

JSC Latvijas Gāze COUNCIL REPORT for the year 2016

The year 2016 saw a substantial rise in the prices of oil and gas on the world markets, yet the Latvian consumers only felt it late in the year. Owing to favourable natural gas prices and a cold weather early in the year, the natural gas sales in Latvia were higher than in 2015. Moreover, the JSC “Latvijas Gāze” (hereinafter – the Company) began natural gas trading in the neighbouring countries. Thus, the natural gas sales in 2016 reached 1.507 billion m³, which is 14.4% more than in 2015. The Company’s net profit of 37.5 million euros was its highest ever.

However, the most substantial impact on the Company was that of the amendments to the Energy Law adopted on February 11, 2016 stipulating that by April 3, 2017 the unified transmission and storage company has to be separated from the distribution and trading company and the Latvian gas market has to be opened. The year 2016 was spent taking the necessary actions for the Company’s unbundling, and it was the final year for the Company as a vertically integrated undertaking.

Last year saw changes in the composition of both the Council and the Board. D.Bunyan, U.Fip, E.Karpel, M.Kohlenbach and V.Rusakova resigned from the Council and were replaced by H.P.Floren, O.Ivanov, V.Khatkov, N.Merigo Cook and G.Rivron. The Council pays gratitude to the former Council members, especially the long-standing members E.Karpel and V.Rusakova, for their contribution to the Company’s development. Another resignee was Vice-Chairman of the Board M.Nullmeier who was replaced by Sebastian Groeblichhoff. The Council pays thanks to M.Nullmeier for his work for the Company.

In 2016, during its meetings, the Council discussed the reports on the operation of the Company prepared by the Board, reviewed and accepted the annual report of 2015 and the budget of 2017 drafted for both the Company and its newly established sister company, the Joint Stock Company “Conexus Baltic Grid”, which launched operations on January 5, 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 Demerger 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 Annual Accounts 2016 of the Company 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 2016 in compliance with the International Financial Reporting Standards approved in the European Union. The Council has reviewed and accepted the Board report on the operation of the Company in the reporting year, the financial risk management, and the suggestions as to the distribution of the profit of 2016.

The Council of the Company acknowledges the successful performance of the Board and employees in 2016 and wishes success and progress in future as well.

Chairman of the Council:

K. Seleznev