GASO

ANNUAL REPORT 2022

Translation from Latvian original*
Rīga, 2023

* 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.

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CORPORATE INFORMATION

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, 2022

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 and safe 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.

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. By the decision of the Register of Enterprises dated March 22, 2023, based on the requirements of Regulation No. 833/2014 *concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine*, the Russian nationals – Elena Burmistrova, Oleg Tarasov, Nikolay Vasilyev, Viktor Valov and Nikita Pozdniakov – were released from their positions as Council members as of March 27, 2023. The release of five Council members does not affect the authority of the Council going forward, as the required quorum of six Council members is met.

Chairwoman of the Council

Elena Burmistrova
(Until 26.03.2023)

Vice-Chairman of the Council

Aldis Pauniņš

Member of the Council

Nikolay Vasilyev
(Until 26.03.2023)

Member of the Council

Oleg Tarasov
(Until 26.03.2023.)

Member of the Council

Viktor Valov
(Until 26.03.2023)

Member of the Council

Guillaume Rivron

Member of the Council

William Pierson

Member of the Council

Yani Drider

Member of the Council

Ekkehard Ludwig

Member of the Council

Christian Janzen

Member of the Council

Nikita Pozdniakov
(Until 26.03.2023)

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
(Until 26.03.2023)

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 376 thousand customers and maintaining 5,420 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). The distribution system service tariff is applied to each consumer individually depending on the tariff tier they belong to. Hence, revenue depends not only on the total natural gas quantity distributed but also on the spread of consumption across tiers. On April 30, 2021, a new natural gas system service tariff was approved for taking effect as of July 1, 2021. The tariffs have been designed for a 4.5-year regulatory period running from July 1, 2021 till December 31, 2025. On November 24, 2022, having regard to a substantial increase in the natural gas price and decrease in the natural gas distribution quantity and in line with the methodology of calculation of natural gas distribution system service tariffs, GASO submitted to the Regulator adjusted natural gas distribution system service tariffs which took effect on January 1, 2023. The adjusted tariffs still include a fixed component based on the permitted or requested maximum load of the connection and a variable component based on the natural gas quantity supplied. The tariff system also envisages a seasonal tariff for consumers whose natural gas consumption between May and November accounts for 85% of their annual consumption. The differential distribution system tariff structure was not changed, with adjustments made to all parts of the distribution system tariff: the variable component, the fixed component, and the season distribution tariff.

Administrative proceedings continued in 2022 regarding the claim for the annulment of the resolution No.109 of the Regulator's Council 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". For impartiality purposes, the court might have to apply to the Court of Justice of the European Union with prejudicial questions. The Administrative Regional Court has decided to adjudicate the matter of application to the EU court in written proceedings. Given the specific and complex nature of the matter, it takes multiple hearings to adjudicate the case, and no decision has been made yet.

The year 2022 also saw the annual assessment of the independence of GASO which included an IT system audit, an updating of the Compliance programme, a review of the 2021 performance, and an assessment of sufficiency of other measures towards ensuring independence. The "Report on the compliance of the JSC "GASO" with the independence requirements" was approved at the Regulator's Council meeting on April 28, 2022. According to the resolution of the Regulator's Council, the measures taken by GASO towards ensuring independence have been sufficient and GASO has been confirmed as compliant with the independence requirements without remarks.

PERFORMANCE

The past year has been a challenge for both Latvian and global economies. A substantial rise in natural gas prices was registered already in the second half of 2021, but the global geopolitical developments in 2022 made the natural gas prices in the market very volatile and unpredictable, as they fluctuated between 81 EUR/MWh in March and 232 EUR/MWh in September.

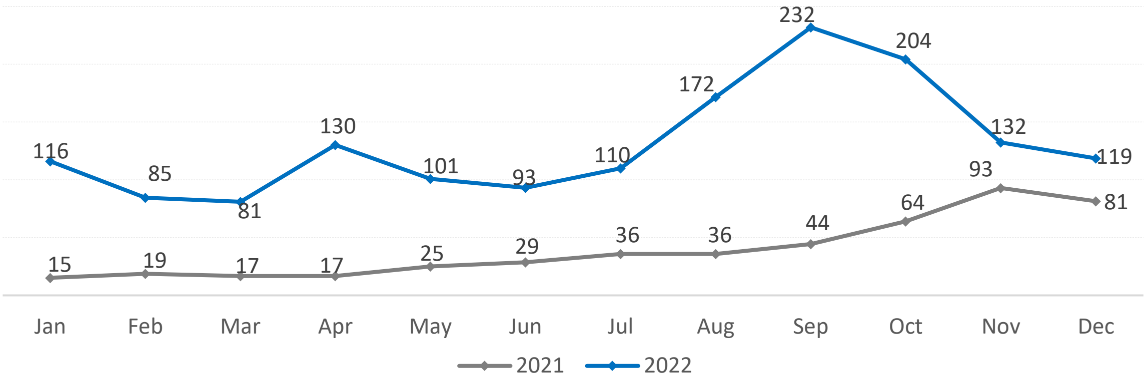


Figure No. 1. Natural gas price fluctuation by months, 2021-2022 (EUR/MWh).

In 2022, the natural gas quantity distributed by GASO to consumers fell to 8.6 TWh – a 31% decrease against 2021. This is mostly down to the high natural gas price as well as other factors – a higher outdoor air temperature during the heating season, switching from natural gas to alternative fuels in heat production, and the implementation of energy efficiency measures.

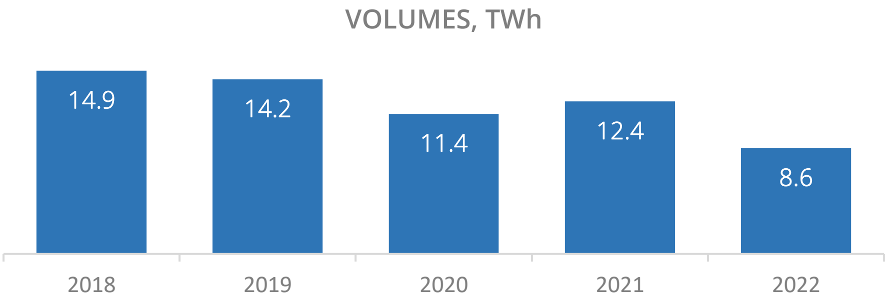


Figure No. 2. Natural gas quantity distributed to consumers in 2018-2022 (TWh).

The total revenue of GASO over the reporting period reached 52.5 million EUR, which is 11% less than in the respective period of 2021. This stems from the trend of lower natural gas consumption resulting from the high natural gas price.

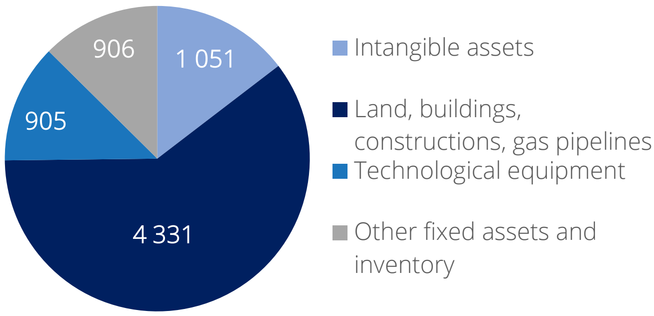
As the operations of GASO are regulated, the regulatory tariff periods may differ from the financial reporting year. Under the Methodology of calculation of natural gas distribution system service tariffs, if revenue and costs deviate from the permitted amounts during a tariff period, this affects the tariff values for subsequent tariff periods. Such deviations are recorded in a regulatory account. Over the first Regulator-approved tariff period running from July 1, 2021 to December 31, 2022, the distribution service generated a revenue of 72.2 million EUR, which is 8.8 million EUR less than the permitted revenue under the effective tariff, and this difference is recorded in the regulatory account of the distribution service. The amount recorded in the regulatory account will affect the permitted revenue of the next tariff period.

In 2022, the EBITDA of GASO fell to 10.6 million EUR and the Company's losses reached 1.8 million EUR. The financial result suffered from the high natural gas price in the market, as GASO buys natural gas for technological purposes for a market price linked to the hub price and in 2022 incurred substantially higher costs of technological consumption and losses.

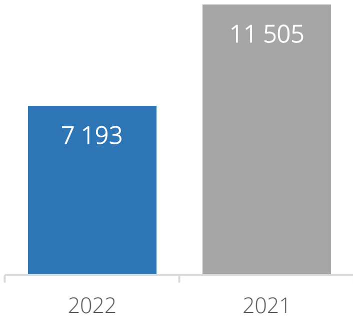
DEVELOPMENT

In 2022, 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, whilst also considering a substantial increase in the costs of natural gas losses as a result of a high natural gas price, GASO approved a revised investment plan whereby the 2022 investments were reduced to 7.2 million EUR.

BREAKDOWN OF CAPITAL INVESTMENTS IN 2022, THOUSAND EUR



CAPITAL INVESTMENTS, THOUSAND EUR



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 2022 also saw reconstruction of major gas regulation points (hereinafter – GRPs), installing modern container-type GRPs, and reconstruction of several technologically and morally obsolete GRP buildings. Much is also invested in the upgrade and reconstruction of cathodic protection stations, prolonging the service life of the metal gas pipelines in the distribution grid.

Furthermore, 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 2022, the length of gas pipelines owned by GASO increased by 39.5 km, while the number of new connections and increased in the permitted maximum load in 2022 was 1,005. Most new connections are installed in the vicinity of Riga.

Seeing operational efficiency as a precondition of sustainable development, in 2022 GASO continued to implement various digital solutions towards enhanced work organisation, customer satisfaction, and employee efficiency, whilst also investing in IT security.

KEY FIGURES

The main economic indicators of 2022 are presented in the tables below.

Operational figures	2022 12M	2021 12M	Δ	Δ %
Natural gas supplied to customers in distribution networks, GWh	8 638	12 408	-3 770	-30%
Number of consumers, thousand	376	387	-11	-3%
Number of employees, average	892	888	4	0.5%
Length of distribution lines, km	5 420	5 381	39	1%

Financial figures (EUR`000)	2022 12M	2021 12M	Δ	Δ %
Revenue	52 460	59 163	-6 703	-11%
EBITDA	10 572	23 997	-13 425	-56%
EBITDA, %	20%	41%		-21%
EBIT	-1 729	11 551	-13 280	-115%
EBIT, %	-3%	20%		-23%
Net profit / loss	-1 751	11 545	-13 296	-115%
Net profitability, %	-3%	20%		-23%
Earnings / loss per share, EUR	-0,04	0,29	-0,33	-114%
Long-term investments	304 335	309 936	-5 601	-2%
Total assets	327 762	331 306	-3 544	-1%
Equity	275 629	277 545	-1 916	-1%
Net borrowing	21 642	22 167	-525	-2%

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 2022 annual report – Figure of 2021 annual report
Δ % (Changes over the period in percent)	Δ % = Δ (Changes over the period) / Figure of 2021 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 2022 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.

EVENTS AFTER THE REPORTING PERIOD

The period after December 31, 2022 sees continuation of the process of sale of GASO which has not been completed by the time of signing of this financial statement and does not affect the financial results of GASO and the continuity of the company's operations.

On February 26, 2023, amendments to Regulation No. 833/2014 *concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine* (hereinafter – the Regulation) came into force introducing a new requirement whereby it is prohibited as of March 27, 2023 for Russian nationals or natural persons residing in Russia to hold any posts in the governing bodies of the owners or operators of critical infrastructures, European critical infrastructures and critical entities. These requirements apply to GASO because it owns critical infrastructure. On March 14, 2023, in order to comply with the Regulation, the Council adopted a decision on removing Anton Bubenov from the position of Board member as of March 27, 2023, and on March 22, 2023, the Register of Enterprises of the Republic of Latvia, based on a submission by GASO and the requirements of the Regulation, released the Russian nationals – Elena Burmistrova, Oleg Tarasov, Nikolay Vasilyev, Viktor Valov and Nikita Pozdniakov – from their positions as Council members as of March 27, 2023. The release of five Council members does not affect the authority of the Council going forward, as the required quorum of six Council members is met. Hence, GASO has complied with the sanctions.

During the period after December 31, 2022, there have been no other events affecting the Company's financial position or financial results as at the balance sheet date.

PROFIT DISTRIBUTION OR LOSS COVERAGE PROPOSALS

The resolution on profit distribution or loss coverage and dividend payout is adopted by the Shareholders' meeting of GASO. The Board of GASO suggests covering the Company's reporting year losses of 1,751 thousand EUR from the retained earnings of previous years.

The management report was approved by the Board of the JSC "Gaso" on March 30, 2023 and it is signed on behalf of the Board by:

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

THE DOCUMENT HAS BEEN SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

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, 2022
Name and address of the auditor and the responsible certified auditor	Nexia Audit Advice, AS Audit company license No. 134 Baznicas Street 31-14 Riga, LV-1010, Latvia Responsible certified auditor: Marija Jansone Certified auditor Certificate No. 25

STATEMENT OF PROFIT OR LOSS

	Note	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
		EUR'000	EUR'000
Revenue from contracts with customers	1	51 180	57 914
Other income	2	1 280	1 249
Raw materials and consumables used	3	(12 662)	(5 902)
Personnel expenses	4	(22 662)	(23 399)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	5	(12 301)	(12 446)
Other operating expenses	6	(6 564)	(5 865)
Operating profit / loss		**(1 729)**	**11 551**
Financial expenses		(22)	(6)
Profit / loss before tax		**(1 751)**	**11 545**
Profit / loss for the reporting period		**(1 751)**	**11 545**

STATEMENT OF COMPREHENSIVE INCOME

		1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
		EUR'000	EUR'000
Profit/ loss for the period		**(1 751)**	**11 545**
Items that will not be reclassified to profit or loss in subsequent periods			
Revaluation of post-employment benefit obligations	15	174	968
Other comprehensive income		**174**	**968**
Total comprehensive income / loss for the period		**(1 577)**	**12 513**

The Notes on pages 17-41 are an integral part of these financial statements.

The management report was approved by the Board of the JSC "Gaso" on March 30, 2023 and it is signed on behalf of the Board by:

Ilze Pētersone-Godmane
Chairwoman of the Board

Baiba Bebre
Member of the Board

Valdis Mortukāns
Head of the Financial Accounting Division

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STATEMENT OF FINANCIAL POSITION

	Note	31.12.2022	31.12.2021
ASSETS		EUR'000	EUR'000
Non-current assets			
Intangible assets	7	4 234	4 713
Property, plant and equipment	8	299 583	305 223
Right-of-use assets	9	518	-
Total non-current assets		**304 335**	**309 936**
Current assets			
Inventories	10	2 199	1 296
Pre-payments for inventories		1	41
Trade receivables	11	7 771	8 897
Other receivables	12	1 778	1 261
Cash and cash equivalents		11 678	9 875
Total current assets		**23 427**	**21 370**
TOTAL ASSETS		327 762	331 306
LIABILITIES AND EQUITY			
Equity			
Share capital	13	39 900	39 900
Reserves	14	127 162	133 054
Retained earnings		108 567	104 591
Total equity		**275 629**	**277 545**
Non-current liabilities			
Borrowings	15	20 982	-
Lease liabilities	9	340	-
Deferred income	16	12 049	14 094
Provisions	17	1 781	2 171
Total non-current liabilities		**35 152**	**16 265**
Current liabilities			
Borrowings	15	660	22 167
Lease liabilities	9	84	-
Trade payables	18	6 496	4 869
Deferred income	16	2 565	2 934
Other liabilities	19	7 176	7 526
Total current liabilities		**16 981**	**37 496**
Total liabilities		**52 133**	**53 761**
TOTAL LIABILITIES AND EQUITY		327 762	331 306

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000
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**
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	-	(6 066)	5 727	(339)
Other comprehensive income	-	174	-	174
Profit / loss for the year	-	-	(1 751)	(1 751)
Total comprehensive income/ loss	**-**	**174**	**(1 751)**	**(1 577)**
December 31, 2022	**39 900**	**127 162**	**108 567**	**275 629**

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STATEMENT OF CASH FLOWS

	Note	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
		EUR'000	EUR'000
Cash flows from operating activities			
Profit / loss before corporate income tax		**(1 751)**	**11 545**
Adjustments:			
- depreciation of property, plant and equipment and right-of-use assets	5	10 771	11 078
- amortisation of intangible assets	5	1 530	1 368
- losses on sale of property, plant and equipment	5	44	539
- movement in provisions		2 350	4 678
- interest expenses		22	6
Changes in operating assets and liabilities:			
- to accounts receivable		609	(1 211)
- to advances for inventories		40	(31)
- to inventories		(903)	71
- to accounts payable		(3 756)	(3 160)
Net cash flow from operating activities		**8 956**	**24 883**
Cash flow from investing activities			
Payments for property, plant and equipment		(5 346)	(10 104)
Payments for intangible assets		(885)	(2 192)
Proceeds from sale of property, plant and equipment		51	79
Net cash flow used in investing activities		**(6 180)**	**(12 217)**
Cash flow from financing activities			
Borrowings received	14	21 914	-
Repayment of borrowings	14	(22 439)	(3 500)
Leases paid	9	(106)	-
Interest paid		(342)	(180)
Dividends paid		-	(8 379)
Net cash flow used in financing activities		**(973)**	**(12 059)**
Net cash flow		**1 803**	**607**
Cash and cash equivalents at the beginning of the reporting period		**9 875**	**9 268**
Cash and cash equivalents at the end of the reporting period		**11 678**	**9 875**

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NOTES TO THE FINANCIAL STATEMENTS

Statement of profit or loss

1. Revenue from contracts with customers

	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
	EUR'000	EUR'000
Natural gas distribution	47 218	53 518
Distribution system connection fees	2 949	3 253
Other revenue	1 013	1 143
	51 180	**57 914**

2. Other income

	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
	EUR'000	EUR'000
Income from compensation for damages	566	649
Real estate lease income	318	290
Penalties	153	108
Management and consultancy services	71	46
Other income	172	156
	1 280	**1 249**

3. Raw materials and consumables used

	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
	EUR'000	EUR'000
Natural gas for technological purposes	11 162	4 535
Costs of materials, spare parts and fuel	1 500	1 367
	12 662	**5 902**

4. Personnel expenses

	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
	EUR'000	EUR'000
Wages and salaries	17 205	17 882
State social insurance contributions	4 023	4 225
Life, health and pension insurance	1 267	1 135
Other personnel costs	167	157
	22 662	**23 399**
including Board and Council remuneration:		
- salaries	968	1 296
- state social security contributions	239	328
- life, health and pension insurance	63	68
- other personnel costs	107	103
	1 377	**1 795**

	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
Average number of employees during the period	892	888
including Council members	11	11
including Board members	5	5

5. Depreciation, amortisation and impairment of fixed assets, intangible assets and right-of-use assets

	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
	EUR'000	EUR'000
Amortisation of intangible assets	1 530	1 368
Depreciation and impairment of fixed assets	10 820	11 143
Depreciation of right-of-use assets	10	-
Capitalised depreciation	(59)	(65)
	12 301	**12 446**

6. Other operating expenses

	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
	EUR'000	EUR'000
Expenses for maintenance of premises and other services	2 720	1 786
Costs of IT system maintenance, communications and transport	1 502	1 180
Office and other administrative costs	1 269	967
Sale and advertising costs	327	495
Taxes and duties	314	316
Labour safety costs	197	235
Losses from disposal of assets	44	539
Other costs	191	347
	6 564	**5 865**

Statement of financial position

7. Intangible assets

	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
	EUR'000	EUR'000
Cost		
As at the beginning of the period	19 236	17 570
Additions	1 051	1 961
Disposals	-	(295)
As at the end of the period	**20 287**	**19 236**
Amortisation		
As at the beginning of the period	14 523	13 450
Amortisation	1 530	1 368
Disposals	-	(295)
As at the end of the period	**16 053**	**14 523**
Net book value as at the end of the reporting period	**4 234**	**4 713**

The intangible assets include fully depreciated intangible assets with a total historic cost of EUR 7,886 thousand (31.12.2021: 7,277 thousand) still in use by the Company. The most part of intangible assets of GASO consists of software.

The consumer metering and billing system is the most important computer system of Gaso with a carrying amount of 6,016 thousand. EUR at the end of the reporting period and a remaining service life of 10 years. 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.

8. 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					
01.01.2022	**657 065**	**41 759**	**16 308**	**1 975**	**717 107**
Additions	-	-	-	5 614	5 614
Transfers	4 278	643	633	(5 554)	-
Disposals	(1 210)	(816)	(691)	-	(2 717)
31.12.2022	**660 133**	**41 586**	**16 250**	**2 035**	**720 004**
Accumulated depreciation					
01.01.2022	**372 190**	**27 121**	**12 573**	**-**	**411 884**
Calculated	8 061	1 692	1 067	-	10 820
Disposals	(800)	(795)	(688)	-	(2 283)
31.12.2022	**379 451**	**28 018**	**12 952**	**-**	**420 421**
Net book value					
31.12.2022	**280 682**	**13 568**	**3 298**	**2 035**	**299 583**
31.12.2021	**284 875**	**14 638**	**3 735**	**1 975**	**305 223**

	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**
Accumulated depreciation					
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**

Property, plant and equipment includes fully depreciated fixed assets with a total historic cost of EUR 14,960 thousand (31.12.2021: 16,621 thousand) still in use by the Company. In the reporting year, the Company capitalised depreciation in the amount of 59 thousand EUR and loan interest costs in the amount of 215 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 1.6 million, as at 31.12.2022 and 31.12.2021. 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:

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Buildings and constructions	106 253	104 869
Machinery and equipment	10 713	11 294

9. Right-of-use assets and lease liabilities

Right-of-use assets	31.12.2022	31.12.2021
	EUR'000	EUR'000
At the beginning of the reporting period	**-**	**-**
New lease contracts recognised	528	-
Depreciation	(10)	-
At the end of the reporting period	**518**	**-**

Changes in lease liabilities	31.12.2022	31.12.2021
	EUR'000	EUR'000
At the beginning of the reporting period	**-**	**-**
New lease liabilities recognised	528	-
Decrease in lease liabilities recognised	(106)	-
Asset lease interest payments	2	-
At the end of the reporting period	**424**	**-**
including:		
long-term lease liabilities	340	-
short-term lease liabilities	84	-

10. Inventories

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Materials and spare parts	2 264	1 366
Allowance for impairment of slow-moving inventories	(65)	(70)
	2 199	**1 296**

Allowance for impairment of slow-moving and obsolete inventories	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
	EUR'000	EUR'000
Allowance at the beginning of the period	**70**	**71**
Decrease in allowance	(9)	(4)
Increase in allowance	4	3
Allowance at the end of the period	**65**	**70**

11. Trade receivables

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Short-term receivables at book value	8 279	9 420
Expected credit losses	(508)	(523)
	7 771	**8 897**

	Trade receivables, gross	Expected credit losses	Trade receivables, net
	EUR'000	EUR'000	EUR'000
Not yet overdue	EUR'000	EUR'000	EUR'000
Overdue less than 90 days	8 868	(5)	8 863
Overdue more than 90 days	38	(4)	34
31.12.2021	**9 420**	**(523)**	**8 897**
Not yet overdue	**9 420**	**(523)**	**8 897**
Overdue less than 90 days	7 762	(29)	7 733
Overdue more than 90 days	41	(3)	38
31.12.2022	**8 279**	**(508)**	**7 771**

Allowance for impairment of trade receivables	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
	EUR'000	EUR'000
Expected credit losses at the beginning of the period	**523**	**410**
Increase in expected credit losses	126	182
Decrease in expected credit losses	(141)	(69)
Expected credit losses at the end of the period	**508**	**523**

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.

12. Other receivables

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Other receivables	28	181
Deferred expenses	1 750	1 080
	1 778	**1 261**

13. Shares and shareholders

Share capital	31.12.2022 % of total share capital	31.12.2022 Number of shares	31.12.2021 % of total share capital	31.12.2021 Number of shares
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 resolution on profit distribution or loss coverage and dividend payout is adopted by the Shareholders' meeting of GASO. The Board of GASO suggests covering the Company's reporting year losses of 1,751 thousand EUR from the retained earnings of previous years.

The registered, signed and paid-up share capital as at December 31, 2022 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.

14. Reserves

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Property, plant and equipment revaluation reserve	175 714	181 780
Employee benefits revaluation reserve	1 359	1 185
Reorganisation reserve	(49 911)	(49 911)
	127 162	**133 054**

Property, plant and equipment revaluation reserve	**1.01.2022 - 31.12.2022**	**1.01.2021 - 31.12.2021**
	EUR'000	EUR'000
At the beginning of the reporting period	**181 780**	**188 270**
Depreciation of revalued value	(5 723)	(5 990)
Revalued assets disposed	(343)	(500)
At the end of the reporting period	**175 714**	**181 780**

The revaluation reserve is a non-cash reserve created to reflect the fair value of the asset. The property, plant and equipment revaluation reserve is constituted by the difference between the fair value and carrying amount of the asset. This reserve is not available for distribution in dividends to shareholders. Information about the revaluation of property, plant and equipment is present in Note 23.3 "Property, plant and equipment".

Employee benefit revaluation reserve	**1.01.2022 - 31.12.2022**	**1.01.2021 - 31.12.2021**
	EUR'000	EUR'000
At the beginning of the reporting period	**1 185**	**217**
Revaluations resulting from changes in actuarial assumptions	174	968
At the end of the reporting period	**1 359**	**1 185**

The employee benefit revaluation reserve is the difference between the present value of the defined benefit obligation and the fair value of the benefit plan at the end of the reporting period according to actuarial assumptions. Information about employee benefits is presented in Note 22.6 "Post-employment benefit obligations" and Note 23.10 "Employee benefits".

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.

15. Borrowings from credit institutions

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Long-term borrowings from credit institutions	20 982	-
Short-term borrowings from credit institutions	660	22 167
	21 642	**22 167**

Changes in borrowings	**1.01.2022 - 31.12.2022**	**1.01.2021 - 31.12.2021**
	EUR'000	EUR'000
At the beginning of the reporting period	**22 167**	**25 667**
Borrowings received	21 914	-
Loans repaid	(22 439)	(3 500)
Interest calculated	324	174
Interest paid	(324)	(174)
At the end of the reporting period	**21 642**	**22 167**

In 2017, following the reorganisation, the Joint Stock Company "Latvijas Gāze" transferred to the newly-established acquiring Joint Stock Company "Gaso" a long-term loan of 35,000 thousand EUR. The loan had a repayment term of 5 years starting April 2018 with an option to extend the repayment deadline by agreement and an interest rate of 0.72% plus 6-month EURIBOR. The loan was not secured with a pledge.

In August 2022, the Company entered into a contract with the JSC "Rietumu Banka" for loan of 26,300 thousand EUR. The repayment deadline of the loan is August 21, 2027, and the interest rate is 3% plus 3-month EURIBOR. The loan is secured with a financial pledge. As financial collateral, the Company pledged all its present and future financial instruments and financial means (money), all kinds of deposits held in any account with the JSC "Rietumu Banka", as well as civil fruits and increases. The maximum claim amount secured is EUR 63 120 000. The purpose of the loan is to refinance the obligations towards the JSC "SEB banka" and to develop the company's long-term business investments. As of August 2022, the unrepaid portion of the extinguished loan from the JSC "SEB banka" amounted to 19,884 thousand EUR.

16. Deferred income

Connection fees	**31.12.2022**	**31.12.2021**
	EUR'000	EUR'000
Long-term part	12 049	14 094
Short-term part	2 565	2 934
	14 614	**17 028**

Changes of deferred income	**1.01.2022 - 31.12.2022**	**1.01.2021 - 31.12.2021**
	EUR'000	EUR'000
Balance at the beginning of the period	**17 028**	**19 397**
Received from contracts with customers during the reporting period	535	884
Included in revenue of the reporting period (Note 1)	(2 949)	(3 253)
Total transfer to next period	**14 614**	**17 028**

17. Provisions

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Employment and post-employment benefit obligations	1 093	1 483
Provisions for possible environmental protection obligations	688	688
	1 781	**2 171**

Employment and post-employment benefit obligations	**1.01.2022 - 31.12.2022**	**1.01.2021 - 31.12.2021**
	EUR'000	EUR'000
At the beginning of the reporting period	**1 483**	**2 244**
Recognised in profit or loss statement	(60)	422
Paid	(156)	(215)
Revalued due to changes in actuarial assumptions – other comprehensive income	(174)	(968)
At the end of the reporting period	**1 093**	**1 483**

Employment and post-employment benefit liabilities on the possible time of expenses	**31.12.2022**	**31.12.2021**
Maturity	EUR'000	EUR'000
< 1 year	378	332
1 - 5 years	267	366
5 - 10 years	185	270
10 - 20 years	177	317
> 20 years	86	198
	1 093	**1 483**

Assumptions used in calculation of obligations	**31.12.2022**	**31.12.2021**
Discount rate, %	0,031855%	0.00235%
Employee turnover rate, %	8,52%	4,84%
Employee retirement age, years	64,3	64,00
Increase in salaries, % 2022-2025 (per year) 2026-2028 (per year)	0,00% 7,00%	0,00% 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 projected 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., 0,031855% as at the end of the reporting period.

The 8.52% 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 set out in Section 11 Paragraph one of the Law – 62 to 65 years – shall increase gradually and be specified for each year individually. As of January 1, 2022, it is 64 years and 3 months.

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

The 5% assumption of contributions to a private pension fund is based on a decision 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 at the meeting of the Cabinet of Ministers on 19.12.2017 where these rates have been set at 23.59% and 20.77% respectively.

Percentage point changes in the assumptions used in calculation of provisions and impact upon provisions if there is an increase in the assumptions			**31.12.2022**	**31.12.2021**
Discount rate	+0.5 p.p.	Decrease by	0,075%	0,009%
Employee turnover rate	+0.5 p.p.	Decrease by	0,22%	0,18%
Employee retirement age	+1 year	Decrease by	12,98%	3,12%
Salary increase	+0.5 p.p.	Increase by	0,85%	0,43%
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%	0,09%

Percentage point changes in the assumptions used in calculation of provisions and impact upon provisions if there is a decrease in the assumptions			**31.12.2022**	**31.12.2021**
Discount rate	-0.5 p.p.	Increase by	0,075%	0,0001%
Employee turnover rate	-0.5 p.p.	Increase by	0,22%	0,26%
Employee retirement age	-1 year	Increase by	9,37%	0,98%
Salary increase	-0.5 p.p.	Decrease by	0,08%	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	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
	EUR'000	EUR'000
At the beginning of the reporting period	**688**	**700**
Recognised in profit or loss statement	-	(12)
At the end of the reporting period	**688**	**688**

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

18. Trade payables

	31.12.2022	31.12.2021
	EUR'000	EUR'000
Payables for materials and services	1 415	2 878
Payables to related parties (Note 20)	5 081	1 991
	6 496	**4 869**

19. Other liabilities

	31.12.2022	31.12.2021
Other non-financial liabilities	EUR'000	EUR'000
Accrued costs	3 295	3 494
Vacation pay reserve	1 257	1 317
Salaries	861	825
Social security contributions	679	619
Personnel income tax	359	325
Prepayments received	345	128
Value added tax	193	729
Other current liabilities	187	89
	7 176	**7 526**

20. 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 registration number and the date and place of registration of the parent company Latvijas Gāze are as follows: unified registration 40003000642; Riga, Latvia; March 25, 1991, re-registered with the Register of Enterprises on December 20, 2004; A.Briāna 6, Riga, Latvia, LV-1001. 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	1.01.2022 - 31.12.2022	1.01.2021 - 31.12.2021
	EUR'000	EUR'000
Income from provision of services	30 919	35 513
Expenditure on purchases of goods and services	13 075	5 037

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	31.12.2022	31.12.2021
	EUR'000	EUR'000
Receivables for distribution services and lease of premises	3 908	5 597
Payables for gas received (Note 16)	5 081	1 991

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.

21. 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	31.12.2022	31.12.2021
	EUR'000	EUR'000
Trade receivables	7 771	8 897
Cash and cash equivalents	11 678	9 875
Financial assets	**19 449**	**18 772**
Borrowings	21 642	22 167
Trade payables	6 496	4 869
Financial liabilities	**28 138**	**27 036**

21.1. 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 six major customers accounted for 94% of the total turnover of 2022, with the parent company Latvijas Gāze accounting for 61%. 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 a provision 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 22 “Significant accounting estimates and judgments” The Company has not received pledges as security for trade receivables.

Cash and cash equivalents

As at December 31, 2022, 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. In order to minimise credit risk, the Company deposits its funds with at least two credit institutions and considers the credit rating of each credit institution.

The Company’s cash balances with credit institutions were as follows:

Credit institution	**31.12.2022**	**31.12.2021**
	EUR’000	EUR’000
Rietumu Banka AS	9 249	-
Citadele banka AS	726	6 889
SEB banka AS	612	986
Luminor bank AS	570	1 000
Swedbank AS	521	1 000
	11 678	**9 875**

21.2. 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 financial results.

Interest rate risk

Interest rate risk arises from borrowings with a variable interest rate in addition to a fixed rate, with the Company facing expenditures in case the variable interest rate increases. For liquidity and business purposes, the Company uses a borrowing with an interest rate consisting of a fixed added rate and a variable 3-month EURIBOR rate.

The Company conducted a credit risk sensitivity analysis and found that an increase in the variable 3-month EURIBOR interest rate by 60 base points over the next twelve months, based on the situation as at December 31, 2022 and assuming that all other variables remain unchanged, would affect the interest amount to be capitalised, increasing it by 119 thousand EUR, and accordingly over the twelve months following December 31, 2021 the impact upon the interest amount to be capitalised would be 131 thousand EUR greater.

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 Regulator-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.

21.3. 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	21 642	26 283	428	1 283	50 855
Other payables	6 496	6 496	6 374	122	-
31.12.2022	**28 138**	**32 779**	**6 802**	**1 405**	**50 855**
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**	**-**

21.4. Capital risk management

The Company's objectives in terms of capital risk management are to ensure the Company's sustainable operations in the future , 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, 2022, the debt-to-capital ratio was as follows:

	31.12.2022	**31.12.2021**
	EUR'000	EUR'000
Total liabilities	52 133	53 761
(Cash and cash equivalents)	(11 678)	(9 875)
(Deferred income)	(14 614)	(17 028)
Net total liabilities	**25 841**	**26 858**
Total equity and liabilities	327 762	331 306
Debt-to-capital ratio	**8%**	**8%**

21.5. 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 22 "Significant accounting estimates and judgments".

22. Significant 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.

22.1. 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.

22.2. Revaluation of property, plant and equipment

According to 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.

Based on the results of asset impairment test calculations, the Company's management has found that there is no need to conduct an asset revaluation in 2022.

22.3. Recoverable amount of property, plant and equipment

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

In 2022, due to major changes in markets and raised interest rates, the borrowed capital component of the weighted average cost of capital has substantially increased, as has the risk-free rate.

The Company calculated the recoverable amount as at December 31, 2022. It measured impairment using estimates of projected cash flow arising from the use and maintenance of assets, repairs of property, plant and equipment, as well as the current percentage figures and increases in interest rates. Based on the results of asset impairment test calculations, having assessed the estimates, the Company's management found no impairment of asset value to be recognised.

22.4. 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.

22.5. 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 0.02% rate (on 31.12.2021: 0.03%), 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 6% rate of expected credit loss (on 31.12.2021: 10%) based on the 12-month income of 2022 from debtors other than recipients of distribution services and the share of the amount of receivables overdue for 91-365 days.

For receivables overdue 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.

22.6. 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, 2022. Along with the calculation of post-employment benefit obligations there are accruals made for the employer's compulsory state social security contributions and contributions to private pension funds. 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.

23. 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.

23.1. 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, 2022 to December 31, 2022. These financial statements were approved for publishing by the Company's Board on March 30, 2023. The financial statements are 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, 2022, the Company meets the criteria of large undertaking within the meaning of the Law on the Annual Financial Statements and Consolidated Financial Statement.

23.2. Adoption of new and revised standards and interpretations

New and amended IFRSs and interpretations adopted by the Company

The following new and amended IFRSs and interpretations as adopted by the EU became effective in 2022, but did not have significant impact on these financial statements:

- Amendments to IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, Annual Improvements 2018-2020 (all issued on 14 May 2020) (effective for annual periods beginning on or after 1 January 2022).

New and revised IFRSs and interpretations issued and adopted by the EU, but not yet effective

The standards that are issued, but not yet effective up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective, however the Company has not yet fully completed initial assessment of the potential impact of these standards on the financial statements:

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021) (effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021) (effective for annual periods beginning on or after 1 January 2023).

New and revised IFRSs and interpretations issued, but not yet adopted by the EU

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

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.

23.3. 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 buildings in progress are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued 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.

23.4. 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.

23.5. 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.

23.6. 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, 2022 and December 31, 2021, 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.

23.7. 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.

23.8. 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.

23.9. Provisions

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 provisions 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.

23.10. 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.

23.11. 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".

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 2022 reporting period was an increase in revenue by 1 821 thousand EUR (2021: 2 155 thousand EUR). Assuming that the deferred revenue will be accounted till the end of the estimated average customer relationship period, the revenue increase in the next years will be as follows: 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.

23.12. 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.

23.13. Leases

Upon entering into a contract, the Company assesses whether the contract is a lease or involves lease. A contract is a lease or involves lease if it grants a right to control the use of an identifiable asset for a certain period of time in exchange for remuneration.
The company is the lessee. Lease is recognised as the right to use an asset and the corresponding lease liabilities. The costs of the right to use an asset consist of:

- the initial valuation amount of the lease liabilities;
- any lease payments made on or before the starting date, less received lease promotion payments;
- any initial direct costs.

The right to use an asset is amortised by the straight-line method until the expiration of the useful life of the asset.

On the date of their initial application, lease liabilities are valued at the present value of the outstanding lease payments, discounted using an interest rate that is indirectly included in the lease. The present value of the following lease payments is included in lease liabilities:

- fixed payments less all receivable reductions in lease payments;
- variable lease payments based on an index or rate and initially measured using the index or rate as at the starting date;
- amounts payable by the Company under residual value guarantees;
- the purchase option exercise price if the Company is sufficiently confident that it will exercise the option, and
- fines for terminating the lease contract if the lease provisions envisage that the Company will exercise this option.

Lease liabilities are revalued if the future lease payments change due to changes in the underlying index or rate, if the Company's estimate of the expected amount payable changes, or if the Company changes its position on exercising the purchase option or extending or terminating the lease.

Every lease payment is split between lease liabilities and interest expenses on lease liabilities. Lease liability interest expenses are recognised in the profit or loss statement in the lease period.

Lease payments associated with short-term leases or low-value asset leases are recognised in the profit or loss statement. A short-term lease is a lease where the lease term on the starting date is 12 months or less.

In the reporting period, the Company has recognised the right to use vehicles leased for the Company's business purposes for a term of 5 years. The lease liabilities as at December 31, 2022 were calculated using the rate indirectly included in the lease contract. Considering their negligible impact on the financial statements, the lease liabilities were recognised at the net present value of lease payments, consisting of fixed payments less all reductions in lease payments and variable lease payments based on a fixed and variable interest rate.

Having assessed its other 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.

23.14. Operating lease, the Company as lessor

Operating lease is a lease that is not financial lease and does not involve effectively transferring practically all risks and rights associated with the use of the asset.

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. Lease proceeds from operating lease are included in the profit or loss statement for the corresponding lease period.

23.15. 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.

24. Contingent liabilities and commitments

Contingent liabilities of corporate income tax related to the distributable profit

In the reporting year, the Company incurred losses of 1,751 thousand EUR, with no corporate income tax impact as, under Article 10 of the Transitional Provisions of the Corporate Income Tax Law, the losses for tax purposes were covered from the retained earnings that were presented in the balance sheet as at December 31, 2017 and would not entail corporate income tax liabilities if distributed in dividends.

In contrast, over the previous reporting years from 2018 onwards, the Company gained a profit of 41,446 thousand EUR that would entail corporate income tax liabilities of 10,362 thousand EUR if distributed in dividends:

Reporting year	Profit	Contingent liabilities
	EUR'000	EUR'000
2021	11 545	2 886
2020	8 466	2 117
2019	10 465	2 616
2018	10 970	2 743
	41 446	**10 362**

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	31.12.2022	31.12.2021
	EUR'000	EUR'000
Contracts signed but not completed	549	765

26. Remuneration of certified auditor company

	2022	2021
	EUR'000	EUR'000
Statutory audit	14	15
Non-audit fee	-	2
	14	**17**

27. Subsequent events

The period after December 31, 2022 sees continuation of the process of sale of GASO which has not been completed by the time of signing of this financial statement and does not affect the financial results of GASO and the continuity of the company's operations.

On February 26, 2023, amendments to Regulation No. 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine (hereinafter – the Regulation) came into force introducing a new requirement whereby it is prohibited as of March 27, 2023 for Russian nationals or natural persons residing in Russia to hold any posts in the governing bodies of the owners or operators of critical infrastructures, European critical infrastructures and critical entities. These requirements apply to GASO because it owns critical infrastructure. On March 14, 2023, in order to comply with the Regulation, the Council adopted a decision on removing Anton Bubenov from the position of Board member as of March 27, 2023, and on March 22, 2023, the Register of Enterprises of the Republic of Latvia, based on a submission by GASO and the requirements of the Regulation, released the Russian nationals – Elena Burmistrova, Oleg Tarasov, Nikolay Vasilyev, Viktor Valov and Nikita Pozdniakov – from their positions as Council members as of March 27, 2023. The release of five Council members does not affect the authority of the Council going forward, as the required quorum of six Council members is met. Hence, GASO has complied with the sanctions.

During the period after December 31, 2022, there have been no other events affecting the Company's financial position or financial results as at the balance sheet date.

The management report was approved by the Board of the JSC "Gaso" on March 30, 2023 and it is signed on behalf of the Board by:

Ilze Pētersone-Godmane
Chairwoman of the Board

Baiba Bebre
Member of the Board

Valdis Mortukāns
Head of the Financial Accounting Division

THE DOCUMENT HAS BEEN SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAM