

**Joint Stock Company “Latvijas Gāze”
COUNCIL REPORT
for the year 2017**

The year 2017 saw a further rise in the prices of oil and gas on the world markets. The natural gas sales of the JSC “Latvijas Gāze” (hereinafter – the Company) in 2017 reached 1.316 billion m³, which, despite the entrance of competition into the natural gas market, was just 12.7% less than in 2016, and the net profit of Latvijas Gāze Group was 26.0 million EUR.

2017 was a year of changes and transition for the Company. At the beginning of the year, in line with the amendments to the Energy Law adopted by the Saeima of the Republic of Latvia on February 11, 2016, the natural gas storage and transmission segments of the JSC “Latvijas Gāze” were spun-off into the newly founded and fully independent company JSC “Conexus Baltic Grid”. The natural gas trading and distribution business remained with the Company. On April 3, 2017 the Latvian natural gas market was opened to competition, bringing to an end the former monopoly position of the JSC “Latvijas Gāze”. In order to complete the liberalisation of the Latvian gas market and fully comply with the unbundling requirements set out in the Energy Law amendments, on August 15, 2017 the Company’s shareholders took the conceptual decision to transfer the Company’s distribution business into a 100% subsidiary with a separate and fully independent Board and Council. Following the final approval of the shareholders, on November 22, 2017 the Company founded the distribution system operator JSC “Gasos”, which formally launched operations on December 1, 2017.

Since December 1, 2017, the formerly integrated business of the Company is divided into two separate operating segments forming Latvijas Gāze Group (hereinafter – the Group): natural gas sale & trading and natural gas distribution.

Last year saw changes in the composition of both the Council and the Board. J.Tumat, V.Valov and G.Rivron resigned from the Council and were replaced by M.Kohlenbach, N.Dubik and D.S.Harrison. The Council pays gratitude to the former Council members for their contribution to the Company’s development. Members of the Board Zane Kotāne and Gints Freibergs resigned, too, and were replaced by Elita Dreimane. The Council pays thanks to Z.Kotāne and G.Freibergs for their work for the Company.

In 2017, during its meetings, the Council discussed the monthly reports on the performance of the Company prepared by the Board, reviewed and accepted the 2016 annual report and the 2018 budgets drafted for both the Company and its newly established subsidiary, the Joint Stock Company “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 unbundling and related strategic matters. Before the Council meetings it reviewed all the key issues pertaining to the Company’s unbundling. The Council gave directions and recommendations to the Board for the improvement of the Company’s operation. The Council reviewed and recommended for the Shareholders’ meeting to approve changes in the Company’s Articles of Association, accepted the Company’s Spin-off decision and draft Asset distribution deed,

recommended both for review at the Shareholders' meeting, and accepted the Company's Reorganisation prospectus. 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 JSC "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 operation, 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 2017 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 2017 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 2017 profit.

The Council of the Company acknowledges the successful performance of the Board and employees in 2017 and wishes success and progress in future as well.

Chairman of the Council:

K. Seleznev