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To: Shareholders and management of
AS Latvijas Gāze

To: Register of Enterprises of the Republic of Latvia

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Regarding the sufficiency of property to be transferred from AS Latvijas Gāze to establish the equity capital of the acquiring company AS Conexus Baltic Grid

In accordance with the Agreement No. 164 entered into on 24 March 2016, we have performed a valuation of the property of AS Latvijas Gāze to be transferred, and of its sufficiency, to establish the equity capital of the acquiring company AS Conexus Baltic Grid in the amount of EUR 39,900,000. The opinion will be submitted to the Enterprise Register of the Republic of Latvia for the purpose of reorganisation of AS Latvijas Gāze. The valuation was conducted as of 30 June 2016.

The valuation report uses the information provided by the management of AS Latvijas Gāze. This report is based on the information obtained from AS Latvijas Gāze, which may be outside the control of the valuator. Although all the possible measures have been taken to ensure that the information is obtained from reliable sources, we are not able to make any claims about the accuracy of the information obtained from AS Latvijas Gāze, or that such information fully corresponds to the actual situation.

Article 377 Paragraph 1 of the Commercial Law states that *“If the acquiring company is a stock company which as a result of a reorganisation must increase its equity capital or which is to be founded as a new company, a valuation shall be conducted of the property of each of the acquired companies or the relevant part of the dividing company, in order to determine whether the property is sufficient to increase the equity capital of the acquiring company or for its founding”*. Furthermore, Paragraph 2 of the same Article states that *“The valuation shall be conducted and a written report compiled by the person who has examined the reorganisation agreement in the relevant company. In the case referred to in Section 340, Paragraph three of this Law the valuation shall be conducted and a written report shall be provided by a person who has been included in the list of valuers of property contributions”*.

According to the draft decision on the division of AS Latvijas Gāze, reorganisation of AS Latvijas Gāze as the dividing company shall be performed in accordance with Article 336 Paragraph 4 of the Commercial Law by separating a part of the Company’s property, which is necessary for dealing with the storage and transmission of natural gas (hereinafter – Property) and which consists of the following:

- Assets owned by the Company, including tangible assets (e.g. equipment, real estate, office furniture, cash) and intangible assets or rights (e.g. claims against debtors, rights in rem), as well as other economic benefits (values) used by the Company as a merchant to ensure storage and transmission of natural gas;
- Liabilities (e.g. liabilities of the Company as a merchant) incurred by the Company through the storage and transmission of natural gas.

A more detailed description of the property is included in the Reorganisation Prospectus, Section 4.1 ‘Property composition’, and the Property Division Form of AS Latvijas Gāze (draft).

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Thus, as a result of the reorganisation, the commercial activity of natural gas transmission and storage of AS Latvijas Gāze will be transferred to the acquiring company as an independent part of the company and as a totality of things within the meaning of Article 18 of the Commercial Law. The company's independent part will be transferred as a complete commercial unit, composed of assets and liabilities.

Within the meaning of the Latvian Valuation Standard LVS 401:2013, the object of valuation is considered to be *part of the business* (LVS 401:2013, Paragraph 5.1.6.1) and is to be assessed in accordance with the requirements set out in LVS 401:2013, Paragraph 5.1 "Business and business interests" (equivalent to the International Valuation Standards, Standard 200 "Business and business interests").

Assessment of the part of business should be carried out by using the market approach and/or income approach. Taking into account that the acquiring company has not yet been established at the time of the valuation, using the market approach in the Property assessment would be difficult, and within the scope of this opinion, the Property value has been determined based on the income approach, by assessing projected long-term cash flows for the activity types "Gas transmission" and "Gas storage".

According to Article 154 Paragraph 3 of the Commercial Law of Latvia, "*The property contributions shall be valued according to the usual value of the relevant property or rights*". According to Article 871 of the Civil Law of Latvia, "*Normal value is determined on the basis of the benefit which the property of itself may give to any possessors thereof, independently of their personal relationship*".

The usual value of the Property corresponds to the market value definition provided in LVS 401:2013, i.e. "*Market value is the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

Taking into account the applicable provisions of the Commercial Law, we have assessed the sufficiency of the Property (part of the commercial activity) for establishing equity capital of the acquiring company AS Conexus Baltic Grid in the amount of EUR 39,900,000 by determining the market value of the Property as of 30.06.2016.

Our assessment is based on the cash flow forecasts for 2016-2030 prepared by AS Latvijas Gāze, for the activity types "Gas transmission" and "Gas storage" separately, by checking what methods have been used in the forecast preparation and whether their use is justified, as well as checking the forecast calculations. The discount rate used in the assessment has been coordinated with the certified auditor of AS Latvijas Gāze, SIA "PricewaterhouseCoopers", and we have examined the discount rate calculation and the information sources used.

It was not part of our assignment, and we have not performed any financial, commercial or legal due diligence of AS Latvijas Gāze or separate activities thereof, nor have we performed any type of marketing research on the company's products and services, nor any financial audit of AS Latvijas Gāze; and we do not provide any conclusions regarding the accuracy or validity of the information provided by AS Latvijas Gāze in this opinion.

Based on the analysis performed, we believe that the Property to be transferred from AS Latvijas Gāze is sufficient to establish equity capital of the acquiring company AS Conexus Baltic Grid in the amount of EUR 39,900,000 (thirty nine million nine hundred thousand euros).

We hereby certify that the assessed property corresponds to the type of commercial activity of the acquiring company AS Conexus Baltic Grid.



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We performed our valuation based on internationally recognised valuation methods and in accordance with Latvian Property Valuation Standard LVS 401:2013 and the Latvian Appraisers Code of Ethics, as well as in accordance with the applicable Latvian legislation. The report reflects the value of the property as of 30 June 2016 and is valid only for the purpose thereof, subject to the restrictions specified in the report.

Kaspars Rutkis

Chairman of the Board
Certified auditor's certificate No.171

Aleksandrs Vellers

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