

Joint Stock Company "Latvijas Gāze"

## **COUNCIL REPORT**

for 2024

One of the main challenges faced by natural gas traders is the low natural gas consumption compared with the pre-war level. Although in 2024, according to the data published by the Central Statistics Bureau<sup>1</sup>, the Latvian natural gas consumption grew by 6.6% year-on-year, it still has not returned to the pre-war level. The situation has been similar elsewhere in Europe, with household consumption remaining low despite lower natural gas prices than in the last two years, partially due to the warmer weather in the 1st quarter of 2024 (the period with the highest natural gas demand for heating purposes) and austerity measures. Consumption has also decreased at gas-powered power plants as a result of the increasing renewables production capacities. While consumption by the industrial sector has slightly grown against last year, it still lags behind the pre-war level and is further hampered by the weak overall economic activity in the eurozone. The commitment on a European Union level to voluntarily reduce natural gas consumption by 15% till May 31, 2025 and the objectives put forward under the "Fit for 55" and "REPowerEU" plans, too, make it less likely for natural gas consumption to increase and return to the pre-war level any time soon.

In 2024, the business of the JSC "Latvijas Gāze" was substantially affected by Cabinet Regulations No. 333 "List of Low-Tax or Tax-Free Countries and Territories" dated June 27, 2023 which took effect on July 1, 2023 and whereby the Russian Federation is listed among the low-tax or tax-free countries. As a result, up to the end of October 2024 (when the majority of potential customers had already purchased natural gas for the upcoming heating season), the Company was unable to participate in public procurements by virtue of Section 42 of the Public Procurement Law. Following the changes in the shareholder structure made in late October 2024, the Company was again eligible to participate in public procurements.

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<sup>1</sup> [https://data.stat.gov.lv/pxweb/lv/OSP\\_PUB/START\\_NOZ\\_EN\\_ENB/ENB020m/](https://data.stat.gov.lv/pxweb/lv/OSP_PUB/START_NOZ_EN_ENB/ENB020m/)

Amid such dynamic and challenging market circumstances, a key role is played by the Company's experience and knowledge of the natural gas market in its operation under changeable market circumstances. As a result, the Company reached steady profit figures in 2024 – a net profit of 13.2 million EUR which will not be distributed. This is down to concerns over the pending issue of losses of 21.88 million EUR incurred in 2023, the compensation of which is still being negotiated with the responsible energy authorities. The JSC "Latvijas Gāze" incurred these losses in fulfilling the requirements set out in Cabinet Regulations No. 503 "Regarding Supply of Energy Users When the Early Warning and Alert Levels are Declared" and losses resulting from the difference between the applicable and actual natural gas price in the final regulated tariff period from January to April 2023 before the opening of the natural gas market when the Company performed the function of public trader under the law "Amendments to the Energy Law".

Actual or planned changes in external regulatory enactments in 2024 necessitated preparatory works on cybersecurity, operational continuity planning, and in connection with sustainability reporting, the development of a sustainability strategy, and the ETS2 reporting system set to be launched in Latvia in 2025. The National Cybersecurity Law, adopted on June 20, 2024, stipulated a number of actions to be taken by the Company in 2024-2026. So, already in 2024, the Company conducted cybersecurity condition monitoring, essentially completed a compliance self-assessment report, and started work on a plan of cyber risk management and the operational continuity of information and communication technologies which will continue in 2025. The Company also completed the 1st version of an operational continuity plan for the entire Company.

On September 26, 2024, the Parliament adopted the Sustainability Information Disclosure Law. In the current version, it impacts the preparation of the Company's annual report from the beginning of 2026 for the 2025 report. The Company is therefore getting ready for making its first annual report in compliance with the sustainability requirements in 2026, paying special attention to its use of natural resources, corporate governance and social cooperation with employees, customers and partners. The Company has completed a mid-term sustainability strategy which was approved at the JSC "Latvijas Gāze" Council meeting No. 1 (2025) held on March 20, 2025.

At the end of 2023, the European Union (hereinafter – the EU) decided to create a new trading system (Directive (EU) 2023/959) – ETS2. It covers the consumption of

fuel and combustibles in buildings, motor transport and additional sectors, i. e., industrial sectors not covered by the previous EU emission allowance system ETS. The purpose of this system is to reduce the consumption of fossil raw materials, with each sector contributing to the reduction of GHG emissions and the move towards climate neutrality in the EU and Latvia. Although the ETS2 allowance trading in the EU will only start in 2027, the ETS2 system operators in Latvia were required to submit their fuel consumption data for 2024 as early as the beginning of 2025. The Company therefore had to set up its own ETS2 reporting system, register it with the relevant institution, and submit the first report for 2024 in early 2025. All requirements set out by the supervisory authorities were fulfilled already at the end of 2024 and an ETS2 system monitoring plan was submitted for approval, but due to delay in the adoption of regulatory enactments neither the ETS2 system in Latvia has been completed nor the Company's plan has been approved.

At the end of 2023, the Company's Board members Aigars Kalvītis, Elita Dreimane and Egils Lapsalis, via their special purpose vehicle LLC "Energy Investments", acquired a substantial stake in the Company as part of a management buyout process. The purchase transaction took place between the Luxembourg investment fund "Marguerite Gas II S.À.R.L" and the LLC "Energy Investments" for all 28.97% of shares in the JSC "Latvijas Gāze" owned by Marguerite.

At the Shareholders' meeting of the JSC "Latvijas Gāze" held on June 19, 2024, it was decided to delist the Company's shares from the Baltic Second List of the JSC "Nasdaq Riga". By the resolution of the JSC "Latvijas Gāze" shareholders, the JSC "Latvijas Gāze" was approved as the entity to make an offer to buy back the shares of those shareholders who voted against this resolution or did not vote at all. On July 24, 2024, the Supervisory Committee of the Bank of Latvia adopted a decision to allow the JSC "Latvijas Gāze" to make a share buyback offer to the Company's shareholders in connection with the delisting of the Company's shares from the regulated market (hereinafter – the Offer). The Offer period ended on August 7, 2024. The number of shares offered for sale was 5,553. After the completion of the Offer, the JSC "Latvijas Gāze" has 5,553 shares at its disposal, but the exercise of voting rights on these shares is not possible by virtue of Section 240 Paragraph seven of the Commercial Law.

On November 24, 2023, following changes in the shareholder structure of the JSC "Latvijas Gāze", Council members Nicolas Merigo Cook, Ēriks Atvars and Hans-Peter Floren left their positions. The Council of the JSC "Latvijas Gāze" continued with a reduced number of members (Chairman of the Council Kirill Seleznev, Vice-Chairmen of the Council Juris Savickis and Oliver Giese, Members of the Council Vitaly

Khatkov, Yury Ivanov, Oleg Ivanov, Matthias Kohlenbach, Elena Mikhaylova) until the next shareholders' decision, and the changes in the composition of the Council of the JSC "Latvijas Gāze" did not affect the decision-making process in the day-to-day operations of the JSC "Latvijas Gāze", as the Council remained quorate under the Articles of Association of the JSC "Latvijas Gāze".

On February 22, 2024, the following Council was elected: Chairman of the Council Guntars Reidzāns, Vice-Chairmen of the Council Matthias Kohlenbach and Kirill Neuymin, Members of the Council Valentīns Bļugers, Edgars Buncis, Nikolajs Dorofejevs, Christian Janzen, Elena Mikhaylova, Yury Ivanov, Kirill Seleznev, Vitaly Khatkov.

On August 16, 2024, the elections of the Company's Board took place. The incumbents – Chairman of the Board Aigars Kalvītis, Vice-Chairman of the Board Denis Emelyanov, Members of the Board Elita Dreimane and Egīls Lapsalis – were re-elected.

The delisting of the shares of the JSC "Latvijas Gāze" from the Baltic Second list of the JSC "Nasdaq Riga" was followed by significant changes in the Company's shareholder structure. On November 8, 2024, as part of the management buyout process, the Company's Board members Aigars Kalvītis, Elita Dreimane and Egīls Lapsalis, via their special purpose vehicle LLC "Energy Investments" and the Lithuanian company UAB "Haupas", acquired the 34% stake in the JSC "Latvijas Gāze" held by the Russian company PJSC "Gazprom" from "Qudrah International SPC". The LLC "Energy Investments" acquired 27.85%, while UAB "Haupas" acquired 6.15%.

On November 12, 2024, as the shareholder structure of the JSC "Latvijas Gāze" changed again, Vice-Chairman of the Council K. Neuymin and Members of the Council K. Seleznev, V. Khatkov, Y. Ivanov and E. Mikhaylova left their positions. The Council of the JSC "Latvijas Gāze" continued with a reduced number of members until the next shareholders' decision, and the changes in the composition of the Council of the JSC "Latvijas Gāze" did not affect the decision-making process in the day-to-day operations of the JSC "Latvijas Gāze", as the Council remained quorate under the Articles of Association of the JSC "Latvijas Gāze".

On December 19, 2024, the following Council was elected: Chairman of the Council G. Reidzāns, Vice-Chairman of the Council V. Bļugers, Members of the Council M. Kohlenbach, E. Buncis and N. Dorofejevs.

The management of the JSC "Latvijas Gāze" is also seeking solutions for the buyout of shares from the two remaining major shareholders – the Latvian LLC "Itera

Latvia” and the German “Uniper Ruhrgas International GmbH” with a view to become a company controlled by local capital and a key player of the Baltic energy market.

During its meetings in early 2025, the Company reviewed and approved the report on risk management for 2024 prepared by the Company’s Board and the monthly reports to the Council on the Company’s performance prepared by the Board. The Council also reviewed and approved the 2024 annual report of the JSC “Latvijas Gāze” and approved the Company’s 2025 budget and the report by the Internal Audit Department regarding effectiveness of the risk control system and the assessment of performance of the internal audit working plan for 2024 and on the internal audit plan for 2025.

In 2024, the Company’s Audit Committee continued with three members: Juris Savickis, Anita Kaņepa and Anton Belevitin. On February 22, 2024, the Company’s shareholders elected a new Audit Committee as follows: Jānis Mežiels, Marks Maizenbergs, Nikolajs Dorofejevs and Anton Belevitin. On December 19, 2024, with the shares of the JSC “Latvijas Gāze” delisted from the Baltic Second List of Nasdaq Riga and the JSC “Latvijas Gāze” no longer a participant of the regulated financial instrument market, the Audit Committee was dissolved as of December 19, 2024 under a resolution of the Shareholders’ meeting of the JSC “Latvijas Gāze”.

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 for 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 and 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 2024 annual report was audited by the Commercial Company of Certified Auditors JSC "Nexia Audit Advice". The Council has received the auditor's report which states that the financial statement provides a true and clear view of the Company and its financial results and cash flow in 2024 in accordance with the International Financial Reporting Standards as adopted by the European Union.

The Company's Council commends the Board and employees for their performance in 2024 and wishes success and growth going forward as well.

Chairman of the Council

Guntars Reidzāns