LATVIJAS GĀZE GROUP CONSOLIDATED AND JSC "LATVIJAS GĀZE" UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE 6 MONTHS PERIOD ENDED 30 SEPTEMBER 2022

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

Latvijas gāze

CONTENTS

COUNCIL OF THE JSC "LATVIJAS GĀZE"

Council's term of office 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, JSC *Gazprom*

Juris Savickis, 1946
Vice-Chairman of the Council

President of LLC "ITERA Latvija"

Oliver Giese, 1967
Vice-Chairman of the Council

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

Nicolàs Merigó Cook, 1963
Member of the Council

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

Matthias Kohlenbach, 1969
Member of the Council

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

Hans-Peter Floren, 1961
Member of the Council

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

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

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

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

Head of Department 817 at PJSC "Gazprom

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

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

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

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

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

Unicredit Corporate and Investment Banking (Germany)

MANAGEMENT BOARD OF THE JSC “LATVIJAS GĀZE”

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

Board member’s Egīls Lapsalis’s term of office from 1 November 2022 till 31 Oktober 2025.

Aigars Kalvītis, 1966
Chairman of the Board

Latvian University of Agriculture, Master’s Degree in Economics

Denis Emelyanov, 1979
Member of the Board, Deputy Chairman of the Board

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

Elita Dreimane, 1968
Member of the Board

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

Egīls Lapsalis, 1979
Member of the Board

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

Inga Āboliņa, 1974
Member of the Board

Board’s term of office from 17 August 2020 until leaving the position of a board member on 12 August 2022

Stockholm School of Economics in Riga, Executive MBA

LATVIJAS GĀZE GROUP IN SHORT

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

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

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

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

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

STRUCTURE OF LATVIJAS GĀZE GROUP AS OF 30 SEPTEMBER 2022

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

STRATEGY AND OBJECTIVES

OUR OBJECTIVE

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

OUR MISSION

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

OUR VISION

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

SHARES AND SHAREHOLDERS OF THE JSC “LATVIJAS GĀZE”

SHARES AND SHAREHOLDERS

The shares of the JSC “Latvijas Gāze” are listed on the Nasdaq Riga stock exchange since February 15, 1999, and its ticker code is GZE1R since August 1, 2004. The total number of securities has not changed since 1999. The total number of shareholders of JSC “Latvijas Gāze” as of 30.09.2022 was 6 704.

COMPANY’S SHARE PRICE, OMX RIGA GI AND OMX BALTIC GI INDEX CHANGES (01.01.2020. – 30.09.2022.)

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

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

Source: Nasdaq Baltic

Source: Nasdaq Baltic

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

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

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

On 30th of September 2022 the market capitalization of the JSC “Latvijas Gāze” amounted to 300.05 million EUR, which is by 31% less, compared to the same period of 2021.

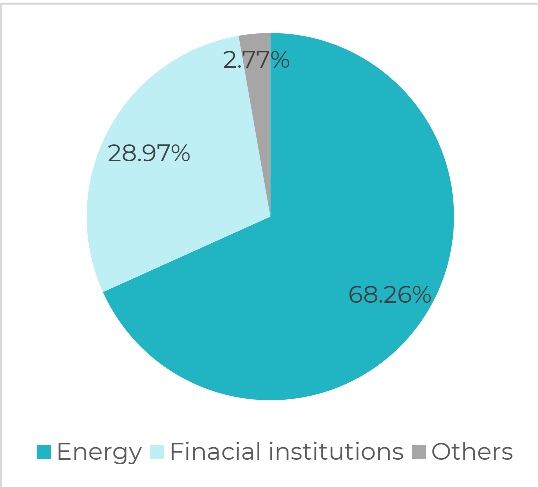
SHARE PRICE DEVELOPMENT AND SHARE TURNOVER (01.01.2020.-30.09.2022)

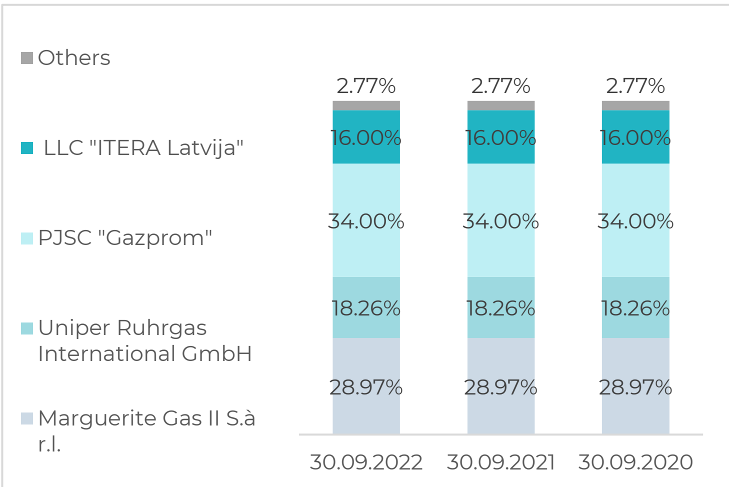
Source: Nasdaq Baltic

INFORMATION ON SHARE TRANSACTIONS (9M 2020 – 9M 2022)

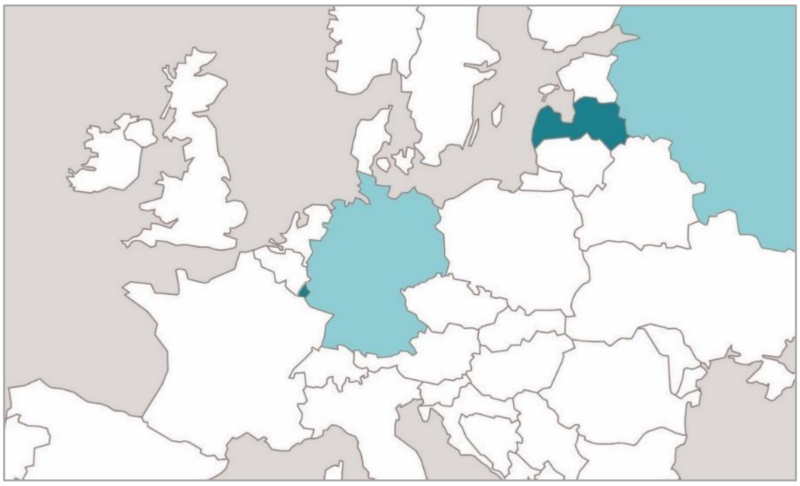
	9M 2022	9M 2021	9M 2020
Share price (EUR)			
First	10.60	10.50	9.90
Highest	11.10	11.10	10.50
Lowest	6.20	10.10	8.10
Average	8.79	10.72	9.90
Last	7.52	10.90	10.30
Change (From First to Last share price)	-29.06%	3.81%	4.04%
Number of transactions	3 170	2 276	1 292
Number of shares traded	73 944	56 878	61 806
Turnover (million EUR)	0.63	0.61	0.61
Capitalization (million EUR)	300	435	411

COMPOSITION OF SHAREHOLDERS, 30.09.2022





GEOGRAPHICAL DISTRIBUTION OF THE MAJOR SHAREHOLDERS



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

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

		At the date of signing financial statements
Management Board		**Number of shares**
Chairman of the Board	Aigars Kalvītis	None
Member of the Board, Deputy 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	Eriks Atvars	None

MANAGEMENT REPORT

Latvijas Gāze group reached historically strongest financial performance during nine months of 2022. Q1 financial results have been the main driver for the strongest nine month financial performance of the Group's history, which were achieved due to disciplined trading and risk management strategy in 2021. As described in the previous financial reports, JSC "Latvijas Gāze" benefited from the fact that index-price linked sales had a dominant weight in trading portfolio and index-price linked sales portfolio was hedged at significant spread to summer injected gas. Additionally, JSC "Latvijas Gāze" managed to capture portfolio optimization opportunity.

In order not to cause losses to the Group amidst high uncertainty in the natural gas market, Latvijas Gāze continues disciplined trading without taking on additional risks and obligations, and does not conclude new transactions with derivative financial instruments due to high price fluctuations.

During nine months of 2022, JSC "Latvijas Gāze" sold 6 023 GWh of natural gas to customers in Latvia and abroad. Compared to the same period in 2021, sales volumes have decreased by 44%. Sales volume decrease is attributable to the fact that market is self-sanctioning Russian origin gas ahead of 1st January 2023 in Latvia, customers have reconsidered their consumption habits of natural gas amid high price environment. For the same reasons JSC "Latvijas Gāze" forecasts lower sales volumes in 2022 compared to 2021.

Sales to the household customer segment were 885 GWh during nine months of 2022. The segment is regulated and the tariff is 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. Based on regulation the household tariff was adjusted upwards for next tariff period. As natural gas purchase price during third quarter of 2022 was considerably higher compared to the tariff sales price, the household customer segment continued to generate losses. As high natural gas prices remain, AS "Latvijas Gāze" anticipates that the household segment could also generate losses in the fourth quarter of 2022.

In order not to cause losses to the Group amidst high uncertainty in the natural gas market, Latvijas Gāze continues disciplined trading without taking on additional risks and obligations.

The Group's net turnover during the nine months of 2022 reached 580.3 million EUR – a 106% increase compared to the same period in 2021 due to the higher sales prices. The Group's net profit for the nine months of 2022 – 96.6 million EUR – was by 158% higher in comparison to the same period in 2021 when it amounted to -167.5 million EUR. The result is attributable to JSC "Latvijas Gāze" disciplined trading and risk management strategy in 2021 and 2022. JSC "Latvijas Gāze" net profit during the nine months of 2022 reached 95.4 million euro despite the losses caused by household regulated segment.

The economic performance of the distribution segment managed by JSC "Gaso" depends on the overall natural gas demand and volumes transported through the distribution network over the year. During the nine months of 2022, JSC "Gaso" continued to develop a safe and available natural gas distribution infrastructure, with major investments made in construction and reconstruction of gas pipelines and shut-off devices, reconstruction of technological equipment, and development of information technologies and computing equipment.

Group`s key figures	9M 2022	9M 2021	9M 2020
Natural gas sales, GWh	5 975	10 590	8 369
Number of employees, average	1 008	1 012	994
Length of distribution lines, km	5 410	5 366	5 317

Group`s key financial figures	9M 2022	9M 2021	9M 2020
	EUR'000	EUR'000	EUR'000
Net turnover	**580 268**	**281 223**	**132 290**
EBITDA	**108 416**	**-156 482**	**29 710**
EBITDA, %	**18.7**	**-55.6**	**22.5**
EBIT	**98 123**	**-166 771**	**19 516**
EBIT, %	16.9	-59.3	14.8
Net profit	**96 578**	**-167 471**	**17 683**
Net profit margin, %	16.6	-59.6	13.4
Earnings per share, EUR	2.42	-4.20	0.44
P/E	3.11	-2.6	23.41
Current ratio	3.00	0.76	4.37
ROCE	0.21	-0.71	0.05
Dividends / net profit	0.16	-	0.96

Alternative Performance Measures (APM)	Formulas
EBITDA *(Profit before income tax, interest, depreciation and amortization)*	EBITDA = Profit of the year + Corporate income tax + Financial expense - Financial income + Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets
EBITDA,% *(or EBITDA margin)*	EBITDA, % = $\frac{EBITDA}{Revenue\ from\ contracts\ with\ customers}$ x 100%
EBIT*(Profit before income tax and interest)*	EBIT= Profit of the year + Corporate income tax + Financial expense - Financial income
EBIT,% *(or EBIT margin)*	EBIT,% = $\frac{EBIT}{Revenue\ from\ contracts\ with\ customers}$ x 100%
Net profitability *(or Commercial profitability)* The indicator reflects how much the company earns from each of the EUR received from customers	Net profitability, %= $\frac{Profit\ of\ the\ year}{Revenue\ from\ contracts\ with\ customers}$ x 100%
P/E Ratio *(Relationship between Share Price and Earnings per Share)*	P/E= $\frac{Last\ share\ price}{Earnings\ per\ share for\ the\ reporting\ year}$
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 created natural gas reserves for the upcoming winter.

The latest economic review by the International Monetary Fund[1] (IMF) estimates a positive growth rate of the global economy in 2022 (+3.2%) and 2023 (+2.7%). There are no changes in the forecast for 2022, but the decrease in 2023, compared to the previous forecast, is 0.2%. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic. Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia’s invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook. Inflation is forecasted to reach 8.8% this year, an increase of 2.2% compared to the previous forecast, however inflation will decrease to 6.5% in 2023.

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

[1] https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022
[2] https://www.macroeconomics.lv/latvias-macro-profile-september-2022

KEY EVENTS DURING THE REPORTING PERIOD

- **On February 28, 2022,** Amber Grid revealed, that the Polish-Lithuanian gas pipeline interconnection (GIPL) will start commercial operations as of 1 May 2022.
- **In February 2022,** Russia military invasion in Ukraine has prompted United States, European Union, United Kingdom, and other major economies to impose an extraordinary set of coordinated economic sanctions against Russia in order to limit customary trade and financial relations with Russia.
- **On March 9, 2022,** early warning in the natural gas supply sector was announced in Latvia.
- **On March 31, 2022,** the Presidential Decree of the Russian Federation No.172 "On a special procedure of fulfilment of obligations towards Russian natural gas suppliers by foreign buyers" was issued. It presumes that starting April 1, 2022, supplies of natural gas under external trade agreements of the PJSC "Gazprom" on supply of natural gas to a number of foreign countries as well as under external trade agreements of the PJSC "Gazprom" on supply of natural gas with foreign entities registered in those countries shall be settled in Russian rubles only.
- **On May 20, 2022,** Gasgrid Finland Oy and Excelerate Energy, Inc. have signed an agreement for an LNG terminal vessel, which is to be located on the southern coast of Finland. The ambition is start deploying the LNG terminal vessel during December 2022.
- **On May 21, 2022,** Russia stopped supplying gas to Finland.
- **On June 16, 2022,** the Parliament adopted amendments to the National Security Law which came into force on June 23, 2022. According to the Amendments, the Russian Federation or the Republic of Belarus, its citizens or legal entities registered in the Russian Federation or in the Republic of Belarus may not acquire qualifying holding or decisive influence in a commercial company of significance to national security and be the beneficial owner of a commercial company of significance to national security.
- **From 1 July 2022,** the natural gas tariff for households purchasing natural gas at the regulated tariff is increased from 65.6% to 89.9% depending on the amount of consumption.
- **On July 14, 2022**, the Latvian Government adopted amendments to the Energy Law in the final reading, which stipulates a ban on natural gas deliveries from Russia from January 1, 2023.
- **From 1 July 2022 to 30 April 2023,** households with an average monthly consumption of 221 kWh or more will receive state aid for natural gas payments.

OPERATING RESULTS OF THE BUSINESS SEGMENTS

Sales & trading segment: On 30th September 2022, the sales & trading segment operated by JSC "Latvijas Gāze" had an asset value of 220.6 million EUR. During nine months of 2022, the segment generated a net turnover of 543.2 million EUR, which was by 126% higher in comparison to the same period in 2021. The significantly higher net turnover was mainly attributable to higher sales prices due to developments in global natural gas market. During nine months of 2022 segment's EBITDA amounted to 91.4 million EUR, profit before taxes reached 90 million EUR, while during nine months of 2021 EBITDA was -175.4 million EUR, and profit before taxes was -176.5 million EUR. Disciplined risk management approach during high volatility environment was the basis for the strongest winter season (October 2021 – March 2022) financial performance and also resulted in strong financial performance during Q2 and Q3 2022. In the first quarter of 2022 sales & trading segment benefited from the fact that index-price linked sales had a dominant weight in trading portfolio and index-price linked sales portfolio were hedged at significant spread to summer injected gas. By continuing a disciplined trading approach and capturing portfolio optimization opportunities, JSC "Latvijas Gāze" made a profit in the second and third quarters as well.

Distribution segment: On 30th September 2022, the distribution segment operated by the JSC "Gaso" had an asset value of 323 million EUR. In the reporting period, the distribution segment generated a net turnover of 37.1 million EUR and EBITDA of 17 million EUR (decrease by 10% accordingly, compared to the same period of 2021). Distribution services are regulated and form the main source of revenue for JSC "Gaso". The decrease in net turnover was mainly caused by lower utilization of the Latvian natural gas distribution system, because of higher temperatures during the heating months and natural gas demand destruction. The segment's profit before taxes amounted to 7.7 million EUR during nine months of 2022 and was by 19% lower, compared to the same period in 2021.

LONG-TERM GAS SUPPLIES

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

FINANCIAL RISK MANAGEMENT

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

As in previous periods, JSC "Latvijas Gāze" faced a high customer concentration risk with only a few customers accounting for a significant share of overall sales volumes. To mitigate ***credit 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). JSC "Latvijas Gāze" concluded amendments to the existing overdraft agreement with OP Corporate Bank plc, Latvian branch: 100 million overdraft limit was prolonged until 28th February, 2022. From 1st March 2022 until 31st May 2023, overdraft is 50 million EUR – a 20 million EUR increase from the initial overdraft agreement amount. As of 30th September, 2022 50 million EUR overdraft wasn't utilized.

Following Latvian natural gas market liberalization 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. Company currently have limited capability to use derivatives in order to mitigate market risk amid exceptional price volatility.

COVID-19 IMPACT

The management of the Latvijas Gāze group complies with all the necessary safety measures to keep its customers and employees safe.

SUBSEQUENT EVENTS

On 8th August, 2022 JSC “Latvijas Gāze” shareholders decided to initiate reorganization of the Company by division pursuant to Section 336(4) of the Commercial Law, as a result of which the Company would transfer part of its property – and namely, 39 900 000 shares of JSC “GASO”, registration number 40203108921, representing 100% of its share capital – to a newly incorporated company. As a result of the reorganization, all shareholders of the Company shall become shareholders of the newly incorporated company proportionate to their shareholding in the Company.

On 23rd June, 2022, in accordance with the amendments made to the Law on National Security, according to which Russian citizens or legal entities are prohibited from acquiring significant participation or decisive influence in commercial companies important for national security, and JSC "Latvijas Gāze" subsidiary JSC "Gaso" is a commercial company important for national security, the Board of JSC "Latvijas Gāze" supports the need to reorganize JSC "Latvijas Gāze". The board continues its work on the evaluation of several scenarios for the future governance of its subsidiary JSC "Gaso" to implement the shareholder's decision made on August 8, 2022.

FUTURE PROSPECTS

In compliance with the climate neutrality goals set by the European Union for 2050, the focus of JSC "Latvijas Gāze" is to compensate the environmental impact caused by the customers by creating projects that allow reduction of GHG emissions. In accordance with the package of regulatory acts developed as part of the European Union's "Fit for 55", the European Union Hydrogen and Decarbonised Gas Market Package, the Methane Strategy and the goals set in the Renewable Energy Directive, the ambition of JSC "Latvijas Gāze" is to develop renewable energy projects, including using the natural gas network infrastructure and its possibilities. In addition to the implemented energy management standard ISO 50 001, JSC "Latvijas Gāze" has implemented an Environmental Management System, which is certified according to standard ISO 14 001, and has performed CO2 emission calculations. Based on the established environmental policy and CO2 emission calculations, JSC "Latvijas Gāze" has planted 2,000 birch trees, thus neutralising the CO2 emissions generated over 3 years. A reduction in CO2 and other emissions can also be achieved by replacing petrol and diesel vehicles with natural gas vehicles. In transport, when using CNG, the amount of CO2 emissions is up to 30% lower than with diesel fuel or gasoline, while the amount of other harmful emissions is up to 90% lower. Therefore, one of the current goals of the Group is to actively promote the development of CNG infrastructure in Latvia, providing technical support and other competences to companies that invest in the creation of CNG filling stations. As part of the Energy management system, in 2022 the company plans to implement 35 energy efficiency tasks, which can create energy savings up to 130 MWh/year.

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

In accordance with the directions defined in the strategy, the company researches alternative business development directions including focusing on business opportunities in the LNG and biomethane sectors.

The "Latvijas Gāze" Group takes the necessary measures to continue the safe and continuous supply of natural gas to related users and commercial customers in accordance with the contractual obligations.

On 11 August 2022, "Amendments to the Energy Law" entered into force, according to which, starting from 1 January 2023, supplies of natural gas from Russia are prohibited. Despite the mentioned circumstances, JSC "Latvijas Gāze" continues the work started on solutions with other alternative suppliers.

STATEMENT OF THE BOARD RESPONSIBILITY

The Board of the Joint Stock Company "Latvijas Gāze" is responsible for the preparation of the "Latvijas Gāze" Group consolidated and the JSC "Latvijas Gāze" unaudited interim condensed financial statements for 9-months period ended 30 September 2022 (further – Financial statements), which consist of the Company's and the Company's and its subsidiary (further - Group's) financial statements.

Financial statements for the 9-months period ended 30 September 2022 have been prepared in accordance with the International Accounting Standards 34 "Interim Financial Reporting" adopted by the European Union.

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

The Financial statements were approved by the Board of the JSC "Latvijas Gāze" on 30 November 2022, 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 accordance with the International Accounting Standards 34 "Interim Financial Reporting as Adopted by the European Union

CORPORATE INFORMATION

Company	Latvijas Gāze, Joint Stock Company
LEI code	097900BGMO0000055872
Registration number, place and date of registration	Unified registration number 40003000642 Riga, Latvia, 25 March 1991 re-registered in Commercial Register on 20 December 2004
Address	A.Briāna 6, Riga, Latvia, LV-1001
Major shareholders	PJSC Gazprom (34.0%) Marguerite Gas II.S.a.r.l. (28.97%) Uniper Ruhrgas International GmbH (18.26%) ITERA Latvija SIA (16.0%)
Financial period	1 January – 30 September 2022

STATEMENT OF PROFIT OR LOSS

	Note	Group 01.01.-30.09.2022	Group 01.01.-30.09.2021	Company 01.01.-30.09.2022	Company 01.01.-30.09.2021
		EUR'000	EUR'000	EUR'000	EUR'000
Revenue from contracts with customers	**2**	**580 268**	**281 223**	**548 034**	**242 023**
Other income	3	1 727	1 064	894	348
Raw materials and consumables used	4	(430 189)	(206 979)	(429 104)	(205 829)
Personnel expenses	5	(21 124)	(20 269)	(3 819)	(3 673)
Depreciation, amortization and impairment of property, plant and equipment, intangible assets and right-of use assets		(10 293)	(10 289)	(1 045)	(944)
Net fair value losses on financial derivatives	6	(10 630)	(204 863)	(10 630)	(204 863)
Other operating expenses	7	(11 636)	(6 658)	(7 451)	(3 034)
Operating profit		**98 123**	**(166 771)**	**96 879**	**(175 972)**
Financial expense		(366)	(276)	(346)	(275)
Dividends received from subsidiary		-	-	-	6 783
Profit before taxes		**97 757**	**(167 047)**	**96 533**	**(169 464)**
Corporate income tax		(1 179)	(424)	(1 179)	(424)
Profit for the period		**96 578**	**(167 471)**	**95 354**	**(169 888)**
Extraordinary dividends		(15 000)	-	(15 000)	-
Profit for the period after extraordinary dividens		**81 578**	**(167 471)**	**80 354**	**(169 888)**

STATEMENT OF COMPREHENSIVE INCOME

	Group 01.01.-30.09.2022	Group 01.01.-30.09.2021	Company 01.01.-30.09.2022	Company 01.01.-30.09.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Profit for the period	**81 578**	**(167 471)**	**80 354**	**(169 888)**
Other comprehensive income - items that will not be reclassified to profit or loss				
Total other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive income for the period	**81 578**	**(167 471)**	**80 354**	**(169 888)**

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BALANCE SHEET

	Note	Group 30.09.2022	Group 31.12.2021	Company 30.09.2022	Company 31.12.2021
		EUR'000	EUR'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets	8	8 431	9 639	4 382	4 926
Property, plant and equipment	9	303 374	307 446	2 208	2 304
Right-of-use assets		4	19	139	206
Investment in subsidiary	10	-	-	194 534	194 534
Trade receivables	12	69	86	40	5
Total non-current assets		**311 878**	**317 190**	**201 303**	**201 975**
Current assets					
Inventories	11	58 772	123 574	56 860	122 278
Pre-payments for inventories		49 787	29 338	49 786	29 297
Trade receivables	12	71 917	129 411	70 293	128 188
Derivative financial instruments	13	573	1 179	573	1 179
Other financial assets at amortised cost	13	5 618	447	5 554	361
Cash restricted from being used	13	-	86 030	-	86 030
Other current assets		1 516	2 270	245	1 009
Cash and cash equivalents		43 497	10 962	30 709	1 087
Total current assets		**231 680**	**383 211**	**214 020**	**369 429**
TOTAL ASSETS		**543 558**	**700 401**	**415 323**	**571 404**

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BALANCE SHEET (continued)

	Note	Group 30.09.2022	Group 31.12.2021	Company 30.09.2022	Company 31.12.2021
		EUR'000	EUR'000	EUR'000	EUR'000
LIABILITIES AND EQUITY					
Equity					
Share capital		55 860	55 860	55 860	55 860
Share premium		20 376	20 376	20 376	20 376
Reserves		178 433	182 940	204 521	204 521
Retained earnings		196 210	110 126	85 888	5 534
Total equity		**450 879**	**369 302**	**366 645**	**286 291**
Liabilities					
Non-current liabilities					
Provisions		688	688	-	-
Interest-bearing loans and borrowings	14	731	22 167	-	-
Lease liabilities	13	109	-	68	119
Deferred income	15	12 525	14 094	-	-
Employee benefit obligations		1 512	1 512	29	29
Total non-current liabilities		**15 565**	**38 461**	**97**	**148**
Current liabilities					
Trade payables		4 832	51 992	5 654	54 721
Interest-bearing loans and borrowings	14	19 880	38 994	-	38 994
Lease liabilities	13	52	21	89	89
Deferred income	15	2 642	2 934	-	-
Derivative financial instruments	13	-	112 076	-	112 076
Other liabilities	16	47 308	86 621	40 438	79 085
Dividends unpaid		2 400	-	2 400	-
Total current liabilities		**77 114**	**292 638**	**48 581**	**284 965**
Total liabilities		**92 679**	**331 099**	**48 678**	**285 113**
TOTAL LIABILITIES AND EQUITY		**543 558**	**700 401**	**415 323**	**571 404**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reva-luation reserve	Employee benefits revaluation reserve	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2020	**55 860**	**20 376**	**188 270**	**162**	**111 169**	**375 837**
Transactions with owners						
Dividends	-	-	-	-	(10 773)	(10 773)
Total transactions with owners	**-**	**-**	**-**	**-**	**(10 773)**	**(10 773)**
Depreciation of revaluation reserve and disposal of revalued assets		-	(4 746)	-	4 746	-
Comprehensive income						
Profit for the year	-	-	-	-	(167 471)	(167 471)
Total comprehensive income	**-**	**-**	**-**	**-**	**(167 471)**	**(167 471)**
30 September 2021	**55 860**	**20 376**	**183 524**	**162**	**(62 329)**	**197 593**
Depreciation of revaluation reserve and disposal of revalued assets		-	(1 744)	-	1 744	-
Comprehensive income						
Profit for the year	-	-	-	-	170 711	170 711
Other comprehensive income	-	-	-	998	-	998
Total comprehensive income	**-**	**-**	**-**	**998**	**170 711**	**171 709**
31 December 2021	**55 860**	**20 376**	**181 780**	**1 160**	**110 126**	**369 302**
Dividends	-	-	-	-	(15 000)	(15 000)
Total transactions with owners	-	-	-	-	**(15 000)**	**(15 000)**
Depreciation of revaluation reserve and disposal of revalued assets	-	-	(4 507)	-	4 507	-
Comprehensive income						
Profit for the year	-	-	-	-	96 577	96 577
Total comprehensive income	**-**	**-**	**-**	**-**	**96 577**	**96 577**
30 September 2022	**55 860**	**20 376**	**177 273**	**1 160**	**196 210**	**450 879**

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COMPANY'S STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Employee benefits revaluation reserve	Reorgani-sation reserve	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2020	**55 860**	**20 376**	**(54)**	**204 545**	**16 233**	**296 960**
Transactions with owners						
Dividends	-	-	-	-	(10 773)	(10 773)
Total transactions with owners	**-**	**-**	-	**-**	**(10 773)**	**(10 773)**
Comprehensive income						
Loss for the year	-	-	-	-	(169 888)	(169 888)
Total comprehensive income	**-**	**-**	**-**	**-**	**(169 888)**	**(169 888)**
30 September 2022	**55 860**	**20 376**	**(54)**	**204 545**	**(164 428)**	**116 299**
Other comprehensive income						
Profit for the year	-	-	-	-	169 962	169 962
Other comprehensive incone	-	-	30	-	-	30
Total comprehensive income	**-**	**-**	**30**	**-**	**169 962**	**169 992**
31 December 2021	**55 860**	**20 376**	**(24)**	**204 545**	**5 534**	**286 291**
Comprehensive income						
Dividends	-	-	-	-	(15 000)	(15 000)
Total transactions with owners	**-**	**-**	**-**	**-**	**(15 000)**	**(15 000)**
Other comprehensive income						
Profit for the year	-	-	-	-	95 354	95 354
Total comprehensive income	**-**	**-**	-	**-**	**95 354**	**95 354**
30 September 2022	**55 860**	**20 376**	**(24)**	**204 545**	**85 888**	**366 645**

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STATEMENT OF CASH FLOWS

	Note	Group 01.01.- 30.09.2022	Group 01.01.- 30.09.2021	Company 01.01.- 30.09.2022	Company 01.01.- 30.09.2021
		EUR'000	EUR'000	EUR'000	EUR'000
Cash flow from operating activities					
Profit before corporate income tax		**97 757**	**(167 047)**	**96 533**	**(169 464)**
Adjustments:					
- depreciation of property, plant and equipment and right-of-use assets		8 315	8 603	280	281
- amortisation of intangible assets		1 978	1 686	765	664
- changes in provision		-	-	(1)	-
- (profit) / losses from long-term assets exclusions		-	261	-	(3)
- income from participating interest		-	-	-	(6 783)
- interest expenses		305	276	286	275
- losses from sale of long-term assets		249	-	5	-
Changes in operating assets and liabilities:					
- in accounts receivable		145 090	(55 286)	140 068	(56 830)
- in inventories		65 458	(111 160)	65 418	(110 994)
- in advances for inventories		(21 105)	8 044	(20 489)	8 035
- in accounts payable		(205 695)	241 081	(199 722)	244 843
- paid corporate income tax		(1 179)	(424)	(1 179)	(424)
Net cash inflow from operating activities		**91 173**	**(73 966)**	**81 964**	**(90 400)**
Cash flow from investing activities					
Payments for property, plant and equipment	9	(4 241)	(5 179)	(159)	(37)
Payments for intangible assets	8	(836)	(1 631)	(286)	(836)
Proceeds from sale of property, plant and equipment		47	47	34	13
Dividends received		-	-	-	6 783
Net cash outflow from investing activities		**(5 030)**	**(6 763)**	**(411)**	**5 923**
Cash flow from financing activities					
Overdraft/factoring received		20 697	51 574	-	51 574
Loan/overdraft paid		(61 247)	(2 917)	(38 994)	-
Leases paid		(23)	-	(51)	(51)
Interest paid		(435)	(409)	(286)	(275)
Dividens paid		(12 600)	(10 773)	(12 600)	(10 773)
Net cash outflow from financing activities		**(53 608)**	**37 475**	**(51 931)**	**40 475**
Net cash flow		**32 535**	**(43 254)**	**29 622**	**(44 002)**
Cash and cash equivalents at the beginning of the reporting period		**10 962**	**54 236**	**1 087**	**44 968**
Cash and cash equivalents at the end of the reporting period		**43 497**	**10 982**	**30 709**	**966**

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NOTES TO FINANCIAL STATEMENTS

1. Segment information

In 2022 and 2021, Latvijas Gāze group consisted of two segments – the natural gas sales & trading segment and the distribution segment.

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

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

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

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

Group 9 months 2022	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
EBITDA	**91 383**	**17 033**	**108 416**
Depreciation and amortisation	(994)	(9 299)	(10 293)
Financial expense	(346)	(20)	(366)
Profit before taxes	**90 043**	**7 714**	**97 757**

Group 9 months 2021	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
EBITDA	**(175 381)**	**18 899**	**(156 482)**
Depreciation and amortisation	(893)	(9 396)	(10 289)
Financial expense	(275)	(1)	(276)
Profit before taxes	**(176 549)**	**9 502**	**(167 047)**

Company / Gas trade	9 months 2022	9 months 2021
	EUR'000	EUR'000
EBITDA	**97 924**	**(168 245)**
Depreciation and amortisation	(1 045)	(944)
Financial expense	(346)	(275)
Profit before taxes	**96 533**	**(169 464)**

Group 9 months 2022	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	377	4 957	5 334
Segment assets 30.09.2022	220 556	323 002	543 558

Group 9 months 2021	Gas trade	Gas distribution	Total
	EUR'000	EUR'000	EUR'000
Purchase of property, plant, equipment and intangible assets	591	6 382	6 973
Segment assets 30.09.2021	245 186	324 473	569 659

Company / Gas trade	9 months 2022	9 months 2021
	EUR'000	EUR'000
Purchase of property, plant and equipment and intangible assets	377	591
Segment assets 30.09	415 323	439 924

Assets	JSC “Latvijas Gāze”	JSC "Gaso"	Investment	Intercompany receivables/ payables	Rent	Total Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets 30.09.2022	415 323	325 080	(194 534)	(2 175)	(136)	543 558
Assets 31.12.2021	571 404	331 306	(194 534)	(7 588)	(187)	700 401

Assets 30.09.2022	Segment assets	Investment	Intercompany receivables/ payables	Rent	Total company
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
JSC “Latvijas Gāze”	220 556	194 534	97	136	415 323
JSC "Gaso"	323 002	-	2 078	-	325 080

Assets 30.09.2021	Segment assets	Investment	Intercompany receivables/ payables	Rent	Total company
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
JSC “Latvijas Gāze”	245 186	194 534	-	204	439 924
JSC "Gaso"	324 473	-	2 750	-	327 223

2. Revenue from contracts with customers

Group 9 months 2022	Gas trade Latvia	Gas trade Other countries	Gas distribution Latvia	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	380 988	158 607	34 088	573 683
Inter-segment revenue	(4 828)	-	-	(4 828)
Connection, balancing and other service fees recognised as revenue	8 439	-	2 254	10 693
Other revenue	-	-	720	720
	384 599	**158 607**	**37 062**	**580 268**

Group 9 months 2021	Gas trade Latvia	Gas trade Other countries	Gas distribution Latvia	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue	184 863	55 251	37 522	277 636
Inter-segment revenue	(1 551)	-	-	(1 551)
Connection, balancing and other service fees recognised as revenue	1 806	103	2 436	4 345
Other revenue	-	-	793	793
	185 118	**55 354**	**40 751**	**281 223**

Company 9 months 2022	Gas trade Latvia	Gas trade Other countries	Total
	EUR'000	EUR'000	EUR'000
Segment revenue	380 988	158 607	539 595
Other revenue (balancing services)	8 439	-	8 439
	389 427	**158 607**	**548 034**

Company 9 months 2021	Gas trade Latvia	Gas trade Other countries	Total
	EUR'000	EUR'000	EUR'000
Segment revenue	184 863	55 251	240 114
Other revenue (balancing services)	1 806	103	1 909
	186 669	**55 354**	**242 023**

3. Other income

	Group 9 months 2022	Group 9 months 2021	Company 9 months 2022	Company 9 months 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Penalties collected from customers	825	293	726	243
Other	902	771	168	105
	1 727	**1 064**	**894**	**348**

4. Raw materials and consumables used

	Group 9 months 2022	Group 9 months 2021	Company 9 months 2022	Company 9 months 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas purchase	429 047	205 943	429 055	205 797
Costs of materials, spare parts and fuel	1 142	1 036	49	32
	430 189	**206 979**	**429 104**	**205 829**

5. Personnel expenses

	Koncerns 9 mēneši 2022	Koncerns 9 mēneši 2021	Sabiedrība 9 mēneši 2022	Sabiedrība 9 mēneši 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Wages and salaries	15 995	15 300	2 806	2 708
State social insurance contributions	3 741	3 627	685	654
Life, health and pension insurance	1 073	1 016	154	137
Other personnel costs	315	326	174	174
	21 124	**20 269**	**3 819**	**3 673**

6. Derivative financial instruments

	Group 30.09.2022	Group 30.09.2021	Company 30.09.2022	Company 30.09.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Net fair value losses on financial derivatives	(10 630)	(204 863)	(10 630)	(204 863)
	(10 630)	**(204 863)**	**(10 630)**	**(204 863)**

Net fair value losses of financial derivatives in 9 months 2022 amounted to 10 630 thous. EUR originated from financial hedging activities. 11 203 thous. EUR out of this amount is attributable to operational activities during the nine months reporting period, calculated as the sum of (110 897) thous. EUR (reverse of previous year accruals), plus the net amount paid in nine months 2022 amounting to 122 100 thous. EUR. The remaining net positive amount for outstanding derivatives is 573 thous. EUR is evaluated on a marked-to-market basis as of the balance sheet date and is attributable to remaining 2022 operational activity.

7. Other operating expenses

	Group 9 months 2022	Group 9 months 2021	Company 9 months 2022	Company 9 months 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Selling and advertising costs	620	516	500	320
Expenses related to premises (rent, electricity, security and other services)	1 327	1 056	181	156
Donations, financial support	1 084	413	1 014	336
Office and other administrative costs	1 835	1 222	841	509
Taxes and duties	439	652	185	392
Costs of IT system maintenance, communications and transport	1 778	1 392	679	560
Other costs	4 553	1 407	4 051	761
	11 636	**6 658**	**7 451**	**3 034**

Other costs	Group 9 months 2022	Group 9 months 2021	Company 9 months 2022	Company 9 months 2021
	EUR'000	EUR'000	EUR'000	EUR'000
Provisions for bad debts	4 015	865	3 947	722
Other expenses	538	542	104	39
	4 553	**1 407**	**4 051**	**761**

8. Intangible assets

	Group 9 months 2022	Group 2021	Company 69months 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	770	2 737	221	776
Disposals	-	(295)	-	-
As at the end of period	**27 241**	**26 471**	**7 456**	**7 235**
Amortisation				
As at the beginning of period	**16 832**	**14 852**	**2 309**	**1 402**
Amortisation	1 978	2 275	765	907
Disposals	-	(295)	-	-
As at the end of period	**18 810**	**16 832**	**3 074**	**2 309**
Net book value as at the end of the period	**8 431**	**9 639**	**4 382**	**4 926**

9. Property, plant and equipment

Group	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
31.12.2021	**658 876**	**41 759**	**18 069**	**1 894**	**720 568**
Additions	2 626	408	649	881	4 564
Disposals	(702)	(569)	(649)	-	(1 920)
30.09.2022	**660 800**	**41 598**	**18 069**	**2 775**	**723 242**
Depreciation					
31.12.2021	**372 352**	**27 121**	**13 649**	**-**	**413 152**
Calculated	6 093	1 284	961	-	8 338
Disposals	(459)	(557)	(606)	*	(1 622)
30.09.2022	**377 986**	**27 848**	**14 034**	**-**	**419 868**
Net book value as of 30.09.2022	**282 814**	**13 750**	**4 035**	**2 775**	**303 374**
Net book value as of 31.12.2021	**286 524**	**14 638**	**4 390**	**1 894**	**307 446**

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

Company	Land, buildings, constructions	Machinery and equipment	Other fixed assets	Assets under construc-tion	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	-	-	156	-	156
Disposals	-	-	(98)	-	(98)
30.09.2022	**1 811**	**-**	**1 818**	**-**	**3 629**
Depreciation					
31.12.2021	**162**	**-**	**1 105**	**-**	**1 267**
Calculated	54		159	-	213
Disposals	-	-	(59)	-	(59)
30.09.2022	**216**	**-**	**1 205**	**-**	**1 421**
Net book value as of 30.09.2022	**1 595**	**-**	**613**	**-**	**2 208**
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'0 00	EUR'000	EUR'000
Cost or revalued amount					
31.12.2020	**1 811**	**-**	**1 721**	**-**	**3 532**
Additions	-	-	66	-	66
Disposals	-	-	(27)	-	(27)
31.12.2021	**1 811**	**-**	**1 760**	**-**	**3 571**
Depreciation					
31.12.2020	**90**	**-**	**908**	**-**	**998**
Calculated	72	-	212	-	284
Disposals	-	-	(15)	-	(15)
31.12.2021	**162**	**-**	**1 105**	**-**	**1 267**
Net book value as of 31.12.2021	**1 649**	**-**	**655**	**-**	**2 304**
Net book value as of 31.12.2020	**1 721**	**-**	**813**	**-**	**2 534**

10. Investment in subsidiary

	Company
	EUR'000
Invested during reorganisation 01.12.2017	194 534
Balance sheet value 30.09.2022 and 31.12.2021	**194 534**

Shares held	30.09.2022	31.12.2021
JSC "Gaso"	**100%**	**100%**

	Subsidiary's equity 30.09.2022	Subsidiary's equity 31.12.2021	Subsidiary's profit 9 months 2022	Subsidiary's profit 9 months 2021
	EUR'000	EUR'000	EUR'000	EUR'000
JSC "Gaso"	**278 769**	**277 545**	**1 223**	**9 200**

11. Inventories

	Group 30.09.2022	Group 31.12.2021	Company 30.09.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Natural gas and fuel	56 860	122 278	56 860	122 278
Materials and spare parts	1 979	1 366	-	-
Allowance for slow-moving inventory	(67)	(70)	-	-
	58 772	**123 574**	**56 860**	**122 278**

12. Trade receivables

Trade receivables	Group 30.09.2022	Group 31.12.2021	Company 30.09.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Long-term receivables (nominal value)	69	86	40	5
	69	**86**	**40**	**5**
Short-term receivables (nominal value)	80 020	135 304	77 804	133 557
Corporate income tax overpayment	1 771	-	1 771	-
Allowance for impairment of short-term receivables	(9 874)	(5 893)	(9 282)	(5 369)
	71 917	**129 411**	**70 293**	**128 188**

13. Financial risk management

Fair value

Financial assets and liabilities	Level	Group 30.09.2022	Group 31.12.2021	Company 30.09.2022	Company 31.12.2021
		EUR'000	EUR'000	EUR'000	EUR'000
Trade receivables	3	71 917	129 411	68 522	128 188
Accrued income	3	637	90	573	3
Derivative financial instruments	2	573	1 179	573	1 179
Reserved funds	2	4 981	357	4 981	358
Cash restricted from being used	2	-	86 030	-	86 030
Cash and cash equivalents	2	43 497	10 962	30 709	1 087
Financial assets		**121 605**	**228 029**	**105 358**	**216 845**
Borrowings	3	20 611	61 161	-	38 994
Lease liabilities	3	161	21	157	208
Accrued expenses	3	4 069	4 702	430	1 198
Derivative financial instruments	2	-	112 076	-	112 076
Trade payables	3	4 832	51 992	5 654	54 721
Financial liabilities		**29 673**	**229 952**	**6 241**	**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 30 September 2022 and 31 December 2021, derivative financial instruments consist of natural gas swap agreements. As on 30th September 2022 derivative financial instruments included in balance sheet as assets are 573 thous. EUR (31.12.2021: 1 179 thous. EUR) and as liabilities 0 thous. EUR (31.12.2021: 112 076 thous. EUR).

Cash restricted from being used

Company manages its market risk via derivatives and therefore is exposed to liquidity risk due to obligations under Credit Support Annex (CSA) with some derivative counterparties. CSA defines the terms for the provision of collateral by the parties in derivative transactions. Financial resources that are held on accounts of different financial partners as a guarantee for the derivative transactions are presented as “cash restricted from being used”. In 2021 natural gas price volatility was high, thus Company was required to post collateral against outstanding derivative positions. However, as derivative transactions approached maturity and the hedged asset – inventory – was sold, the derivative counterparties have repaid all of the collateral to Company.

14. Interest-bearing loans and borrowings

	Group 30.09.2022	Group 31.12.2021	Company 30.09.2022	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)	731	22 167	-	-
Long-term part of the loan	19 880	-	-	-
Overdraft from OP Corporate Bank plc Latvia Branch overdraft	-	2 474	-	2 474
Factoring liabilities	-	36 520	-	36 520
	20 611	**61 161**	**-**	**38 994**

In 2017 the Company received a long-term loan of 35 000 thousand EUR for 5 years. Under the reorganisation, the Company transferred this loan to the newly established acquiring JSC “Gaso”. The loan repayment term was 5 years, with the possibility of extending the loan repayment deadline by mutual agreement. The loan was not secured by a pledge. JSC "Gaso" refinanced the loan with JSC “Rietumu banka” by concluding a long-term loan agreement for 26 300 thous. EUR with a repayment term of 5 years. The purpose of the loan is the refinancing of liabilities to JSC "SEB banka" (which amounted to 19 884 thousand EUR in August 2022) and financing of long-term investments used for the economic activity of JSC "Gaso". Loan interest rate is fixed % p.a. plus 3 month EURIBOR. The loan is secured by a pledge.

15. Deferred income

	Group 30.09.2022	Group 31.12.2021	Company 30.09.2022	Company 31.12.2021
	EUR’000	EUR’000	EUR’000	EUR’000
Income from residential and corporate customers’ contributions to construction of gas pipelines:				
Long-term part	12 525	14 094	-	-
Short-term part	2 642	2 934	-	-
	15 167	**17 028**	**-**	**-**

16. Other liabilities

	Group 30.09.2022	Group 31.12.2021	Company 30.09.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR’000
Prepayments received	33 150	56 950	33 046	56 822
Value added tax	6 677	20 326	6 242	19 597
Accrued costs	4 069	4 702	430	1 198
Excise tax	106	841	106	841
Vacation pay reserve	1 372	1 577	261	260
Salaries	975	1 005	185	175
Social security contributions	526	736	102	116
Personnel income tax	296	387	54	62
Real estate tax	45	-	-	-
Other current liabilities	92	97	12	14
	47 308	**86 621**	**40 438**	**79 085**

17. Related party transactions

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

PAS "Gazprom" – in accordance with the concluded natural gas supply agreement No. 1GLa-2000 for the supply of natural gas for the period from 2000 to 2030. The subject of the agreement is the supply of natural gas by PAS "Gazprom" to JSC "Latvijas Gāze", the provision of natural gas injection, storage (in the Inčukalns underground gas storage) and withdrawal services, as well as the transportation of natural gas in the territory of the Republic of Latvia and the organisation of transportation in the territory of the Russian Federation,

PAS "Gazprom" – in accordance with the concluded Agent agreement No. AGV-2017 on natural gas transportation in the Republic of Latvia and natural gas storage in the Inčukalns underground gas storage,

"Gazprom Marketing and Trading Limited" – ISDA Master agreement is concluded. The ISDA Master agreement determines the procedure for trading derivative financial instruments. Currently, the Company has no active transactions with "Gazprom Marketing and Trading Limited". "Gazprom Marketing and Trading Limited" changed its name to "SEFE Marketing & Trading Limited",

JSC "Gaso" – in accordance with the concluded contracts on natural gas trade; non-residential premises lease agreement No. 57 regarding the lease of a building belonging to JSC Gaso at Vagonu iela 20, Riga; cooperation agreement on the provision of economic activity services.

Income or expenses	Group 9 months 2022	Group 9 months 2021	Company 9 months 2022	Company 9 months 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"	-	-	4 931	1 707
Purchases of natural gas				
PJSC "Gazprom"	201 294	300 259	201 294	300 259
PJSC "Gazprom Export"	-	860	-	860
Expenses on natural gas distribution and other services				
AS "Gaso"	-	-	23 179	24 726
Net fair value losses on financial derivatives				
"SEFE Marketing & Trading Limited" (former "Gazprom Marketing and Trading Limited")	(4 435)	(40 411)	(4 435)	(40 411)

Related party payables and receivables	Group 30.09.2022	Group 31.12.2021	Company 30.09.2022	Company 31.12.2021
	EUR'000	EUR'000	EUR'000	EUR'000
Receivables from related companies				
JSC "Gaso"	-	-	97	1 991
PAS "Gazprom"	2 459	236	2 459	236
Advance payments to related entities				
PAS "Gazprom"	-	29 137	-	29 137
Payables to related companies for natural gas and services				
PAS "Gazprom"	-	5 083	-	5 083
AS "Gaso"	-	-	2 078	5 597
"Gazprom Marketing and Trading Limited"	-	2 976	-	2 976

18. Summary of significant accounting policies

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

Basis of preparation

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

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

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

Financial instruments

Financial assets Classification

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

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

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

Recognition and de-recognition

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

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

Measurement

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

Debt instruments

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

Amortised cost

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

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

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

Equity instruments

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

Derivative financial instruments

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

Impairment

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

The measurement of ECL reflects:

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

For trade receivables and accrued income without a significant financing component, the Group and the Company apply a simplified approach permitted by IFRS 9 and measure the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables.

As individual assessment is not possible due to the large number of individual balances, only the significant debtors are assessed individually. Receivables that are not individually assessed for impairment are classified into groups of receivables based on days overdue and are collectively assessed for impairment.

Revenue from contracts with customers

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

Sale of natural gas – wholesale

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

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

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

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

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

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

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

Excise duty

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

Sale of services – natural gas distribution

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

Connection fees

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

Contract assets and contract liabilities related to contracts with customers

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

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

Financing component

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Intangible assets

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

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

Impairment of non-financial assets

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

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

Inventories

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

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

Leases

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

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Discount rate applied to measure lease liabilities as at 31 March 2021, 31 December 2021 and 31 March 2022 is 3.33%.

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

Right-of-use assets

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

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

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

Principles of consolidation

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

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

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

Reorganisation and investment in subsidiary

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

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

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

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

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

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

Segment reporting

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

Share capital and dividend authorised

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

Trade and other payables

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

Borrowings and borrowing costs

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

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

Provisions

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

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

Employee benefits

Wages, salaries and bonus plans

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

Social security and pension contributions

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

Vacation pay accrual

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

Post-employment and other employee benefits

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

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

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

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

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

Income tax

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

IAS 12 as it is calculated on the gross rather than net amounts, and recognised in the statement of profit or loss as other operating cost.

The Group recognise deferred tax liability for taxable temporary differences associated with investment in subsidiary (arising from existence of untaxed retained earnings arisen after 1 January 2018 in subsidiary) except to the extent that it is probable that the temporary difference will not reverse in the foreseeable future, i.e., the untaxed retained earnings will not be distributed from subsidiary to the parent company in foreseeable future. In the reporting periods ended 31 March 2022 and 31 December 2021 the management of the Group did not recognise the deferred tax liability in the consolidated financial statement related to the above.

Related parties

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

19. Subsequent events

On 8th August, 2022 shareholders decided to initiate reorganization of the Company by division pursuant to Section 336(4) of the Commercial Law, as a result of which the Company would transfer part of its property – and namely, 39,900,000 shares of Akciju sabiedrība “GASO”, registration number 40203108921, representing 100% of its share capital – to a newly incorporated company. As a result of the reorganization, all shareholders of the Company shall become shareholders of the newly incorporated company proportionate to their shareholding in the Company.

On 23rd June, 2022, in accordance with the amendments made to the Law on National Security, according to which Russian citizens or legal entities are prohibited from acquiring significant participation or decisive influence in commercial companies important for national security, and JSC "Latvijas Gāze" subsidiary JSC "Gaso" is a commercial company important for national security, the Board of JSC "Latvijas Gāze" supports the need to reorganize JSC "Latvijas Gāze". The board continues its work on the evaluation of several scenarios for the future governance of its subsidiary JSC "Gaso" to implement the shareholder's decision made on August 8, 2022.