

Joint Stock Company "Latvijas Gāze"

COUNCIL REPORT

for the year 2023

In 2023, the natural gas markets saw less tension and lower natural gas prices than in 2022, yet natural gas consumption in Latvia and elsewhere in Europe remained low. This was down to a number of reasons, primarily the low industrial activity, the reduced demand in the energy sector, the warm weather, and the overall economic slowdown in the euro zone. Furthermore, the European Union remains committed to reducing natural gas consumption by 15% over the period between August 1, 2022 and March 31, 2024 under Council Regulation (EU) 2023/706 amending Council Regulation (EU) 2022/1369. In such market situation, it is crucial to provide customers with high-quality services at competitive prices.

The Company's work in 2023 was substantially affected by the "Amendments to the Energy Law" adopted on July 14, 2022 which envisaged removing the institution of public trader from the Energy Law and opening the household natural gas market as of May 1, 2023. Much effort was therefore put into new product development and sales promotion activities, also changing the customer service model to ensure a successful transition from a regulated household natural gas market to an open one. The effort has yielded results – following the opening of the household natural gas market, the Company retained 86% of the household customers it had at the beginning of 2023.

The Company ended the year 2023 with a loss of 56.9 million EUR for a number of reasons. Firstly, the Company made enterprise income tax payments to the state budget in the amount of 30.5 million EUR for the dividends disbursed to its shareholders. Secondly, the Company has revaluated the natural gas it purchased at the end of 2022 at a price appropriate to the market situation of the time to comply with the requirements set out in Cabinet Regulations No. 503 "Regulations Regarding

Supply of Energy Users When the Early Warning and Alert Levels are Declared” (hereinafter – the Regulations). Under the Regulations, the public trader (the Company) was required to maintain 1,150 GWh of supplies in the IUGS for captive consumers (households) over the period from August 10, 2022 till April 30, 2023, reducing this reserve each month by the natural gas quantity actually supplied to households. However, both in 2022 and 2023, the quantity actually needed for captive consumers had actually decreased by 20% compared to the average of previous three years. As at April 30, 2023, as a result of the Regulations, the Company had 236 GWh of natural gas reserved for households and unavailable for selling on to other customers at market-level prices. According to the revaluation of natural gas supplies, the resulting losses incurred by the Company amount to 16.86 million EUR. Furthermore, on July 14, 2022, the Parliament adopted the law “Amendments to the Energy Law” whereby the institution of public trader was set to be removed from the Energy Law as of May 1, 2023. The Company as public trader was required to sell natural gas at a regulated tariff from January 1, 2023 when the tariff was approved till April 30, 2023. Under the tariff setting methodology, the public trader is to be compensated for the losses incurred by adding the price difference in the next tariff period. The next tariff period never came due to the aforementioned amendments, and nor was there any transition from a regulated industry to market conditions implemented to compensate the Company for the losses incurred while in the regulated market. Under the legal provisions in force up to April 30, 2023, the Company was eligible to compensation, but has not received any. The Company's losses made up of the difference between the applicable and actual natural gas price over this period (January-April 2023) amount to 5.02 million EUR. So, a total of 21.88 million EUR should be paid in compensation by the Latvian government. The Company is currently under negotiations with the authorities responsible for the energy sector over the possible solution of the issue.

Substantial work was done to implement the resolution on the sale of the Company's subsidiary JSC “Gasol” adopted by the Company's shareholders in 2022. The sale process was successfully completed in the summer of 2023 – the last preconditions for the finalisation of the sale transaction were met on July 17, and the ownership change was registered with the Commercial Register of the Republic of Latvia on July 24, with AS “Eesti Gaas” becoming the holder of 100% of shares in the JSC “Gasol” and the Latvijas Gāze group ceasing to exist as a result.

On November 24, 2023, as the shareholder structure of the Joint Stock Company "Latvijas Gāze" changed, Council members Nicolas Merigo Cook, Hans-Peter Floren and Ēriks Atvars resigned from their positions. The Council of the Joint Stock Company "Latvijas Gāze" continued with 8 members until the next shareholders' decision on February 22, 2024 when a new Council of the Joint Stock Company "Latvijas Gāze" was elected, composed of Valentīns Bļugers, Nikolajs Dorofejevs, Guntars Reidzāns, Edgars Buncis, Matthias Kohlenbach, Christian Janzen, Elena Mikhaylova, Yury Ivanov, Kirill Seleznev, Vitaly Khatkov and Kirill Neuymín.

During its meetings in 2023, the Council reviewed and approved the report on risk management for 2023 prepared by the Company's Board and approved the updated Risk management and governance policy and the monthly reports to the Council on the Company's performance prepared by the Board. The Council also reviewed and approved the JSC "Latvijas Gāze" annual report and consolidated annual report for 2022, the Company's 2024 budget, and the report on effectiveness of the Risk control system, the assessment of performance of the Internal audit working plan for 2022 and 2023 and the Internal audit plan for 2024 prepared by the Company's Internal Audit Department.

The Company's Audit Committee continued with three members: Juris Savickis, Anita Kaņepa and Anton Belevitin. On February 22, 2024, the Company's shareholders as follows elected a new Audit Committee composed of Jānis Mežiels, Marks Maizenbergs, Nikolajs Dorofejevs and Anton Belevitin.

Active in between the Council meetings was the Advisory group set up by the resolution of extraordinary Council meeting No. 5 (2018) of the Joint Stock Company "Latvijas Gāze" held on September 18, 2018. The purpose of the Council Advisory group was to protect the interests of the Company's shareholders, advising on the key matters of the JSC "Gasó" and the Latvijas Gāze group. However, with the JSC "Latvijas Gāze" becoming a trading company that no longer owns critical infrastructure and/or the capital company of significance to national security JSC "Gasó", with the Latvijas Gāze group no longer existing and with the abolishment of the institution of public trader in the Latvian regulatory framework, there is no need for such organisational structure among the Board, the Council and the shareholders anymore. Hence, the Council decided to dissolve the Advisory group as of December 1, 2023.

The Council gave directions and recommendations to the Board for the improvement of the Company's operation. The Council also approved and recommended for election the auditor of the Company's financial statements. The Council has gotten acquainted with the Corporate governance report for last year prepared in accordance with the Corporate governance code (Recommendations of good corporate governance for companies in Latvia) updated in late 2020 by the Advisory board of corporate governance, with explanations where appropriate based on the "observe or explain" principle.

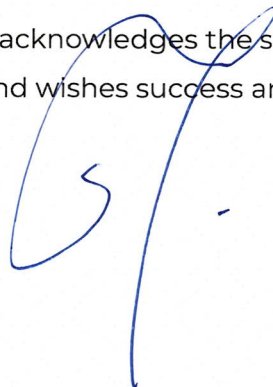
The Council holds a view that the Board has done significant work to ensure that the Company comply with the recommended principles of corporate governance. The Council follows the same principles.

In the reporting period, the Council regularly received Board reports regarding the Company's operational, economic and financial standing. The Council supervised the operation of the Board in all key areas and made sure that the Company work in compliance with the legislation, the Company's Articles of Association and the resolutions of the Shareholders' meeting, and made proposals for improving the Company's work.

The Company's 2023 annual report was audited by the commercial company of certified auditors JSC "Nexia Audit Advice". The Council has received the auditor's report confirming that the financial statement provides a fair and clear presentation of the Company and its financial results and cash flows in 2023 in accordance with the International Financial Reporting Standards as approved by the European Union.

The Company's Council acknowledges the successful performance of the Board and the employees in 2023 and wishes success and progress going forward as well.

Chairman of the Council



Guntars Reidzāns