

**Joint Stock Company "Latvijas Gāze"
AUDIT COMMITTEE**

Rīga,
April 22, 2021

**To the Shareholders
of the Joint Stock Company "Latvijas Gāze"**

REPORT

APPROVAL OF THE 2020 ANNUAL REPORT

Pursuant to the requirements of Article 41(2) of Directive 2006/43/EC of the European Parliament and of the Council and Section 553 of the Financial Instruments Market Law of Latvia and in compliance with Paragraph one of that Section, last year the Audit Committee of the Joint Stock Company "Latvijas Gāze" performed the duties stipulated by the Financial Instruments Market Law, including:

- supervision of the preparation of the financial statement of the Joint Stock Company „Latvijas Gāze” (hereinafter also the Company) prepared in accordance with the law “On Accounting” and the “Law On the Annual Financial Statements and Consolidated Financial Statements” of the Republic of Latvia, the Cabinet Regulations No.775 “Regulations on the Application of the Law On the Annual Financial Statements and Consolidated Financial Statements” dated 22.12.2015, and the financial statement prepared in accordance with the requirements of the International Financial Reporting Standards as to the preparation of financial statements approved by the European Union;
- supervision of the efficiency of the internal control, risk management and internal audit system of the Joint Stock Company „Latvijas Gāze” in terms of ensuring credibility and impartiality of annual accounts;
- supervision of the procedure of audit of the annual accounts of the Joint Stock Company “Latvijas Gāze”;
- verification whether before and during the audit of the annual accounts of the Joint Stock Company “Latvijas Gāze” the certified auditor elected by Company complies with the independence and impartiality requirements prescribed by the Law On Audit Services, the provisions of Article 6 of Regulation No.537/2014 on preparation for the said audit and assessment of threats to independence, and the prohibition of the provision of non-audit services under Article 5 of the said Regulation;
- verification and supervision of the independence of the elected certified auditor of the Joint Stock Company „Latvijas Gāze” – the LLC “PricewaterhouseCoopers” – for the purposes of the “Law On Audit Services”.

The Audit Committee has also gotten acquainted with the operation of the internal control and risk management system of the Joint Stock Company „Latvijas Gāze” and finds it effective and compliant with the standards of good practice.

On February 13, 2020, the Board of the Company approved amendments to the regulation of the Audit Committee, and on March 30, 2020, the Shareholders’ meeting elected an Audit Committee composed of 4 members. During the reporting period, the Audit Committee worked under the new regulation and was composed of Chairman Juris Savickis and Members Anton Belevitin, Anita Kaņepa and Benita Kudore. There were 4 Audit Committee meetings held between April 1, 2020 and March 30, 2021. The meetings were recorded in the minutes by clerk Vita Andruce.

The Audit Committee confirms that there was sufficient and timely information made available to it by the management for an effective performance of its tasks, including the auditors’ additional report to the Audit Committee with appropriate content.

The Audit Committee holds that the 2020 financial statements of the Joint Stock Company “Latvijas Gāze” prepared in accordance with the requirements of the International Financial Reporting Standards approved by the European Union have been drawn up observing all regulatory enactments and the audit of these financial statements has taken place in compliance with the international audit standards.

The 2020 annual accounts of the Joint Stock Company “Latvijas Gāze” and its subsidiary Joint Stock Company “Gasol” were audited by the LLC “PricewaterhouseCoopers”. On October 14, 2020, the Audit Committee members met and discussed with the auditors the audit plan and approach to the audit of the 2020 financial statements. The deficiencies found during the audit team were eliminated quickly and efficiently. The Audit Committee confirms that the professional scepticism applied by the auditors in the process of audit was appropriate.

While supervising the process of drafting of the financial statements and the audit thereof, we made sure that the audit aided the credibility and impartiality of the financial statement prepared by the Joint Stock Company “Latvijas Gāze”.

The main problematic issue of audit in 2020 was the recognition of revenue, which is covered in more detail in the section “Main issues of audit” of the report by the auditors of the 2020 statements and consolidated statements of the JSC “Latvijas Gāze”, the LLC “PricewaterhouseCoopers”. The auditors have notified the Audit Committee of the procedures applied in respect of the main issue and verified whether the financial statements disclose sufficient and appropriate information on the key assumptions and considerations and other information required by IFRS 15.

During the reporting year, the Audit Committee reviewed two submissions by the LLC “PricewaterhouseCoopers” regarding the provision of non-audit services. The Audit Committee gave permission to one service and rejected the other.

On March 30, 2020, the Joint Stock Company “Latvijas Gāze” approved a “Remuneration policy for Board and Council members”.

In line with the policy of the procedure of auditor selection approved by the Board, the Audit Committee conducted the process of selection of auditor candidates for the audit of the 2021 financial statements. In the course of its duties, the Audit Committee held a competitive dialogue with 4 international auditor companies and received 3 bids (the LLC “PricewaterhouseCoopers, the JSC “KPMG Baltics”, and the LLC “Deloitte Audits Latvia”), while 1 auditor company (the LLC “Ernst & Young Baltic”) declined to submit a bid. Having reviewed all bids, the Audit Committee found that the JSC “KPMG Baltics” may not be approved as auditors for the next reporting year, as that would be in violation of Article 4(2) of Regulation (EU) No.537/2014 of the European

Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC. Hence, there remain 2 candidates: the LLC "PricewaterhouseCoopers" and the LLC "Deloitte Audits Latvia".

The Audit Committee recommends electing the LLC "PricewaterhouseCoopers" as the auditor of the 2021 financial statements:

- The audit team of the LLC "PricewaterhouseCoopers" has accrued substantial experience and knowledge on the Joint Stock Company "Latvijas Gāze" and the Joint Stock Company "Gasol" as auditors of these companies for a number of years with competence in the operational and accounting specifics of the natural gas distribution and trading sector. The financial offer of the LLC PricewaterhouseCoopers is more advantageous than that of the other contender LLC "Deloitte Audits Latvia" (the latter was 40% more expensive);
- The Joint Stock Company "Latvijas Gāze" started listing its shares on NASDAQ Riga on February 15, 1999 (according to the information available on the stock exchange's website). Based on this date and the transitional provisions of the aforementioned regulation, the last financial year that the LLC "PricewaterhouseCoopers" may audit is 2023 as long as they are appointed as auditors until June 17, 2023. Hence, the appointment of the LLC "PricewaterhouseCoopers" as auditors in respect of the reporting year 2021 is not contrary to the requirements of the relevant EU regulation.

The Audit Committee does not object to a further co-operation with the Commercial Company of Certified Auditors „PricewaterhouseCoopers LLC”. There will be no violation of the Financial Instruments Market Law and the Law On Audit Services if they are elected auditors of the 2021 accounts. They have a sufficient experience, resources, and understanding of the company, and has ensured the independence of auditors when auditing the JSC "Latvijas Gāze" in previous years.

Yours sincerely,

Chairman of the Audit Committee
of the Joint Stock Company "Latvijas Gāze"



Juris Savickis