

Joint Stock Company
“LATVIJAS GĀZE”
Reorganisation Prospectus

Riga, 12 th of July, 2017

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 natural gas distribution system operator from Latvijas Gāze.

The Prospectus is prepared and adopted by the Management Board of Latvijas Gāze on June 20, 2017, 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 July 12, 2017.

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, Rīga, LV-1009, tel.: +371 67 369 144, e-mail: IR@lg.lv.

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Definitions used in the Prospectus

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 “Gasos” 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 and intangible assets or rights, as well as liabilities of Latvijas Gāze (for instance, commitments of Latvijas Gāze as a business entity) designated in the Asset Distribution Deed and, on the basis of that deed, in the Spin-off Balance Sheet.
Asset Distribution Deed	Asset Distribution Deed No. ___ dated 15 th of August 2017 of Latvijas Gāze describing the Assets of Latvijas Gāze to be separated and transferred to the Acquiring Company.
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 July 12, 2017.

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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. 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 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 16 June 2017 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 “daughter 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 line of business operations referred to in Article 45(2) of the Energy Law (distribution of natural gas) 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) the sole shareholder of the Acquiring Company is Latvijas Gāze itself.

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).

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 II 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 “Gasol” and it shall have its registered address at Vagonu street 20, Riga, LV-1009.

The Spin-off Decision provides that the share capital of the Acquiring Company will be 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.

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 16 June 2017 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 natural gas distribution activities 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) Intangible investments (IT software) required for the operation of the natural gas distribution;
- 2) Intangible assets (IT software) required for management processes of the Acquiring Company;
- 3) fixed assets required for natural gas distribution operations (technological equipment, well, buildings and structures, piping);
- 4) fixed assets required for management operations of the Acquiring Company (including the building at 20 Vagonu street, Riga);
- 5) savings directly attributable to activities for natural gas distribution;

- 6) funds needed to ensure operating processes of the Acquiring Company for four-month period, with adjustment for amount in debtor and short-term, directly attributable to activities for natural gas distribution;
- 7) liabilities – revaluation reserve for the fixed assets to be transferred to the Acquiring Company;
- 8) liabilities – received long term funds directly attributable to activities for natural gas distribution;
- 9) liabilities – deferred income tax liabilities arising from the divisible assets;
- 10) liabilities – commitments in respect to payments under the collective agreement with the transferred employees.

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 type 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 DSO”.

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.

As a result of reorganisation, the Acquiring Company will take over the natural gas distribution 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 analytical accounting of liabilities (including commitments towards clients and contractors). Accounting analytical 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 date which shall be indicated as the starting day to provide the services in the license issued by the Public Utilities Commission to the Acquiring Company.

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 the Management Board of Latvijas Gāze “List of Agreements to be Transferred to Joint Stock Company “Gasos””.

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 March 31, 2017. 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 natural gas distribution 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.

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.

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 distribution 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 “Gaso”” 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. 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, and whose application, in accordance with its terms, has been extended to year 2017.

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. 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 and that the sole shareholder of the Acquiring Company will be Latvijas Gāze itself.

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.

7. 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.

7.1. 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.

7.2. 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.

7.3. 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*).

7.4. 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.

7.5. 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 distribution of natural gas.

8. Liability for Commitments of Latvijas Gāze

Solidary liability of Latvijas Gāze and the Acquiring Company for the liabilities of Latvijas Gāze is determined in accordance with provisions of Articles 20, 351 and 356 of the Latvian Commercial Law.

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SECTION B. LEGAL ASPECTS OF REORGANISATION

9. 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 26 of Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC, providing for segregation of gas distribution 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 distribution business operations shall be segregated from Latvijas Gāze (Articles 45(2) and 45(3) of the Energy Law, coming into force on January 1, 2018 – Section 31 of the Transitional Provisions)

Section 50 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).

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

10. Rights of Shareholders to Compensation

10.1. 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.

10.2. 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.

10.3. 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 provisions of the Commercial Law.

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.

10.4. 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 the criteria set out in Sub-section 10.2 of this Prospectus shall within the term specified in Sub-section 10.1 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.

11. 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.

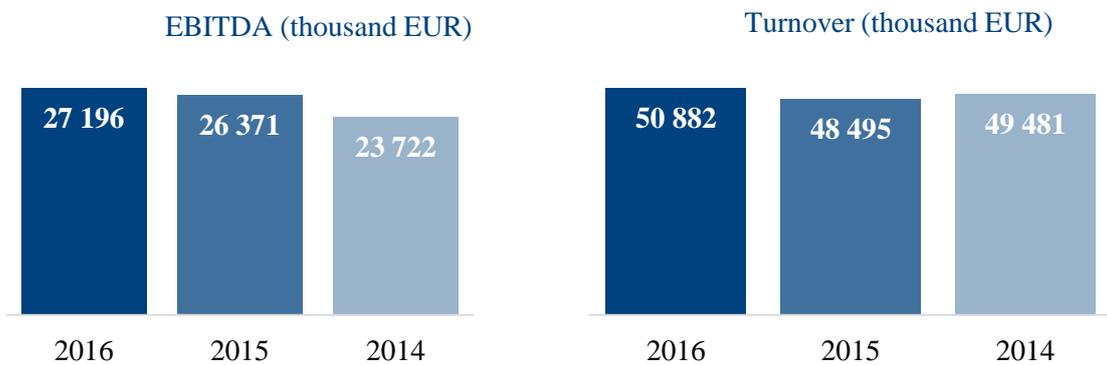
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SECTION C. ECONOMIC ASPECTS OF REORGANISATION

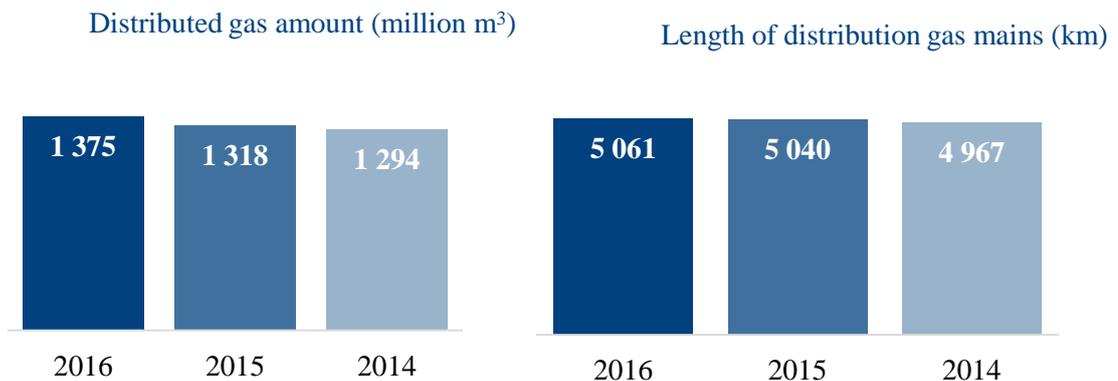
12. Information regarding Latvijas Gāze (with respect to natural gas distribution activities)

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.

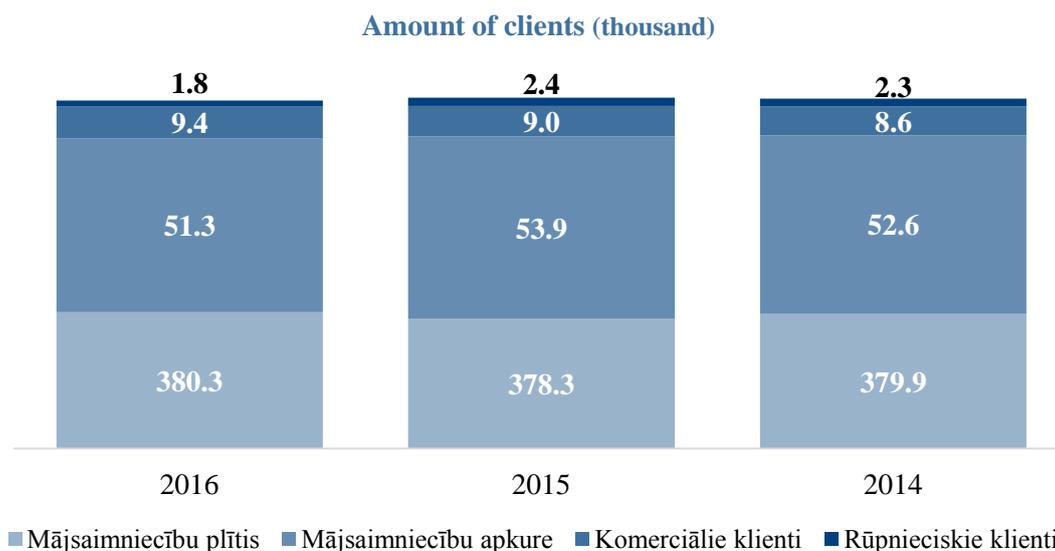
12.1. Financial figures for distribution activities



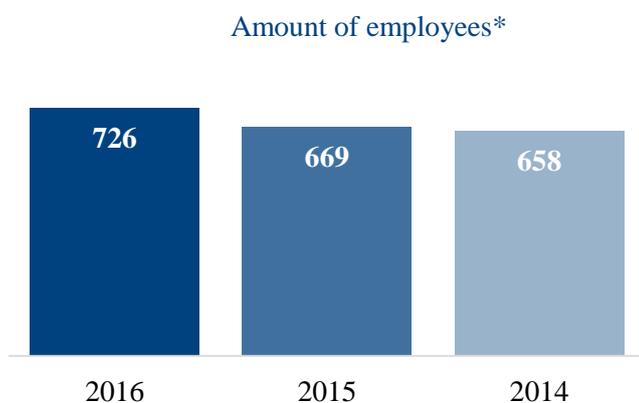
12.2. Amount of distributed gas and length of distribution gas mains



12.3. Amount of clients



12.4. Amount of employees



*The figures indicate amount of employees directly involved in distribution activities

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>).

13. 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 natural gas distribution 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 trade and distribution services. As a result of reorganisation, natural gas distribution business line 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: 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.

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 45, paragraphs 2 and 3 of the Energy Law (in accordance with Section 31 of the Transitional Provisions, shall take effect as of 1 January 2018):

“(2) If a natural gas distribution system operator is in the structure of a vertically integrated energy supply merchant, such operator shall be a separate capital company with the status of an independent legal person and decoupled from natural gas production, transmission, storage and liquefied natural gas service provision and trading activities, and it shall ensure in its communication and brand formation that its identity is decoupled from the identity of the trading structure of the vertically integrated natural gas supply merchant.

(3) To ensure the independence of the natural gas distribution system operator referred to in Paragraph two of this Section, the following conditions shall be observed:

1) persons who are responsible for the management of the natural gas distribution system operator may not become involved in the structures of a vertically integrated natural gas merchant, which directly or indirectly are responsible for natural gas production, transmission, storage, liquefied natural gas service provision and trade;

2) appropriate measures shall be performed in order to ensure that persons, who are responsible for the management of the natural gas distribution system operator may act independently;

3) the natural gas distribution system operator has the right to take decisions independently of the vertically integrated energy supply merchant in relation to assets, which are needed for the operation, maintenance or development of the natural gas distribution network. This shall not prohibit the vertically integrated energy supply merchant from establishing relevant co-ordination mechanisms in order to ensure the protection of the economic rights of the dominant merchant in relation to the return on the existing assets at the disposal of dependent merchants;

4) the natural gas distribution system operator shall draw up a conformity programme in which duties of specific employees are determined, as well as such measures are determined, which should be taken in order to prevent discriminatory actions, and which ensure appropriate control over introduction of the abovementioned programme. The natural gas distribution system operator shall appoint a person or determine a structural unit which is responsible for the control of the implementation of the conformity programme, and shall submit, on an annual basis, a report to the regulator regarding the measures taken and publish such report. After evaluation of the report the regulator shall provide an opinion on sufficiency of the measures taken for ensuring independence. The natural gas distribution system operator shall eliminate the deficiencies indicated in the opinion of the regulator within the time period stipulated by the regulator.”

2. Section 50 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.”

Chairman of the Management Board

A.Kalvītis

Member of the Management Board

Z.Kotāne

Member of the Management Board

G.Freibergs

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 (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;
- 3) Regulation No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency;
- 4) 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;
- 5) 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
Member of the Management Board
Member of the Management Board

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Z.Kotāne
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