

Joint Stock Company "Latvijas Gāze"

COUNCIL REPORT

for the year 2021

High natural gas price fluctuations and a rapid rise in the raw material prices were the highlights of 2021. Due to low natural gas stocks in European storages, a steady economic recovery and higher prices of European Union emission allowances (EUAs), the natural gas prices saw a substantial rise in 2021. The year 2021 proves that the Joint Stock Company "Latvijas Gāze" (hereinafter – the Company or the JSC "Latvijas Gāze") operates successfully even amid high prices, as the JSC "Latvijas Gāze" is expected to have the strongest winter season performance (October 2021 – March 2022).

In the first quarter of 2022, the JSC "Latvijas Gāze" group recorded its all-time best financial results thanks to a disciplined trading and risk mitigation approach in 2021. The Group's quarterly net profit amounted to 77.5 million, while that of the Company reached 74 million euros. At the end of the winter season (31.03.2022), the Company fully repaid its loans. The JSC "Latvijas Gāze" benefited from most of its trading portfolio being index-price-linked contracts hedged for a price significantly above that of the gas injected in the summer. Furthermore, the JSC "Latvijas Gāze" was able to take advantage of portfolio optimisation options, benefitting from major price fluctuations. The most part of the negative revaluation of financial derivatives recognised in 2021 stems from the aforementioned actions, whereas the sales revenue was recognised both in the 4th quarter of 2021 and in the 1st quarter of 2022. The stocks were not revalued based on the market prices but their carrying amount is based on the purchase price. Hence, the Q1 2022 results of the JSC "Latvijas Gāze" reflect the operational results of both 2021 and the 1st quarter of 2022.

Last year saw changes in the composition of the Company's Council. Two members –David Stephen Harrison and Sergey Kuznets – left the Council, and Ēriks Atvars and Yury Ivanov were elected in their place. The Council pays gratitude to the former Council members for their work and personal contribution to the Company's development.

Last year also saw re-election of the Company's Board. In addition to Inga Āboliņa whose term of office expires on August 16, 2023, the incumbent members Aigars Kalvītis, Denis Emelyanov and Elita Dreimane were re-elected for 3 (three) years, with the term of office starting on August 16, 2021. Aigars Kalvītis and Denis Emelyanov were again elected Chairman and Vice-Chairman of the Board respectively.

During its meetings in 2021, the Council reviewed and approved the JSC "Latvijas Gāze" Code of Conduct and the monthly reports on the performance of the Company prepared by the Board. The Council also reviewed and accepted the 2020 annual report and the 2022 budgets drafted for both the Company and its subsidiary Joint Stock Company "Gasol", and re-elected the Audit Committee for further approval at the Shareholders' meeting.

In between the Council meetings, an active role was played by the Advisory group set up by the Council to deal with the Company's strategic matters. Before the Council meetings, it discussed all major issues, including new international business directions and projects in context with the Company's corporate strategy. The Council gave directions and recommendations to the Board for

the improvement of the Company's operation. The Council also accepted 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 by the Board in compliance 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 operational, economic and financial standing of the Company. The Council supervised the operation of the Board in all key aspects 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, verified and approved the budget submitted by the Company, and made proposals for improving the Company's work. The substantial rise in the price of natural gas and the high likelihood of a need for trading portfolio and supply flow optimisation measures necessitated an appropriate increase in funds and attraction of additional short-term funds.

The 2021 annual report of the Company and the JSC "Latvijas Gāze" group was audited by the international auditor company LLC "PricewaterhouseCoopers". The Council has received the auditor's report attesting that the financial statement provides a fair and clear presentation of the Company and its financial results and cash flows in 2021 in compliance with the International Financial Reporting Standards as approved by the European Union. The Council has reviewed and accepted the Board report on the performance of the Company and the Group in the reporting year and the suggestions as to the distribution of the 2021 profit.

The Council of the Company acknowledges the successful performance of the Board and employees in 2021 and wishes success and progress in future as well.

Chairman of the Council

K. Seleznev