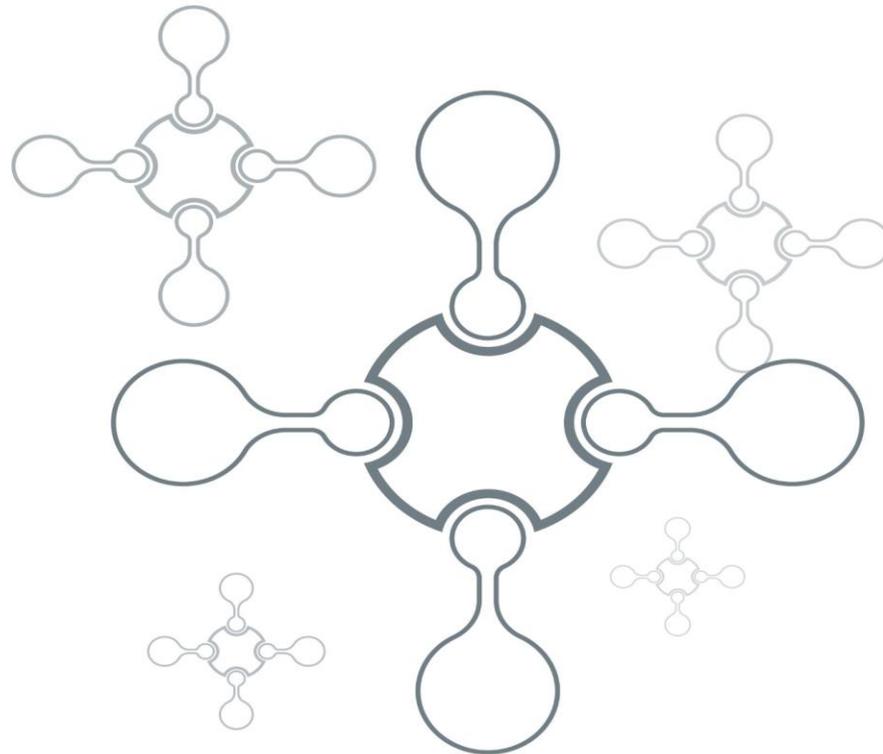


WEBINAR OF THE JSC (AS) “LATVIJAS GĀZE”



Zane Kotāne
Board Member
On 14 August 2017

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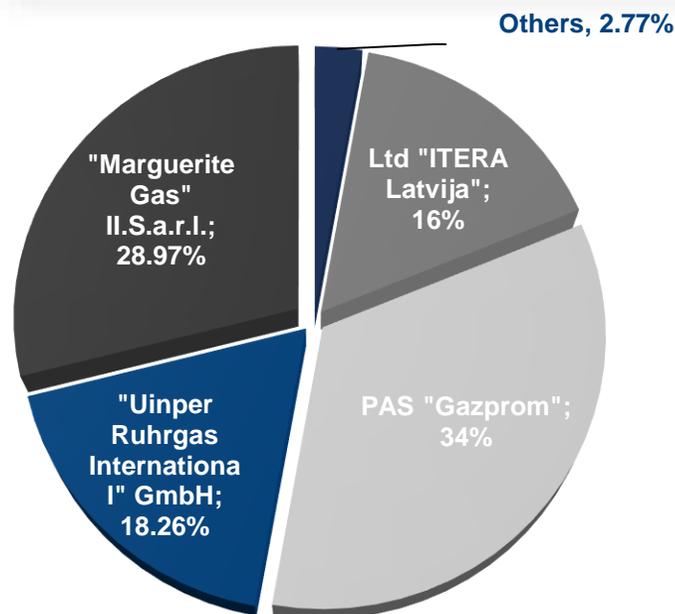
CONTENTS

- Performance of LG in the first half of 2017
- Reorganization

DESCRIPTION OF THE JSC “LATVIJAS GĀZE”

- LG in 2017:
 - natural gas trader in Baltic region
 - distribution system operator in Latvia
- The first part of the reorganization was completed in early 2017. The results for the first half of 2017 do not include operations from the Transmission and Storage segments
- The results of 2016 are reflected without the Transmission and Storage segments

SHAREHOLDERS OF THE JSC "LATVIJAS GĀZE"



- Listed at Stock Exchange since 1999
- 2.77% of shares in active trade
 - 10 mln EUR capitalization in active trade
- 6th most valuable company in the Baltic States after the capitalization in 2017
 - *Nasdaq Riga*
- Included in three trade indexes
 - *OMX Baltic; OMX Riga; OMX Baltic Energy*
- Annual payout of dividends since 1997
- National Security Law requirements:
 - Affects the Distribution system operator
 - Persons with at least 10 % holding must receive a permit from the Cabinet of Ministers
 - After the reorganization, LG must receive a permit for a transfer of the Distribution operator or their holding to another person.

	2015	2016	2017 H1
NUMBER OF TRANSACTIONS	1 283	2 240	875
NUMBER OF TRADED SHARES	136 627	229 363	110 313
% OF THE TOTAL NUMBER OF SHARES*	0.54%	0.91%	0.44%

* shares in public issue

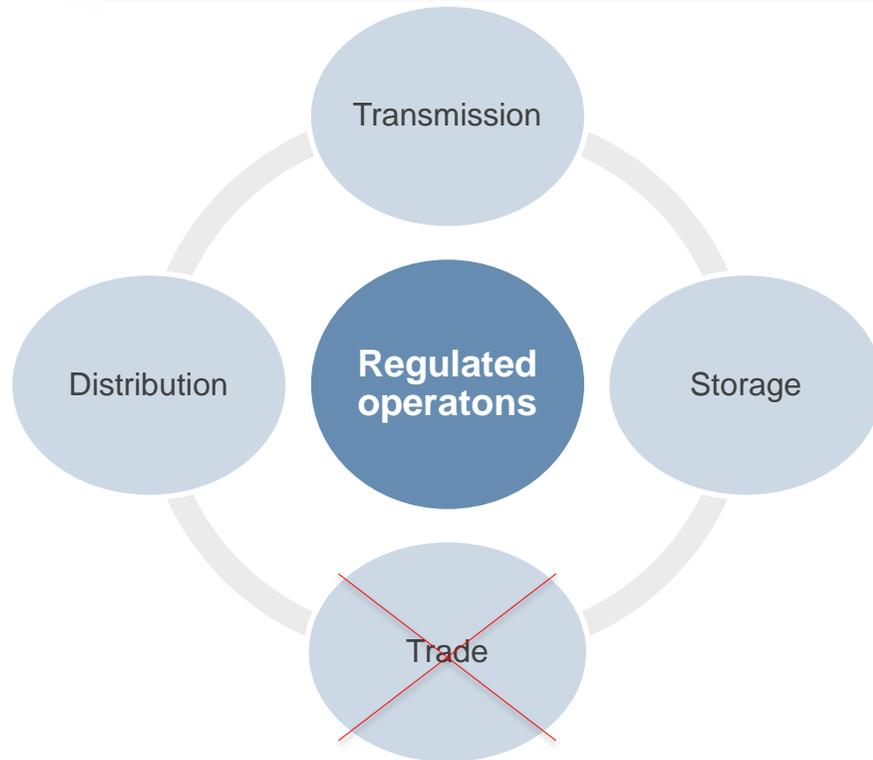
OPERATING ENVIRONMENT AND REGULATION - CUSTOMERS

Transition period



- During the transitional period, customers have the opportunity to continue paying a regulated natural gas price
- *De facto* for commercial clients the market opened on July 1
- On July 1, 12 thousand costumers become market participants. Their annual consumption on average are 90 % from Latvia`s total natural gas consumption
- After January 1, 2019, all customers receive natural gas at market price

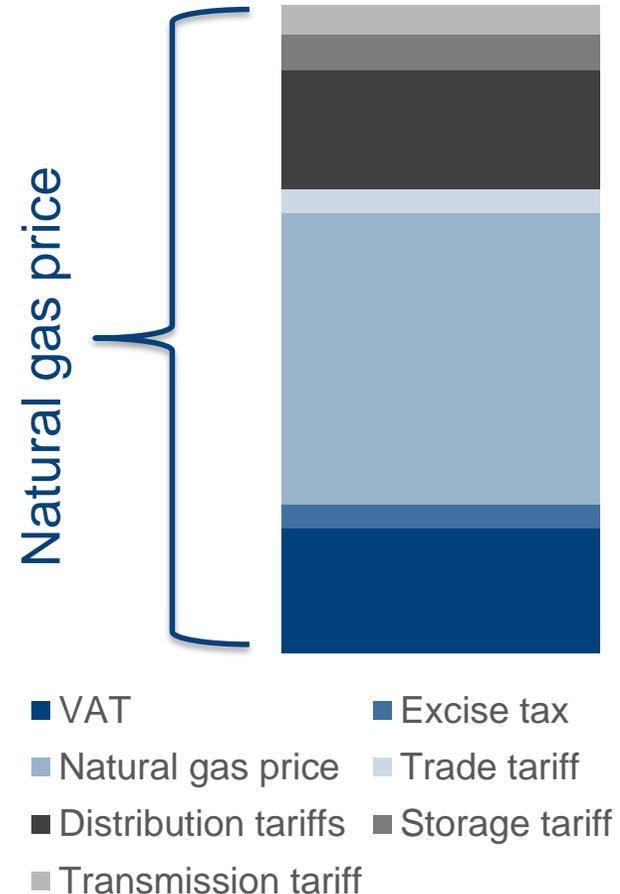
REGULATION FOR INFRASTRUCTURE SERVICES



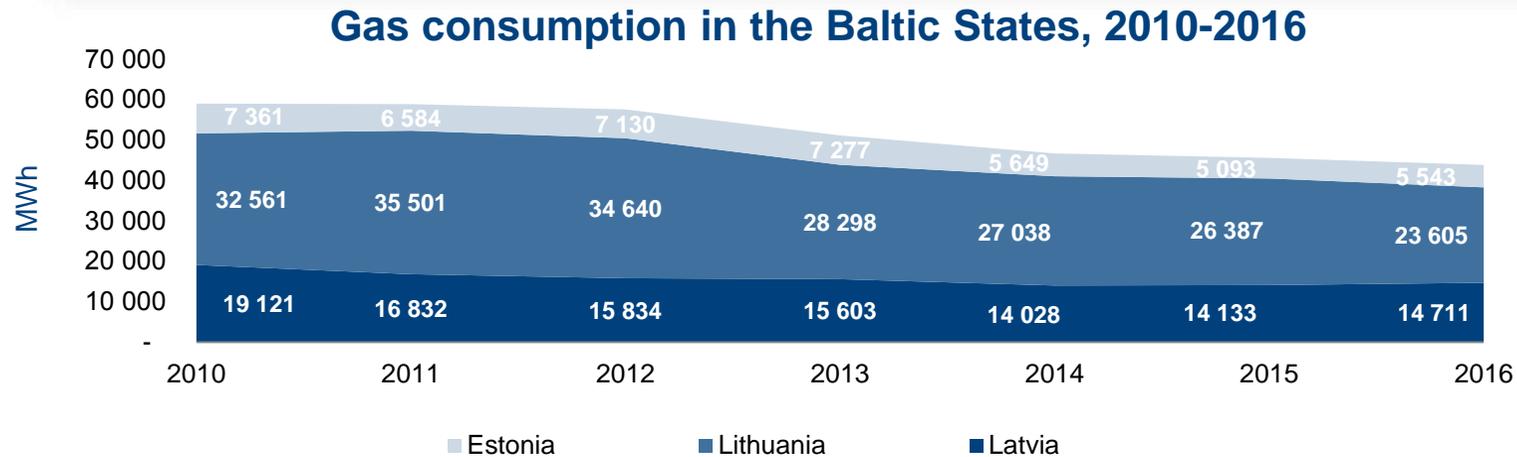
- After the opening of the natural gas market in Latvia, there are 3 regulated activity segments related to the natural gas infrastructure
 - New tariff methodologies were adopted for all infrastructure segments in 2017, but tariffs changed only for the natural gas transmission segment - new tariffs came into force on July 1, 2017
 - The methodology foresees that the new storage tariffs should be submitted for review by 15 November 2017, while the new tariffs for distribution until 15 February 2018
-
- In order to comply with the Energy Law requirements, the natural gas distribution system operator and the natural gas trader will be separated until January 1, 2018

RELATED USERS – HOUSHOLDS

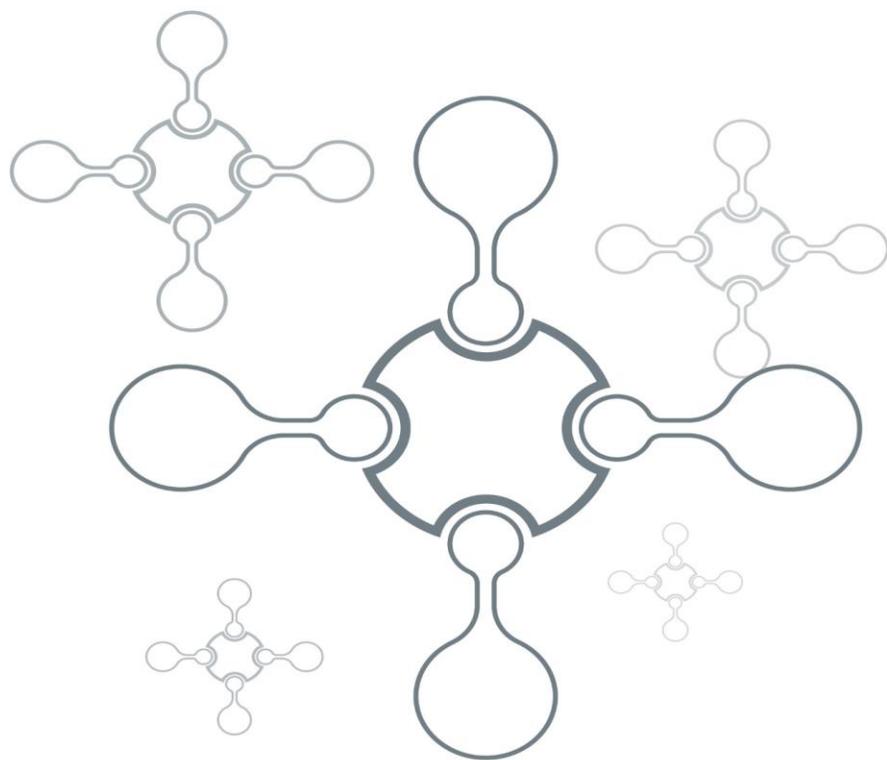
- The largest customer segment - 431 thousand users
- LG serves related costumers
- After opening the market, households may continue paying for natural gas under tariffs regulated by PUCs (unlike with the market price, the PUC applies a regulated trade tariff)



NATURAL GAS MARKET



- The natural gas market of the Baltic States has decreased in the last 6 years by 26%
- Lithuania is the largest gas consumer among the Baltic States
- Significant sales representative in the region
 - 34% of the Baltic market in 2016



Performance in the first half of 2017

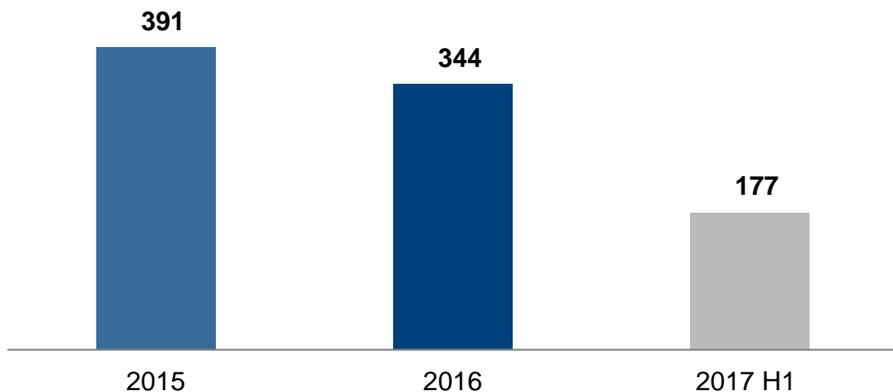
KEY INDICATORS

Key financial indicators (thousand EUR)	2017 6M	2016 6M*	Key performance indicators	2017 6M	2016 6M*
Net turnover	177 336	181 902	LG natural gas trade, MWh	7 668	8 040
EBITDA	23 977	28 622	Natural gas consumption in Latvia, MWh	7 679	8 117
EBITDA, %	13.5	15.7	Number of clients, thousand	443	444
Net profit	14 140	18 584	Average number of employees	963	935
Net profitability, %	8.0	10.2	Length of distribution lines, km	5 066	5 047
Profit per share, EUR	0.35	0.47			
Total assets	418 586	442 290			
		(31.12.2016)			

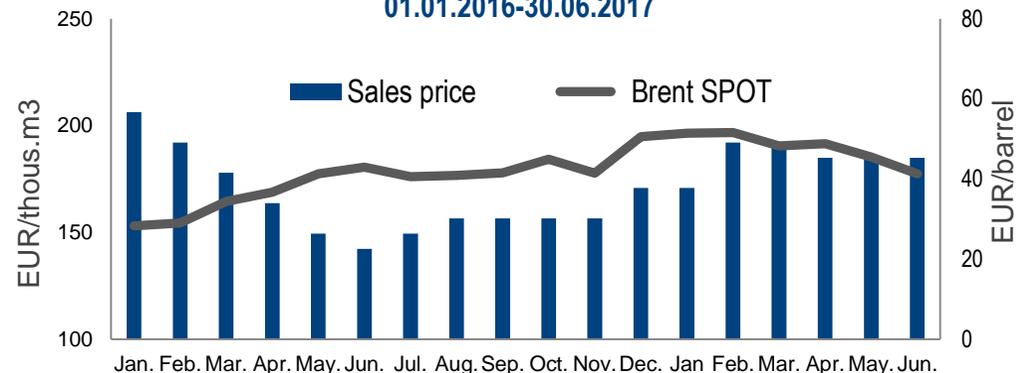
- Factors that affects LG`s results:
 - Natural gas consumption -6%
 - Business reorganization, which doubles functions and costs
 - Market opening - new features; customer communication and additional costs

REVENUE OF THE JSC “LATVIJAS GĀZE”

Net turnover (mln EUR)



Brent spot and natural gas prices
01.01.2016-30.06.2017

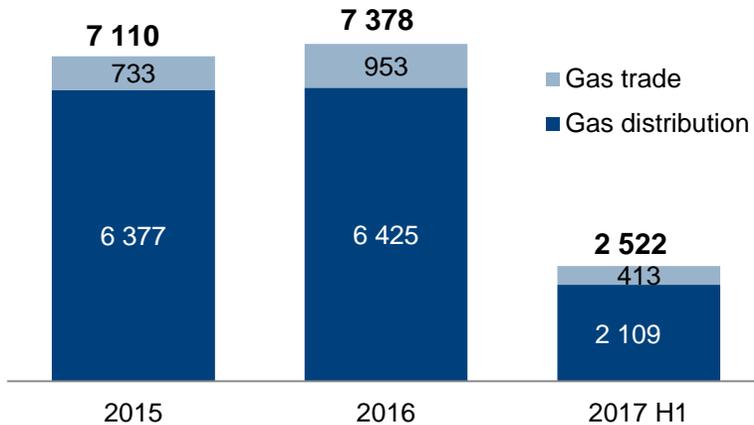


- Revenue decreases due to low prices in the global oil markets in the most active period of the heating season
 - Consumers will be applied a regulated sales price in Latvia up to the moment of opening of the market
- The average air temperature in the most active period of the heating season in 2017 is higher than a year before
- The volume sold in the first half of 2016 exceeds the volume sold in the first half of 2017 by 4.2%

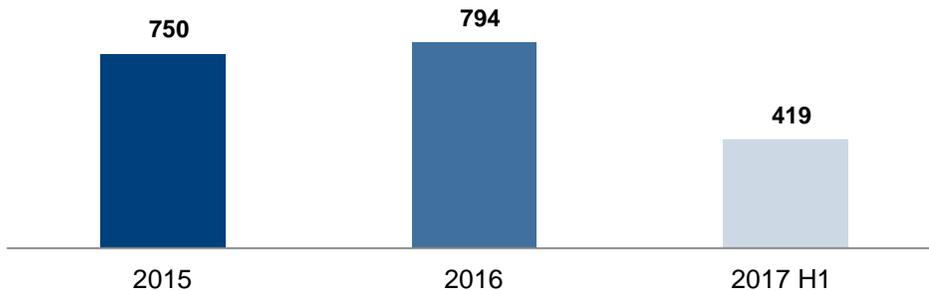
* The performance of 2016 excludes the performance of discontinuing operations

CAPITAL INVESTMENT PROGRAMME

Capital Investments (thous. EUR)



Assets (mln EUR)

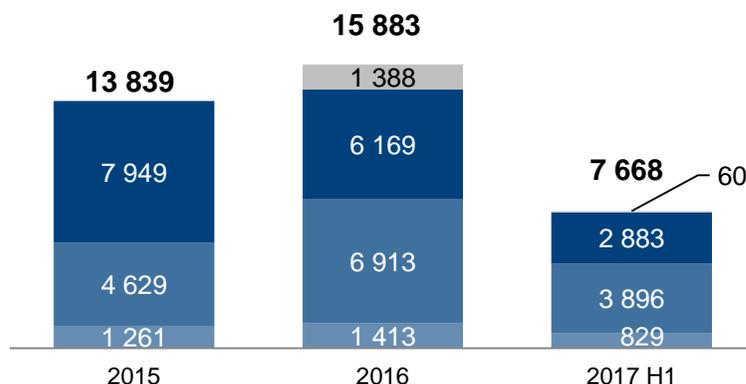


- Investments focus on the improvement of operational safety
- Investment directions (2017 H1):
 - Distribution gas pipelines – 35%
 - IT infrastructure – 33%
 - Technological equipment – 18%
- Largest projects (2015-2017 H1):
 - Building and reconstruction of shut-off devices – 5.0 mln EUR
 - Construction of new distribution gas pipelines – 2.3 mln EUR
 - Reconstruction of electric protection equipment – 1.6 mln EUR
- Long-term assets account for 56% of the total assets
- Assets are under regular revaluation
 - Revaluation of assets was started in 2017

TRADE

Trade Volume (MWh)

- Trade in other countries
- Commercial clients- large customers
- Commercial clients- small and medium customers
- Household



GAS TRADE EUR'000	2015*	2016*	2017 H1
Net turnover	342 394	402 843	148 656
EBITDA	12 387	23 212	6 346
Segment assets (excluding cash assets)	86 308	36 164	64 804
Purchase of fixed assets and intangible assets	733	953	413

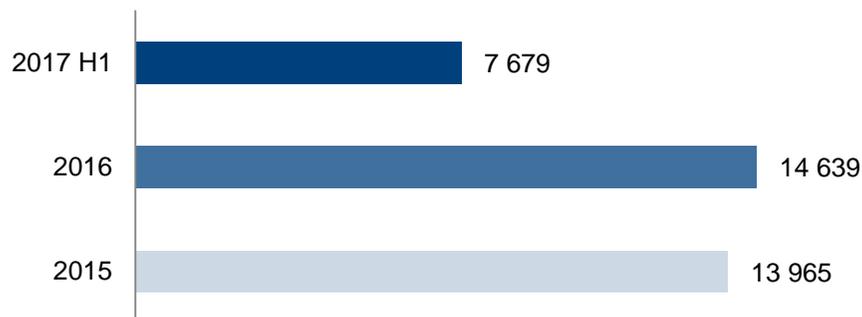


- Largest segment by net turnover (84 %)
- Trade in 2016 and 2017 both in Latvia and other countries
- Until 3 April 2017 – 100% regulated market
- After 3 April 2017 – opening of LV market
 - Commercial users – freely chosen natural gas supplier
 - Household users can purchase natural gas at regulated price for two-year period
- Key operational risks
 - Market share in Latvia after market opening
 - Operation in other Baltic markets
 - Risk of client concentration (Top 5 customers account for 50% of total sales)
- Number of employees 2017 H1 - 130

* The performance of 2016 excludes the performance of discontinuing operations

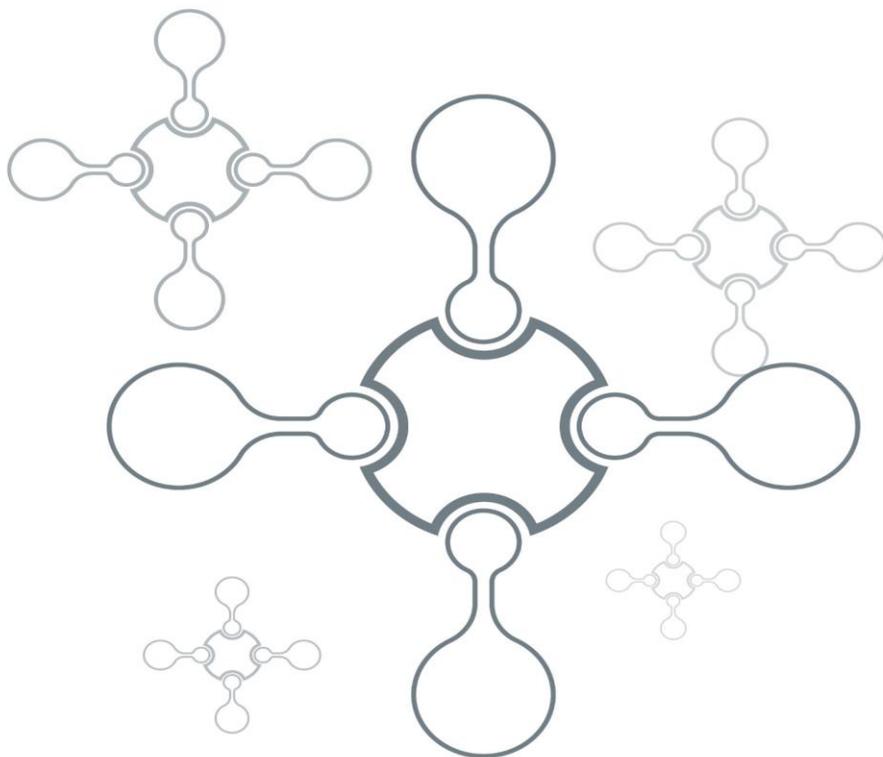
DISTRIBUTION

Distribution volume (MWh)



GAS DISTRIBUTION EUR'000	2015*	2016*	2017 H1
Net turnover	48 495	50 882	28 680
EBITDA	26 371	27 196	17 631
Segment assets (excluding cash assets)	251 131	238 496	236 420
Purchase of fixed assets and intangible assets	6 377	6 425	2 109
Depreciation and amortization	11 734	11 872	6 258

- Distribution is and remains a regulated line of activity
- On March 16, the PUC approved the methodology for calculating the tariffs for the distribution system service. 8 differentiated consumer groups have been established in Latvia
- Segment profitability depends on the distribution of consumption among the user groups
- Key operational risks:
 - Organization unbundling and creation of corporate governance
 - Regulatory risks
 - Implementation of natural gas market opening requirements
- Number of employees 2017 H1 – 833



Reorganization of the JSC "LATVIJAS GĀZE"

RETROSPECT TO PHASE I: CONEXUS BALTIC GRID

- Energy Law requirements: transmission and storage are to be separated from trade until 3 April 2017
- JSC “Conexus Baltic Grid” commenced operation at the beginning of 2017
- Ownership must be separated: major owners – energy companies must sell their Conexus shares until the end of 2017

We hereby remind you:

- **Conexus is an independent company**
- **There is no more link left between the ownership of the shares of Latvijas Gāze and Conexus**
- **Conexus holds registered shares the ownership of which is certified by the entry into the register of shareholders (shares are not stored in the securities accounts)**
- **Conexus register of shareholders is maintained by the Latvian Central Depository**

PHASE II: GASO

- Energy Law requirements: distribution and trade are to be separated until 1 January 2018
- Separation of ownership is not mandatory
- In the meeting of shareholders of 16 June 2017, the Council, as well as the shareholders supported separation of distribution into a subsidiary company
- Decision on reorganization must be adopted at the meeting of shareholders of 15 August 2017



Holds 100% of shares

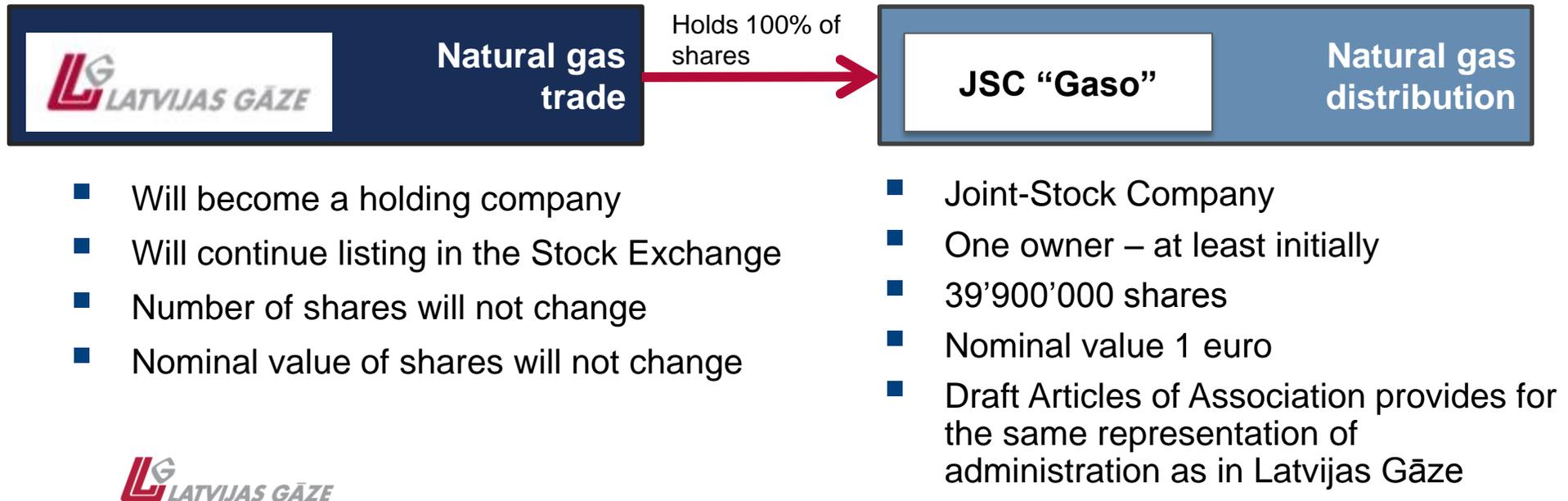


 LATVIJAS GAZE

- Household sector is to be partially regulated until 1 January 2019
- For the rest – the market is open from 3 April 2017
- Directions of development: market of the Baltic States and new services
- Regulated services
- Provides access of traders to the end consumers
- Operates distribution networks and natural gas registration
- Directions of development: transparency and availability of services, and expansion of distribution networks

PHASE II: GASO

- If shareholders vote in favour of reorganization at the meeting of shareholders of 15 August, Gaso will be founded at the end of the year
- Given that the Energy Law requirements in fact apply to shareholders with a qualifying holding, Latvijas Gāze and the major shareholders concluded a contract on the rights of first refusal to hold the shares of the to-be-established company and representation of these shareholders in the administration bodies of Gaso



PHASE II: GASO

Participation in the meeting of shareholders of 15 August

- Positive vote for reorganization requires presence of $\frac{3}{4}$ of shareholders and vote "in favour" by 85% of the participants (provided by four major shareholders)
- In case of positive vote, the shareholders who do not participate in the meeting will still retain their shares of Latvijas Gāze, as well as Gaso – within the holding company

Key documents

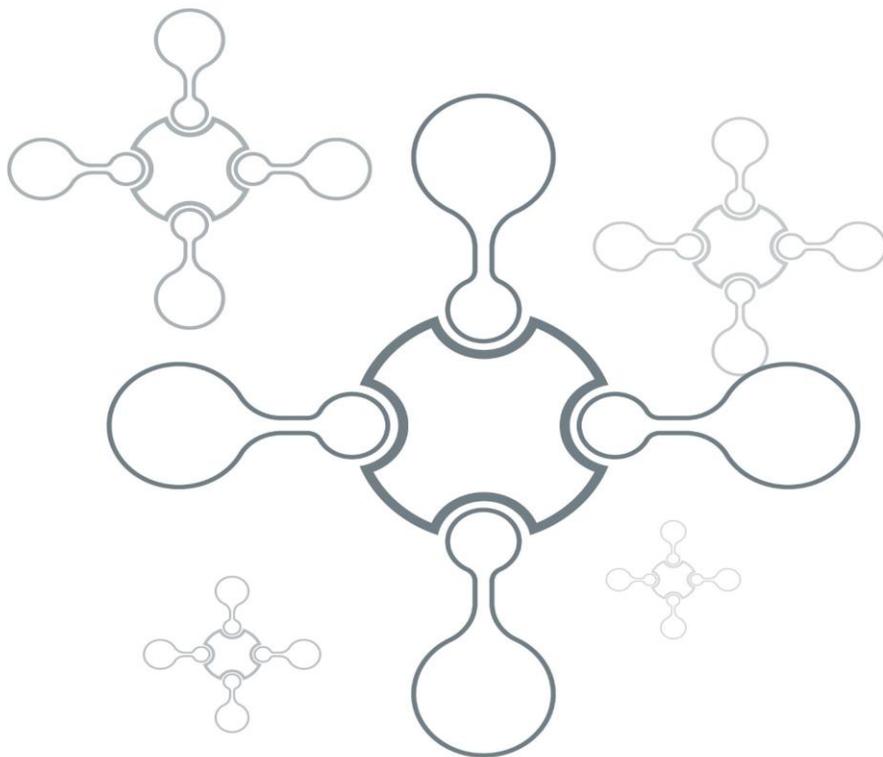
- Reorganization prospectus
- Spin-off decision
- Asset distribution deed
- Spin-off balance sheet
- Auditor's opinion on results of examination of the draft decision on division
- Auditor's opinion on adequacy of property

Contact information

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All documents are available on www.lg.lv,
In the section Reorganization of the company





THANK YOU!
Your questions