

Riga, July 25, 2022

**REPORT
on the execution of the resolution of the JSC "Latvijas Gāze" Shareholders'
meeting of 27.06.2022**

On 27.06.2022, the shareholders of the JSC "Latvijas Gāze" adopted a resolution whereby the Board of LG was tasked with initiating:

1) **reorganisation of LG by division** pursuant to Section 336(4) of the Commercial Law, as a result of which LG would transfer part of its property – namely, 39.900,000 shares of Akciju sabiedrība "GASO", registration number 40203108921, representing 100% of its share capital – to a newly incorporated company. As a result of the reorganisation, all shareholders of LG would become shareholders of the newly incorporated company proportionate to their shareholding in LG;

or

2) **reduction of the equity capital of LG** pursuant to Section 262(1)(2) of the Commercial Law, as a result of which shareholders of LG as a payment for the submitted shares would receive shares of Akciju sabiedrība "GASO", registration number 40203108921, proportionally to their participation in the equity capital of LG.

Regulatory scope

The Joint Stock Company „Latvijas Gāze” (hereinafter – LG) is a joint stock company that essentially operates under the regulations of the Commercial Laws, adhering to the special provisions of other laws.

The Joint Stock Company „GasO” (hereinafter – GasO) is a joint stock company that, too, essentially operates under the regulations of the Commercial Law, adhering to the special provisions of other laws. According to Section 3 Paragraph five of the Commercial Law, in respect of commercial companies of significance to national security, the provisions of this law shall be applied **insofar as not stipulated otherwise in the National Security Law**.

Under the National Security Law, GasO as natural gas distribution system operator has been included in the list of commercial companies of significance to national security since November 22, 2017.

LG is not included in the list of commercial companies of significance to national security because it is a bulk buyer and seller of natural gas.

On June 16, 2022, the Parliament adopted amendments to the National Security Law which came into force on June 23, 2022 and whereby Section 11 of the law was supplemented with Paragraph five, Section 38 – with Paragraph 11, Section 39 – with Paragraphs 31, 32, 33, 34 and 35, Section 41 – with Paragraph five, the first

sentence of Section 45 Paragraph one was reworded, and the Transitional Provisions were supplemented with Articles 21, 22 and 23.

Shareholder structure

The shareholders of LG are:

- 1) GAZPROM, public joint stock company, country of registration – Russian Federation, owns 34.00176 % of shares;
- 2) ITERA Latvija, Limited Liability Company, country of registration – Republic of Latvia, owns 16.00 % of shares;
- 3) Marguerite Gas II S.a r.l., country of registration – Grand Duchy of Luxembourg, owns 28.97405 % of shares;
- 4) Uniper Ruhrgas International GmbH, country of registration – Federal Republic of Germany, owns 18.26 % of shares;
- 5) shares bought in public offering during the privatisation process, country of registration – Republic of Latvia, 2.76419 % of shares.

The sole shareholder of Gaso is LG, which means that LG owns 100 % of shares in Gaso, country of registration – Republic of Latvia.

On reorganisation of LG by division

Following the amendments to Section 38 of the National Security Law, its Paragraph 1¹ stipulates that **the Russian Federation or the Republic of Belarus, its citizens or legal entities registered in the Russian Federation or in the Republic of Belarus** (hereinafter — persons belonging to Russia or Belarus) **may not acquire qualifying holding or decisive influence in a commercial company of significance to national security** and be the beneficial owner of a commercial company of significance to national security.

Since LG owns 100 % of shares in Gaso, LG has a decisive influence in Gaso by virtue of participation and the two constitute a group with LG as dominant undertaking and Gaso as dependant company.

In the resolution adopted in the regular shareholders' meeting of LG on June 27, 2022, the Board of LG is tasked with – as one variant (see item 1 of point 2.1 of the Opinion) – initiating a reorganisation of LG by division pursuant to Section 336 Paragraph four of the Commercial Law which would see LG transfer part of its property – namely 39,900,000 shares of Akciju sabiedrība "GASO" representing 100% of its share capital – to a newly incorporated company. As a result of the reorganisation, **all shareholders of LG would become shareholders of the newly incorporated company pro rata to their shareholding in LG.**

As a result of such reorganisation, a qualifying holding in Gaso would be acquired by:

- 1) GAZPROM as it would own 34.00176 % of shares in Gaso;
- 2) Marguerite Gas II S.a r.l. as it would own 28.97405 % of shares in Gaso;
- 3) Uniper Ruhrgas International GmbH as it would own 18.26 % of shares in Gaso;
- 4) ITERA Latvija as it would own 16.00 % of shares in Gaso.

Conclusion

Having regard to the above, a reorganisation of LG by division pursuant to Section 336 Paragraph four of the Commercial Law resulting in all shareholders of LG becoming shareholders of a newly incorporated company pro rata to their shareholding in LG **cannot be implemented because it is prohibited under Section**

38 Paragraph 1¹ of the National Security Law whereby legal entities registered in the Russian Federation may not acquire qualifying holding, i.e., 10% and more shares in a commercial company of significance to national security, like Gaso, because GAZPROM is a company registered in the Russian Federation.

On reduction of the equity capital of LG

As a second variant in the resolution adopted at the regular shareholders' meeting of LG on June 27, 2022, the Board of LG is tasked with initiating a reduction of the equity capital of LG pursuant to Section 262 Paragraph one Clause 2 of the Commercial Law which would see **the shareholders of LG receive the shares of Akciju sabiedrība "GASO" owned by LG as payment for the submitted shares pro rata to their participation in the equity capital of LG.**

According to Section 262 Paragraph one Clause 2 of the Commercial Law, the equity capital may be reduced by cancelling the shares submitted by shareholders.

In order to ensure that the shareholders of LG receive shares in Gaso pro rata to their participation in the equity capital of LG and maintain the same proportion of shareholding in Gaso as in LG, it is necessary that all shareholders of LG submit their shares for cancellation.

This means that, **as a result of such reduction of equity capital, a qualifying holding in Gaso would be acquired by:**

- 1) GAZPROM as it would own at least 34.00176 % of shares in Gaso;
- 2) Marguerite Gas II S.a r.l. as it would own at least 28.97405 % of shares in Gaso;
- 3) Uniper Ruhrgas International GmbH as it would own at least 18.26 % of shares in Gaso;
- 4) ITERA Latvija as it would own at least 16.00 % of shares in Gaso.

Conclusion

A reduction of the equity capital of LG, with the shareholders of LG receiving the shares of Gaso owned by LG as payment for the submitted shares pro rata to their participation in the equity capital of LG, **cannot be implemented because it is prohibited under Section 38 Paragraph 1¹ of the National Security Law whereby legal entities registered in the Russian Federation may not acquire qualifying holding, i.e., 10% and more shares in a commercial company of significance to national security, like Gaso, because GAZPROM is a company registered in the Russian Federation.**

II On the alternative solution proposed by the Board

1. As the amendments to the National Security Law effective since 23.06.2022 make it legally impossible for the Board of LG to implement any of the models envisaged in the resolution adopted by the shareholders' meeting of LG on 27.06.2022 – reorganisation or reduction of equity capital –, the Board of LG suggests drawing up multiple scenarios for the further management of Gaso considering the restrictions set out in the National Security Law, with disposal of the shares of the Joint Stock Company "Gaso" as one of solutions. According to the resolution passed at the extraordinary Council meeting of LG on July 14, 2022, the Council of LG has taken note of the assessment made by the Board of LG regarding the task given at the Shareholders' meeting of the Joint Stock Company "Latvijas Gāze" on June 27, 2022 – reorganisation of the Company by division and reduction of the Company's equity capital – and tasked the Board with submitting both proposals and the assessment for review at the extraordinary Shareholders' meeting of the Joint Stock Company "Latvijas Gāze" on August 8, 2022. It has also authorised the Board to prepare multiple scenarios for the further management of the Joint Stock Company "Gaso"

owned by the Joint Stock Company "Latvijas Gāze" considering the restrictions set out in the National Security Law, with disposal of the shares of the Joint Stock Company "Gasol" as one of solutions, and tasked the Board with submitting all possible scenarios of further management of the Joint Stock Company "Gasol" for review at the next Council meeting on September 8, 2022.

III On the convocation of a shareholders' meeting

On June 27, 2022, the shareholders' meeting of LG decided to task the Board of LG with convening an extraordinary shareholders' meeting of LG not later than August 10, 2022 for adopting a decision on commencing the reorganisation process or the reduction of the equity capital of LG.

On July 7, 2022, in fulfilment of the resolution of the shareholders' meeting of LG, the Board of LG announced the convocation of an extraordinary shareholders' meeting on August 8, 2022 and included an item "Adopting a decision on the commencement of the reorganisation process or the reduction of the equity capital of the Company" in its agenda.

In fulfilment of the resolution of the Council of LG adopted on July 14, 2022, the Board of LG submits an assessment of scenarios regarding the resolution on reorganisation or reduction of equity capital adopted at the 27.06.2022 shareholders' meeting of LG for review at the extraordinary shareholders' meeting of the Joint Stock Company "Latvijas Gāze" to be held on August 8, 2022.

Not later than 08.09.2022, the Board of LG submits to the Council for review all possible scenarios of the further management of Gasol drawn up considering the effective amendments to the National Security Law.

On behalf of JSC "Latvijas Gāze",

Chairman of the Board
of the JSC "Latvijas Gāze"



A. Kalvītis