

Joint Stock Company
“LATVIJAS GĀZE”
Reorganisation Prospectus

Rīga, 1 July 2016

Introduction

The reorganisation prospectus of the Joint Stock Company “Latvijas Gāze” (hereafter, the Prospectus) is prepared in accordance with the requirements of Article 339(1) of the Commercial Law to provide information on the planned reorganisation of the Joint Stock Company “Latvijas Gāze” (hereafter, Latvijas Gāze), describe and explain the provisions of the spin-off decision of Latvijas Gāze (hereafter, the Spin-off Decision) prepared in accordance with Article 338 and Article 355(3) of the Commercial Law, legal and economic aspects of the reorganisation, and provide explanation on the rights of shareholders of Latvijas Gāze in connection with the planned reorganisation.

Reorganisation of Latvijas Gāze is performed in order to comply with the requirements set out in the amendments dated 11 February 2016 to the Energy Law (hereafter, the Energy Law Amendments) in respect to separation of the joint natural gas transmission and storage system operator from Latvijas Gāze.

The Prospectus is prepared and adopted by the Management Board of Latvijas Gāze on 24 May 2016, and the chairman of the Management Board Aigars Kalvītis and members of the Management Board Zane Kotāne and Gints Freibergs have been authorized to sign the Prospectus after Prospectus` approval by the Supervisory Board on 1 July 2016.

Pursuant to the provisions of Article 343.¹ of the Commercial Law, Latvijas Gāze will procure that all documents required under Article 343(3) of the Commercial Law are electronically available by publishing them on its website: www.lg.lv, where it will be possible to download these documents free of charge. Latvijas Gāze will also ensure provision of information regarding reorganisation required under the Law on Financial Instruments Market.

Liaison person for additional information and questions regarding the reorganisation of Latvijas Gāze is the person responsible for investor relations at Latvijas Gāze - Vinsents Makaris, Vagonu iela 20, Riga, LV-1009, tel.: +371 67 369 144, e-mail: IR@lg.lv.

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Definitions used in the Prospectus

List of Shareholders	List of shareholders of the Acquiring Company which shall be prepared after adoption of the Reorganisation Decision and which shall specify those shareholders of Latvijas Gāze who have voted for the Reorganisation Decision as well as those who before the adoption of the Reorganisation Decision have expressed in writing their intention to become shareholders of the Acquiring Company in accordance with the Regulation on Application for Shares.
Stock Exchange	The sole licensed organiser of the regulated market of financial instruments in Latvia – Joint Stock Company “Nasdaq Riga”, registered with the Commercial Register under No. Nr. 40003167049.
Energy Law Amendments	“Amendments to the Energy Law” adopted by the Parliament (<i>Saeima</i>) of the Republic of Latvia and published in the official publisher “Latvijas Vēstnesis” No.37 (5609) 23.02.2016., official publication number: 2016/37.1.
Acquiring Company	Newly incorporated joint stock company “Conexus Baltic Grid” established in the process of reorganisation of Latvijas Gāze.
Commercial Register	Aggregation of information and documents comprised of entries and files of the Commercial Register. The Commercial Register is maintained by the Republic of Latvia Register of Enterprises in accordance with the Commercial Law and Law on the Republic of Latvia Register of Enterprises.
Assets	Assets owned by Latvijas Gāze which are comprised of tangible assets (for instance, equipment, real estate, office furniture, funds etc.) and intangible assets or rights (for instance, claims against debtors, rights in rem), as well as other economic benefits (valuables) which are used by Latvijas Gāze as a business entity for storage and transmission of natural gas, and liabilities of Latvijas Gāze (for instance, commitments of Latvijas Gāze as a business entity) incurred by Latvijas Gāze in relation to storage and transmission of natural gas.
Asset Distribution Deed	Asset Distribution Deed No. ___ dated 2 September 2016 of Latvijas Gāze describing the Assets of Latvijas Gāze to be separated and transferred to the Acquiring Company, which are necessary for ensuring business operations related to storage and transmission of natural gas.
Regulation on Application for Shares	Regulation published on the website of Latvijas Gāze (section “Company reorganisation” at www.lg.lv) regarding the procedure under which the shareholders of Latvijas Gāze may apply for shares of the Acquiring Company, approved by the Management Board of Latvijas Gāze on 8 June 2016.
Notice to Creditors	Notice of Latvijas Gāze to the creditors regarding adoption of the Reorganisation Decision which shall be published in the official publisher “Latvijas Vēstnesis” as provided for in Article 345(2) of the Commercial Law.

Reorganisation Decision	Decision of the meeting of shareholders of Latvijas Gāze regarding reorganisation of Latvijas Gāze and approval of the Spin-off Decision.
Effective Date of Reorganisation	Reorganisation of Latvijas Gāze resulting in spinoff of the Acquiring Company pursuant to the provisions of Article 350(1) of the Commercial Law shall take effect as of the moment the entries regarding Latvijas Gāze and Acquiring Company are made in the Commercial Register.
Spin-off Decision	Draft spin-off decision prepared by the Management Board of Latvijas Gāze to replace the reorganisation agreement pursuant to Article 338 and Article 355(3) of the Commercial Law, approved by the Supervisory Board of Latvijas Gāze at the meeting held on 1 July 2016.

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SECTION A. TERMS AND CONDITIONS OF THE SPIN-OFF DECISION AND EXPLANATION THEREOF

1. Type of Reorganisation

1.1. Type of Reorganisation: Spin-off

Pursuant to Article 355(3) of the Commercial Law, where as a result of division of a company, a new acquiring company is established and no other existing company is involved in the reorganisation, the divided company adopts the Spin-off Decision which replaces the reorganisation agreement referred to in Article 338 of the Commercial Law.

The Spin-off Decision provides that Latvijas Gāze shall be reorganised by way of spin-off, where Latvijas Gāze is the divided company.

Reorganisation of Latvijas Gāze shall be performed pursuant to Article 336(4) of the Commercial Law by separating part of the assets of Latvijas Gāze required for the storage and transmission of natural gas. In the process of reorganisation, the assets shall be transferred to the Acquiring Company.

After reorganisation Latvijas Gāze shall continue to exist and operate, while retaining at its disposal part of the assets required for the supply and distribution of natural gas.

1.2. Decision of Shareholders on Commencement of Spin-off Process

Pursuant to the requirements of the Energy Law Amendments, at the extraordinary meeting of shareholders held on 22 March 2016 the shareholders of Latvijas Gāze decided to start preparations for reorganisation of Latvijas Gāze, establishing the following key principles of reorganisation:

- 1) to approve the “sister company” model as the reorganisation model of Latvijas Gāze;
- 2) to approve commencement of the spin-off process of Latvijas Gāze as provided for by the Energy Law, by separating from the Company the lines of business operations referred to in Article 111(1) of the Energy Law as a result of reorganisation under the procedure set out in the Commercial Law and establishing that:
 - a) the Acquiring Company shall be a joint stock company;
 - b) all existing shareholders of Latvijas Gāze may become shareholders of the Acquiring Company under the procedure provided for by the Commercial Law.

The aforementioned decision of the meeting of shareholders of Latvijas Gāze means that Latvijas Gāze will transfer the Assets to the newly incorporated company by way of spin-off, establishing an independent legal entity (i.e., the Acquiring Company) and procuring that all shareholders of Latvijas Gāze have the right to become shareholders of the Acquiring Company pursuant to the provisions of Article 355(4) of the Commercial Law, while retaining their shareholding in Latvijas Gāze.

2. Share Capital of Latvijas Gāze

2.1. The Existing Share Capital

The share capital of Latvijas Gāze is EUR 55,860,000 (fifty-five million eight hundred sixty thousand *euros*), divided into 39,900,000 (thirty-nine million nine hundred thousand) shares with a par value of each share EUR 1.40 (one *euro* and forty cents).

2.2. Shares

All shares of Latvijas Gāze are the shares of the same class granting equal voting rights at the meetings of shareholders of Latvijas Gāze and equal rights to receipt of dividends and liquidation quota.

25,328,520 (twenty-five million three hundred twenty-eight thousand five hundred twenty) shares of Latvijas Gāze are bearer shares which are listed on the Stock Exchange

By the date of preparation of the Prospectus, Latvijas Gāze has issued the following shares:

Class of Shares	% of the Share Capital	Number of Shares
Registered (private placement) shares	36.52	14,571,480
Bearer (public offering) shares	63.48	25,328,520
Total:	100.00	39,900,000

2.3. Shareholders

Shareholders of Latvijas Gāze:

Shareholders	% of the Share Capital	Number of Shares
Uniper Ruhrgas International GmbH	18.26	7,285,740
Marguerite Gas I S.à r.l.	28.97	11,560,645
Limited Liability Company "ITERA Latvija"	16.00	6,384,001
PAS "Gazprom"	34.00	13,566,701
Republic of Latvia (held by the Ministry of Economics)	less than 0,01	117
Bearer shares of unidentified shareholders	2.77	1,102,796
Total:	100.00	39,900,000

2.4. Stock Exchange

As of 15 February 1999 the shares of Latvijas Gāze are listed on the Stock Exchange and as of 1 August 2004 the supply code (ticker) of the shares is GZE1R. The total number of securities has not changed since 1999:

ISIN	LV0000100899
Stock Exchange Ticker	GZE1R
List	Secondary list
Par value	1.40 EUR
Total number of securities	39,900,000
Number of publicly traded securities	25,328,520
Liquidity providers	None

2.5. Amount of the Share Capital after Reorganisation

The assets remaining after reorganisation of Latvijas Gāze and the expected cash flow will be sufficient to avoid reduction of the share capital of Latvijas Gāze and, therefore, the Spin-off Decision does not provide for and in relation to the reorganisation it is not proposed to the shareholders of Latvijas Gāze to decide on reduction of the share capital.

Furthermore, the reorganisation shall not be deemed to be an event referred to in the second sentence of Article 271 or Article 331(2) of the Commercial Law where an obligation to reduce the share capital of a company is incurred.

3. Acquiring Company and Its Share Capital

3.1. Company Name, Registered Address and Share Capital

Following the spin-off of Latvijas Gāze, a new legal entity – Acquiring Company – will be registered with the Commercial Register. The company name of the Acquiring Company (name used in business operations) will be the Joint Stock Company “Conexus Baltic Grid” and it shall have its registered address at 6 Aristida Briāna street, Riga, LV-1001.

The Spin-off Decision provides that the share capital of the Acquiring Company shall not exceed EUR 39,900,000 (thirty-nine million nine hundred thousand *euros*).

The par value of one share of the Acquiring Company shall be EUR 1 (one *euro*). All shares of the Acquiring Company shall be dematerialised registered shares bearing equal rights to receive dividends and liquidation quota and to vote at the meeting of shareholders.

Each shareholder of Latvijas Gāze that will be included in the List of Shareholders will receive the same number of the shares in the Acquiring Company as are held by him or her in Latvijas Gāze.

The precise amount of the share capital of the Acquiring Company and the number of shares will be determined by the Management Board of Latvijas Gāze after preparation of the List of Shareholders.

3.2. Asset Valuation

Pursuant to the provisions of Article 377(1) of the Commercial Law, valuation of the Assets of Latvijas Gāze to be transferred to the Acquiring Company shall be performed, in order to determine their sufficiency for incorporation of the Acquiring Company.

Valuation of the Assets shall be performed and a written opinion shall be rendered by a person who examined the Spin-off Decision. The decision dated 22 March 2016 of the extraordinary meeting of shareholders of Latvijas Gāze states that SIA “Grant Thornton Baltic” (Sworn Auditor Company Licence No.155) has been elected as the sworn auditor for examination of the Spin-off Decision (and performance of relating activities under the procedure stipulated by the Commercial Law). Consequently, this sworn auditor company will also perform valuation of the Assets to determine their sufficiency for incorporation of the Acquiring Company.

All shareholders of Latvijas Gāze have the right to get acquainted with the opinion on valuation of the Assets on Latvijas Gāze website (section “Company reorganisation” at www.lg.lv) at least one month prior to the planned date of the meeting of shareholders of Latvijas Gāze regarding approval of the Spin-off Decision. The shareholders also have the right to download the auditor’s opinion free of charge.

The auditor’s opinion will be attached to the application to the Register of Enterprises regarding reorganisation of Latvijas Gāze.

4. Transfer of Assets

4.1. Composition of Assets

In the process of reorganisation of Latvijas Gāze, the Assets required for business operations relating to storage and transmission of natural gas will be separated and transferred to the Acquiring Company. In order to cover the foundation capital of the Acquiring Company and to meet the requirements of the Energy Law Amendments, the following assets of Latvijas Gāze will be separated on the basis of the Asset Distribution Deed:

- 1) fixed assets ensuring technological processes at Inčukalns underground gas storage (technological equipment, well, buildings and structures, piping, etc.);
- 2) buffer gas required for operation of Inčukalns underground gas storage;

- 3) fixed assets required for natural gas transmission operations (technological equipment, well, buildings and structures, piping);
- 4) intangible investments (IT software) required for natural gas transmission and storage operations;
- 5) natural gas in pipelines – required for transmission operations;
- 6) fixed assets required for management operations of the Acquiring Company (including the building at 6 Aristida Briāna street, Riga);
- 7) accounts receivable and other short-term assets directly attributable to natural gas transmission and storage operations;
- 8) liabilities – revaluation reserve for the fixed assets to be transferred to the Acquiring Company;
- 9) liabilities – deferred expenses relating to the EU projects within the scope of which the natural gas transmission or storage assets were built;
- 10) liabilities – deferred corporate income tax liability arising from the transferred fixed assets;
- 11) liabilities – commitments in respect to payments under the collective agreement with the transferred employees;
- 12) liabilities – other short-term commitments directly attributable to natural gas transmission and storage operations;
- 13) liabilities – other equity reserves attributable to natural gas transmission and storage operations.

The Spin-off Decision stipulates that the Acquiring Company shall take over all rights and obligations of Latvijas Gāze attributable to the Assets and segregated types of business operations, including the rights and obligations resulting from the agreements concluded between Latvijas Gāze and third parties in respect to the Assets. These agreements are listed in the electronic register created by Latvijas Gāze “List of Agreements to be Transferred to TSO”.

The Asset Distribution Deed lists the real estate and those movables of Latvijas Gāze to be transferred to the Acquiring Company, which are registered in the public registers.

The amount of funds (cash) to be transferred to the Acquiring Company shall be determined according to the spin-off balance sheet of Latvijas Gāze (hereafter, the Spin-off Balance Sheet) approved by the Management Board of Latvijas Gāze.

Other Assets of Latvijas Gāze to be transferred to the Acquiring Company shall be identified pursuant to the description of the transferable Assets provided in the Asset Distribution Deed, the Spin-off Balance Sheet and its transcript. Latvijas Gāze and the Acquiring Company will provide full composition (detailed list) of the Assets in the delivery and acceptance certificate (see Sub-section 4.4 of the Prospectus).

4.2. Segregation of the Assets in the accounting records of Latvijas Gāze

Although Latvijas Gāze is currently operating as a joint natural gas undertaking, all transactions are reflected in its accounting records as per the lines of business operations. Each of them has a separate balance sheet.

The balance sheet of the transmission and storage business of Latvijas Gāze shall serve as the basis for identification and valuation of the assets to be transferred to the Acquiring Company as a result of reorganisation.

As a result of reorganisation, the Acquiring Company will take over the natural gas transmission and storage business – an independent part of the undertaking as an aggregation or property for the purposes of Article 18 of the Commercial Law. The independent part of the undertaking is transferred in its respective full economic composition comprised of assets and liabilities.

Requirements of Article 12(2) of the Energy Law regarding segregation of internal accounting for each type of natural gas business also provide for accounting of liabilities (including commitments towards clients and contractors). Accounting records regarding business transactions of Latvijas Gāze will be used for identification and valuation of the assets and liabilities to be transferred to the Acquiring Company as a result of reorganisation.

4.3. Recognition of the Assets and Transactions in the accounting records of the Acquiring Company

In accordance with the Spin-off Decision, transactions entered into by Latvijas Gāze in relation to the Assets shall be deemed the transactions of the Acquiring Company in the accounting records of the Acquiring Company as of the next business day following the Effective Date of Reorganisation.

4.4. Procedure for Transfer of Property Recorded in the Public Registers and Other Parts of the Assets

Latvijas Gāze will transfer the Assets to the Acquiring Company on the basis of a delivery and acceptance deed within one month as of the 6 of Reorganisation.

After the Effective Date of Reorganisation, Latvijas Gāze and the Acquiring Company will perform the activities provided for by the law in order to re-register the title to the following items specified in the Asset Distribution Deed in the name of the Acquiring Company:

- 1) real estate – in the Land Register,
- 2) machinery – in the Register of Machinery,
- 3) other vehicles subject to registration – in the State Register of Vehicles and Operators.

4.5. Novation of the Agreements

In the process of reorganisation Latvijas Gāze has assessed all concluded agreements. Jointly with the Acquiring Company it will novate those agreements with third parties that shall be fully or partially transferred to the Acquiring Company and the necessity for novation arises from the provisions of the agreement itself or the applicable laws and regulations. The agreements subject to novation are listed in the electronic register created by Latvijas Gāze “List of Agreements to be Transferred to TSO”.

4.6. Potential or Anticipated Changes in the Composition of Assets Until the Transfer Thereof to the Acquiring Company

Composition of the Assets for the purpose of preparation of the Spin-off Decision was determined on 31 March 2016. During the period of time from determination of composition of the Assets until transfer of the Assets to the Acquiring Company the operations will continue in respect to both the natural gas storage and natural gas transmission businesses, which will affect the composition and value of the Assets to be transferred.

Within the scope of business operations of Latvijas Gāze, the reconstruction and modernisation of the existing assets is being performed thereby creating new assets and increasing value of the existing assets. There are several ongoing capital investment projects in 2016 at Inčukalns, the most significant of which are reconstruction of gas collection point No. 2 and capital repairs of the wells.

In respect to gas transmission, the most significant projects are pipeline and technological equipment reconstruction projects that are implemented throughout the year. Depreciation and amortisation estimates are also being calculated and included in the expenses on a continuous basis in respect of all fixed assets and intangible assets of Latvijas Gāze to be transferred, which reduces the value of these assets.

In accordance with the accounting policy of Latvijas Gāze, buildings, structures and technological equipment are also reflected at their actual value, net of depreciation and impairment. The policy also states that revaluation of assets shall be performed on a regular basis to ensure that their book value does not significantly differ from their actual value. In the beginning of 2016, Latvijas Gāze commenced revaluation of the transmission and storage assets and it is expected that the revaluation will be completed in the 2nd quarter of 2016. The revaluation results will affect the value of the assets to be transferred.

Short-term assets and liabilities of Latvijas Gāze are comprised of short-term claims and commitments that change on a regular basis when payments are made and received for the goods and services. Specific short-term claims and commitments to be segregated will be determined at the moment of transfer of the Assets to the Acquiring Company.

The transferred Assets also include provisions for deferred tax and commitments towards employees that shall be recalculated at the end of each period and will change by the date of transfer of the Assets.

Due to changes in the concrete assets and liabilities subject to transfer, as well as depending on the exact share capital of the Acquiring Company, change will also occur in respect of other positions of the own capital to be transferred.

5. Effects of Reorganisation on the Employees of Latvijas Gāze

5.1. Transfer of Employment Relationships

Considering that as a result of reorganisation the natural gas transmission and storage business of Latvijas Gāze will be transferred to the Acquiring Company, employment relations with those employees of Latvijas Gāze who ensure uninterrupted and safe operation of this business shall also be transferred to the Acquiring Company.

Section 28 “Transfer of Undertaking to Another Person” of the Labour Law governs also events of reorganisation by way of spin-off (Article 117(1) of the Labour Law).

Employees of Latvijas Gāze included in the list “Employees to be transferred to the Joint Stock Company “Conexus Baltic Grid”” approved by the Management Board of Latvijas Gāze will become the employees of the Acquiring Company pursuant to Article 118(1) of the Labour Law, i.e., the respective employment contracts and legal relationships relating thereto will be transferred to the Acquiring Company.

Employment relations shall be transferred to the Acquiring Company as of the Effective Date of Reorganisation. In accordance with Article 118(3) of the Labour Law, Latvijas Gāze shall inform the Acquiring Company of all the rights and obligations arising from the employment relations to be transferred to the Acquiring Company, to the extent known to Latvijas Gāze.

For the purposes of employee interest protection, Article 118(3) of the Labour Law states that the rights and claims of an employee shall not be affected even in the event of the Acquiring Company is not duly informed about the rights and obligations arising from employment relationships transferred to the Acquiring Company.

Reorganisation in itself does not constitute grounds for termination of employment contracts. Latvijas Gāze does not intend to dismiss any employees as a result of reorganisation.

5.2. Information and Consultation

In case of transfer of an undertaking, the Labour Law provides for employee information and consultation measures, the implementation whereof shall be procured by the Management Board of Latvijas Gāze. The Management Board of Latvijas Gāze has commenced provision of information to employees regarding the reorganisation already before approval of the Prospectus. Therefore, in accordance with the provisions of Article 120 of the Labour Law, no later than within one month as of the date of adoption of the Reorganisation Decision all employees of Latvijas Gāze will be duly informed about the reorganisation, the reasons thereof, legal, economic and social consequences of the reorganisation as well as measures which will be taken in respect of the employees as provided for in the Spin-off Decision.

5.3. Collective Employment Agreement

In accordance with the provisions of Article 118(4) of the Labour Law, after the Effective Date of Reorganisation the Acquiring Company shall continue to comply with the provisions of the collective employment agreement previously concluded by Latvijas Gāze and remaining in effect on the Effective Date of Reorganisation until the expiration of the said collective employment agreement or entering into force of a new collective employment agreement, or the moment when the provisions of other collective employment agreement would become applicable. Latvijas Gāze has concluded the Collective Employment Agreement for the years 2014, 2015 and 2016, which was approved at the conference of the employee representatives of Latvijas Gāze on 16 December 2013.

Within a year after the transfer of employees, the collective employment agreement may be amended exclusively for the benefit of employees (Article 118(4) of the Labour Law).

6. Terms of Share Transfer

6.1. Rights to the Shares of the Acquiring Company

The rights of shareholders of Latvijas Gāze to acquire shareholding in the Acquiring Company are provided for in Article 355(4) of the Commercial Law which states that: *“in case of spin-off, only those shareholders of the divided company who have voted for the reorganisation decision or who have expressed in writing their intention to become shareholders of the newly established company before the date of adoption of this decision may become the shareholders of the newly established company.”*

Subject to these requirements of the Commercial Law, all shares in the Acquiring Company will be acquired by those shareholders of Latvijas Gāze, who will vote in favor of the Reorganisation Decision as well as those shareholders of Latvijas Gāze who, by the date of adoption of the Reorganisation Decision, will express in writing their intention to become shareholders of the Acquiring Company. Consequently, each shareholder of Latvijas Gāze has a right to become a shareholder of the Acquiring Company concurrently retaining his or here existing shareholding in Latvijas Gāze.

Procedure for application for the shares of the Acquiring Company is established by the Regulation on Application for Shares, available on Latvijas Gāze website (under section “Company reorganisation” at www.lg.lv). The Regulation on Application for Shares provides for the written form and contains an application form to be filled out by the shareholders and submitted to Latvijas Gāze. Decisions of the meeting of shareholders of Latvijas Gāze may neither amend nor cancel, or in any other manner affect the notification of a shareholder regarding application for the shares of the Acquiring Company.

Shareholders of the Acquiring Company shall acquire the same number of shares of the Acquiring Company as are held by them in Latvijas Gāze. Shareholders of the Acquiring Company and the number of shares of the Acquiring Company held by them shall be specified in the List of Shareholders which will be prepared by the Management Board of Latvijas Gāze after adoption of the Reorganisation Decision. The total number of shares held by the shareholders of Latvijas Gāze indicated in the List of Shareholders will form the share capital of the Acquiring Company.

Pursuant to the Spin-off Decision, persons included in the List of Shareholders shall become the shareholders of the Acquiring Company (and acquire all rights and obligations of the shareholder provided for by the Commercial Law and Articles of Association of the Acquiring Company) as of the Effective Date of Reorganisation.

Shares of the Acquiring Company shall grant the rights to the shareholders of the Acquiring Company to receive dividends after approval of the annual report or business activity report of the Acquiring Company as provided for by the Commercial Law and adoption of the relevant decision of shareholders of the Acquiring Company on distribution of profits and allocation of dividends.

6.2. Share Exchange Ratio

Considering that Latvijas Gāze is reorganised by way of spinoff, as a result whereof a new company is established (i.e., Acquiring Company) and the shareholders of Latvijas Gāze will become the shareholders of the Acquiring Company pursuant to Clauses 6.1 – 6.3 of the Spin-off Decision, there will be no exchange of shares between Latvijas Gāze and Acquiring Company, and the Spin-off Decision does not provide for share exchange ratio and premiums. This procedure complies with the explanation on Article 338(2)(2) and Article 355(3) of the Commercial Law provided in the Explanatory Notice No. 2-5-27332/2 issued by the Republic of Latvia Register of Enterprises on 16 March 2016, which is available to the shareholders from Latvijas Gāze website (under section “Company reorganisation” at www.lg.lv).

7. Rights granted by the Acquiring Company

The Spin-off Decision does not provide that the Acquiring Company grants to the shareholders of Latvijas Gāze any special rights in relation to reorganisation of Latvijas Gāze. This is due to the fact that all shares of Latvijas Gāze are shares of the same class.

Considering that Latvijas Gāze has not issued convertible bonds, there are no bondholders to whom the Acquiring Company could grant any special rights in relation to reorganisation of Latvijas Gāze.

In the process of reorganisation or thereafter, the Acquiring Company will not grant any special rights to the members of the Supervisory Board and Management Board of Latvijas Gāze in relation to this reorganisation.

8. Activities to be Performed in the Reorganisation Process and the Terms Thereof

The Spin-off Decision sets out the activities to be performed in the process of reorganisation of Latvijas Gāze as provided for by the Commercial Law.

8.1. Information of Creditors

Pursuant to Article 345(1) of the Commercial Law, within 15 days as of the adoption of the Reorganisation Decision the Management Board of Latvijas Gāze shall give written notice to that effect to all known creditors of Latvijas Gāze who until the date of adoption of the Reorganisation Decision will have claims against the Latvijas Gāze.

The Management Board shall procure that the official publisher „Latvijas Vēstnesis” publishes the relevant Announcement to the Creditors regarding adoption of the Reorganisation Decision pursuant to the provisions of Article 335(2) of the Commercial Law. The Announcement to the Creditors shall specify:

- 1) firm name, registration number and registered address of Latvijas Gāze;
- 2) firm name and registered address of the Acquiring Company;
- 3) type of reorganisation, i.e., division by way of spin-off;
- 4) date of adoption of the Reorganisation Decision;
- 5) venue for application of creditors' claims – registered address of Latvijas Gāze;
- 6) term for application of creditors' claims – one month as of publication of the announcement.

Latvijas Gāze will secure the creditor's claim if the creditor will so request and provided the claim is applied within one month as of the date of publication of the Announcement to the Creditors. The secured creditor may request security only to the extent of the unsecured portion of the debt.

8.2. Convening the Meeting of Shareholders of the Acquiring Company

The Management Board of Latvijas Gāze shall convene the meeting of shareholders of the Acquiring Company not later than within four months after publication of the Announcement to the Creditors in the official publisher „Latvijas Vēstnesis”. This meeting shall decide on approval of the Articles of Association of the Acquiring Company, elect the Supervisory Board of the Acquiring Company and take other steps required upon establishment of a joint stock company.

Promptly after the meeting of shareholders of the Acquiring Company, the meeting of the Supervisory Board of the Acquiring Company shall be convened, which shall elect the members of the Management Board of the Acquiring Company.

8.3. Notification Regarding Changes in the Financial Position

Pursuant to Article 344 of the Commercial Law, the Management Board of Latvijas Gāze shall inform the meeting of shareholders of Latvijas Gāze and Management Board of the Acquiring Company regarding all material changes in the financial position of Latvijas Gāze which have occurred until the Effective Date of Reorganisation.

In accordance with the Spin-off Decision, changes shall be deemed material if the value of a single transaction or event exceeds EUR 10,000,000 (ten million *euros*).

8.4. Submission of the Application to the Register of Enterprises

Pursuant to the provisions of Article 347(1) of the Commercial Law, the Management Board of Latvijas Gāze shall file an application with the Register of Enterprises to procure that an entry is made in the Commercial Register regarding reorganisation, attaching to the application the following documents:

- 1) Spin-off Decision;
- 2) Excerpt from the minutes of the meeting of shareholders of Latvijas Gāze and Reorganisation Decision;
- 3) List of shareholders of Latvijas Gāze who voted against the reorganisation;
- 4) Prospectus;
- 5) Auditor's Opinion on the Spin-off Decision;
- 6) Auditor's Opinion on sufficiency of assets for incorporation of the Acquiring Company;
- 7) Articles of Association of the Acquiring Company;
- 8) Consent of the members of the Management Board of the Acquiring Company to hold the office;
- 9) Consent of the members of the Supervisory Board of the Acquiring Company to hold the office;
- 10) Notice of the Management Board of the Acquiring Company regarding the registered address;
- 11) List of the members of the Management Board of the Acquiring Company;
- 12) List of the members of the Supervisory Board of the Acquiring Company.

8.5. Licences and Permits of the Acquiring Company

Latvijas Gāze and Acquiring Company shall, in the manner provided for by the laws and regulations, take all steps to procure that the Acquiring Company obtains all permits and licenses required for performance of business operations related to storage and transmission of natural gas.

9. Liability for Commitments of Latvijas Gāze

Article 351(2) of the Commercial Law states that Latvijas Gāze and Acquiring Company shall be jointly and severally liable for the commitments of Latvijas Gāze towards third parties incurred before the Effective Date of Reorganisation.

Pursuant to Articles 1677 – 1690 of the Civil Law, joint and several liability means that the creditor may claim full satisfaction of his claim either from Latvijas Gāze or the Acquiring Company (at the discretion of the creditor). If the Acquiring Company satisfies such claim of the creditor in full, the creditor may no longer claim satisfaction thereof from Latvijas Gāze, whereas if Latvijas Gāze has already satisfied the claim, the Acquiring Company is released from performance of the relevant commitment towards the creditor.

The Spin-off Decision provides that Latvijas Gāze and the Acquiring Company shall separately agree on the procedure for covering the claims of third parties within the scope of their mutual relationship, with the aim to ensure that the Acquiring Company performs only those commitments undertaken by Latvijas Gāze which are transferred to the Acquiring Company along with the other Assets.

* * *

SECTION B. LEGAL ASPECTS OF REORGANISATION

10. Reasons for Reorganisation

On 11 February 2016, the Parliament of the Republic of Latvia adopted amendments to the Energy Law with a reference to the obligation of the Republic of Latvia as a Member State of the European Union to introduce Article 9 of Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC, providing for full segregation of ownership of the gas transmission system from Latvijas Gāze.

This Prospectus deals only with those aspects of the Energy Law Amendments which are essential for understanding of the reorganisation process.

In accordance with the Energy Law Amendments, natural gas storage and transmission business operations shall be segregated from Latvijas Gāze. Pursuant to the Energy Law Amendments, segregation shall be performed in two stages:

1) Stage 1 (legal unbundling) – the Acquiring Company as a separate and legally independent company shall be separated from Latvijas Gāze by 3 April 2017. Statutory basis for Stage 1 is provided for in Article 111, paragraphs 1 and 2, of the Energy Law (in accordance with Section 42 of the Transitional Provisions, in effect as of 3 April 2017) (see Summary of Requirements of the Energy Law (Annex No.1)).

2) Stage 2 (actual business, management and ownership unbundling) – by 31 December 2017, factual independence of the Acquiring Company shall be ensured from both Latvijas Gāze as a natural gas supplier, as well as those shareholders of Latvijas Gāze who either themselves or through the companies controlled by them are engaged in gas production or supply. This requirement of the Energy Law means that the relevant major shareholders of the Acquiring Company incompliant with Energy Law provisions will have to dispose their shares. Requirements in respect of actual independence are set out in detail in Article 111, paragraphs 3, 4 and 5 of the Energy Law (in accordance with Section 44 of the Transitional Provisions of the Energy Law, in effect as of 31 December 2017) (see Annex No.1).

Sections 50 and 56 of the Transitional Provisions of the Energy Law provide that the Acquiring Company shall be formed by way of reorganisation of Latvijas Gāze (see Annex No.1).

Pursuant to the Energy Law Amendments which will take effect as of 1 January 2018, it is further intended to separate natural gas distribution from supply activities; however, such separation will not take place within the scope of the given reorganisation process (i.e., within the reorganisation process described in the Prospectus).

Other major laws and regulations regulating natural gas activities are listed in Annex No.2 to the Prospectus.

11. Rights of Shareholders to Compensation

11.1. Term for Claiming Compensation

Pursuant to Article 353 of the Commercial Law, a shareholder of Latvijas Gāze who does not consent to the reorganisation has a right to request that the Acquiring Company repurchases its shares for cash (compensation) within two months as of the Effective Date of Reorganisation. Compensation can be claimed also by the shareholder of the Acquiring Company who has voted against approval of the Articles of Association of the Acquiring Company.

11.2. Shareholders Entitled to Compensation

The right to request repurchase of their shares vests with those shareholders of Latvijas Gāze that are included in the list of shareholders voting against the Reorganisation Decision. This list shall be attached to the Reorganisation Decision and it shall contain signatures of all shareholders who voted against.

The right to request repurchase of the shares vests also with those shareholders of Latvijas Gāze who are indicated in the minutes of the meeting of shareholders of the Acquiring Company as the shareholders voting against the Articles of Association of the Acquiring Company.

11.3. Amount of Compensation and Moment of Calculation Thereof

Article 353(4) of the Commercial Law states that: *“the amount of compensation shall be equal to the amount that the shareholder would receive upon distribution of the assets of the divided company in case of liquidation if it would occur on the date of adoption of the decision on reorganisation.”*

Restrictions under the Commercial Law in respect to procedure how the company can acquire its shares shall not apply to the compensation.

Calculation of the compensation will be made in accordance with relevant provision of the Commercial Law. Calculation shall be made by an independent financial expert engaged by Latvijas Gāze.

Valuation of the assets in the financial accounting of Latvijas Gāze is made on the basis of going concern. Considering the unique nature of the assets of Latvijas Gāzes and the narrow possibilities to use them outside business operations of Latvijas Gāze, the liquidation value of the assets could be considerably lower than the book value of the assets.

11.4. Procedure for Claiming Compensation

In order to claim the compensation provided for in Article 353 of the Commercial Law, the shareholder of Latvijas Gāze who meets one of the criteria set out in Sub-section 11.2 of this Prospectus shall within the term specified in Sub-section 11.1 of this Prospectus submit the respective written request to Acquiring Company, indicating in his or her bank account number (IBAN) to which the Acquiring Company can transfer the compensation payable to the shareholder.

As of the Effective Date of Reorganisation, the Acquiring Company shall pay statutory interest rate for the compensations not paid when due.

12. Challenge of the Reorganisation Decision

Pursuant to the provisions of Article 346 of the Commercial Law, any shareholder of Latvijas Gāze, as well as a member of the Management Board or Supervisory Board may bring an action in a court asking to declare the Reorganisation Decision null and void provided the following criteria are met:

- 1) Reorganisation Decision is adopted in violation of the law or Articles of Association of Latvijas Gāze; and
- 2) The aforementioned violations cannot be cured or they are not cured within the term set by the court.

Application to the court can be filed within 3 (three) months as of the publication of the Announcement to the Creditors in the official publisher “Latvijas Vēstnesis”.

Latvijas Gāze will submit to the Register of Enterprises an application regarding reorganisation after fulfilment of all requirements set by the Commercial Law, provided the Reorganisation Decision is not challenged or the challenge is unsuccessful.

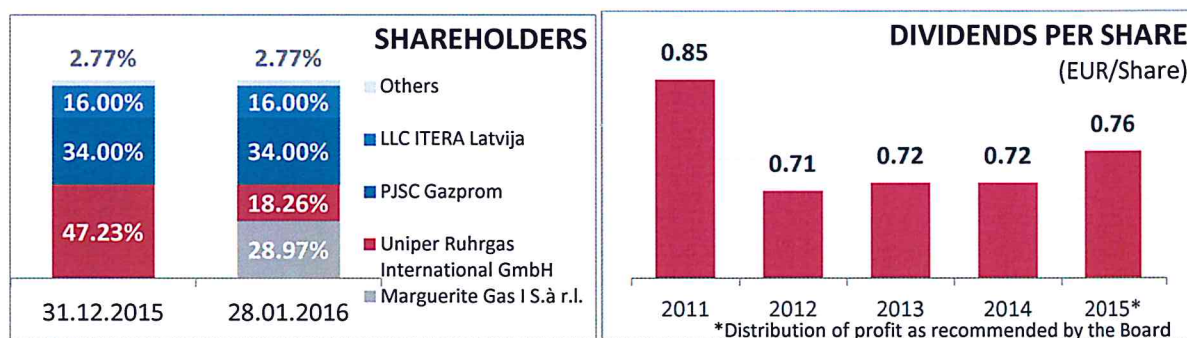
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SECTION C. ECONOMIC ASPECTS OF REORGANISATION

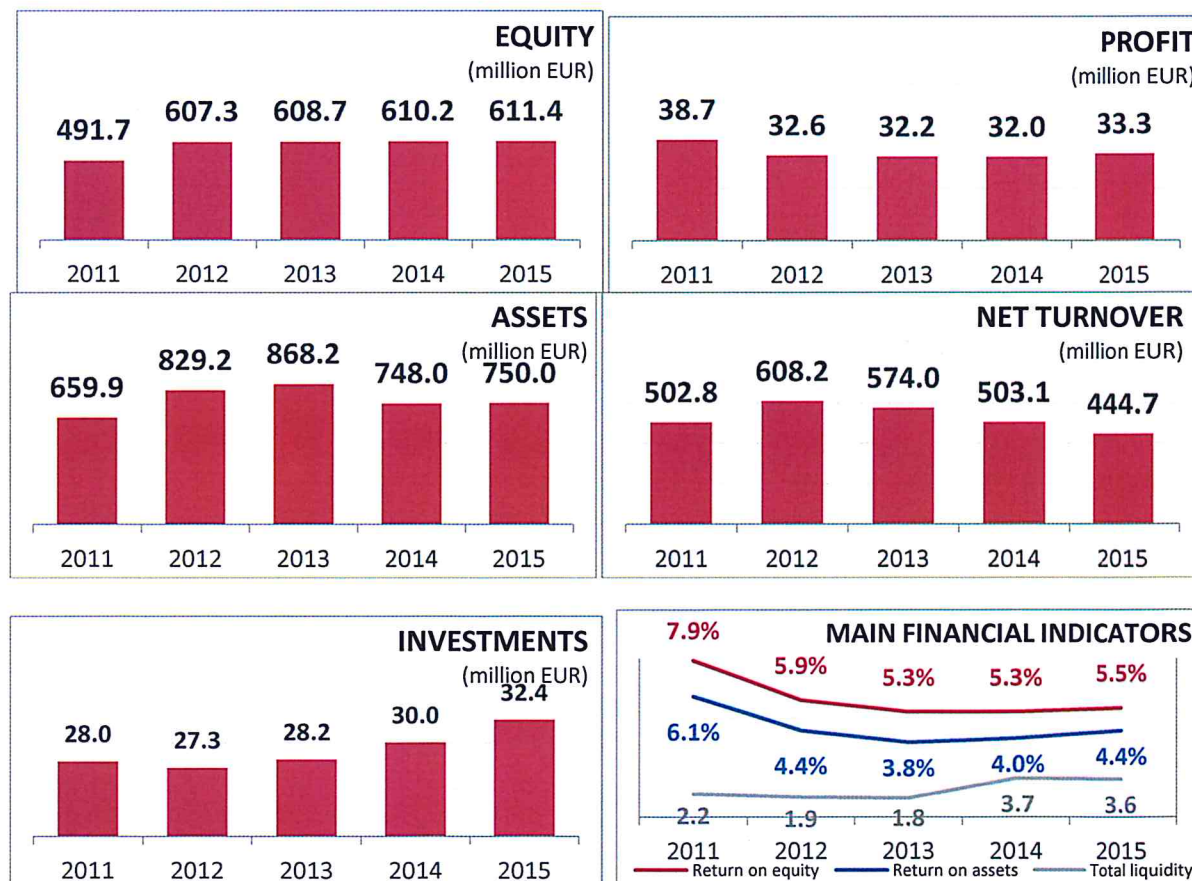
13. Information regarding Latvijas Gāze

Shares of Latvijas Gāze are listed on the Stock Exchange since 15 February 1999. Consequently Latvijas Gāze prepares its financial statements both in accordance with the Law on Annual Accounts of the Republic of Latvia and the requirements of the International Financial Reporting Standards approved in the European Union. Information provided in this section of the Prospectus regarding economic operations and financial results of Latvijas Gāze is prepared in accordance with the Law on Annual Accounts of the Republic of Latvia.

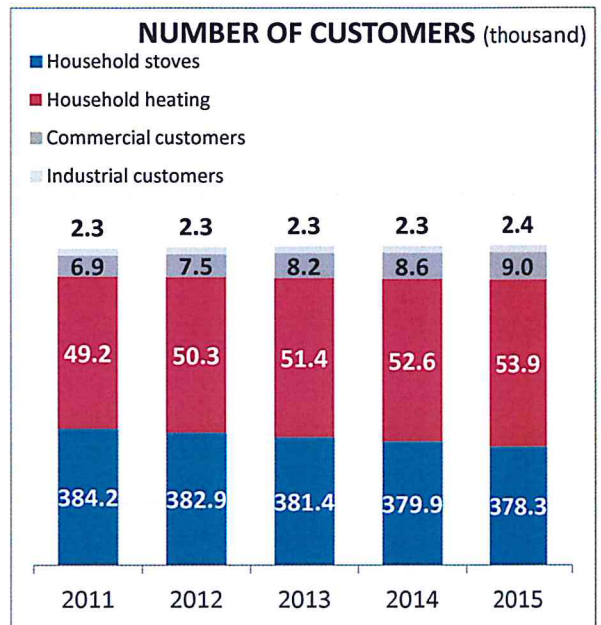
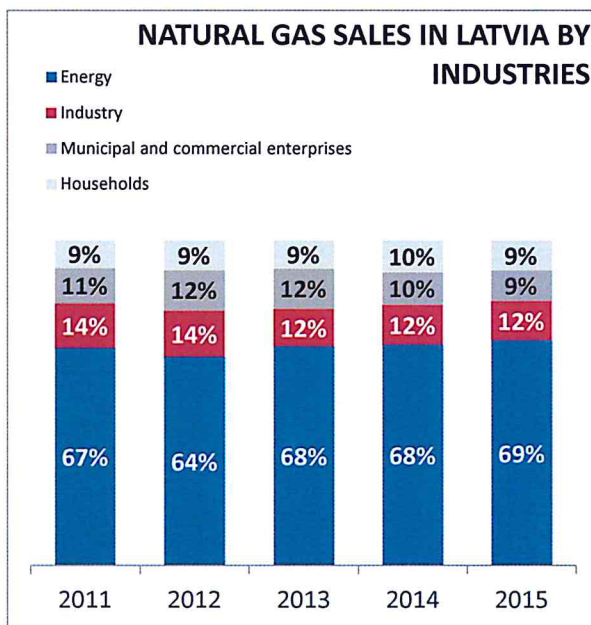
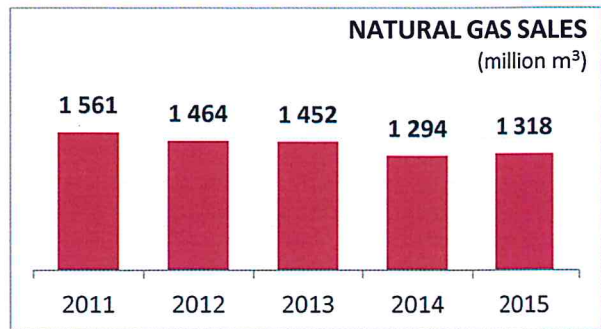
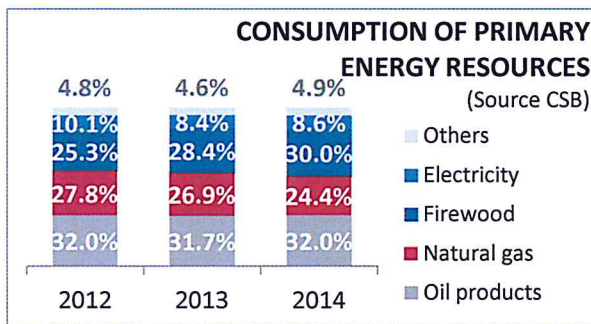
13.1. Shares and Dividends



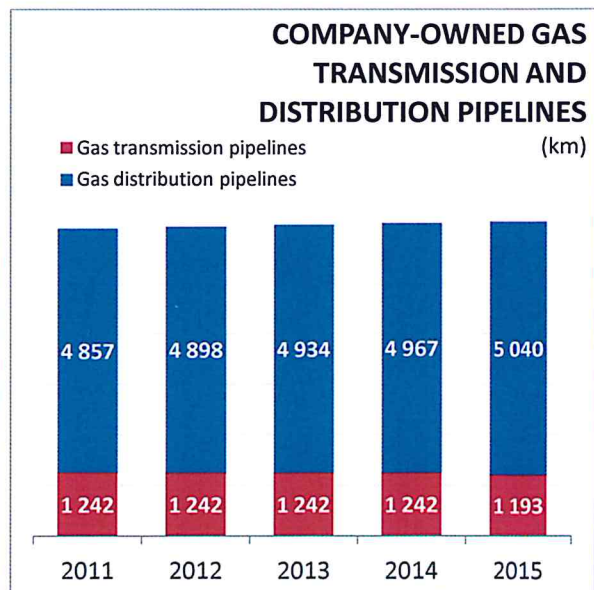
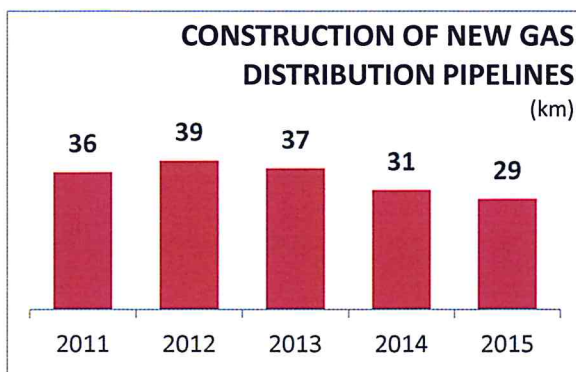
13.2. Financial Indices



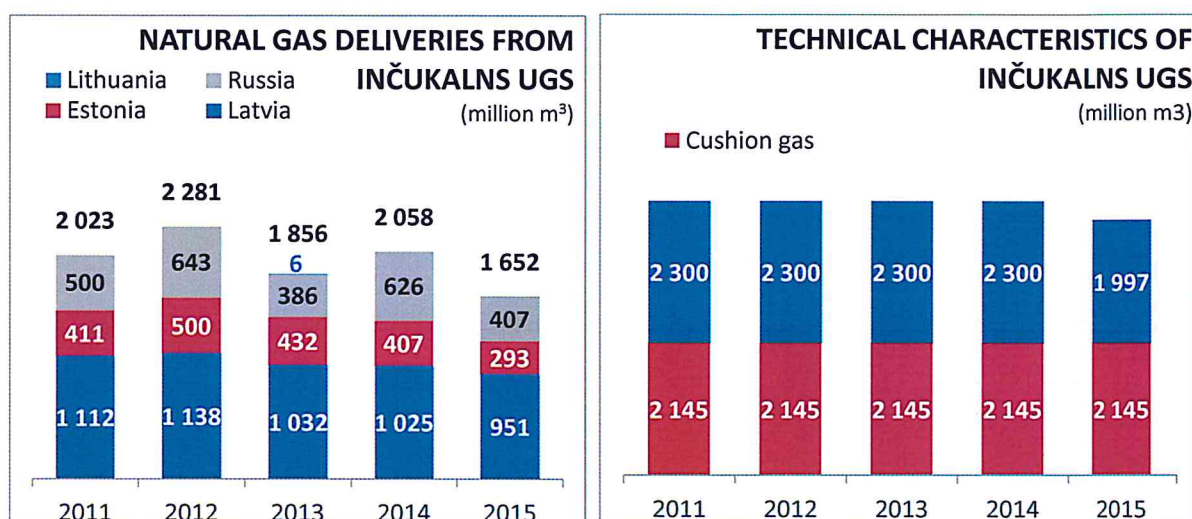
13.3. Natural Gas Market



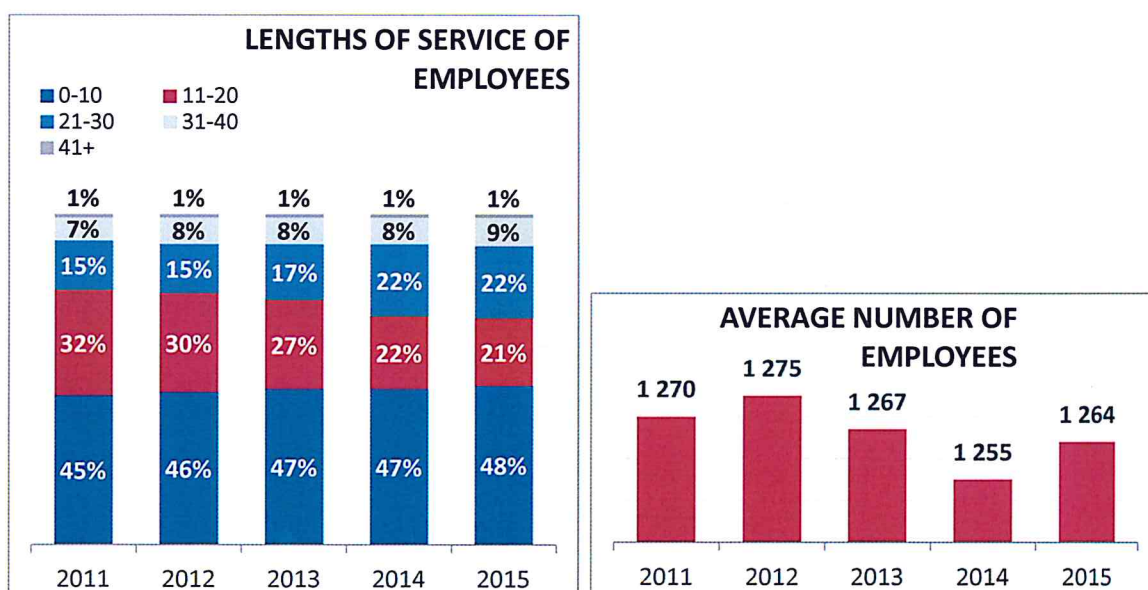
13.4. Transmission and Distribution Systems



13.5. Inčukalns underground gas storage facility (UGSF)



13.6. Employees



Additionally, once each quarter Latvijas Gāze prepares unaudited short-form financial statement in accordance with the requirements of the International Financial Reporting Standards approved in the European Union. These statements are available under section “About JSC Latvijas Gāze” on the website of Latvijas Gāze (http://www.lg.lv/?cmd=par_uznemumu&lang=lat), as well as on the website of the Stock Exchange (<http://www.nasdaqbaltic.com/market/?instrument=LV0000100899&list=3&pg=details&tab=reports>).

14. Effects of Reorganisation on Business Operations of Latvijas Gāze

Reorganisation of Latvijas Gāze is mandatory for compliance with the requirements under the Energy Law Amendments in respect to segregation of the joint natural gas transmission and storage system operator from Latvijas Gāze. Under given circumstances, discretion of shareholders of Latvijas Gāze regarding approval of reorganisation is considerably limited.

Latvijas Gāze is currently operating as a vertically integrated natural gas undertaking that provides natural gas transmission, distribution and storage services, as well as natural gas supply services. As a result of reorganisation, natural gas transmission and storage business lines will be transferred to the Acquiring Company, which shall also ensure independent accounting and management of the company. Reorganisation may have the following effects on the financial results and business operations of Latvijas Gāze:

1) increase in the management costs – at the moment, all businesses of Latvijas Gāze are managed by a single management team and centralized support functions, which ensure the required range of services, including the necessary IT software support. This centralized approach allows reduction of the costs of support functions and management attributable to each line of business. After reorganisation, an increase is expected in the total costs, as well as costs of management and support services attributable to each business. This cost increase may lead to the necessity to increase the tariffs of regulated services in all business segments;

2) as a result of the spinoff, two technical systems – natural gas distribution system and natural gas transmission system – are split into two legal entities, which requires establishment of new operative cooperation principles. This spin-off may have an adverse effect on the operational response time, as well as lead to complications in the crisis management;

3) up to now, Latvijas Gāze deployed Inčukalns underground gas storage facility as a primary natural gas supply source and, accordingly, supplied most of the required volumes of natural gas in Latvia using the services of this facility. In future, each supplier will be able to freely choose the sources and types of natural gas supply, which may affect the load indicators of Inčukalns underground gas storage facility and transmission system.

Chairman of the Management Board

A.Kalvītis

Member of the Management Board

Z.Kotāne

Member of the Management Board

G.Freibergs

SUMMARY OF REQUIREMENTS OF THE ENERGY LAW

1. Article 111, paragraphs 1 and 2 of the Energy Law (in accordance with Section 42 of the Transitional Provisions, shall take effect as of 3 April 2017):

“(1) There shall be a joint natural gas transmission and storage system operator operating in Latvia, who shall:

- 1) own the assets required for of natural gas transmission operations (including transmission system);
- 2) own Inčukalns underground gas storage facility or a part thereof, or shall have it transferred into its use for the period of the corresponding license.

(2) The joint natural gas transmission and storage system operator or the natural gas transmission system operator shall be the energy supply undertaking, segregated from the natural gas production and supply activities and electricity production and supply activities, and not included in the composition of the vertically integrated natural gas supply undertaking or vertically integrated electricity supply undertaking.”

2. Article 111, paragraphs 3, 4 and 5 of the Energy Law (in accordance with Section 44 of the Transitional Provisions, shall take effect as of 31 December 2017):

“(3) To ensure the independence of the joint natural gas transmission and storage system operator and in order to effectively prevent any conflict of interests between the joint natural gas transmission and storage system operator and the energy undertakings engaged in production or supply in natural gas or electricity, the following conditions shall be complied with:

- 1) one and the same person or persons, who directly or indirectly control the energy supply undertaking engaged in the natural gas or electricity production or supply, may not directly or indirectly control the joint natural gas transmission and storage system operator, natural gas transmission system or Inčukalns underground gas storage facility, or to exercise rights in the joint natural gas transmission and storage system operator;
- 2) one and the same person or persons, who directly or indirectly control the joint natural gas transmission and storage system operator or Inčukalns underground gas storage facility, may not directly or indirectly control the energy supply undertaking engaged in the natural gas or electricity production or supply, or exercise rights in such merchant;
- 3) one and the same person may not appoint the members of the supervisory board, management board or such bodies of the joint natural gas transmission and storage system operator, which are entitled to represent the joint natural gas transmission and storage system operator or the natural gas transmission system, or Inčukalns underground gas storage facility, as well as may not directly or indirectly control the natural gas supply undertaking engaged in the natural gas production and supply, or to exercise the rights in such undertaking and may not directly or indirectly control the electricity supply undertaking engaged in electricity production and supply, or to exercise any rights in such undertaking;
- 4) one and the same person may not become the member of the supervisory board, management board or such bodies, which are entitled to represent the joint natural gas transmission and storage system operator, neither in the natural gas supply undertaking engaged in the natural gas production and supply, nor in the electricity supply undertaking engaged in the electricity production and supply, nor in the joint natural gas transmission and storage system operator or the natural gas transmission system, or Inčukalns underground gas storage facility;

5) if a person referred to in Sub-sections 2, 3 or 4, paragraph 3 of this Article is the Republic of Latvia, then one and the same public administration authority may not control the energy undertaking engaged in the natural gas or electricity production and supply, and the joint natural gas transmission and storage system operator or the natural gas transmission system, or Inčukalna underground gas storage facility;

6) the joint natural gas transmission and storage system operator may not transfer the commercial and confidential information referred to in Article 15, paragraph 4 of this Law, obtained by it when acting as part of the vertically integrated undertaking, at the disposal of such natural gas supply undertaking which is engaged in the natural gas production or supply.

(4) To ensure independence of the natural gas transmission system operator, the following conditions shall be complied with:

- 1) one and the same person or persons who directly or indirectly control the energy supply undertaking engaged in the natural gas or electricity production or supply, may not directly or indirectly control the natural gas transmission system operator or natural gas transmission system, or to exercise rights in the natural gas transmission system operator;
- 2) one and the same person or persons who directly or indirectly control the natural gas transmission system operator or natural gas transmission system may not directly or indirectly control the energy supply undertaking engaged in the natural gas or electricity production or supply, or exercise rights in such undertaking;
- 3) one and the same person may not appoint the members of the supervisory board, management board or such bodies of the natural gas transmission system operator, which are entitled to represent the natural gas transmission system operator or the natural gas transmission system, as well as may not directly or indirectly control the natural gas supply undertaking engaged in the natural gas production and supply, or to exercise the rights in such undertaking, and may not directly or indirectly control the electricity supply undertaking engaged in electricity production and supply, or to exercise rights in such undertaking;
- 4) one and the same person may not become the member of the supervisory board, management board or such bodies which are entitled to represent the natural gas transmission operator, neither in the natural gas supply undertaking engaged in the natural gas production and supply, nor in the electricity supply undertaking engaged in the electricity production and supply, nor in the natural gas transmission system operator or the natural gas transmission system;
- 5) if a person referred to in Sub-sections 2, 3 or 4, paragraph 3 of this Article is the Republic of Latvia, then one and the same public administration authority may not control the energy supply undertaking engaged in the natural gas or electricity production and supply, and the natural gas transmission system operator or the natural gas transmission system;
- 6) the natural gas transmission system operator may not transfer the commercial and confidential information referred to in Article 15, paragraph 4, of this Law obtained by it when acting as a part of the vertically integrated undertaking, at the disposal of such natural gas supply undertaking which is engaged in the natural gas production or supply;
- 7) the natural gas transmission system operator owns the assets required for natural gas transmission operations (including transmission system).

(5) Requirements of sub-sections 1, 2, 3 and 4 of paragraph 3 of this Article and sub-sections 1, 2, 3 and 4 of paragraph 4 of this Article shall not apply to financial institutions which hold shares in the joint natural gas transmission and storage system operator or the transmission system operator and energy supply undertaking engaged in the natural gas or electricity production or supply, if the supervision of these financial institutions and special purpose vehicles is carried out by the competent financial and capital market supervisory authority of the Republic of Latvia, another European Union

Member State, Member State of the European Economic Area, or the Member State of the Organisation for Economic Cooperation and Development, and if it is determined that the operations of these financial institutions and special purpose vehicles do not create a conflict of interest between the joint natural gas transmission and storage operator or the natural gas transmission system operator and energy supply undertaking engaged in the natural gas or electricity production or supply.”

3. Article 112 of the Energy Law (in accordance with Section 42 of the Transitional Provisions, shall take effect as of 3 April 2017):

“In addition to the provisions of Article 15 of this Law, the joint natural gas transmission and storage system operator shall have the following obligations:

- 1) to ensure safe, efficient and economically beneficial operation of the natural gas transmission system, technical operation and development thereof;
- 2) to ensure the natural gas supply to the distribution system in accordance with reasonable request of the natural gas distribution system operators;
- 3) to ensure the management of natural gas flows within the natural gas transmission system in accordance with technical capabilities and in compliance with conditions not permitting the discrimination for the receipt of natural gas from foreign countries and transmitting thereof to foreign countries;
- 4) to ensure the operation, technical exploitation and development of Inčukalns underground gas storage facility, in order to provide the natural gas depository services;
- 5) to store the natural gas stock owned by separate energy users at the expense of such users, if permitted by technical capabilities of Inčukalns underground gas storage facility;
- 6) to ensure procedures and operation not discriminating the system users or system users of separate categories;
- 7) to ensure information necessary to other natural gas transmission system operators, natural gas storage system operators, liquefied natural gas system operators and natural gas distribution system operators so that transportation and storage of natural gas could be performed without endangering safe and efficient operation of mutually interconnected systems;
- 8) to provide to the natural gas transmission system users the information necessary for efficient access to the transmission system and Inčukalns underground gas storage facility;
- 9) to ensure sufficient cross-border transmission capacities, in order to integrate into the European natural gas transmission system infrastructure, fulfilling all economically justified and technically implementable requirements related to the safety of the system capacity supply;
- 10) to inform the regulator on all circumstances, due to which any person or persons from the third country or third countries could obtain control over the natural gas transmission system or natural gas transmission system operator;
- 11) to inform the regulator on all planned transactions, due to which their conformity to the certification requirements would have to be repeatedly assessed;
- 12) to conform to transparent and non-discriminating market procedures, upon procuring natural gas for performance of its functions;
- 13) to implement the cooperation of the natural gas transmission system operators at the European and regional level;
- 14) to organize the localization and liquidation of accidents in the natural gas transmission system and Inčukalns underground gas storage, as well as to perform preventive measures;
- 15) to communicate with third parties and the regulator;
- 16) to represent the natural gas transmission system operator in the European network of the gas transmission system operators;

17) collect all payments related to the natural gas transmission and storage system, inter alia, access fee, balancing fee and fee for ancillary services;

18) to ensure the protection of such restricted access information, which it, in fulfilling its obligations, has received from the system users and market participants.”

4. Article 113 of the Energy Law (in accordance with Section 42 of the Transitional Provisions, shall take effect as of 3 April 2017):

“In addition to the provisions of Article 15 of this Law, the natural gas transmission system operator shall have the following duties:

- 1) to ensure safe, efficient and economically beneficial operation of the natural gas transmission system, technical operation and development thereof;
- 2) to ensure the natural gas supply to the distribution system in accordance with reasonable request of the natural gas distribution system operators;
- 3) to ensure the management of natural gas flows within the natural gas transmission system in accordance with technical capabilities and in compliance with conditions not permitting the discrimination for the receipt of natural gas from foreign countries and transmitting thereof to foreign countries;
- 4) to ensure procedures and operation not discriminating the users or system users of separate categories;
- 5) to ensure information necessary to other natural gas transmission system operators, natural gas storage system operators, liquefied natural gas system operators and natural gas distribution system operators so that transportation and storage of natural gas could be performed without endangering safe and efficient operation of mutually interconnected systems;
- 6) to provide to the natural gas transmission system users the information necessary for efficient access to the transmission system and Inčukalns underground gas storage facility;
- 7) to ensure sufficient cross-border transmission capacities, in order to integrate into the European natural gas transmission system infrastructure, fulfilling all economically justified and technically implementable requirements related to the safety of the system capacity supply;
- 8) to inform the regulator on all circumstances, due to which any person or persons from the third country or third countries could obtain control over the natural gas transmission system or the natural gas transmission system operator;
- 9) to inform the regulator on all planned transactions, due to which their conformity to the certification requirements would have to be repeatedly assessed;
- 10) to conform to transparent and non-discriminating market procedures, upon procuring natural gas for performance of its functions;
- 11) to implement the cooperation of the natural gas transmission system operators at the European and regional level;
- 12) to organize the localization and liquidation of accidents in the natural gas transmission system and Inčukalns underground gas storage, as well as to perform preventive actions;
- 13) to communicate with the third parties and the regulator;
- 14) collect all payments related to the natural gas transmission system, inter alia, access fee, balancing fee and fee for ancillary services;

15) to ensure the protection of such restricted access information, which it, in fulfilling its obligations, has received from the system users and market participants.”

5. Section 50 and 56 of the Transitional Provisions of the Energy Law:

“50. Re-registration of newly established entities formed as a result of reorganisation of the Joint Stock Company "Latvijas Gāze" in the data bases of public direct administration bodies, local governments and autonomous public authorities shall be done free of charge. Licenses provided for in this Law shall be issued to the newly established entities formed as a result of reorganisation of the Joint Stock Company "Latvijas Gāze" free of charge.

56. A newly established entity formed as a result of reorganisation of the Joint Stock Company "Latvijas Gāze", being the assignee of the obligations of the natural gas transmission system operator, shall be bound by the decisions on distribution of investment costs which, until the segregation of the natural gas transmission system operator, have been adopted in accordance with Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009.”

Chairman of the Management Board

A.Kalvītis

Member of the Management Board

Z.Kotāne

Member of the Management Board

G.Freibergs

Annex No.2

to the Reorganisation Prospectus of the Joint
Stock Company „Latvijas Gāze”

MAJOR LAWS AND REGULATIONS GOVERNING NATURAL GAS ACTIVITIES

In its operations, Latvijas Gāze shall comply and operate in accordance with the following laws and regulations governing natural gas supply:

- 1) Energy Law of 3 September 1998;
- 2) Law on Public Utilities Regulators of 19 October 2000.

In its operations, Latvijas Gāze shall comply and operate in accordance with the following directly applicable regulations of the European Union governing natural gas activities:

- 1) Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators;
- 2) Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005;
- 3) Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC;
- 4) Regulation No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency;
- 5) Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009;
- 6) Regulation (EU) No 256/2014 of the European Parliament and of the Council of 26 February 2014 concerning the notification to the Commission of investment projects in energy infrastructure within the European Union, replacing Council Regulation (EU, Euratom) No 617/2010 and repealing Council Regulation (EC) No 736/96.

Chairman of the Management Board

A.Kalvītis

Member of the Management Board

Z.Kotāne

Member of the Management Board

G.Freibergs