

**Joint Stock Company “Latvijas Gāze”  
COUNCIL REPORT  
for the year 2018**

The first nine months of 2018 saw a further rise in the prices of natural gas on the world markets, followed by a rapid price drop afterwards. The natural gas sales of the Joint Stock Company “Latvijas Gāze” (hereinafter – the Company or Latvijas Gāze) in 2018 reached 1.213 billion m<sup>3</sup>, which, despite the entrance of competition into the natural gas market, was just 6.5% less than in 2017. The Company registered a net profit of 23.2 million EUR, and the net profit of the Latvijas Gāze Group was 25.2 million EUR.

Last year was the first full year of the Latvijas Gāze Group that consists of two segments – the natural gas trading segment operated by the Company and the natural gas distribution segment operated by the Joint Stock Company “Gasos” (hereinafter – Gasos). Early in the year, the Public Utilities Commission (hereinafter – the PUC) found that the unbundling of Gasos had taken place in compliance with the requirements of the Energy Law and Gasos was legally, structurally, functionally and operationally separate from Latvijas Gāze. The PUC also approved new natural gas distribution tariffs, effective since January 1, 2019, for the use of the Latvian distribution network owned and operated by Gasos.

It is important to note that in 2018 the total natural gas quantity supplied by the Company in Latvia accounted for over 90% of the total domestic consumption. Latvijas Gāze also took further efforts to expand its presence in the Lithuanian and Estonian natural gas markets.

Last year saw changes in the composition of both the Council and the Board. Nikolay Dubik resigned from the Council and was replaced by Igor Fedorov. The Council pays gratitude to former Council member N.Dubik for his contribution to the Company’s development. Vice-Chairman of the Board Alexander Frolov resigned, too, and was replaced by Denis Emelyanov. The Council pays thanks to A.Frolov for his work for the Company.

In 2018, during its meetings, the Council discussed the monthly reports on the performance of the Company prepared by the Board, reviewed and accepted the 2017 annual report and the 2019 budgets drafted for both the Company and its newly established subsidiary Gasos which launched operations on December 1, 2017.

In between the Council meetings, much work was done by the Advisory group set up by the Council to deal with the Company’s strategic matters. Before the Council meetings it discussed all the major issues. 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 “Principles of Corporate Governance and Recommendations on the Implementation thereof” issued by the Joint Stock Company “Nasdaq Riga” and 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.

Over the reporting period, the Council regularly received reports by the Board 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 the Company work in compliance with the legislation, the Company's Articles of Association, and the resolutions of the Shareholders' meeting. The Council also verified and accepted the budget submitted by the Company and made proposals for improving the Company's work.

The 2018 annual accounts of the Company and the Group were audited by the international auditor company "PricewaterhouseCoopers" LLC. The Council has received the auditor's reports attesting that the financial statements provide a fair and clear presentation of the JSC "Latvijas Gāze" and its financial results and cash flows in 2018 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, the financial risk management, and the suggestions as to the distribution of the 2018 profit.

The Council of the Company acknowledges the successful performance of the Board and employees in 2018 and wishes success and progress in future as well.

Chairman of the Council

K. Seleznev