



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

Report to the Council of the Joint Stock Company "Latvijas Gāze"

Rīga,
April 26, 2022

In the reporting period since the previous report to the Council of the Joint Stock Company "Latvijas Gāze" signed on April 22, 2021, the Audit Committee of the Joint Stock Company "Latvijas Gāze" has performed the duties stipulated by the Financial Instrument Market Law and the Regulation of the Audit Committee (available on www.lg.lv), including:

- supervision of the process of preparation of the 2021 annual accounts and consolidated annual accounts of the Joint Stock Company "Latvijas Gāze" (hereinafter also – the Company);
- 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 the annual accounts and consolidated annual accounts;
- supervision of the procedure of audit of the 2021 annual accounts and consolidated annual accounts of the Joint Stock Company "Latvijas Gāze”;
- verification whether before and during the audit of the annual accounts and consolidated annual accounts of the Joint Stock Company "Latvijas Gāze” the certified auditor appointed 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 to provide non-audit services under Article 5 of the said Regulation;
- preparation of this report in order to inform the Council of the Joint Stock Company "Latvijas Gāze” of the conclusions drawn by the certified auditor from the audit of the Company’s annual accounts and consolidated annual accounts, provision of an opinion on how this audit has contributed to the credibility and impartiality of the annual accounts and consolidated annual accounts prepared by the Company, and explanation of the role of the Audit Committee in this process;
- ensuring the process of selection of certified auditor at the Company under Article 16 of Regulation No. 537/2014, and in this report it recommends to the Shareholders’ meeting of the Company a certified auditor candidate for the performance of the audit of the Company’s 2022 and 2023 financial statements and consolidated financial statements.

The Audit Committee was approved in its current membership of four people for a term of three years with a resolution of the extraordinary Shareholders’ meeting of Company held on November 4, 2021. The Audit Committee was appointed because one of the members of the previous composition of the Audit Committee left the position in 2021 and, under Section 55⁷

Paragraph nine of the Financial Instrument Market Law, a new member of the Audit Committee is to be elected by re-electing the entire Audit Committee. The Chairman of the Audit Committee is Juris Savickis, its members are Anton Belevitin, Anita Kaņepa and Juris Lapše. The Audit Committee believes that its members possess the set of competences required for an effective work of the Audit Committee (including the knowledge necessary in the industry the Company is active in) because Juris Savickis is a long-standing member of the Company's Council; Juris Savickis, Anita Kaņepa and Anton Belevitin have been members of the Audit Committee for the previous three years; Anita Kaņepa and Juris Lapše are Latvian certified auditors with more than twenty years of experience in the audit of financial statements. The Audit Committee is helped in its work by its secretary whose duties are detailed in the Regulation of the Audit Committee.

Since its approval on November 4, 2021, the Audit Committee has performed the above tasks by doing the following:

- there have been 3 Audit Committee meetings held, all quorate under the Regulation of the Audit Committee. Chairman of the Audit Committee Juris Savickis and its members Anita Kaņepa and Juris Lapše attended all 3 meetings, while member Anton Belevitin attended 2 meetings;
- At its meetings, the Audit Committee listened to the presentations by the leaders of the audit working groups of the LLC "PricewaterhouseCoopers", the external auditor of the Company and its subsidiary Joint Stock Company "Gasol" (hereinafter also – the Auditor) on the plan, course, results and conclusions of the audit;
- At its meetings, the Audit Committee listened to the presentations by the Board members of the Company and its subsidiary Joint Stock Company "Gasol" on the risk management and internal control systems in context with the preparation of the annual accounts and critical estimates, judgments and assessments;
- At its meeting, the Audit Committee listened to the presentations by the Board members of the Company on the key transactions and events of 2021 and their impact upon the financial statements, including the impact of post balance sheet events upon the financial statements and going concern, on the key areas where the management had to make assumptions and estimates while drafting the financial statements, and on the control procedures applied by the Company in respect of compliance with the internationally imposed sanctions;
- The Audit Committee has reviewed the report by the Company's Internal Audit Department on the execution of the 2021 audit working plan;
- At its meeting, the Audit Committee listened to the presentation by the Head of Company's Internal Audit Department on the Company's internal audit working plan and its results;
- Audit Committee members Anita Kaņepa and Juris Lapše had several remote meetings and a correspondence with the leaders of the Company's audit working group, the Board members of the Company, the accounting officer and the management of the Legal and Human Resource Development Division to discuss specific matters related to the Company's 2021 annual accounts and consolidated annual accounts and audit thereof;
- The members of the Audit Committee have reviewed the Company's 2021 annual accounts and consolidated annual accounts;
- The members of the Audit Committee have reviewed the report by the Company's auditor LLC "PricewaterhouseCoopers" to the shareholders on the Company's 2021 financial statements and consolidated financial statements prepared in compliance with the International Financial Reporting Standards as adopted by the European Union, and the auditors' report to the Audit Committee.

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

The Audit Committee found the following:

- The auditor's report to the shareholders is unmodified, i.e., it does not contain objections or other modifications;
- The auditor's explanations and report to the Audit Committee present more detailed information on the audit conducted and are consistent with the information presented in the report to the shareholders. The Audit Committee believes that the professional scepticism applied by the auditors in the process of audit was appropriate;
- The key matters of audit are covered in the auditors' report to the shareholders;
- The auditor has proven its independence and no circumstances suggesting threat to independence have come to the Audit Committee's attention;
- Based on the above, the Audit Committee believes that the audit conducted has contributed to the credibility and impartiality of the 2021 annual accounts and consolidated annual accounts prepared by the Joint Stock Company "Latvijas Gāze";
- The Audit Committee holds that the critical accounting estimates and judgments are presented in Note 26 to the Company's 2021 financial statement;
- Having gotten acquainted with the Company's internal controls in respect of the preparation of financial statements and having assessed these controls as part of the audit pursuant to the international audit standards, the auditor has confirmed to the Audit Committee that it has not found major deficiencies in the said controls;
- The Company's internal auditor has stated in its report on the execution of the 2021 audit working plan that, based on the results of the work carried out by the internal auditor in 2021, the Company's internal control system is mostly well organised as far as the audited activities are concerned;
- The Audit Committee holds a different view from that of the Board of the Company regarding some judgments in the Corporate governance report in terms of compliance with the Corporate governance code issued in 2020 by the Advisory Council to the Ministry of Justice. The Audit Committee believes that, in order to ensure a full compliance with the said code, the cooperation of the Company's Internal Audit Department with the Council needs to be improved, including the approval by the Council of a Regulation of the Internal Audit Department that contains clear provisions as to the independence of the internal audit function, a timely annual approval by the Council of the internal audit plan, and a regular review by the Council of internal audit reports. The Audit Committee also recommends for the Council to review the new risk management policy submitted by the Board and, in the event of approval thereof, to monitor the course of implementation of the risk management function under the new policy, including reviewing at least annually the Board reports on the risk management measures and the implementation of the risk management policy. The Audit Committee also recommends for the Council to review the Code of Conduct of the Company and to conduct a self-assessment of its work at least annually. Furthermore, the Audit Committee recommends assessing the Company's remuneration policy for the Board and Council members in terms of the variable part of remuneration of the Council members.

During the reporting period, the Audit Committee reviewed one submission by the LLC "PricewaterhouseCoopers" regarding the provision of non-audit services, specifically the auditor's assessment of threat to independence. The Audit Committee found that the service offered did not jeopardise the auditor's independence as it is a publicly available informative summary and

explanation of regulatory documents and gave permission to the service of its subscription worth 600 euros.

Under the EU Regulation 537/2014 and Law On Audit Services, the LLC "PricewaterhouseCoopers" could provide audit services up to the audit of the 2023 financial statements. However, in line with the practice adopted by the Company, the auditor had been approved for one year and the Audit Committee arranged the procedure of auditor selection. The Audit Committee conducted the process of selection of auditor candidates for the audit of the 2022 and 2023 financial statements. In the course of its duties, the Audit Committee initially invited the 4 largest international auditor firms to submit their audit service offers, but only one offer was submitted and subsequently revoked. Hence, the Audit Committee held a repeated competitive dialogue, inviting all fifteen commercial companies of certified auditors featured on the list of certified auditors of public-interest entities available on the website of the Ministry of Finance as at March 14, 2022. The Audit Committee received two offers and two written refusals to submit an offer. The Audit Committee considers one of the two applicants non-compliant with the independence criteria set out in the regulatory enactments because in 2022 it has provided non-audit services listed in Article 5 of the Regulation No. 537/2014 which a company may not be provided by its auditor and, in the Audit Committee's opinion, this applicant's offer is not acceptable. The other applicant, based on the offer submitted, meets the qualification criteria set out in the Technical specification of the competitive dialogue drawn up by the Audit Committee. On these grounds, the Audit Committee recommends appointing the JSC "Nexia Audit Advice" as the auditor of the 2022 and 2023 financial statements of the Company and its subsidiary.

Furthermore, in the reporting period since the approval of the Audit Committee on November 4, 2021, the Audit Committee has:

- elected the Chairman of the Audit Committee;
- reviewed and amended the Regulation of the Audit Committee and submitted it to the Company's Council for approval. The amendments are based on the guidelines for the formation, operation and supervision of the audit committee of public-interest entities by the Financial and Capital Market Commission. The guidelines have been drawn up by order of the Ministry of Finance of the Republic of Latvia in line with the requirements set out in the EU Regulation No. 537/2014, the Law On Audit Services and the Financial Instrument Market Law and based on the principles of good practice of corporate governance insofar as not contrary to the Latvian regulatory enactments governing commercial law. The substance of the amendments is to ensure the independence of the Audit Committee's work and the confidentiality of its decisions. The Audit Committee asks the Council to review and approve the said amendments to the Regulation of the Audit Committee;
- approved the working plan and schedule of meetings of the Audit Committee.

Yours sincerely,

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

/signature/

Juris Savickis

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