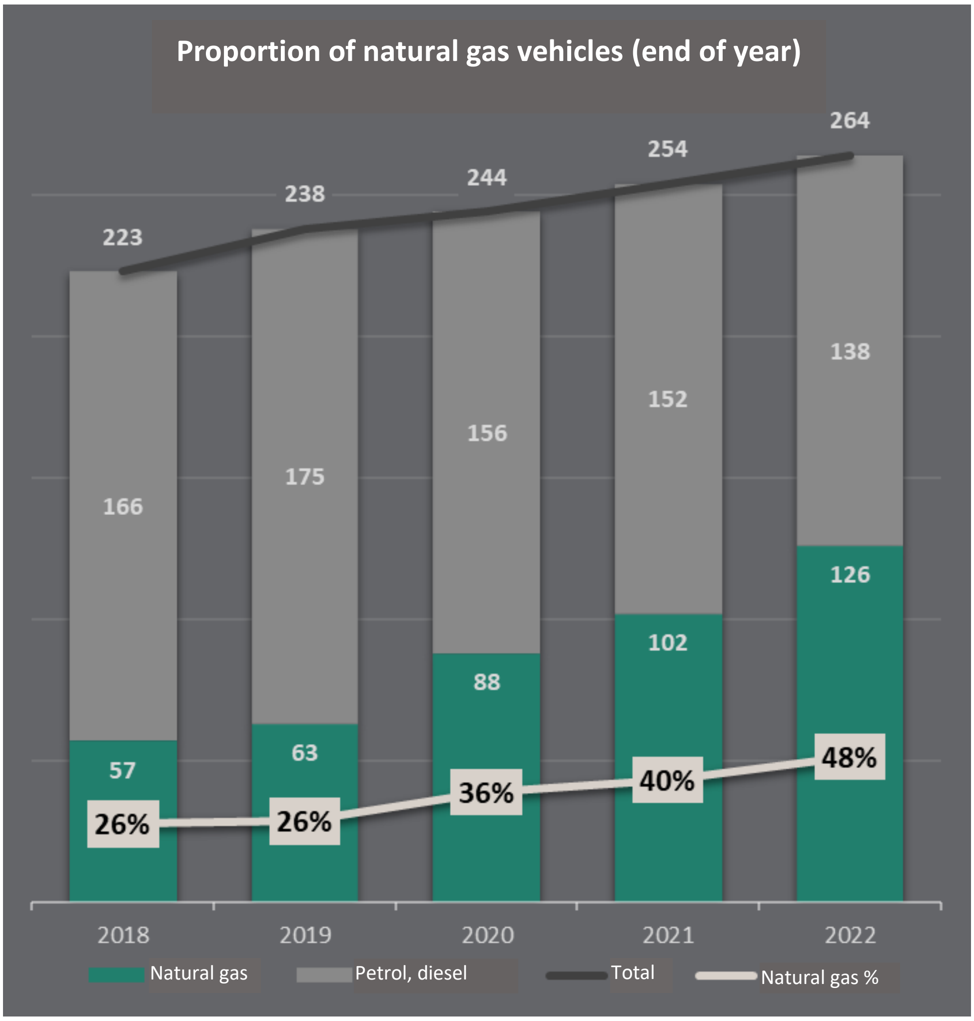
* Average air temperature in Latvia during the heating season (Jan-May and Sep-Dec); source: CSB

VEHICLE FUEL CONSUMPTION

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

The run and fuel consumption index of vehicles remains steady. Every year, the Group reduces the number of petrol and diesel vehicles, replacing them with natural gas counterparts. Such replacement does not yield an increase in energy consumption but contributes in a different area of environmental impact by reducing CO2 emissions and substantially mitigating the nitrogen, sulphur and particle pollution.

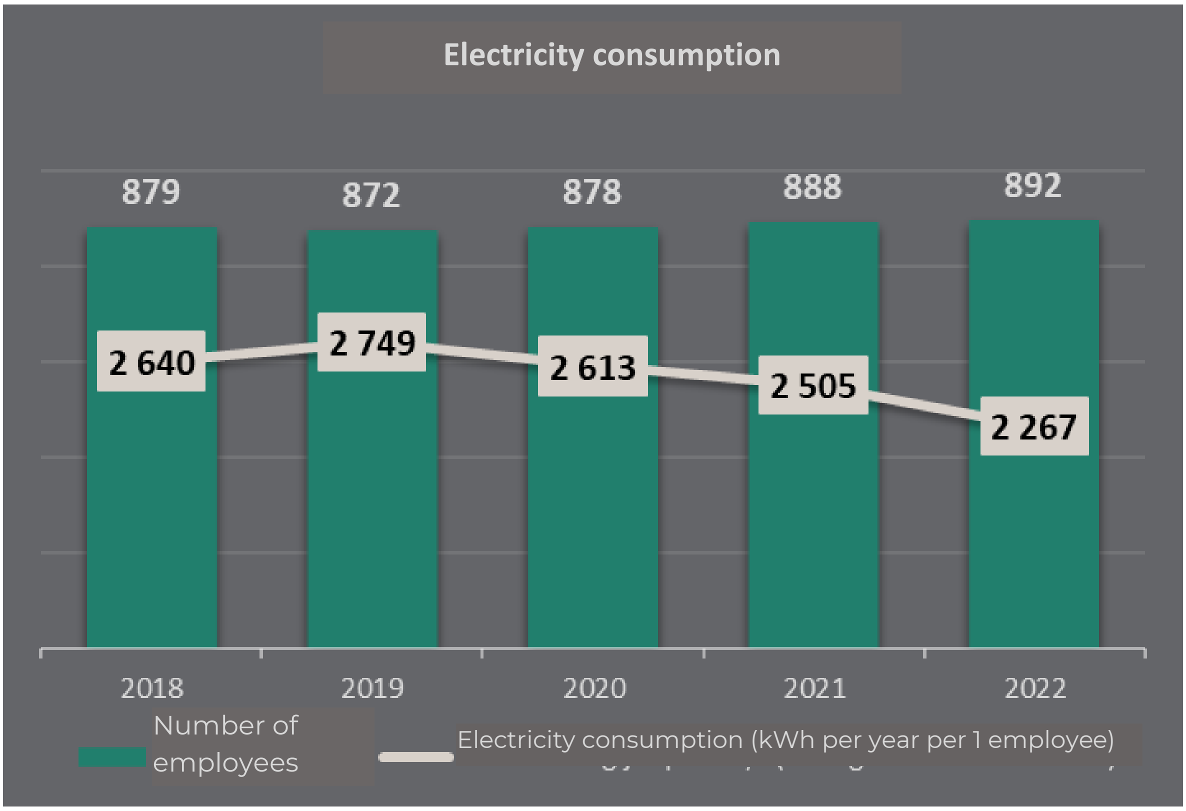

Vehicle fuel consumption index*
5243 km
5272 km
5337 km
5381 km
5420 km
2.9 milj.km
3.1 milj.km
3.1 milj.km
3.1 milj.km
3.1 milj.km
1.05
1.05
1.06
1.14
1.15
2018
2019
2020
2021
2022
Length of distribution system
Run (million km)
Vehicle fuel consumption index (kWh/1 km run)


Proportion of natural gas vehicles (end of year)
223
238
244
254
264
166
175
156
152
138
57
63
88
102
126
26%
26%
36%
40%
48%
2018
2019
2020
2021
2022
Natural gas
Petrol, diesel
Total
Natural gas %

Since 2018, vehicles with natural gas engines have increased in both number (from 57 to 126) and proportion (from 26% to 48%). Such changes in fleet lead to lower CO2 emissions per kilometre compared to petrol and diesel vehicles and substantially mitigate the nitrogen, sulphur and particle pollution.

Electricity consumption per one employee has decreased by 14% since 2018 – a result of multiple factors (energy efficiency measures, reorganisation, premises planning etc.)

The year 2022 saw a substantial drop due to additional energy resource saving measures taken in response to the high prices.

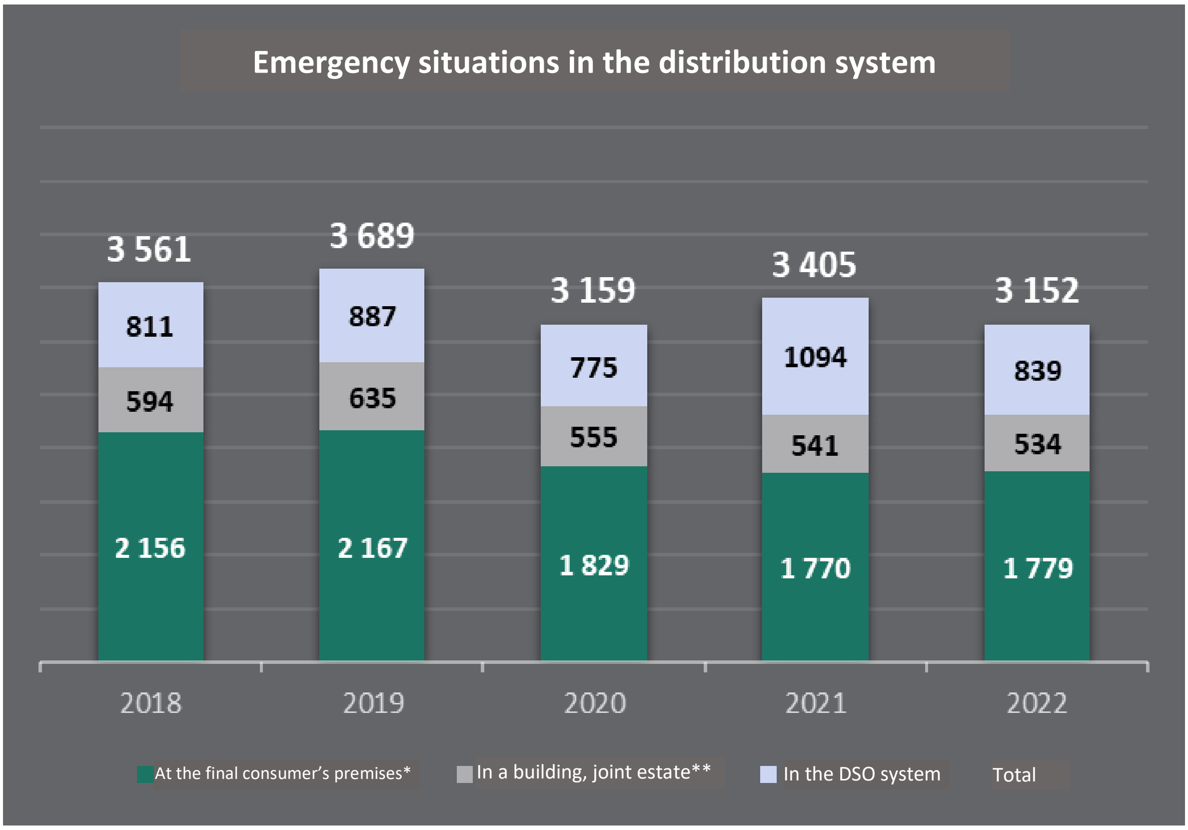


EMERGENCY SITUATIONS IN THE NATURAL GAS DISTRIBUTION SYSTEM

The most part of emergencies are damages to the equipment owned by final consumers. The number of those saw a gradual decrease, possibly due to a lower number of connections. The same goes for the gradual decrease in the number of emergencies involving pipelines in joint property.

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

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

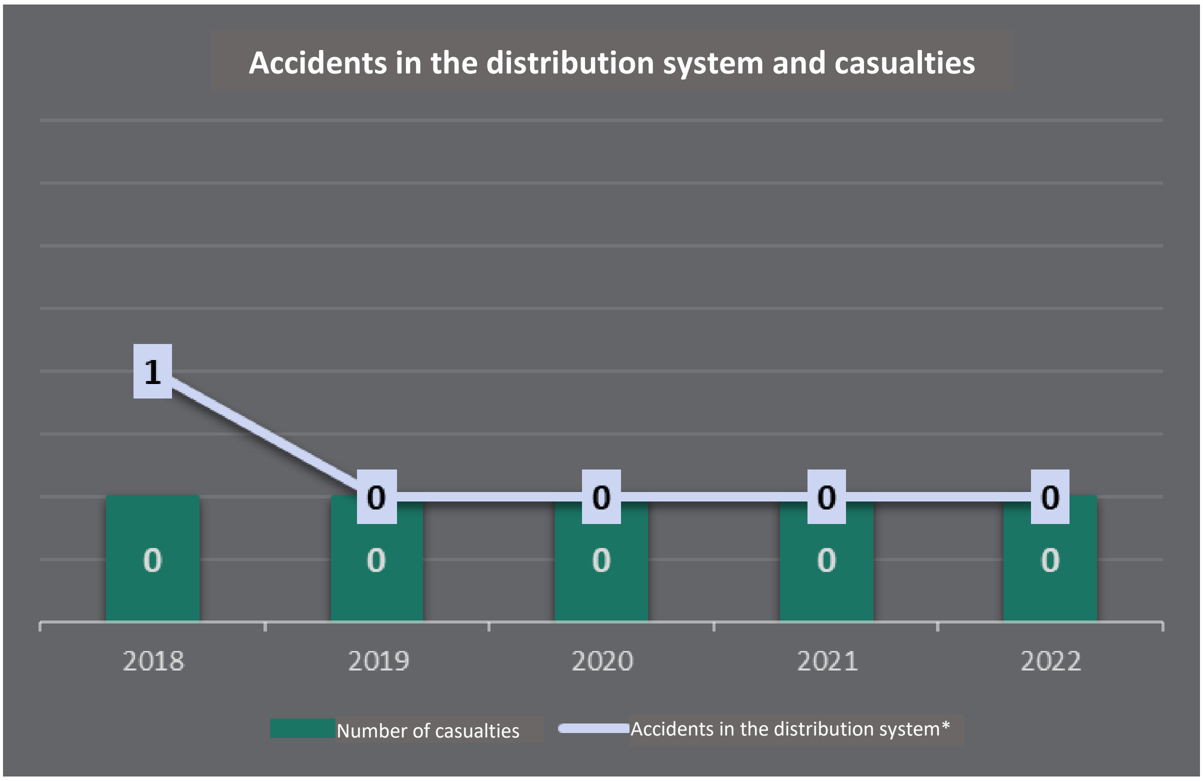


*Includes equipment whose operation falls under the final consumer's responsibility – the natural gas consumption meter, shut-off devices, natural gas hardware and gas pipelines within the final consumer's premises

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

ACCIDENTS IN THE DISTRIBUTION SYSTEM AND CASUALTIES

Overall there are very few accidents (emergency situations with severe consequences) in the distribution system. From 2019 to 2022, there were no emergency situations in Latvia that qualify as accident.



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

INCIDENTS INVOLVING HAZARDOUS WASTE

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

ANTI-CORRUPTION

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

COMPANY'S CULTURE, PROCEDURES AND MEASURES

POLICY AND RISKS

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

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

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

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

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

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

MEASURES

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

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

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

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

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

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

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

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

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

PERFORMANCE INDICATORS

VIOLATIONS

In 2022, there was one complaint received regarding possible corruption in the technical services provided to a natural gas consumer at a gasified facility. The person subject of the complaint no longer works at the JSC “Gaso”. There are no legal proceedings against the JSC “Latvijas Gāze” and/or the JSC “Gaso” resolved in 2022 or currently pending over anti-competitive or competition-restrictive behaviour.

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INDEPENDENT AUDITOR'S REPORT

To the stockholders of
Joint Stock Company "Latvijas Gāze"

Report on the Audit of the Separate and Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of Joint Stock Company "Latvijas Gāze", reg.No. 40003000642 ("the Company") and accompanying consolidated financial statements of the Company and its subsidiary ("the Group") set out on pages 24 to 70 of the accompanying separate and consolidated annual report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2022,
- the separate and consolidated statement of profit and loss and statement of comprehensive income for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and the Group, respectively, as at 31 December 2022, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the Separate and Consolidated Financial Statements* section of our report.

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the separate and consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and Law on Audit Services of the Republic of Latvia.

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

Emphasis of Matter

We draw attention to the information indicated in the separate and consolidated financial statements, as well as in the management report, that in 2022 the Company faced various challenges, including a 53% decrease in natural gas sales volume compared to 2021. On August 11, 2022, the "Amendments to the Energy Law" entered into force, whereby natural gas supplies from the Russian Federation are prohibited as of January 1, 2023. However, the Company managed to restructure its supply chains in 2022 and continues to provide natural gas supplies from other countries. According to the amendments to the "Energy Law", the natural gas market will be fully open for households as of May 1, 2023. It is not predictable how the situation could develop in the future and the impact of future events on the Company's operations in the future may differ from the management's assessment. Our opinion is not modified in respect of these matters.

Key Audit Matters

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

In addition to the matters described in the *Emphasis of Matter* section, we have determined the matters described below to be the key audit matters to be communicated in our report:

<table>
<tr><th>Key audit matter</th><th>Our response</th></tr>
<tr><td colspan="2">Measurement and presentation of investment held for sale (investment in subsidiary) (separate financial statement)</td></tr>
<tr><td>The carrying amount of the investment held for sale (investment in subsidiary) in the Company's balance sheet as at 31 December 2022: EUR 122 000 thousand; impairment losses from the measurement of investments held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" recognized in 2022: EUR 72 534 thousand.

Reference to the Notes to the Company's financial statements: Note 9 "Operations to be discontinued" and Note 27 "Summary of significant accounting policies" – Assets held for sale and discontinued operations.

In the reporting year, the Company's shareholders made a decision to sell 100% of the Company's investment in JSC "Gaso", therefore, the investment in subsidiary was reclassified to investments held for sale in the Company's balance sheet.

Investment held for sale (investment in subsidiary) was tested for impairment in accordance with IAS 36 "Impairment of Assets" and measured in accordance with IFRS 5 at the lower of its carrying amount and fair value less costs to sell.</td><td>Our procedures included, among others:
• assessed whether the Company's accounting policies for classification and measurement of investments held for sale correspond to IFRS;
• assessed whether the management has made appropriate judgments regarding the reclassification of the investment in subsidiary to the investment held for sale;
• discussed with the management the possible impairment of the investment held for sale in accordance with IAS 36 and evaluated the estimates made by the management regarding its measurement in accordance with IFRS 5;
• reviewed that the disclosure of information about the investment held for sale in the Company's separate financial statements is in accordance with the requirements of IFRS.</td></tr>
</table>

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Key audit matter	Our response
Management's judgement is involved in respect of whether the requirements for classification as held for sale under IFRS 5 have been met. Taking into account also that in the Company's balance sheet as at 31 December 2022 the investment held for sale amounts to 32.2% of total assets, we considered this issue to be one of our key audit matters.	
Measurement and presentation of discontinued operations (consolidated financial statements)	
The carrying amount of the investment held for sale in the Group's consolidated balance sheet as at 31 December 2022: EUR 170 225 thousand; the carrying amount of the liabilities directly related to investments held for sale in the Group's consolidated balance sheet as at 31 December 2022: EUR 47 052 thousand; losses from discontinued operations for 2022: EUR 61 442 thousand (profit for 2021: EUR 16 389 thousand). *Reference to the Notes to the Group's consolidated financial statements: Note 9 "Operations to be discontinued" and Note 27 "Summary of significant accounting policies" – Assets held for sale and discontinued operations.* Due to the decision of the Company's shareholders to sell 100% of the Company's investment in JSC "Gaso", the assets and liabilities of JSC "Gaso" (as a disposal group) are classified in the Group's consolidated balance sheet as investments held for sale and liabilities directly related to investments held for sale, while profit or losses from discontinued operations are separately presented in the Group's consolidated statement of profit or loss for the reporting year and for the previous reporting year. Investments held for sale were tested for impairment in accordance with IAS 36 "Impairment of Assets" and measured in accordance with IFRS 5 at the lower of their carrying amount and fair value less costs to sell. Given the size of the assets and liabilities held for sale and the judgments required in respect of whether the requirements for classification under IFRS 5 have been met, we considered this issue as a key audit matter.	Our procedures included, among others: • assessed whether the Group's accounting policies for classification and valuation of investments held for sale and discontinued operations correspond to IFRS; • assessed the management's conclusion regarding the classification of assets and liabilities of JSC "Gaso" (as a disposal group) as held for sale; • discussed with the management the possible impairment of the investments held for sale in accordance with IAS 36 and evaluated the estimates made by the management regarding its measurement in accordance with IFRS 5; • reviewed that the disclosure of information about the investments held for sale and discontinued operations in the Group's consolidated financial statements is in accordance with the requirements of IFRS.

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Other Matter

The separate and consolidated financial statements of Joint Stock Company "Latvijas Gāze" for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on those statements on April 20, 2022.

Reporting on Other Information

The Company's and Group's management is responsible for the other information. The other information comprises:

- information about council, as set out on page 5 of the accompanying Annual Report,
- information about management board, as set out on page 6 of the accompanying Annual Report,
- information about Group in brief, strategy and objectives, Group's focus, shares and shareholders, Group's facts and figures, as set out on pages 7-14 of the accompanying Annual Report,
- the Management Report, as set out on pages 15-22 of the accompanying Annual Report,
- the Statement on Board Responsibility, as set out on page 23 of the accompanying Annual Report,
- the Consolidated Non-financial Statement, as set out on pages 71-110 of the accompanying Annual Report,
- the Statement on Corporate Governance, prepared as a separate part of the annual report, indicating in the Management Report the website address on the Internet, where the Statement on Corporate Governance is available to the public in electronic form,
- the Remuneration Report, indicating in the Management Report the website address on the Internet, where the Remuneration Report is available to the public in electronic form.

Our opinion on the separate and consolidated financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information* section of our report.

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

If, based on the work we have performed and in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law On the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement on Corporate Governance includes the information required in section $56.^{1}$, first paragraph, clause 3, 4, 6, 8 and 9, as well as section $56.^{2}$, second paragraph, clause 5 and if it includes the information stipulated in section $56.^{2}$ second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement on Corporate Governance includes the information required in section $56.^{1}$, first paragraph, clause 3, 4, 6, 8 and 9, as well as section $56.^{2}$, second paragraph, clause 5 and it includes the information stipulated in section $56.^{2}$ second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information required in section $59.^{4}$ of the Financial Instruments Market Law, and whether material misstatements have been identified in the Remuneration Report in relation to the financial information disclosed in the consolidated annual report.

In our opinion, the Remuneration Report includes the information required in section $59.^{4}$ of the Financial Instruments Market Law, and no material misstatements have been identified in the Remuneration Report in relation to the financial information disclosed in the consolidated annual report.

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

We report that the Group has prepared the Consolidated Non-financial Statement as a separate part of the consolidated Annual Report.

Responsibilities of Management and Those Charged with Governance for the Separate and Consolidated Financial Statements

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

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

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

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Auditor's Responsibility for the Audit of the Separate and Consolidated Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and the European Union when providing audit services to public interest entities

We were appointed by the ordinary shareholder's meeting on 27 June 2022 to audit the separate and consolidated financial statements of Joint Stock Company "Latvijas Gāze" for the year ended 31 December 2022. Our total uninterrupted period of engagement is 1 year, covering the period ending 31 December 2022.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in paragraph $37.^{6}$ of the Law on Audit Services of the Republic of Latvia we have not provided to the Company and Group the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No. 537/2014. We also remained independent of the audited Company and Group in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit, we have not provided any services to the Company and the Group other than those disclosed in the Management Report or the Company's separate and the Group's consolidated financial statements.

The responsible certified auditor on the audit resulting in this independent auditors' report is Marija Jansone.

AS "Nexia Audit Advice"
The Firm of Sworn Auditors, Licence No. 134

Marija Jansone
Member of the Board,
The responsible Certified Auditor,
Certificate No. 25

Andrejs Ponomarjovs
Chairman of the Board,
Director General

Riga, Latvia
19 April 2023