ANNUAL REPORT 2021

Translation from Latvian original*
Rīga, 2022

* This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

CONTENTS

Joint Stock Company "Gaso"

Registration number	40203108921
Date and place of registration	December 1, 2017, Riga, Commercial Register
Address	Vagonu Street 20, Riga, Latvia, LV-1009
Website	www.gaso.lv
Financial period	January 1 - December 31, 2021

The Joint Stock Company "Gaso", hereinafter – GASO or the Company, was founded on November 22, 2017 by spinning off the distribution system operations from the Joint Stock Company "Latvijas Gāze", hereinafter – Latvijas Gāze, in compliance with the requirements of the European Union and the state for the independence of the natural gas distribution system. The sole shareholder of GASO is Latvijas Gāze.

GASO is the only natural gas distribution system operator in Latvia, ensuring the supply of natural gas from the transmission system to the final consumers.

GASO ensures the development of the distribution infrastructure, the installation of natural gas connections, the operation of the system, the metering of natural gas, and the functioning of the emergency service.

GASO makes sure that all participants of the natural gas market have equal conditions and advanced tools to maintain the functionality of the natural gas market.

GASO only operates within Latvia and is a fully regulated company.

MISSION, VISION AND PRIORITIES

MISSION

To ensure a stable and reliable performance of the natural gas distribution system throughout the territory of Latvia.

VISION

A trustworthy distribution system operator in terms of service quality, customer attendance, and system maintenance.

VALUES

- Safe working environment;
- Professional and united team;
- Sustainable development;
- Professional cooperation.

SUSTAINABILITY

GASO is a socially responsible and regulated business that cares for the overall development of the industry and the growth of its employees as well as the environmental impact of technological processes. Feeling responsible for its economic, social and environmental impact, the company strives for sustainable solutions in every action and seeks to offer to its customers services that mitigate or eliminate contribution to climate change.

OBJECTIVES

- To ensure safe and continuous operation of the natural gas distribution system;
- To provide customer-oriented solutions;
- To ensure efficient operation of the company.

PRIORITIES OF GASO

Safe and available distribution system infrastructure.

The physical safety of the infrastructure and the availability of the required capacity are of equal importance. GASO devotes much attention to the work of the emergency service, the maintenance of the distribution system, and public awareness of the safe use of natural gas.

Implementation of digital solutions for operational efficiency.

A key role in operational efficiency is played by information technology (hereinafter – IT) systems and various IT solutions that help efficiently manage processes and meet the company's operational and business needs.

Staff succession and competence development.

Given the paramount role of the safety and security of gas supply, the company devotes much attention to the qualification and growth of technical specialists and to labour safety. GASO provides its employees with modern work conditions and operates under a sustainable personnel policy to ensure an efficient performance and recruitment.

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Natural gas system development and customer attraction.

GASO plans to develop networks and to attract new customers through new projects of gasification of populated areas, to promote natural gas as a convenient and invariably high-quality product with the lowest harmful emissions amongst fossil fuels, and to introduce new services to meet customer needs. The company's goal is to promote the use of natural gas in transport to inflict less harm to the environment.

Building customer relationship.

It is important for GASO to further improve the quality and availability of the services provided to customers. For the latter purpose, it has been made possible to reach the company remotely. There are also regular improvements made by the company to streamline the provision of services in terms of speed and simplicity.

Financial stability.

GASO is managed and kept financially stable in line with the principles of good corporate governance, ensuring professional supervision and transparency in terms of information availability.

COUNCIL

The term of office of the Council is 22.11.2020-21.11.2023. The Council members do not own shares of Gaso. Information on the professional experience of the Council members is available on www.gaso.lv.

Chairwoman of the Council

Elena Burmistrova

Vice-Chairman of the Council

Aldis Pauniņš

Member of the Council

Nikolay Vasilyev

Member of the Council

Oleg Tarasov

Member of the Council

Viktor Valov

Member of the Council

Guillaume Rivron

Member of the Council

William Pierson

Member of the Council

Yani Drider
(from 01.01.2021)

Member of the Council

Ekkehard Ludwig

Member of the Council

Christian Janzen

Member of the Council

Nikita Pozdniakov

MANAGEMENT BOARD

The term of office of the Board is 22.11.2020-21.11.2023. The Board members do not own shares of Gaso. Information on the professional experience of the Board members is available on www.gaso.lv.

Chairwoman of the Board

Ilze Pētersone-Godmane

Member of the Board

Anton Bubenov

Member of the Board

Joachim Hockertz

Member of the Board

Baiba Bebre

Member of the Board

Aleksandrs Koposovs

MANAGEMENT REPORT

GASO is the only licensed natural gas distribution system operator in Latvia, ensuring the delivery of natural gas to over 387 thousand consumers in Latvia and maintaining 5 381 km of gas distribution pipelines. The natural gas distribution system service is available in the major towns and cities of Latvia – Riga, Daugavpils, Aizkraukle, Preiļi, Iecava, Liepāja, Dobele, Cēsis, Valmiera, Jelgava, Jūrmala, Bauska, Ogre, Jēkabpils, Sigulda, Līvāni, Rēzekne and Saldus.

Distribution services are regulated and GASO primarily generates revenue from the distribution system service priced as per tariff approved by the Public Utilities Commission (hereinafter – the Regulator). On April 30, 2021, a new natural gas system service tariff was approved for taking effect as of July 1, 2021. The approved tariff, as hitherto, includes a fixed component based on the permitted or requested load and a variable component based on the natural gas quantity supplied. Upon approving the tariff, the total regulatory period was set to 54 months or 4.5 years.

Administrative proceedings continued in 2021 regarding the claim for the annulment of the Regulator's Council resolution No.109 dated August 20, 2020 "On the rate of return on capital for the calculation of natural gas transmission system, natural gas distribution system and natural gas storage service tariff proposals" and the request for filing an application to the Constitutional Court. The first court hearing was held on April 29, 2021. Given the specific and complex nature of the matter, it takes multiple hearings to adjudicate the case. The fifth court hearing held on December 15, 2021 addressed the need to apply to the Court of Justice of the European Union with prejudicial questions. The Administrative Regional Court has decided the adjudicate the matter of applying to the European Union Court in a written procedure and the hearing has been scheduled for May 26, 2022.

An assessment of the independence of GASO took place in 2021 as well, including an IT system audit, a revision of the Compliance programme, a review of the 2020 performance, and an assessment of sufficiency of other independence measures taken. The "Report on the compliance of the JSC "GASO" with the independence requirements" was approved at the Regulator's Council meeting of April 29, 2021. According to the resolution, the measures taken by GASO towards ensuring independence were found to be sufficient and GASO was confirmed as compliant with the independence requirements without remarks.

PERFORMANCE

The past year has been a challenge for both the Latvian and global economies – the impact of the CoViD-19 pandemic upon the economic situation still persisted, causing certain caution in the first half of the year, while in the second half the economic growth resumed both domestically and globally, contributing to a cost increase. Despite the spread of CoViD-19 in Latvia, GASO continued to maintain a safe working environment for its employees and introduced stricter safety measures. The implementation of digital solutions carried out in previous years enabled GASO to successfully adapt its work to the state of emergency caused by the CoViD-19 infection and maintain a safe and continuous operation of the natural gas distribution system. As a result, the state of emergency in the country did not have a major impact upon the operational and financial performance of GASO.

In 2021, GASO supplied to consumers 12 408 GWh of natural gas, which is 8% more than in 2020.

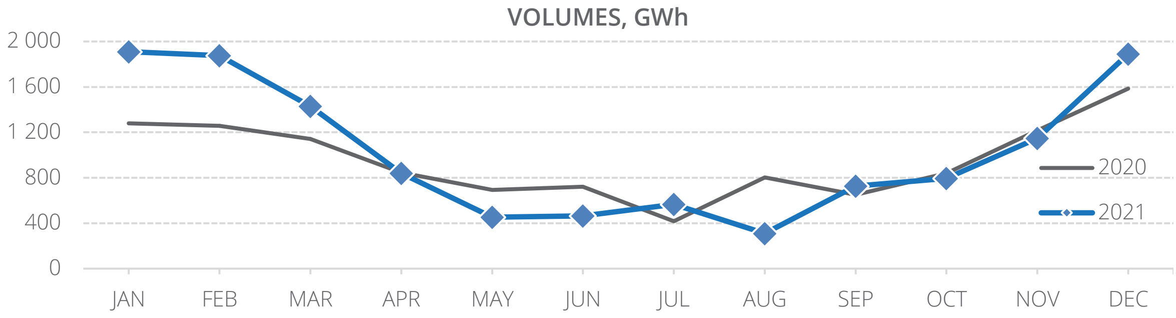


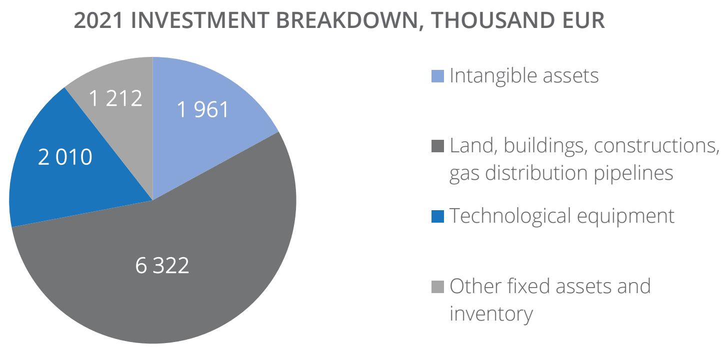
Figure No. 1. Natural gas consumption by months in 2021 (GWh).

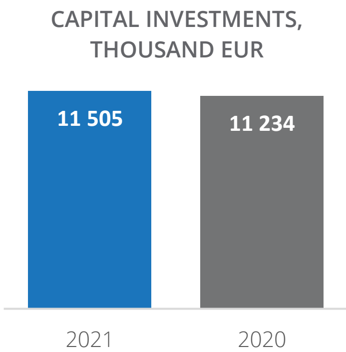
The total revenue of GASO in the reporting period reached 59.2 million EUR – 17% more than in the respective period of the previous year. In 2021, GASO generated a profit of 11.5 million EUR and reached an EBITDA of 24 million EUR. The financial performance of GASO was affected the most by the cold winter of 2021 and the substantial rise in the natural gas price which increased the costs of natural gas losses and own consumption.

Although technically not directly connected to Western Europe, Latvia's natural gas supply entirely depends on the economic and political events not just in the Baltics but also in Europe and in the world, as the natural gas price in Latvia is linked to the Western European natural gas hub indexes. Early 2021 saw an extended period of lower air temperatures in both Europe and Asia which spurred demand for natural gas not just in the spring of 2021 but throughout the injection season. The natural gas price hike continued till the end of 2021 when the all-time highest natural gas price was reached.

DEVELOPMENT

In order to ensure a continuous and safe development of the natural gas system, take care of the services needed by customers, draw new customers, and maintain the company's operational efficiency, 11.5 million EUR was invested in 2021.





Distribution system safety is the utmost priority of GASO and requires continuous system maintenance and renovation. As a result, every year the largest investments are directed towards the construction and reconstruction of gas pipelines and shut-off devices and the reconstruction of technological equipment. The year 2021 also saw reconstruction of major gas regulation points (hereinafter – GRPs), installing modern container-type GRPs, and dismantling of several technologically and morally obsolete GRP buildings, reconstructing them into cabinet-type GRPs. Much was also invested in the renovation of the protective coating of above-ground gas pipelines and in the inspection of underwater passages.

In order to promote the development of the gas supply system and enable the attraction of new natural gas consumers from both private houses and the industrial sector, there are also investments made every year in the construction of new gas pipelines. In 2021, the length of gas pipelines owned by GASO increased by 43.9 km, while the total number of new connections and increases in the permitted maximum load in 2021 was 1 640 – the highest of last five years. Most new connections are installed in the vicinity of Riga.

Seeing operational efficiency as a precondition of sustainable development, in 2021 GASO continued to implement various digital solutions towards enhanced labour organisation, customer satisfaction, and employee efficiency.

KEY FIGURES

The main economic indicators of 2021 are presented in the tables below.

Operational figures	2021 12M	2020 12M	Δ	Δ %
Natural gas supplied to customers in distribution networks, GWh	12 408	11 449	959	8%
Number of consumers, thousand	387	392	-5	-1%
Number of employees, average	888	878	10	1%
Length of distribution lines, km	5 381	5 337	44	1%

Financial figures (EUR`000)	2021 12M	2020 12M	Δ	Δ %
Revenue	59 163	50 444	8 719	17%
EBITDA	23 997	20 870	3 128	15%
EBITDA, %	41%	41%		0%
EBIT	11 551	8 466	3 085	36%
EBIT, %	20%	17%		3%
Net profit	11 545	8 466	3 079	36%
Net profitability, %	20%	17%		3%
Earnings per share, EUR	0,29	0,21	0,08	38%
Long-term investments	309 936	311 560	-1 625	-1%
Total assets	331 306	331 152	154	0%
Equity	277 545	273 411	4 134	2%
Borrowing	22 167	25 667	-3 500	-14%

The most frequently used economic indicators are included in order to ensure a comparable and impartial presentation of the financial results of GASO. GASO uses figures of profitability and capital structure for the presentation of its financial results. The calculations are based on the data of the financial statement.

Alternative performance indicators	Calculation formulas
EBITDA (Earnings Before Income Tax, Depreciation and Amortisation)	EBITDA = Reporting year profit + Corporate income tax + Financial expenses – Financial income + Depreciation, amortisation and impairment of tangible and intangible assets
EBITDA, % (or EBITDA margin)	EBITDA, % = EBITDA / Revenue from contracts with customers x 100%
EBIT (Earnings Before Interest and Taxes)	EBIT = Reporting year profit + Corporate income tax + Financial expenses – Financial income
EBIT, % (or EBIT margin)	EBIT, % = EBIT / Revenue from contracts with customers x 100%
Net profitability (or Commercial profitability) Shows how much the business earns from each EUR received from customers	Net profitability, % = Reporting year profit / Revenue from contracts with customers x 100%
Δ (Changes over the period)	Δ = Figure of 2021 annual report – Figure of 2020 annual report
Δ % (Changes over the period in percent)	Δ % = Δ (Changes over the period) / Figure of 2020 annual report x 100%

STATEMENT OF BOARD RESPONSIBILITY

The Board of the Joint Stock Company "Gaso" is responsible for the preparation of the Company's financial statements. The financial statements for 2021 have been prepared in compliance with the International Financial Reporting Standards adopted by the European Union and provide a true and fair view of the Company's financial position, operational results and cash flows in all key aspects.

POST BALANCE SHEET EVENTS

In response to the warfare in Ukraine, the European Union has adopted a number of sectoral and legal entity sanctions in the energy sector, but the JSC "Gaso" is not subject to these sanctions and the purchase and transportation of natural gas from the Russian Federation has been granted an exception which allows the natural gas market to function. Furthermore, the maintenance and development of the distribution system owned by the JSC "Gaso" essentially does not involve goods and services from the Russian Federation.

GASO is the only natural gas distribution system operator in Latvia and ensures the supply of natural gas from the transmission system to the final consumers regardless of type and country of origin of natural gas. Natural gas is already being imported into Latvia from both Russia and the Klaipeda liquefied natural gas terminal. On November 24, 2017, the European Commission included the enhancement of Latvian-Lithuanian interconnection under the "Baltic Energy Market Interconnection Plan in gas" in the priority corridor list of projects of common interest. Over the recent years, there have been several major infrastructure projects started and completed in the Baltic region, including the Klaipeda liquefied natural gas terminal and the Finnish-Estonian cross-border connection. The construction of the Polish-Lithuanian interconnection is set to be completed in May 2022, and the interconnection capacity between Latvia and Lithuania is set to be doubled by the end of 2023. The interconnection project is partially financed by the European Union – a proof of the European Union's support for strengthening the natural gas infrastructure. The new infrastructure projects – the capacity doubling of the Latvian-Lithuanian interconnection and the planned investments in the Inčukalns Underground Gas Storage Facility – make it technically possible to provide natural gas supplies to not just Lithuania but all three Baltic countries without any natural gas coming from Russia.

On January 4, 2022, the Ministry of Economy of the Republic of Latvia signed an agreement with the government of the Republic of Estonia, and on March 10, 2022 – an agreement with the government of the Republic of Lithuania on solidarity measures towards safeguarding the security of gas supply. The international bilateral agreement lays down the procedure how support is to be rendered in the event of an emergency situation in the natural gas sector occurring in any of the countries.

In light of the foregoing, GASO considers the warfare in Ukraine a non-adjusting event after the balance sheet date. However, one cannot rule out the possibility that further sanctions in the mid- and longer term might adversely affect GASO, its financial standing and operational results. During the period after December 31, 2021 up to the signing of this financial statement there have been no other events that affect the Company's financial standing or financial results as at the balance sheet date.

The management report was approved by the Board of the JSC "Gaso" on March 31, 2022 and it is signed on behalf of the Board by:

Ilze Pētersone-Godmane Chairwoman of the Board	**Baiba Bebre** Member of the Board

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

Joint Stock Company "Gaso"

Registration number	40203108921
Date and place of registration	1 December 2017, Riga, Commercial Register
Address	Vagonu 20, Riga, Latvia, LV-1009
Website	www.gaso.lv
Financial period	January 1 - December 31, 2021
Name and address of the auditor and the responsible certified auditor	PricewaterhouseCoopers SIA Audit company license No. 5 Kr. Valdemāra 21-21 Riga LV-1010, Latvia Responsible certified auditor: Jana Smirnova Certified auditor Certificate No. 188

STATEMENT OF PROFIT OR LOSS

	Note	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
		EUR'000	EUR'000
Revenue from contracts with customers	1	57 914	49 090
Other income	2	1 249	1 354
Raw materials and consumables used	3	(5 902)	(2 782)
Personnel expenses	4	(23 399)	(21 055)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		(12 446)	(12 404)
Other operating expenses	5	(5 865)	(5 737)
Operating profit		**11 551**	**8 466**
Financial expenses, net		(6)	-
Profit before taxes		**11 545**	**8 466**
Profit for the period		**11 545**	**8 466**

STATEMENT OF COMPREHENSIVE INCOME

	Note	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
		EUR'000	EUR'000
Profit for the period		**11 545**	**8 466**
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods			
Remeasurement of post-employment benefit obligations	15	968	(344)
Total other comprehensive income / (expenses)		**968**	**(344)**
Total comprehensive income for the period		**12 513**	**8 122**

The Notes on pages 16-39 are an integral part of these financial statements.

The management report was approved by the Board of the JSC “Gaso” on March 31, 2022 and it is signed on behalf of the Board by:

Ilze Pētersone-Godmane
Chairwoman of the Board

Baiba Bebre
Member of the Board

STATEMENT OF FINANCIAL POSITION

	Note	31.12.2021	31.12.2020
		EUR'000	EUR'000
ASSETS			
Non-current assets			
Intangible assets	6	4 713	4 120
Property, plant and equipment	7	305 223	307 440
Total non-current assets		**309 936**	**311 560**
Current assets			
Inventories	8	1 296	1 367
Pre-payments for inventories		41	10
Trade receivables	9	8 897	8 339
Other receivables	10	1 261	608
Cash and cash equivalents		9 875	9 268
Total current assets		**21 370**	**19 592**
TOTAL ASSETS		**331 306**	**331 152**
LIABILITIES AND EQUITY			
Equity			
Share capital	11	39 900	39 900
Reserves	12	133 054	138 576
Retained earnings		104 591	94 935
Total equity		**277 545**	**273 411**
Non-current liabilities			
Borrowings	13	-	22 167
Deferred income	14	14 094	18 318
Provisions	15	2 171	2 944
Total non-current liabilities		**16 265**	**43 429**
Current liabilities			
Borrowings	13	22 167	3 500
Trade payables	16	4 869	2 843
Deferred income	14	2 934	1 079
Other liabilities	17	7 526	6 890
Total current liabilities		**37 496**	**14 312**
Total liabilities		**53 761**	**57 741**
TOTAL LIABILITIES AND EQUITY		**331 306**	**331 152**

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Ilze Pētersone-Godmane
Chairwoman of the Board

Baiba Bebre
Member of the Board

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2019	**39 900**	**145 738**	**88 429**	**274 067**
Transactions with owners				
Dividends	-	-	(8 778)	(8 778)
Total transactions with owners	**-**	**-**	**(8 778)**	**(8 778)**
Reduction of property, plant and equipment revaluation reserve in the amount of depreciation of property, plant and equipment and through disposal of revalued property, plant and equipment	-	(6 818)	6 818	-
Other comprehensive income	-	(344)	-	(344)
Profit for the year	-	-	8 466	8 466
Total comprehensive income	**-**	**(344)**	**8 466**	**8 122**
December 31, 2020	**39 900**	**138 576**	**94 935**	**273 411**
Transactions with owners				
Dividends	-	-	(8 379)	(8 379)
Total transactions with owners	**-**	**-**	**(8 379)**	**(8 379)**
Reduction of property, plant and equipment revaluation reserve in the amount of depreciation of property, plant and equipment and through disposal of revalued property, plant and equipment	-	(6 490)	6 490	-
Other comprehensive income	-	968	-	968
Profit for the year	-	-	11 545	11 545
Total comprehensive income	**-**	**968**	**11 545**	**12 513**
December 31, 2021	**39 900**	**133 054**	**104 591**	**277 545**

The Notes on pages 16-39 are an integral part of these financial statements.

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Ilze Pētersone-Godmane
Chairwoman of the Board

Baiba Bebre
Member of the Board

STATEMENT OF CASH FLOWS

	Note	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before corporate income tax		**11 545**	**8 466**
Adjustments:			
- depreciation of property, plant and equipment	7	11 078	11 153
- amortisation of intangible assets	6	1 368	1 290
- losses on sale of property, plant and equipment	5	539	403
- interest expenses		6	-
Changes in operating assets and liabilities:			
- to accounts receivable		(1 211)	(245)
- to advances for inventories		(31)	(9)
- to inventories		71	(133)
- to accounts payable		1 518	(1 659)
Net cash flow from operating activities		**24 883**	**19 266**
Cash flow from investing activities			
Payments for property, plant and equipment		(10 104)	(6 841)
Payments for intangible assets		(2 192)	(1 299)
Proceeds from sale of property, plant and equipment		79	113
Net cash flow used in investing activities		**(12 217)**	**(8 027)**
Cash flow from financing activities			
Interest paid		(180)	(200)
Repayment of borrowings	13	(3 500)	(3 500)
Dividends paid	11	(8 379)	(8 778)
Net cash flow used in financing activities		**(12 059)**	**(12 478)**
Net cash flow		**607**	**(1 239)**
Cash and cash equivalents at the beginning of the reporting period		**9 268**	**10 507**
Cash and cash equivalents at the end of the reporting period		**9 875**	**9 268**

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The statements were approved by the Board of the JSC "Gaso" on March 31, 2021 and they are signed on behalf of the Board by:

Ilze Pētersone-Godmane
Chairwoman of the Board

Baiba Bebre
Member of the Board

NOTES TO THE FINANCIAL STATEMENTS

Statement of profit or loss

1. Revenue from contracts with customers

	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
	EUR'000	EUR'000
Natural gas distribution (NACE code 35.22)	53 518	46 970
Distribution system connection fees (Note 14)	3 253	1 057
Other revenue	1 143	1 063
	57 914	**49 090**

2. Other income

	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
	EUR'000	EUR'000
Income from compensation for damages	649	731
Lease income	290	301
Penalties	108	77
Management and consultancy services	46	121
Other income	156	124
	1 249	**1 354**

3. Raw materials and consumables used

	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
	EUR'000	EUR'000
Natural gas for technological purposes	4 535	1 416
Costs of materials, spare parts and fuel	1 367	1 366
	5 902	**2 782**

4. Personnel expenses

	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
	EUR'000	EUR'000
Wages and salaries	17 882	16 003
State social insurance contributions	4 225	3 959
Life, health and pension insurance	1 135	961
Other personnel costs	157	132
	23 399	**21 055**
including Board and Council remuneration:		
- salaries	1 296	831
- state social security contributions	328	209
- life, health and pension insurance	68	66
- other personnel costs	103	76
	1 795	**1 182**
Average number of employees during the period	888	878

5. Other operating expenses

	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
	EUR'000	EUR'000
Expenses for maintenance of premises and other services	1 786	1 400
Costs of IT system maintenance, communications and transport	1 180	1 076
Office and other administrative costs	967	977
Sale and advertising costs	495	444
Losses from disposal of assets	539	403
Taxes and duties	316	317
Nature protection and labour safety costs	235	869
Impairment of trade receivables	163	64
Other costs	184	187
	5 865	**5 737**

Statement of financial position

6. Intangible assets

	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
	EUR'000	EUR'000
Cost		
As at the beginning of the period	17 570	15 499
Additions	1 961	2 071
Disposals	(295)	-
As at the end of the period	**19 236**	**17 570**
Amortisation		
As at the beginning of the period	13 450	12 160
Amortisation	1 368	1 290
Disposals	(295)	-
As at the end of the period	**14 523**	**13 450**
Net book value as at the end of the reporting period	**4 713**	**4 120**

The intangible assets include fully depreciated intangible assets with a total historic cost of EUR 7 277 thousand (31.12.2020: 7 151 thousand) still in use by the Company. The most part of intangible assets of GASO consists of software.

The consumer accounting and billing system is the most important system of GASO. It ensures the accounting of the technical information of gasified premises, the registration and service of customers, the registration of meter readings, the metering of consumption, the accounting of revenue from the natural gas quantities supplied, as well as the management of workflows.

7. Property, plant and equipment

	Land, buildings and constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
01.01.2021	**653 903**	**40 250**	**15 764**	**677**	**710 594**
Additions	-	-	-	9 544	9 544
Transfers	5 033	2 019	1 194	(8 246)	-
Disposals	(1 871)	(510)	(650)	-	(3 031)
31.12.2021	**657 065**	**41 759**	**16 308**	**1 975**	**717 107**
Depreciations					
01.01.2021	**365 417**	**25 718**	**12 019**	**-**	**403 154**
Calculated	8 055	1 885	1 203	-	11 143
Disposals	(1 282)	(482)	(649)	-	(2 413)
31.12.2021	**372 190**	**27 121**	**12 573**	**-**	**411 884**
Net book value					
31.12.2021	**284 875**	**14 638**	**3 735**	**1 975**	**305 223**
31.12.2020	**288 486**	**14 532**	**3 745**	**677**	**307 440**

	Land, buildings and constructions	Machinery and equipment	Other fixed assets	Costs of items under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount					
01.01.2020	**649 118**	**38 834**	**14 850**	**1 104**	**703 906**
Additions	-	-	-	9 163	9 163
Transfers	6 159	2 163	1 268	(9 590)	-
Disposals	(1 374)	(747)	(354)	-	(2 475)
31.12.2020	**653 903**	**40 250**	**15 764**	**677**	**710 594**
Depreciations					
01.01.2020	**358 618**	**23 998**	**11 343**	**-**	**393 959**
Calculated	7 742	2 389	1 022	-	11 153
Disposals	(943)	(669)	(346)	-	(1 958)
31.12.2020	**365 417**	**25 718**	**12 019**	**-**	**403 154**
Net book value					
31.12.2020	**288 486**	**14 532**	**3 745**	**677**	**307 440**
31.12.2019	**290 500**	**14 836**	**3 507**	**1 104**	**309 947**

Property, plant and equipment includes fully depreciated fixed assets with a total historic cost of EUR 16 621 thousand (31.12.2020: 11 742 thousand) still in use by the Company. In the reporting year, the Company capitalised depreciation in the amount of 65 thousand EUR (in 2020: 39 thousand EUR) and loan interest costs in the amount of 135 thousand EUR (in 2020: 185 thousand EUR). Included in the tables above within “Land, buildings, constructions” is the freehold land owned by the Company with the cost and net book value of EUR 1,5 million, as at 31.12.2021 and 31.12.2020. Land is not subject to revaluation.

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

	31.12.2021	**31.12.2020**
	EUR'000	EUR'000
Buildings and constructions	104 569	102 697
Machinery and equipment	11 294	10 481

8. Inventories

	31.12.2021	**31.12.2020**
	EUR'000	EUR'000
Materials and spare parts	1 366	1 438
Allowance for impairment of slow-moving inventories	(70)	(71)
	1 296	**1 367**

Allowance for impairment of slow-moving and obsolete inventories	**1.01.2021 - 31.12.2021**	**1.01.2020 - 31.12.2020**
	EUR'000	EUR'000
Allowance at the beginning of the period	**71**	**71**
Released in profit or loss statement	(4)	(2)
Expense included in profit or loss statement	3	2
Allowance at the end of the period	**70**	**71**

9. Trade receivables

	31.12.2021	**31.12.2020**
	EUR'000	EUR'000
Short-term receivables at book value	9 420	8 749
Expected credit losses	(523)	(410)
	8 897	**8 339**

	Trade receivables, gross	**Expected credit losses**	**Trade receivables, net**
	EUR'000	EUR'000	EUR'000
Not yet overdue	8 311	(4)	8 307
Overdue less than 90 days	34	(2)	32
Overdue more than 90 days	404	(404)	-
31.12.2020	**8 749**	**(410)**	**8 339**
Not yet overdue	8 868	(5)	8 863
Overdue less than 90 days	38	(4)	34
Overdue more than 90 days	514	(514)	-
31.12.2021	**9 420**	**(523)**	**8 897**

Allowance for impairment of trade receivables	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
	EUR'000	EUR'000
Expected credit losses at the beginning of the period	**410**	**346**
Expense included in profit or loss statement	182	91
Income included in profit or loss statement	(69)	(27)
Expected credit losses at the end of the period	**523**	**410**

Provisions of trade receivables were made on the basis of financial position and business activity of certain customer tiers. The actual losses may differ from the current estimate as the specific amounts are periodically reviewed and changes are reflected in the statement of profit or loss.

10. Other receivables

	31.12.2021	31.12.2020
	EUR'000	EUR'000
Deferred expenses	1 080	99
Other receivables	181	509
	1 261	**608**

11. Shares and shareholders

Share capital	31.12.2021 % of total share capital	31.12.2021 Number of shares	31.12.2020 % of total share capital	31.12.2020 Number of shares
Dematerialised registered shares	100	39 900 000	100	39 900 000

The Company's fixed capital was generated in the process of reorganisation of the founder JSC "Latvijas Gāze" by spinning off the assets of the dividing entity. The founder holds 100% of the Company's shares.

The registered, signed and paid-up share capital as at December 31, 2021 was 39 900 000 dematerialised registered shares with a nominal value of 1.00 EUR each. All shares are of the same category with equal rights to vote at the shareholders' meeting, to dividend, and to liquidation quota.

In 2021, there were dividends paid out in the amount of 8 379 thousand EUR (0.21 EUR per share) from the retained earnings of previous years.

The dividends payable are not accounted for as long as the shareholders' meeting has not passed a decision to distribute the profit. The decision on the dividends to be paid for the performance of 2021 will be made at the regular shareholders' meeting of 2022. The Board will most probably suggest paying no dividends for 2021 and retaining the profit.

12. Reserves

	31.12.2021	31.12.2020
	EUR'000	EUR'000
Property, plant and equipment revaluation reserve	181 780	188 270
Employee benefits revaluation reserve	1 185	217
Reorganisation reserve	(49 911)	(49 911)
	133 054	**138 576**

Property, plant and equipment revaluation reserve	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
	EUR'000	EUR'000
At the beginning of the reporting period	**188 270**	**195 088**
Depreciation of revalued value	(5 990)	(6 445)
Revalued assets disposed	(500)	(373)
At the end of the reporting period	**181 780**	**188 270**

Employee benefit revaluation reserve	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
	EUR'000	EUR'000
At the beginning of the reporting period	**217**	**561**
Revaluations resulting from changes in actuarial assumptions	968	(344)
At the end of the reporting period	**1 185**	**217**

Reorganisation reserve

The reorganisation reserve arose as a result of transfer of assets, liabilities, and the related property, plant and equipment and employee benefit revaluation reserves from the JSC "Latvijas Gāze". The amount of the reserve is a mathematical balance after deducting share capital, received reserves and retained earnings from the carrying amount of the net assets received.

13. Borrowings

	31.12.2021	31.12.2020
	EUR'000	EUR'000
Loan from JSC "SEB banka"		
- long-term portion of the loan	-	22 167
- short-term portion of the loan	22 167	3 500
	22 167	**25 667**

In 2017, under the reorganisation, Latvijas Gāze transferred to the newly-established acquiring Joint Stock Company "Gaso" a long-term loan of 35 million EUR. The loan has a repayment term of 5 years starting 2018, with an option to extend the repayment term upon agreement, and an interest rate of 0.72% plus 6-month EURIBOR. The loan is not secured with a pledge. As the loan matures in October 2022, the Company has classified all liabilities for the loan as short-term. However, in order to ensure the Company's operational sustainability, the management of Gaso has launched negotiations with several credit institutions on refinancing options for the existing loan. Should there be no agreement reached on refinancing the loan, it is important to note that GASO is part of the Latvijas Gāze Group and it is in the Group's interests to ensure that the short-term and long-term operation of the distribution system operator not be jeopardised in any way, and parent company has confirmed that they will provide support, if no agreement reached on refinancing the loan.

Changes in borrowings	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
	EUR'000	EUR'000
At the beginning of the reporting period	**25 667**	**29 167**
Loans repaid	(3 500)	(3 500)
Interest calculated	174	200
Interest paid	(174)	(200)
At the end of the reporting period	**22 167**	**25 667**

14. Deferred income

Connection fees	31.12.2021	31.12.2020
	EUR'000	EUR'000
Long-term part	14 094	18 318
Short-term part	2 934	1 079
	17 028	**19 397**

Changes of deferred income	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
	EUR'000	EUR'000
Balance at the beginning of the period	**19 397**	**19 480**
Received from customers during the reporting period	884	974
Included in revenue of the reporting period (Note 1)	(3 253)	(1 057)
Total transfer to next period	**17 028**	**19 397**

15. Provisions

	31.12.2021	31.12.2020
	EUR'000	EUR'000
Employment and post-employment benefit obligations	1 483	2 244
Provisions for possible environmental protection obligations	688	700
	2 171	**2 944**

Employment and post-employment benefit obligations	1.01.2021 - 31.12.2021	1.01.2020 - 31.12.2020
	EUR'000	EUR'000
At the beginning of the reporting period	**2 244**	**1 700**
Recognised in profit or loss statement	422	353
Paid	(215)	(153)
Remeasurements due to changes in actuarial assumptions – other comprehensive income	(968)	344
At the end of the reporting period	**1 483**	**2 244**

Employment and post-employment benefit liabilities on the possible time of expenses	31.12.2021	31.12.2020
Maturity	EUR'000	EUR'000
< 1 year	332	343
1 - 5 years	366	392
5 - 10 years	270	482
10 - 20 years	317	584
> 20 years	198	443
	1 483	**2 244**

Assumptions used in calculation of obligations	31.12.2021	31.12.2020
Discount rate, %	0,00235%	0,0025%
Employee turnover rate, %	4,84%	5,01%
Employee retirement age, years	64,00	63,75
Increase in salaries, % 2022-2025 (per year) 2026-2028 (per year)	0,00% 4,00%	4,00%
Contributions to private pension fund, %	5,00%	5,00%
State compulsory social security contributions (for employees),%	23,59%	23,59%
State compulsory social security contributions (for pensioners),%	20,77%	20,77%

The calculations were made using the project unit credit method and a discount rate equal to the average annual rate of return on treasury securities with the initial maturity of five years or more as per last two issues of such securities (source: the Treasury – https://www.kase.gov.lv/valsts-parada-vadiba/vertspapiri-iekseja-tirgu/tirgus-apskati-un-statistika?disclaimer_agree=true), i.e., 0.00235% as at the end of the reporting period.

The 4.84% assumption of the employee turnover rate was calculated on the basis of the effective calculation methodology whereby the turnover rate is to calculated as proportion between the number of employees having left the company, excluding retirees, and the average number of employees over the reporting period.

The calculations used the tables on the life expectancy of Latvian men and women (in years) and the life span figures for 2020 prepared by the Central Statistics Bureau.

The assumption of employee retirement age is based on Article 8.1 of the Transitional Provisions of the Law On State Pensions adopted on November 2, 1995 (hereinafter – the Law) whereby the age of eligibility for old-age pension as per Section 11 Paragraph one of the Law – 62 to 65 years – shall increase gradually and be specified for each year individually. As of January 1, 2021, it is 64 years.

The calculations assume that the salary increase rate at the Company will be zero for the next 4 years, equal to the average expected inflation rate in Latvia for 3 years thereafter, and then remain constant.

The 5% assumption of contributions to a private pension fund is based on a resolution by the Board of GASO.

The assumptions of mandatory state social security contributions for employees and pensioners have been made pursuant to the next year's rates of mandatory state social security contributions as per Cabinet Regulations No.786 "Regulations on the distribution of the rate of mandatory state social contributions among types of state social security" approved 23.59% and 20.77% respectively.

Percentage point changes in the assumptions used in calculation of accruals and impact upon accruals if there is an increase in the assumptions			31.12.2021	31.12.2020
Discount rate	+0.5 p.p.	Decrease by	0,009%	0,0001%
Employee turnover rate	+0.5 p.p.	Decrease by	0,18%	0,26%
Employee retirement age	+1 year	Decrease by	3,12%	0,73%
Salary increase	+0.5 p.p.	Increase by	0,43%	0,23%
Contributions to private pension fund	+0.5 p.p.	Increase by	0,02%	0,02%
State compulsory social security contributions	+0.5 p.p.	Increase by	0,09%	0,12%

Percentage point changes in the assumptions used in calculation of accruals and impact upon accruals if there is a decrease in the assumptions			31.12.2021	31.12.2020
Discount rate	-0.5 p.p.	Increase by	0,009%	0,0001%
Employee turnover rate	-0.5 p.p.	Increase by	0,18%	0,26%
Employee retirement age	-1 year	Increase by	4,58%	0,98%
Salary increase	-0.5 p.p.	Decrease by	0,43%	0,18%
Contributions to private pension fund	-0.5 p.p.	Decrease by	0,02%	0,02%
Compulsory state social security contributions	-0.5 p.p.	Decrease by	0,09%	0,09%

The said sensitivity analysis is based on changes in the amount of liabilities and shows how changes in the respective actuarial assumption would have affected the required amount of accrued liabilities if other assumptions remained unchanged. The methods and types of assumptions used in preparing the sensitivity analysis did not change from the previous period.

Provisions for possible environmental protection obligations	**1.01.2021 - 31.12.2021**	**1.01.2020 - 31.12.2020**
	EUR'000	EUR'000
At the beginning of the reporting period	**700**	**-**
Recognised in profit or loss statement	(12)	700
At the end of the reporting period	**688**	**700**

The Company has created provisions for possible environmental protection obligations for the improvements of environment and territory in Vagonu 20, Riga.

16. Trade payables

	31.12.2021	31.12.2020
	EUR'000	EUR'000
Payables for materials and services	2 878	2 665
Payables to related parties (Note 18)	1 991	178
	4 869	**2 843**

17. Other liabilities

	31.12.2021	31.12.2020
Other non-financial liabilities	EUR'000	EUR'000
Accrued costs	3 494	3 160
Vacation pay reserve	1 317	1 036
Salaries	825	705
Value added tax	729	949
Social security contributions	619	592
Personnel income tax	325	299
Prepayments received	128	58
Other current liabilities	89	91
	7 526	**6 890**

18. Related party transactions

The parent company and ultimate beneficiary of GASO is the Joint Stock Company "Latvijas Gāze" which owns 100% of the fixed capital of GASO. The Joint Stock Company "Latvijas Gāze" prepares consolidated annual accounts which also include its subsidiary. The table below lists transactions, claims and obligations with the parent company:

Income and expenses	**1.01.2021 - 31.12.2021**	**1.01.2020 - 31.12.2020**
	EUR'000	EUR'000
Income from provision of services	35 513	32 293
Expenditure on purchases of goods and services	5 037	1 567

GASO provides services of natural gas distribution to the JSC "Latvijas Gāze" as participant of the natural gas market, ensuring the supply of natural gas from the transmission system to the final consumers, and leases premises on an operating lease basis, as well as purchases natural gas from Latvijas Gāze for technological purposes and heating, hot water.

Related party payables and receivables	**31.12.2021**	**31.12.2020**
	EUR'000	EUR'000
Receivables for distribution services and lease of premises	5 597	5 132
Payables for gas received (Note 16)	1 991	178

The Joint Stock Company "Gaso" was founded on November 22, 2017 by spinning off the distribution system operations from the Joint Stock Company "Latvijas Gāze", hereinafter – Latvijas Gāze, in compliance with the requirements of the European Union and the state for the independence of the natural gas distribution system. Latvijas Gāze implemented the reorganisation by way of spin-off where Latvijas Gāze is the divided company, with a business segment and part of the property of Latvijas Gāze spun off. Based on the spin-off decision of Latvijas Gāze of August 15, 2017, all the assets and liabilities due for transfer - which includes material property and immaterial property or rights, documents, contracts and other economic benefits used by Latvijas Gāze as merchant for the purposes of natural gas distribution - were transferred under the asset distribution deed and the spin-off balance sheet of December 1, 2017.

19. Financial risk management

The Company's main financial instruments are bank loans, cash, and cash equivalents. The main purpose of these financial instruments is to secure financing for the Company's business activity. The Company also has a number of other financial assets and liabilities, such as trade receivables and payables directly resulting from its business activity.

The Company is exposed to market, credit, and liquidity risks associated with its financial instruments. Financial risks are managed by the Company's Board. The Company's financial instruments may be categorised as follows:

Financial assets and liabilities	**31.12.2021**	**31.12.2020**
	EUR'000	EUR'000
Trade receivables	8 897	8 339
Cash and cash equivalents	9 875	9 268
Financial assets	**18 772**	**17 607**
Borrowings	22 167	25 667
Trade payables	4 869	2 843
Financial liabilities	**27 036**	**28 510**

19.1. Credit risk

The Company is exposed to credit risk, which is a risk of material losses arising in case of a counterparty not being able to fulfil its contractual obligations towards the Company. Credit risk arises from cash and cash equivalents, as well as outstanding receivables.

Trade receivables

The primary source of the Company's credit risk associated with trade receivables is the major customers. In the reporting period the Company's five major customers accounted for 92% of the total turnover of 2021, with the parent company Latvijas Gāze accounting for 62%. The Company believes that receivables from related parties are of high recoverability.

The Company continuously monitors receivables and, if credit issues arise, makes provisions for overdue receivables and takes appropriate debt recovery measures. The expected credit loss is calculated using an accrual matrix based on historical loss and forecasts for future developments, assuming that payment discipline remains unchanged in future. Receivables are classified into groups by the number of days overdue and collectively assessed for expected credit loss. Information on the expected credit loss rates is provided in section "Impairment of trade receivables" of Note 20 "Critical accounting estimates and judgments" The Company has not received pledges as security for trade receivables.

Cash and cash equivalents

As at December 31, 2021, cash and cash equivalents only consist of current bank account balances and approximately correspond to their fair value. The Company has not recognised impairment of cash and cash equivalents in the statements, assuming that the expected credit loss is negligible. As part of internal assessment the Company analyses the credit ratings of each credit institution in order to decide which institution to hold cash with.

The credit ratings of the banks used by the Company and its cash balances with those banks were as follows:

Credit institution	Reitings	31.12.2021	31.12.2020
		EUR'000	EUR'000
Citadele banka AS	Baa2[1]	6 889	7 824
SEB banka AS	AA-*[2]	986	688
Swedbank AS	A+**[3]	1 000	473
Luminor bank AS	Baa1[4]	1 000	283
		9 875	**9 268**

* The credit rating awarded to the parent company AB Skandinaviska Enskilda Banken by Fitch Ratings
** The credit rating awarded to the parent company AB Swedbank by Fitch Ratings

19.2. Market risk

Market risk is a risk that changes in such market factors as currency rates, interest rates or commodity prices may impact the Company's profit. Interest rate risk predominantly arises from borrowings with a variable interest rate, with the Company facing expenditures in case the rate increases. For liquidity

[1] https://www.cblgroup.com/lv/investors/ratings/
[2] https://sebgroup.com/investor-relations/debt-investors/credit-ratings
[3] https://www.swedbank.com/investor-relations/debt-investors/rating.html
[4] https://www.luminor.lt/en/news/moodys-upgrades-luminor-banks-ratings

and business purposes the Company uses a borrowing with an interest rate consisting of a fixed added rate and a variable 6-month EURIBOR rate.

Interest rate sensitivity analysis

The Company has conducted a credit risk sensitivity analysis and found that changes in the variable 6M EURIBOR interest rate by 60 basis points over the subsequent twelve months after the situation as at December 31, 2021, assuming that all other variables remain unchanged (and accordingly over the twelve months following December 31, 2020), would affect its reporting year results as follows.

Borrowing interest rate	Increase/decrease in base rate	31.12.2021	31.12.2020
		EUR'000	EUR'000
6M EURIBOR	+60	(131)	(211)
6M EURIBOR	-60	-	-
		(131)	**(211)**

The fixed rate of the Company's loan does not entail any fair value interest rate risk.
In the reporting year the Company was not exposed to currency fluctuation risk, as all major transactions were made in euros.
The Company may face price risk due to fluctuations in the market prices of the services received and rendered, as well as due to a rise in the prices of the resources used in capital investments. In order to mitigate price risk, the Company regularly revises supply contracts and carefully plans future purchases.
The Company operates in a regulated market based on the PUC-approved tariffs which include predictable operating costs and investments at the level of profitability. Hence, the price of the services provided is predominantly fixed and not exposed to market price fluctuations.

19.3. Liquidity risk

Liquidity risk is associated with the Company's ability to settle its obligations within the agreed due dates. The Company manages liquidity risk cautiously. Due to the high seasonality of the Company's operations, cash inflows are exposed to high fluctuations within the year depending on natural gas consumption. Most of revenues are generated during the first and the fourth quarter of the year, yet the operating costs related to maintenance are distributed evenly through the year. Furthermore, in order to reduce liquidity risk, service tariffs are set corresponding to the Company's costs necessary for providing a high-quality and reliable service.

The Company prepares yearly, quarterly and monthly cash flows to identify operational cash flow requirements.

Maturity analysis of financial commitments by their contractual cash flows:

	Book value	Contractual cash flow	1-3 months	3-12 months	1-5 years
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Loans	22 167	22 289	1 206	21 083	-
Other payables	4 869	4 869	4 869	-	-
31.12.2021	**27 036**	**27 158**	**6 075**	**21 083**	**-**
Loans	25 667	25 962	1 212	2 461	22 289
Other payables	2 843	2 843	2 843	-	-
31.12.2020	**28 510**	**28 805**	**4 055**	**2 461**	**22 289**

19.4. Capital risk management

The Company's objectives in terms of capital risk management are to ensure the Company's ability to continue as a going concern, and to maintain an optimum capital structure. The Company manages capital based on the debt-to-capital ratio which is calculated as the ratio between the Company's total liabilities and its total capital. Liabilities include all current and non-current liabilities, while the total capital includes all liabilities and equity. This ratio is used to measure the Company's capital structure and solvency. The Company's strategy is to keep it at no more than 50%. As at December 31, 2021, the debt-to-capital ratio was as follows:

	31.12.2021	**31.12.2020**
	EUR'000	EUR'000
Total liabilities	53 761	57 741
(Cash and cash equivalents)	(9 875)	(9 268)
(Deferred income)	(17 028)	(19 397)
Net total liabilities	**26 858**	**29 076**
Total equity and liabilities	331 306	331 152
Debt-to-capital ratio	**8%**	**9%**

19.5. Considerations of fair value

IFRS 13 lays down the hierarchy of valuation techniques based on whether there are observable market data used in the valuation technique or market data are not observable. Observable market data are obtained from independent sources. If no market data are observable, the technique reflects the Company's assumptions on the market situation. The carrying amount of liquid and short-term financial instruments (with a repayment term of three months or less), such as cash and cash equivalents, short-term trade receivables and payables, and short-term loans from credit institutions, approximately corresponds to their fair value. Information on the hierarchical levels of fair value is provided in section "Valuation effects" of Note 20 "Critical accounting estimates and judgments".

20. Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the Company's management to make calculations using accounting estimates and make assumptions that affect the valuation of the assets and liabilities presented in the financial statements as at the date of preparation of the statements, as well as the income and expenses shown for the reporting period.

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

20.1. Fair value measurement

The purpose of fair value measurement, even if the market is not active, is to measure the transaction price for which market participants would be willing to sell an asset or commit to a liability on a given date of valuation under the current market circumstances.

In order to arrive at the fair value of a financial instrument, different methods are used: the quoted price valuation technique which incorporates observable market data, as well as a valuation technique not based on observable market data. All valuation methods are divided into Level 1, Level 2, and Level 3 based on the fair value hierarchy.

The level in the fair value hierarchy, within which the fair value of a financial instrument is categorised, is to be determined on the basis of the lowest level input that is significant to the fair value in its entirety. The classification of financial instruments 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. The model uses inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as market price) or indirectly (that is, derived from market prices).

The Company's cash and cash equivalents correspond to Level 2 of the fair value hierarchy.

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 Company's financial assets and liabilities, including the revaluation of property, plant and equipment, correspond to Level 3 of the fair value hierarchy.

20.2. Revaluation of property, plant and equipment

Under the accounting policy of GASO (hereinafter – the Accounting policy), property, plant and equipment shall be revaluated with sufficient regularity, at least once in five years, in order for the carrying amount not to differ materially from the fair value.

In 2019, the Company had its fixed assets revalued. The revaluation of fixed assets was carried out by independent certified valuators, measuring the initial and residual cost value of each asset under valuation as well as the replacement value of accumulated depreciation as at August 1, 2019 for buildings, constructions, technological equipment and vehicles for core business (in line with the Accounting policy for category 20 and 30 of fixed assets). The valuation of assets took place in compliance with the International Valuation Standards 2012 (IVS 300 Valuations for financial reporting) using the cost approach.

Once a year the Company's management estimates the residual value of assets, its possible decrease, and updates its assessment about construction costs based on the available information such as official statistics data and prices quoted by construction companies in the procurement process. Having assessed the market situation of 2021, the management of GASO found that the changes in the market prices had not been sufficient to cause a substantial difference between the carrying amount of an asset and its fair value, which is why there was no revaluation of fixed assets carried out in 2021.

20.3. Estimation of remaining useful life

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

20.4. Impairment of trade receivables

The loss allowance for financial assets, including trade receivables, is based on assumptions about the risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based in the Company's past history, existing market conditions, as well as forward looking estimates at the end of each reporting period. As individual assessment is not possible due to the large number of individual balances, only the significant debtors are assessed individually.

For debtors without overdue payments the provisioning rate was based on the lowest probability of delayed payment; the calculation of expected credit loss was applied a 0.03% rate (on 31.12.2020: 0.02%), set on the basis of the customer payment discipline. Overdue receivables are classified into groups based on the number of days overdue and collectively assessed for impairment.

Receivables overdue for 1-90 days were applied a 10% rate of expected credit loss (on 31.12.2020: 7%) based on the 12-month income of 2021 from debtors other than recipients of distribution services and the share of the amount of receivables overdue for 91-365 days.

For receivables overdue for more than 90 days, the expected credit losses were recognised at 100%

The amounts of receivables for unaccounted natural gas (with deferred payments) were discounted at the discount rate which was applied in the actuarial calculation of provisions and equals to the annual rate of return on the Latvian treasury securities with the initial maturity of five years or more as per last two issues of such securities.

20.5. Post-employment benefit obligations

Given the post-employment benefits to be paid to the Company's employees in future under the Collective Agreement, the Company has calculated the accrued post-employment benefit obligations pursuant to a methodology developed on the basis of the actuarial mathematics methods and the International Financial Reporting Standards, using the prospective calculation method and the projected unit method. The calculations use a discount rate equal to the annual average rate of return on the Latvian treasury securities with the initial maturity of five years or more as per last two issues of such securities. Accruals are calculated for each employee individually based on the situation as at December 31 of each reporting year and are annually updated, including an update for December 31, 2021. Along with the calculation of post-employment benefit obligations there are accruals made for the employer's compulsory state social security contributions and contributions to private pension funds. The calculations of liabilities use the tables on the life expectancy of Latvian men and women (in years) and the life span figures for 2020 prepared by the Central Statistics Bureau. The calculations also consider the projected annual salary increase rate, the staff turnover rate, and the retirement age.

21. 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.

21.1. Basis of preparation

The financial statements of GASO are prepared in accordance with the International Reporting Standards (IFRS) and the interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted for use in the European Union.

The financial statements are prepared on a going concern basis and on a historical cost basis, except for certain classes of property, plant and equipment that are measured 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 the Company.

These financial statements cover the reporting period from January 1, 2021 to December 31, 2021. This financial statement was approved for publishing by the Company's Board on March 31, 2022. The financial statement is approved by a Shareholders' meeting convened by the Board of GASO upon receipt of the auditor's opinion and the Council report.

As at December 31, 2021, the Company meets the criteria of large undertaking within the meaning of the Law on the Annual Financial Statements and Consolidated Financial Statement.

21.2. Adoption of new and revised standards and interpretations

The following new or revised standards and interpretations became effective for the Company from January 1, 2021:

Covid-19-Related Rent Concessions – Amendments to IFRS 16

The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The phase 2 amendments solve the issues resulting from the implementation of reforms, including the replacement of one benchmark with an alternative.

There are no new or revised standards or interpretations that are effective for annual periods beginning on or after 1 January 2021 that are expected to have material impact on the Company.

New Accounting Pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Company's annual periods beginning on or after January 1, 2022, and which the Company has not early adopted:

Amendments to IFRS 4 – deferral of IFRS 9 (effective for annual periods beginning on or after 1 January 2023).

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on or after a date to be determined by the IASB, not yet adopted by the EU).

IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021, not yet adopted by the EU).

Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS9, IFRS16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022).

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

21.3. 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 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 Company's buildings and constructions (including the gas distribution system) and equipment and machinery are recognised at revalued amount 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 (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 yet ready for the intended use or under installation process are classified under Assets under construction. Subsequent costs are included in the asset's carrying amount or recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. As soon as the assets under construction are ready for the intended use, they are reclassified to an appropriate category of fixed assets and the calculation of depreciation is started. All other repairs and maintenance are charged to the profit or loss statement for the financial period when they are 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 recognised in other comprehensive income and credited to Revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve; 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 building in progress 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 and constructions, including gas distribution system	20 - 100
Machinery and equipment	5 - 30
Other fixed assets	2 - 15

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

Gains or losses on disposal are determined by comparing the carrying amount with proceeds from write-off of revaluation surplus and sale and are charged to the profit or loss statement during the period when they are incurred.

21.4. Intangible assets

Intangible assets primarily consist of software licenses 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.

21.5. Impairment of non-financial assets

All non-financial assets of the Company, 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.

21.6. Financial instruments

Financial assets classification

The Company classifies its financial assets in the following measurement categories:

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

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

Recognition and derecognition of financial assets

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

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

Valuation of financial assets

At initial recognition, the Company measures 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 Company's business model for managing the asset and the cash flow characteristics of the asset.

All debt instruments of the Company are classified in the amortised cost measurement category.

Amortised acquisition value of financial assets

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 de-recognition is recognised directly in profit or loss and presented in other income/ (expenses). Foreign exchange gains and losses and impairment losses are presented as other income / (expenses) in the statement of profit or loss.

As at December 31, 2021 and December 31, 2020, the following financial assets of the Company were classified in this category:

- trade receivables;
- cash and cash equivalents.

Equity instruments

The Company has no investments in equity instruments.

Derivative financial instruments

The Company has no derivative financial instruments.

Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its 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 without a significant financing component the Company applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at the expected lifetime credit losses (ECL) from the initial recognition of the receivables:

There is a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. In practice, these rules mean that entities have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using 12-month ECL rather than lifetime ECL.

The Company uses a matrix where provisions for impairment loss are calculated for trade receivables of different ages and overdue periods.

Financial liabilities

Financial liabilities at amortised cost represent borrowings from credit institutions, trade and other payables, as well as payables to related parties.

Financial liabilities at amortised cost are recognised initially at fair value plus/minus directly attributable transaction costs. Subsequently to the initial recognition, financial liabilities are stated at amortised cost using the effective interest method. Financial liabilities at amortised cost are classified as current liabilities if the repayment term is one year or less. If the repayment term is more than one year, they are presented as non-current liabilities.

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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Netting of financial assets and liabilities

Financial assets and liabilities are netted and presented as a net amount in the balance sheet if there is a legal right to such netting and a settlement in net amounts or a simultaneous transfer of an asset and payment for a liability is planned.

21.7. 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 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.

21.8. 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 parent company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the shareholders.

21.9. Accruals

Accruals are recognised when there is a legal or constructive obligation resulting from past events and an outflow of resources embodying economic benefits is likely to be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the Company expects the expenses on accruals to be partially or fully repaid, the repayment of such expenses is recognised as a separate asset only when it is practically certain that they will indeed be repaid. Costs associated with any accruals are reflected in the statement of profit or loss exclusive of the amounts recovered.

Provisions for environmental protection are recognised in order to cover the environmental damage having occurred before the end of the reporting period. The obligation arising from this past event exists regardless of the Company's future activities. Thus, the elimination of the environmental damage promises a future outflow of resources containing economic benefits. The provisions for the resources containing economic benefits that are set to outflow in future are estimated on the basis of expert judgment.

21.10. 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 Company recognises 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 Company recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation. The liabilities are presented as current employee benefit obligations in the balance sheet.

Social security and pension contributions

The Company pays 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 Company has to make payments in an amount specified by law. The Company also pays contributions to an external fixed-contribution private pension plan. The Company does not incur legal or constructive obligations to pay further contributions if the state funded pension scheme or private pension plan is unable to meet its 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 Company provides certain defined benefits upon termination of employment and over the rest of life 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 or may become 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. 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.

21.11. Revenue from contracts with customers

Revenue is income arising in the course of the Company's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects 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 Company recognises revenue when it transfers control of a good or service to a customer.

Sale of services – natural gas distribution

The Company provides natural gas distribution services to the gas traders who sell the natural gas to end users. Revenue from provision of services is recognised in the period in which the services are rendered which corresponds to revenue recognition over period of time as the customers receive and use the benefit of the provided service simultaneously as the gas is delivered (distributed).

Connection fees

When connecting to the gas network, the customers have to pay a connection fee. The management has concluded that the connection fees do not represent a separate performance obligation from the ongoing provision of network distribution services, and thus the revenue from connection fees is deferred and recognised as revenue over the estimated customer relationship period. Connection fees received from customers are carried in the statement of financial position as "Deferred income" within long-term liabilities.

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

Financing component

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

21.12. Other income

Other income includes compensations for losses from unaccounted natural gas consumption and other compensations, income from lease of assets, from managerial and advisory services. Income from rendering of services is recognised when the services are rendered. The assets used in the provision of the lease service – assets leased out – are recorded within property, plant and equipment at historic cost or revalued amount less depreciation. Depreciation is calculated on a straight-line basis to write down each asset to its estimated residual value over its useful life using the rates set for similar assets of the Company.

21.13. Leases (IFRS 16)

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Lessees are required to recognise in the profit or loss statement: (a) assets and liabilities for all leases with a term of more than 12 months if the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Having assessed its lease contracts, the Company considers most of them short-term contracts, including by virtue of the fact that they may be terminated on the Company's initiative at any time. One long-term lease contact, in turn, is immaterial for the purposes of IFRS 16 "Leases" because it does not substantially affect the financial figures of GASO.

21.14. Operating lease, the Company as lessor

Assets leased out under operating lease terms are recorded within property, plant and equipment at historic cost or revalued amount less depreciation. Depreciation is calculated on a straight-line basis to write down each asset to its estimated residual value over its useful life using rates set for similar assets of the Company.

21.15. Related parties

Related parties are defined as the Company's parent company and the parent company's major shareholders with a significant influence, members of the Council and the Board of the Company or its parent company, their close relatives and companies in which they have a significant influence or control.

22. Contingent liabilities and commitments

Contingent liabilities of corporate income tax related to the distributable profit

The Company's profit for the reporting year constitutes EUR 11 545 thousand. If all this amount was distributed as dividends, the resulting corporate income tax would amount to EUR 2 886 thousand. Meanwhile, the Company's profit of the previous reporting years amounted to 29 901 thousand EUR which, if distributed as dividends, would entail corporate income tax liabilities of 7 476 thousand EUR.

Reporting year	Profit	Contingent liabilities
	EUR'000	EUR'000
2020	8 466	2 117
2019	10 465	2 616
2018	10 970	2 743
	29 901	**7 476**

Contingent commitments

The table below presents the contractual liabilities for capital investments in fixed and intangible assets as at the end of the reporting year:

Liabilities	31.12.2021	31.12.2020
	EUR'000	EUR'000
Contracts signed but not completed	765	164

23. Remuneration of certified auditor company

	2021	2020
	EUR'000	EUR'000
Statutory audit	15	15
Non-audit fee	2	1
	17	**16**

24. Subsequent events

In response to the warfare in Ukraine, the European Union has adopted a number of sectoral and legal entity sanctions in the energy sector, but the JSC "Gaso" is not subject to these sanctions and the purchase and transportation of natural gas from the Russian Federation has been granted an exception which allows the natural gas market to function. Furthermore, the maintenance and development of the distribution system owned by the JSC "Gaso" essentially does not involve goods and services from the Russian Federation.

GASO is the only natural gas distribution system operator in Latvia and ensures the supply of natural gas from the transmission system to the final consumers regardless of type and country of origin of natural gas. Natural gas is already being imported into Latvia from both Russia and the Klaipeda liquefied natural gas terminal. On November 24, 2017, the European Commission included the enhancement of Latvian-Lithuanian interconnection under the "Baltic Energy Market Interconnection Plan in gas" in the priority corridor list of projects of common interest. Over the recent years, there have been several major infrastructure projects started and completed in the Baltic region, including the Klaipeda liquefied natural gas terminal and the Finnish-Estonian cross-border connection. The construction of the Polish-Lithuanian interconnection is set to be completed in May 2022, and the interconnection capacity between Latvia and Lithuania is set to be doubled by the end of 2023. The interconnection project is partially financed by the European Union – a proof of the European Union's support for strengthening the natural gas infrastructure. The new infrastructure projects – the capacity doubling of the Latvian-Lithuanian interconnection and the planned investments in the Inčukalns Underground Gas Storage Facility – make it technically possible to provide natural gas supplies to not just Lithuania but all three Baltic countries without any natural gas coming from Russia.

On January 4, 2022, the Ministry of Economy of the Republic of Latvia signed an agreement with the government of the Republic of Estonia, and on March 10, 2022 – an agreement with the government of the Republic of Lithuania on solidarity measures towards safeguarding the security of gas supply. The international bilateral agreement lays down the procedure how support is to be rendered in the event of an emergency situation in the natural gas sector occurring in any of the countries.

In light of the foregoing, GASO considers the warfare in Ukraine a non-adjusting event after the balance sheet date.

However, one cannot rule out the possibility that further sanctions in the mid- and longer term might adversely affect GASO, its financial standing and operational results. During the period after December 31, 2021 up to the signing of this financial statement there have been no other events that affect the Company's financial standing or financial results as at the balance sheet date.

Preparer of financial statements:

Valdis Mortukāns
Head of the Financial Accounting Division

Independent Auditor's Report

To the Shareholder of AS Gaso

Our Opinion

In our opinion, the accompanying financial statements set out on pages 11 to 39 of the accompanying annual report give a true and fair view of the financial position of AS Gaso (the "Company") as at 31 December 2021, and the Company's financial performance and cash flows for the year ended 31 December 2021 in accordance with the International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2021,
- the statement of financial position as at 31 December 2021,
- the statement of changes in equity for the year ended 31 December 2021,
- the statement of cash flows for the year ended 31 December 2021, and
- the notes to the financial statements which include significant accounting policies and other explanatory information.

Basis for Opinion

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

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

Independence

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

Reporting on Other Information Including the Management Report

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

- the Management Report, as set out on pages 7 to 10 of the accompanying annual report,
- the Statement on Management Responsibility, as set out on page 10 of the accompanying annual report,

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

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

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

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

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

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

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this respect.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as

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fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Eva Jansen-Diener
Persona per procura

Jana Smirnova
Certified auditor in charge
Certificate No. 188

Riga, Latvia
31 March 2022

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