

JSC "Latvijas Gāze"

ANNUAL REPORT

2013

WE SHOW WISDOM WITH OUR WORK

We are wise and get wiser every year.

As we see it – to think wiser does not mean to feel supreme over others, but rather to constantly improve the level of safety and **quality** and to develop services for the needs of the whole region. To facilitate the **intellectual development** at the company and to support the future **specialists**. To care for a well-considered use of resources and for **ecology**. To make a better living environment in Latvia today, to support **excellence** in science, culture, sports, and other fields.

In short – to be responsible for our employees, customers, society, country, and environment.

We call into being the values we stand for and find important. Our performance in 2013 leaves us with achievements to look back on and urges to move ahead, gain new knowledge and develop in order to become an even **safer, more responsible** and innovative company in 2014.



A stylized, handwritten signature in black ink, consisting of several loops and a long horizontal stroke.

Adrians Dāvis
Chairman of the Board

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WE THINK WISER

JSC “Latvijas Gāze” –
industry leader in the region



JSC “LATVIJAS GĀZE” 2013

JSC “Latvijas Gāze” is the only natural-gas transmission, storage, distribution, and sales operator in Latvia. The company ensures the supply of natural gas to 443,000 customers in Latvia; during heating season, the company also supplies natural gas from the Inčukalns Underground Gas Storage Facility to Estonia, north-western Russia, and Lithuania.

OUR OBJECTIVE

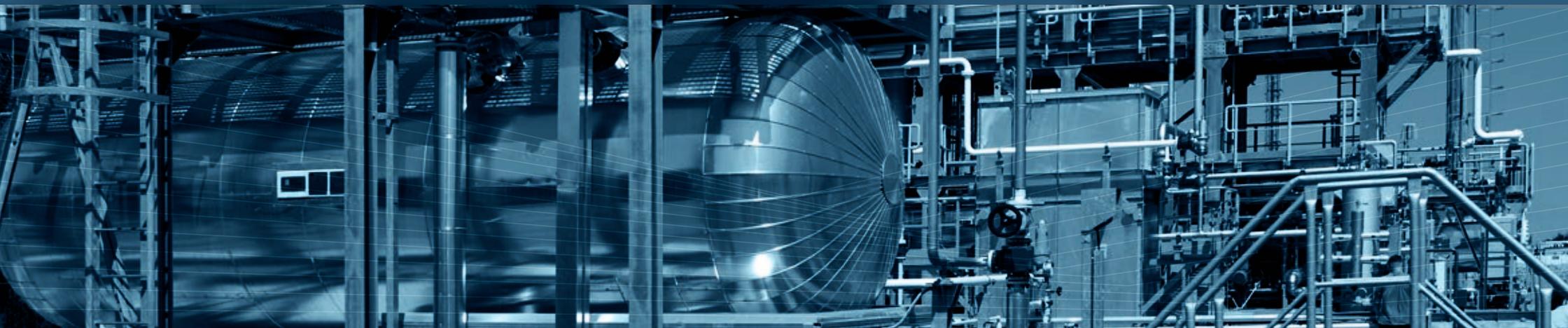
To strengthen the position of the JSC “Latvijas Gāze” as a leader in the Latvian fuel market by increasing the availability of natural gas, promoting the variety of its consumption, and ensuring Latvia with one of the most stable natural gas supplies in Europe.

OUR MISSION

To contribute to the Baltic region’s economy by ensuring the safety of supplies, the development of the sector, and competitive pricing.

OUR VISION

To transform Latvia into one of Europe’s largest natural-gas storage centres by utilizing our country’s unique geological formations.





THE COMPANY'S FOCUS

SAFETY AND SECURITY OF GAS SUPPLY

We pay equal attention to the physical safety of infrastructure and the security of sufficient capacity and cross-border interconnections. Our investments are primarily aimed at these aspects, because natural gas in our region is a primary need due to heating and is subject to variable consumption due to weather conditions. We pay no less attention to educating people about using natural gas safely, to emergency service operations and network monitoring.

SUSTAINABLE INVESTMENT

Investments in the security of gas supply go hand in hand with efficiency and environment factors. High diagnostics standards are aimed at the reduction of accident risks and methane emissions. The modernization of the storage facility and the transmission system has also substantially reduced the emission risks of other substances. Our key investments are made in compliance with the storage modernization plan for the period until 2025, which will improve the safety and availability of natural gas in the region.

EFFICIENT MANAGEMENT

The company is managed in accordance with the principles of good corporate management, ensuring the equal treatment of all shareholders, professional supervision, and transparency. The company's development and financial management takes place in line with risk management. A key role in our business is that of IT systems, which help to effectively manage the operation of infrastructure and other business areas.

PROFESSIONAL STAFF

Our company has a big staff with specialists in many areas. Due to the key role of safety in gas supply, we pay much attention to the qualification of gas supply specialists and labour safety. We have created contemporary labour conditions and operate in line with our personnel policy, which ensures efficiency at work and staff recruitment.



THE COMPANY'S FOCUS

QUALITY OF PRODUCT

Natural gas is a product of invariably high quality with the lowest level of harmful emissions among all types of fuel. Our goal is to achieve a wider use of highly efficient heating systems and cogeneration resulting in less harm to the environment and more savings to the customers.

QUALITY OF SERVICE

We are persistently working on the improvement of quality and availability of our services. We have introduced many improvements in service processes to make them faster and simpler, as well as a wide range of electronic services.

COMPETITIVENESS OF PRICES

By making advised investments in efficiency we have avoided the influence of increased raw material and other costs upon the prices of services. By exporting transmission and storage services to neighbouring countries, we ensure lower costs of these services to our consumers in Latvia. The high quality of the product, efficient burning technologies and product price ensures competitiveness with other energy resources in Latvia.

NETWORK DEVELOPMENT AND CUSTOMER ATTRACTION

With Latvia moving beyond the financial crisis and the collapse of real estate market, we have resumed active gasification by connecting many households and enterprises to natural gas and developing new projects of gasification of settlements. The development is driven not only by the economic recovery, but also our investment policy, which envisages up to 70% co-funding of new gasification projects.



COUNCIL REPORT

Over the year 2013, Latvia saw a further economic development, which was the most rapid in the European Union (EU). The JSC “Latvijas Gāze” (hereinafter – the Company) was among those contributing to this development by supplying 1.45 billion m³ of natural gas to its more than 443 thousand customers. The priority of the Company in 2013, just as in previous years, was a continuous and safe natural gas supply to customers both in Latvia and the neighbouring countries: Russia, Estonia, and Lithuania. In 2013, the Company implemented a number of key projects. A further modernization of wells took place at the Inčukalns UGS, with eight wells renovated over the year. Furthermore, the modernization of the gas metering station “Korneti” was completed, while the construction of a gas pipeline across the Gauja River began. As the programme of diagnostics of gas transmission pipelines continued, more defects were eliminated, thus substantially improving the safety of the gas supply system. In 2013, the project of capacity

enhancement for the Latvian-Lithuanian interconnection, the Latvian section of which featured the modernization of 17 wells at the Inčukalns UGS and the construction of a gas pipeline under the Daugava River bed, was entirely completed. It was implemented within the framework of the European Energy Programme for Recovery and received a total of EUR 10 million from the EU funds. The Company also contributed to the settlement of legal issues in the Latvian gas industry following the invalidation of the “Law on the Procedure of Enactment of Certain Sections of the Energy Law” as of April 4, 2014.

On April 17, 2013 the European Parliament and the Council adopted Regulation (EU) No.347/2013 on guidelines for trans-European energy infrastructure, and on December 11, 2013 – Regulation (EU) No.1316/2013 establishing the Connecting Europe Facility. Based on these documents, on October 14, 2013 the European Commission (EC) approved 248 energy projects of common European

importance to be granted an accelerated implementation procedure and eligibility for financing from the EU funds or special financial instruments. The list includes two projects developed by the Company: the modernization and expansion of the Inčukalns UGS and the enhancement of capacity of the Latvian-Lithuanian interconnection, which was co-developed with the Lithuanian colleagues. Under the procedure stipulated in Regulation (EC) No.347/2013, the Company has prepared and submitted to the Eastern-Baltic national regulatory bodies a request for a decision on investment and cross-border cost allocation for the project of modernization and expansion of the Inčukalns UGS since such decision is one of the preconditions for co-funding from the EU.

The Company’s net profit of 2013 reached LVL 22.6 million (EUR 32.2 million). The Company invested LVL 19.8 million (EUR 28.2 million) in the modernization, the attraction of new customers and the improvement of safety.

Last year, Council members P. Klingenberger,

A. Krasnenkov, I. Nazarov, and A. Rau terminated their work at the Council, and Council members N. Dubik, R. Link, E. Mikhaylova, and A. Saul were elected in their place. The Council expresses its gratitude and acknowledgment to the resigned Council members for their contribution to the Company’s development and wishes success to the new Council members.

In 2013, during its meetings, the Council discussed the reports on the operation of the Company prepared by the Board, reviewed and accepted the draft annual report of 2012 and the draft budget of 2014. The Council gave to the Board directions and recommendations on improving the Company’s operation. The Council reviewed and approved the amendments to the agreements with the natural gas suppliers the OJSC “Gazprom” and the LLC “ITERA Latvija” prepared by the Board. The Council has become acquainted with the Corporate Governance Report for the last year prepared by the Board in compliance

with the "Principles of Corporate Governance and Recommendations on the Implementation thereof" issued by the JSC "NASDAQ OMX Riga" and holds a view that the Board has done significant work to ensure that the Company complies with the recommended principles of corporate governance. The Council follows the same principles.

Over the reporting period, the Council regularly received reports by the Board regarding the operation, economic and financial standing of the Company. The Council supervised the operation of the Board in all key aspects

and made sure that the Company works in compliance with the laws, the Company's Articles of Association and the resolutions of the Shareholders' meeting. The Council also verified and accepted the budget submitted by the Company and made proposals for improving the Company's work.

The Company's financial statements for the year 2013 were audited by the International Auditor Company "PricewaterhouseCoopers" LLC. The Council has received the auditor's report attesting that the financial statements provide a fair and clear presentation of

the JSC "Latvijas Gaze" and its financial results and cash flows in 2013 in compliance with the Law of the Republic of Latvia on Annual Accounts. The Council has reviewed and accepted the Board report on the operation of the Company in the reporting year, research and development measures, financial risk management and suggestions as to the distribution of the profit of 2013.

The Council of the Company acknowledges the successful performance of the Board and employees in 2013 and wishes success and progress in future as well.



A stylized, handwritten signature in black ink, appearing to read 'Kirill Seleznev'.

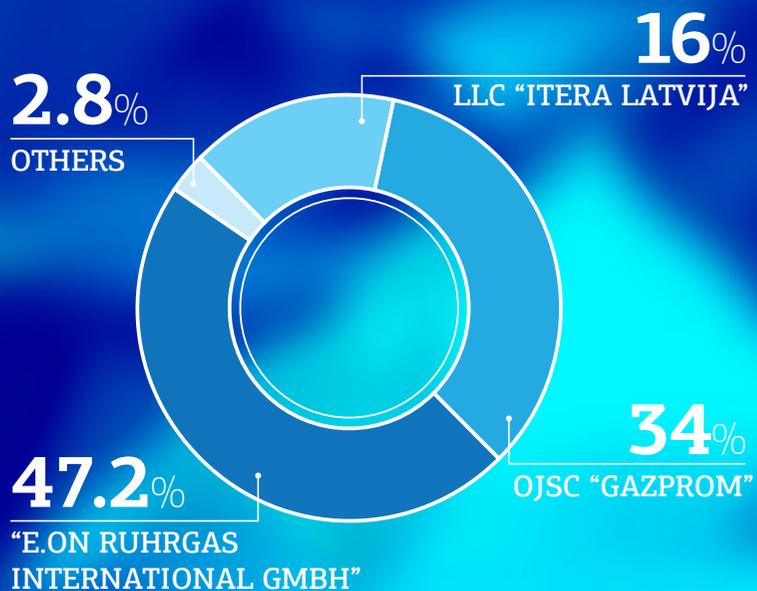
Kirill Seleznev
Chairman of the Council



SHAREHOLDERS

The major shareholders of the JSC "Latvijas Gāze" are enterprises engaged in the energy and gas supply industry, and two of them – the OJSC "Gazprom" and the LLC "ITERA Latvija" – are also suppliers of natural gas to the JSC "Latvijas Gāze". The composition of the major shareholders has been unchanged since 2001, except for the proportion of stakes, mergers, and renaming of companies.

The shares of the JSC "Latvijas Gāze" are quoted at the "NASDAQ OMX Riga" stock exchange, and the company also has many smaller shareholders, including investment funds, private entities, and legal entities.



COUNCIL



KIRILL SELEZNEV
(КИРИЛЛ СЕЛЕЗНЕВ)
Chairman of the Council

Since March 20, 2003 – Head of Gas and Liquid Hydrocarbon Marketing and Processing Division of OJSC "Gazprom"

Member of the Management Committee of OJSC "Gazprom"

1997 – graduated from Baltic State Technical University of St. Petersburg named after D. F. Ustinov in the field of engineering of momentum devices and automated rotation lines

2002 – graduated from St. Petersburg State University in Credit Theory and Finance Management



JURIS SAVICKIS
Vice-Chairman of the Council

Since 1996 – President of LLC "ITERA Latvija"

1970–1972 – Postgraduate Course at Riga Polytechnical Institute

1983–1984 – International Relations Faculty of University for Qualification-Raising of Executives



MATTHIAS KOHLENBACH
Vice-Chairman of the Council (till July 5, 2013)
Member of the Council (as of July 5, 2013)

Since 2012 – Member of the Board of Management of "E.ON Ruhrgas International GmbH"

2009–2012 – Head of Corporate Law Department of "E.ON Ruhrgas"

Degree of Doctor in Law



ACHIM SAUL
Vice-Chairman of the Council (as of July 5, 2013)

Since 2013 – Chairman of the Board of "E.ON Global Commodities SE" (Essen Operations)

2012–2013 – Member of the Board of "E.ON Ruhrgas AG"

Degree of Doctor in Engineering

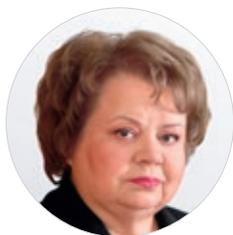




UVE FIP

Since 2002 – Senior Vice-President of "E.ON Ruhrgas AG", Head of Eastern Gas Supply Department

Master's Degree in Oil Engineering, Degree in Business Management (Diploma – Merchant)



ELENA KARPEL

(ЕЛЕНА КАРПЕЛЬ)

Since 2004 – Member of the Board of Directors of OJSC "Gazprom"

1968 – Korotchenko Kyiv Economic Institute, Speciality of Industry Planning



ANDREAS RAU

(till July 5, 2013)

Since 2012 – Member of the Board of Directors of "SPP a.s.", Bratislava

2006–2011 – Member/Chairman of the Board of Directors of "EUSTREAM a.s.", Bratislava

1995–1997 – Master Degree in European Studies from the University of Aachen

1989–1995 – Diploma in Mechanical Engineering/Energy Technology from the University of Bochum



PETER KLINGENBERGER

(till July 5, 2013)

Since 2010 – Chairman of the Board of "E.ON Gas Storage GmbH"

Since 2009 – Managing Director of "E.ON Gas Storage GmbH"

1978–1986 – Studied mining and economics in Aachen

Received a Dipl.-Ing. and a Dr.-Ing. degree



IGOR NAZAROV

(ИГОРЬ НАЗАРОВ) (till July 5, 2013)

Since 2007 – Head of Export Division of "NGK ITERA" (Moscow, Russia)

1982 – Moscow State University of Foreign Affairs (MGIMO) (within the framework of Ministry of Foreign Affairs), Diploma of Commercial Division equivalent to Master of Economics – Economist with proficiency of foreign languages (Italian and English)



ALEXANDER KRASNENKOV

(АЛЕКСАНДР КРАСНЕНКОВ) (till July 5, 2013)

Since 2006 – General Director of LLC "Baltic LNG"

International Institute of Finance and Economics, Speciality of International Economics and International Relations



RAINER LINK

(as of July 5, 2013)

Since 2013 – Member of the Board of "E.ON Global Commodities SE" (Essen Operations)

Member of the Board of "E.ON Ruhrgas International GmbH"

Since 2012 – Member of the Board of "E.ON Ruhrgas Portfolio GmbH"

2012–2013 – Head of Development Department of "E.ON Ruhrgas AG"

Doctor Degree in Economics



JÖRG TUMAT

(as of January 1, 2014)

Since late 2013 – Member of the Board of "E.ON Russia"

2006–2013 – Member of the Board, Vice-Chairman of the Board of JSC "Latvijas Gāze"

2001–2004 – University of Hagen, Diploma in Business Administration (Dipl.-Betriebswirt)



ELENA MIKHAYLOVA

(ЕЛЕНА МИХАЙЛОВА) (as of July 5, 2013)

Since 2012 – Member of the Board of OJSC "Gazprom", Head of Property Management and Corporate Relations Division

2011–2012 – Head of Asset Management and Corporate Relations Division of OJSC "Gazprom"

MBA Degree from National Academy of Economics of Russian Federation

Degree in Law from Moscow State Industrial University



VLADA RUSAKOVA

(ВЛАДА РУСАКОВА)

Since 2013 – Vice-President of OJSC "Rosneft", Head of Business Development Division

2003–2012 – Member of the Board of OJSC "Gazprom"

1977 – Graduated from Moscow Oil and Gas Industry Institute named after I. M. Gubkin and obtained the qualification of engineer in design, planning and operation of oil and gas pipelines, gas storage facilities and oil tanks

Completed a Postgraduate Course at the Moscow Oil and Gas Industry Institute named after I. M. Gubkin



NIKOLAY DUBIK

(НИКОЛАЙ ДУБИК) (as of July 5, 2013)

Since 2008 – Member of the Board of OJSC "Gazprom", Head of Legal Division

MBA Degree from National Academy of Economics of Russian Federation

Degree in Law from Lomonosov Moscow State University



MARIO NULLMEIER

(till December 31, 2013)

Since 2014 – Member of the Board, Vice-Chairman of the Board of JSC "Latvijas Gāze"

Since 2005 – Head of the Baltic States Office of "E.ON Ruhrgas International AG" in Tallinn, Estonia

2000 – Master's Degree in Global Business Administration

BOARD



ADRIANS DĀVIS

Chairman of the Board

Since 1997 – Chairman of the Board of JSC "Latvijas Gāze"

Involved in gas industry since 1965

1997 – Physical Energy Institute of Latvian Science Academy, academic degree of doctor in engineering (Dr.sc.ing.)



MARIO NULLMEIER

Member of the Board, Vice-Chairman of the Board
(as of January 1, 2014)

Since 2014 – Member of the Board, Vice-Chairman of the Board of JSC "Latvijas Gāze"

Since 2005 – Head of Baltic States Office of "E.ON Ruhrgas International AG" in Tallinn, Estonia

2000 – Master's Degree in Global Business Administration



ALEXANDER MIHEYEV (АЛЕКСАНДР МИХЕЕВ)

Member of the Board, Vice-Chairman of the Board

Since 2003 – First Deputy Head of Marketing, Gas and Liquid Hydrocarbon Processing Department of OJSC "Gazprom"

Involved in gas industry since 1968

1968 – Graduated from Moscow Oil and Gas Industry Institute named after I. M. Gubkin and obtained the qualification of engineer in design and operation of oil and gas pipelines, gas storage facilities, and oil tanks



GINTS FREIBERGS

Member of the Board

Since 1997 – Member of the Board of JSC "Latvijas Gāze"

Involved in gas industry since 1984

1984 – Polytechnical Institute of Riga, engineer in industrial heat power



JÖRG TUMAT

Member of the Board, Vice-Chairman of the Board
(till December 31, 2013)

Since late 2013 – Member of the Board of "E.ON Russia"

2006–2013 – Member of the Board, Vice-Chairman of the Board of JSC "Latvijas Gāze"

2001–2004 – University of Hagen, Diploma in Business Administration (Dipl.-Betriebswirt)



ANDA ULPE

Member of the Board

Since 1997 – Member of the Board of JSC "Latvijas Gāze"

Involved in gas industry since 1984

2002 – University of Latvia, Master's Degree of Social Sciences in Economics



WE STEP HIGHER

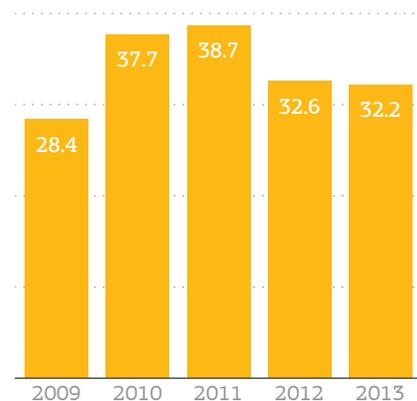
Company's financial performance
in 2013



1000
0.6598
0.9483
1.0165
0.9537
121.4700
0.8483
1.2191
1.3069
0.0082
-
0.0070
0.0100
143.1980

MAIN OPERATION INDICATORS

MAIN FINANCIAL INDICATORS (%)



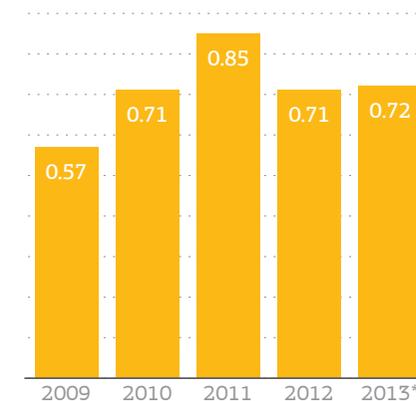
PROFIT (million EUR)

In 2013, the company operated in compliance with the parameters of the capital return rate set by the Public Utility Commission.

DIVIDENDS PER SHARE

The profit gained in 2013 enables the company to pay dividends at the level of 2012, i.e., 0.72 EUR per one share or 1.2% (0.01 EUR) more than before. The total amount of dividends is EUR 28.7 million and accounts for 89.4% of the company's profit in 2013.

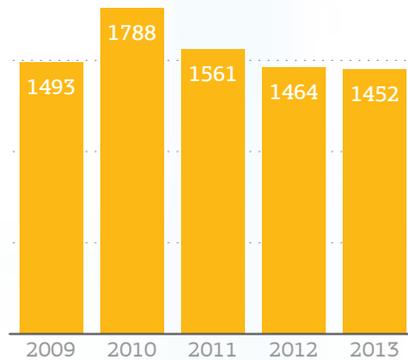
▼ (EUR/share)



* Distribution of profit as recommended by the Board

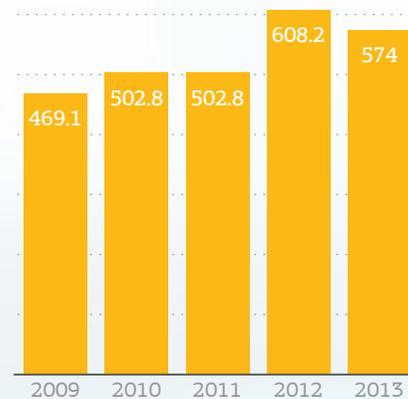
The objectives and core principles of financial activity of the JSC "Latvijas Gāze" are:

- investments in the modernization of the infrastructure related to the stability and safety of natural gas supplies;
- investments in the development of infrastructure and the quality of services;
- a competitive price of natural gas and services;
- a profit that allows for investments and dividends in compliance with the international practice of the natural gas industry. The profit level is regulated by the Public Utility Commission of the Republic of Latvia through stipulating the capital return rate (currently the capital return rate is set to 8.0% of the regulated asset basis).



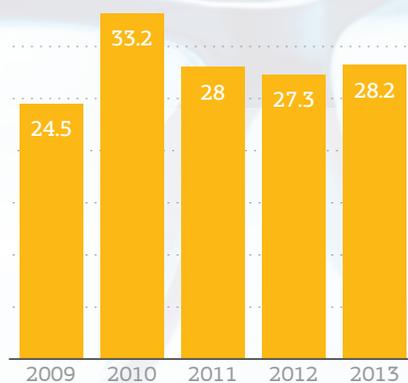
◀ **NATURAL GAS SALES** (million m³)

In the long run, the volume of natural gas sold is mostly influenced by such factors as the development of business in the sector of industrial customers, the improvement of efficiency of heat production and consumption, and the growth of alternative – including subsidized – ways of energy production. Overall these factors have had an adverse effect on the average natural gas consumption over the last five years. A positive effect on consumption in the recent years has been brought by the electricity market where natural gas was used as the source of production, and by the increased number of customers in the sector of household, utility, and commercial customers. However, as follows from a comparison between different years, the most important are changes in the air temperature, but despite the record-high air temperature late in the year the natural gas sales in 2013 fell only by 0.8% year-on-year.



◀ **NET TURNOVER** (million EUR)

The company's net turnover primarily depends on two factors – the volume of natural gas sold and the tariffs applicable. In 2013, the net turnover from the natural gas sold and the services provided fell by 5.6%. The decline mainly resulted from the reduced price of the natural gas sold and from less natural gas transmission and storage services provided to the neighbouring countries due to the warm weather.



◀ **INVESTMENT** (million EUR)

The JSC "Latvijas Gāze" makes investments based on long-term plans, and investment differences from year to year primarily stem from the specific character of jobs scheduled for the particular period. 44.1% of the total investments were spent on the modernization of the gas transmission pipeline system, 29% – on the expansion of distribution networks and the renewal of fixed assets, and 24.3% – on the improvement of operation safety and the modernization of equipment at the Inčukalns UGS.

SHARES

The company's shares have been listed on the "NASDAQ OMX Riga" exchange since February 15, 1999. The ticker code of the shares is GZE1R since August 1, 2004, and they are traded on the second Baltic list. The total number of securities has not changed since 1999.

SHARE PRICE (EUR)

In 12 months of 2013, the capitalization value of the JSC "Latvijas Gāze" reached EUR 374.7 million, which is EUR 33.5 million more than at the end of the previous reporting period. .

	2011	2012	2013
First	6.83	8.39	8.69
Highest	9.96	9.04	9.86
Lowest	6.55	7.66	8.58
Average	7.56	8.33	9.03
Last	8.04	8.55	9.39
Change	17.7%	1.9%	8.0%
Share turnover	218 132	168 115	121 774
Turnover (million EUR)	1.65	1.40	1.10
Number of transactions	1284	1767	1479
Capitalization (million EUR)	320.8	341.2	374.7

Source: "NASDAQ OMX Riga"

ISIN	LV0000100899
Ticker code	GZE1R
List	Second Baltic list
Nominal value	1.00 LVL
Total number of securities	39 900 000
Number of securities in public trading	25 328 520
Liquidity warrantors	None

In terms of the stock market capitalization, the company ranked number one among companies listed on "NASDAQ OMX Riga" and number four among companies listed on "NASDAQ OMX Baltics".

The price of one share on the "NASDAQ OMX Riga" exchange fluctuated from EUR 8.55 and EUR 9.86 during the reporting period. At the end of the reporting year it reached EUR 9.39, which is 9.8% more than at the end of 2012.

JSC "LATVIJAS GĀZE" SHARE PRICE (EUR)



Source: "NASDAQ OMX Riga"

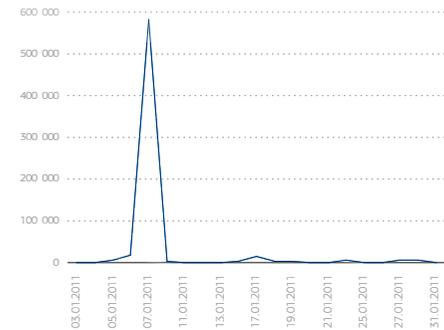
BALTIC MARKET INDICES (%)



Source: "NASDAQ OMX Riga"

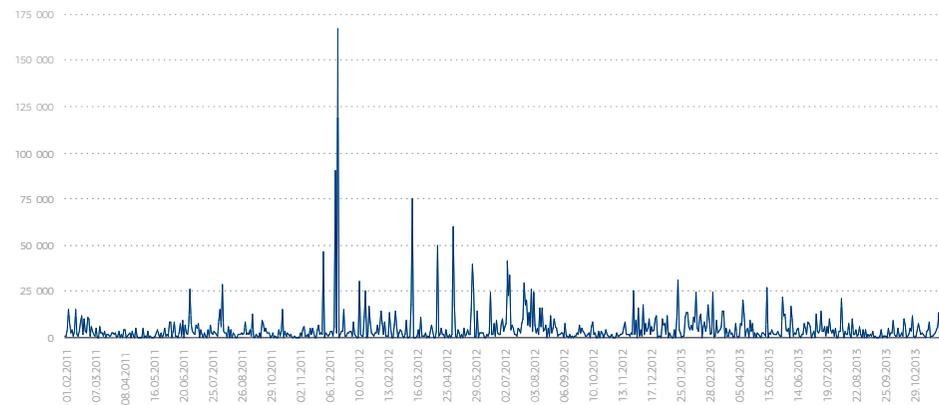
Over the year 2013, the turnover of the company's shares at "NASDAQ OMX Riga" reached 121 774 shares valued at EUR 1.1 million, which is 46 341 shares less than in 2012.

SHARE TURNOVER IN JANUARY 2011 (EUR)



Source: "NASDAQ OMX Riga"

SHARE TURNOVER IN FEBRUARY 2011 – DECEMBER 2013 (EUR)



Source: "NASDAQ OMX Riga"

OMX Baltic
A Baltic-level index of all shares. Its basket consists of the shares of the Official and Second list of Baltic exchanges. The index reflects the current situation and changes in the Baltic market overall.

OMX Riga
A local index of all shares. Its basket consists of the shares of the Official and Second list of the "NASDAQ OMX Riga" exchange. The index reflects the current situation and changes in the "NASDAQ OMX Riga" exchange.

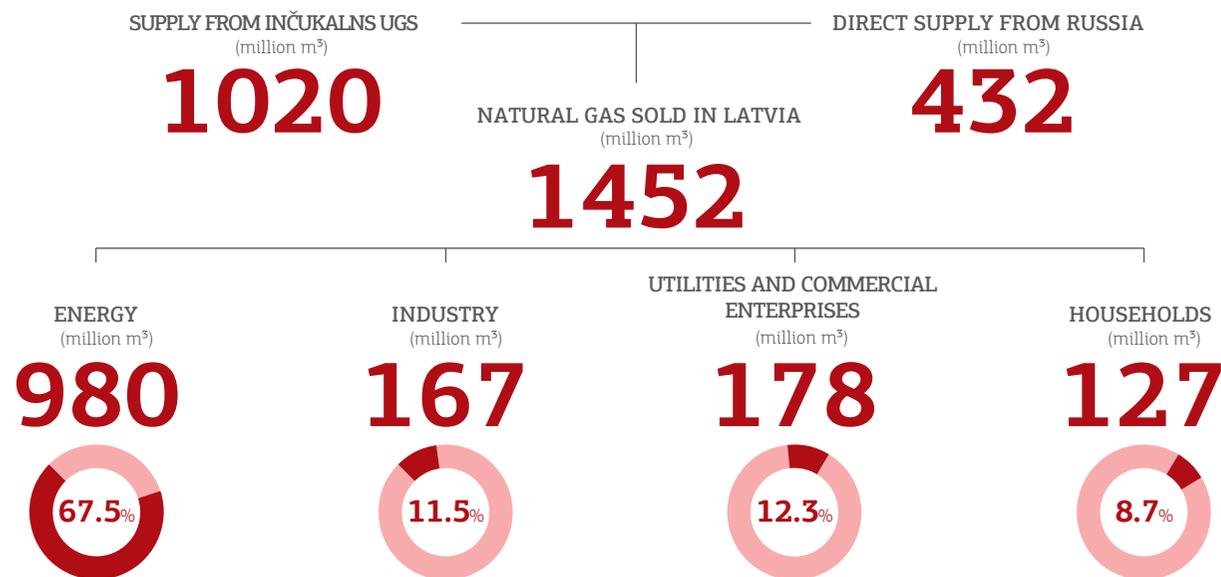


WE WORK HARDER

Natural gas market and
company's services

NATURAL GAS IN THE ENERGY RESOURCES MARKET

NATURAL GAS DELIVERIES (in 2013)



As for a monthly breakdown, the consumption of natural gas fell sharply year-on-year in February and December 2013. Apart from a slight decrease in summer, the rest of the months of 2013 saw a rise in natural gas consumption in Latvia. The decline

of February and December primarily stemmed from the record-high outdoor air temperature. According to the SLLC "Latvian Environment, Geology and Meteorology Centre", the air temperature of February in Latvia averaged to -2.2°C, which is 2.5

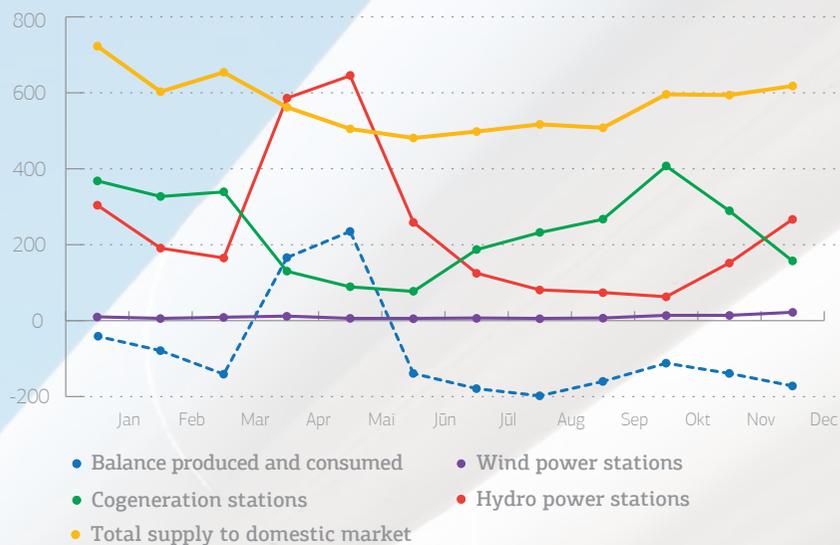
degrees above the long-term average norm, and the air temperature of December averaged to +2.2°C, which is 4.5 degrees above the long-term average norm.

Structure of natural gas consumption

Although the natural gas sales of 2013 did not substantially differ from those of 2012 (a 0.8% decrease), there were changes in the structure of consumption. The sharpest drop – 20.5% or 43 million m³ – was registered in the industrial sector where a substantial impact was left by the restriction and termination of operation of the metallurgy enterprise JSC "Liepājas Metalurģs". However, this decline was offset by the energy-intensive sector of energy where natural gas consumption grew by 4.3% or 41 million m³ thanks to the increased consumption by the thermal power stations of the SJSC "Latvenerģo".

Heat and electricity production

SOURCES OF ELECTRICITY IN LATVIA (in 2013, million kWh)



Source: provisional monthly data of CSB

Overall in the energy sector, natural gas is primarily used for heat production, including at cogeneration stations, and electricity is a supplementary product. However, the cogeneration stations consume the most part of natural gas – according to the data of the Central Statistics Bureau, in 2012 they accounted for 80% against 20% comprised by boiler houses.

In 2013, the amount of electricity generated in Latvia exceeded consumption only in April and May when hydro power stations operate most efficiently. Beyond heating season, even though the existing natural gas cogeneration stations could improve this balance, other sources of electricity, including import, are mostly preferred.

COGENERATION STATIONS IN LATVIA

	Number of cogeneration stations	Installed electric capacity, MW	Produced electricity, GWh	Produced thermal energy, thousand MWh
2012	132	1016	2340	4834
2013	166	1252	3170	5038
Change	+34	+236	+830	+204

Source: CSB

Natural gas retains its dominant role in cogeneration. In 2013, the total number of cogeneration stations was 166, i.e., 34 stations more than the year before.

Cogeneration stations accounted for 51% of electricity and 69% of thermal energy produced in Latvia in 2013.

In 2012, 82 of 132 cogeneration stations were natural gas stations with the installed electric capacity of 953 MW. In 2013, the installed electric capacity of natural gas stations rose by 16% reaching 1141 MW. The increase was brought by the launch of the Rīga TPC-2.

INSTALLED CAPACITY AT COGENERATION STATIONS (%)

	Natural gas	Biogas	Firewood	Others
2012	93,8%	4,2%	1,7%	0,4%
2013	91,2%	4,1%	4,3%	0,4%

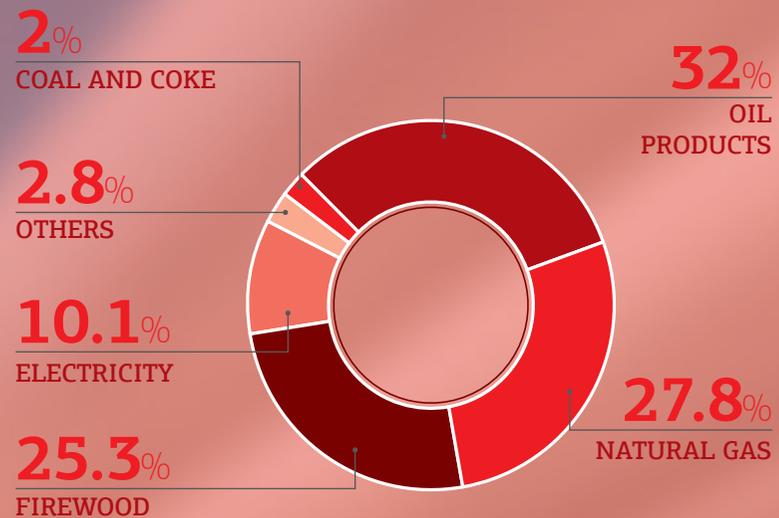
Source: CSB

Although in absolute figures the installed capacity of natural gas cogeneration stations in 2013 had the largest growth, relatively the number and capacity of stations powered by other fuels grew more – by 43% (against a 16% increase for natural gas).

Firewood stations saw the most rapid growth due to competitive firewood prices and state subsidies.

CONSUMPTION OF PRIMARY ENERGY RESOURCES IN LATVIA (2012.)

As at the time of drafting of the present report, the data on the consumption of primary energy resources in Latvian were only available for the year 2012. However, the share of firewood is likely to have increased in 2013, as more municipal heat producers install woodchip equipment and actively use it.



Source: CSB

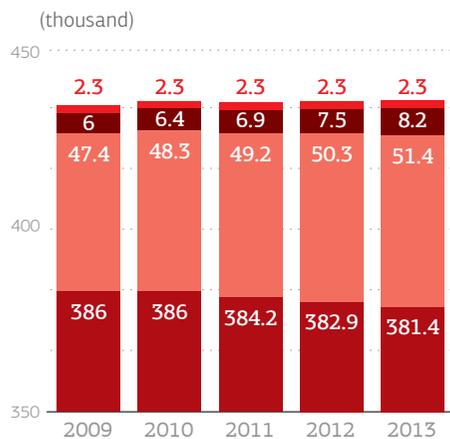


CUSTOMER ATTRACTION AND SERVICE

Natural gas connections

NUMBER OF CUSTOMERS

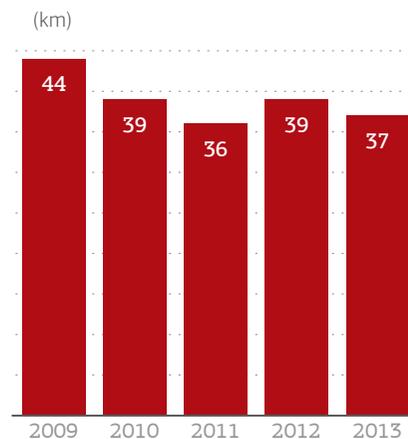
Over the reporting year, 1172 customers had new connections built and 405 customers had the capacity of their connection raised, totalling to 1577 customers with either a new connection or a capacity increase. The number of new connections surpassed that of 2012 by 5% and that of 2011 by 34%. The new connections are expected to consume 14 million m³ of natural gas in 2014.



- Industrial customers
- Commercial customers
- Household heating
- Household stoves

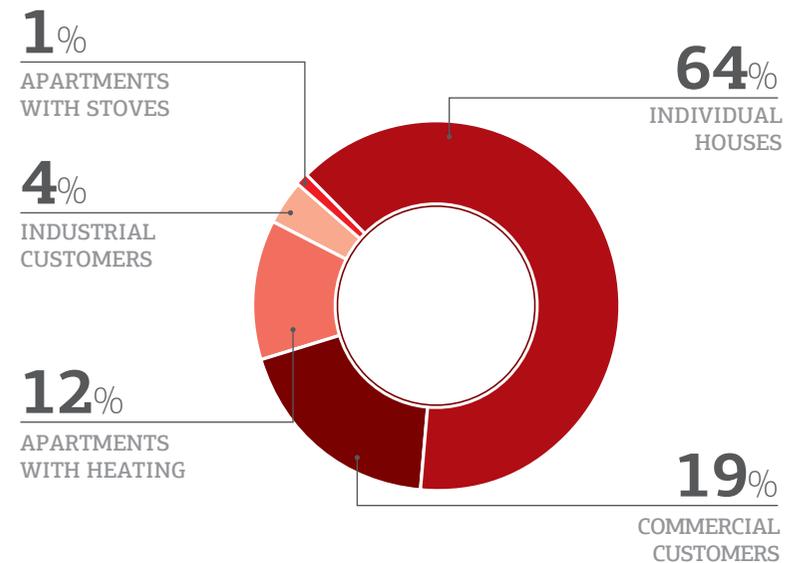
CONSTRUCTION OF NEW GAS DISTRIBUTION PIPELINES

In 2013, 37.2 km of gas distribution pipelines were built, and the total investments reached EUR 1.3 million. 66% of the newly built gas distribution pipelines lie within the coverage area of the Rīga unit, 9% within that of the Jūrmala unit, 8% within that of the Liepāja unit, and 17% within those of other units.



BREAKDOWN OF NEW CONNECTIONS (in 2013)

The reporting year retained the tendency of 2012 with an increasing number of industrial customers using natural gas in cogeneration to produce electricity, thus reducing their thermal energy costs. In 2013, as in previous years, the majority or 66% of the new connections were installed within the area of the Rīga unit, while Jūrmala accounted for 15%, and other units for 19%.



**For convenience
of customers**

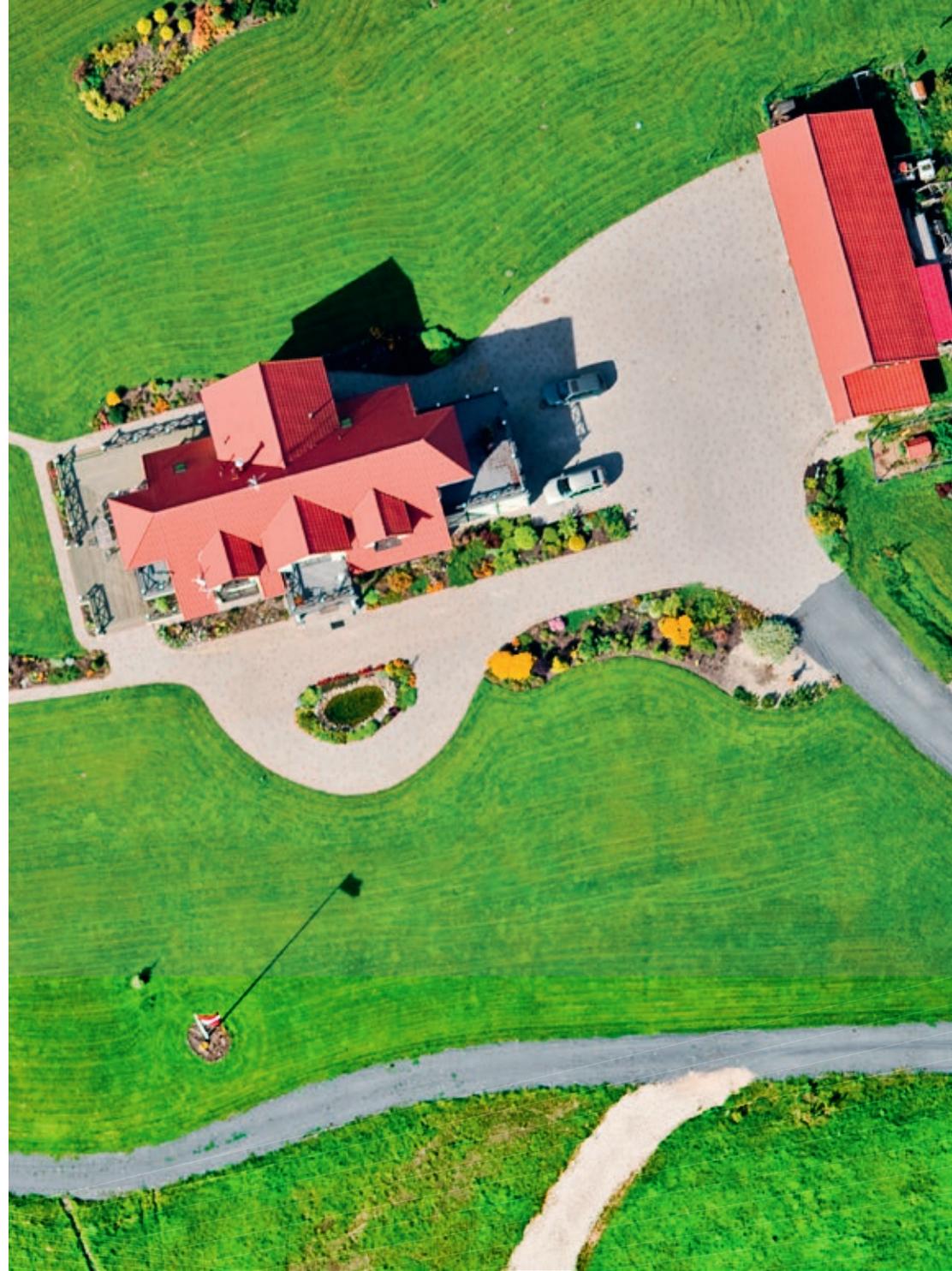
GASIFICATION PROJECTS

The year 2013 saw introduction of an online database of current gasification projects, which is publicly available on the company's website. In order to make it more convenient for the customers, the objects have been supplemented with gas supply layouts and their locations have been mapped on the "Google Maps" website. This enables the customers to recognize objects easily, follow the course of their development, and contact the company's employee responsible for a particular project.

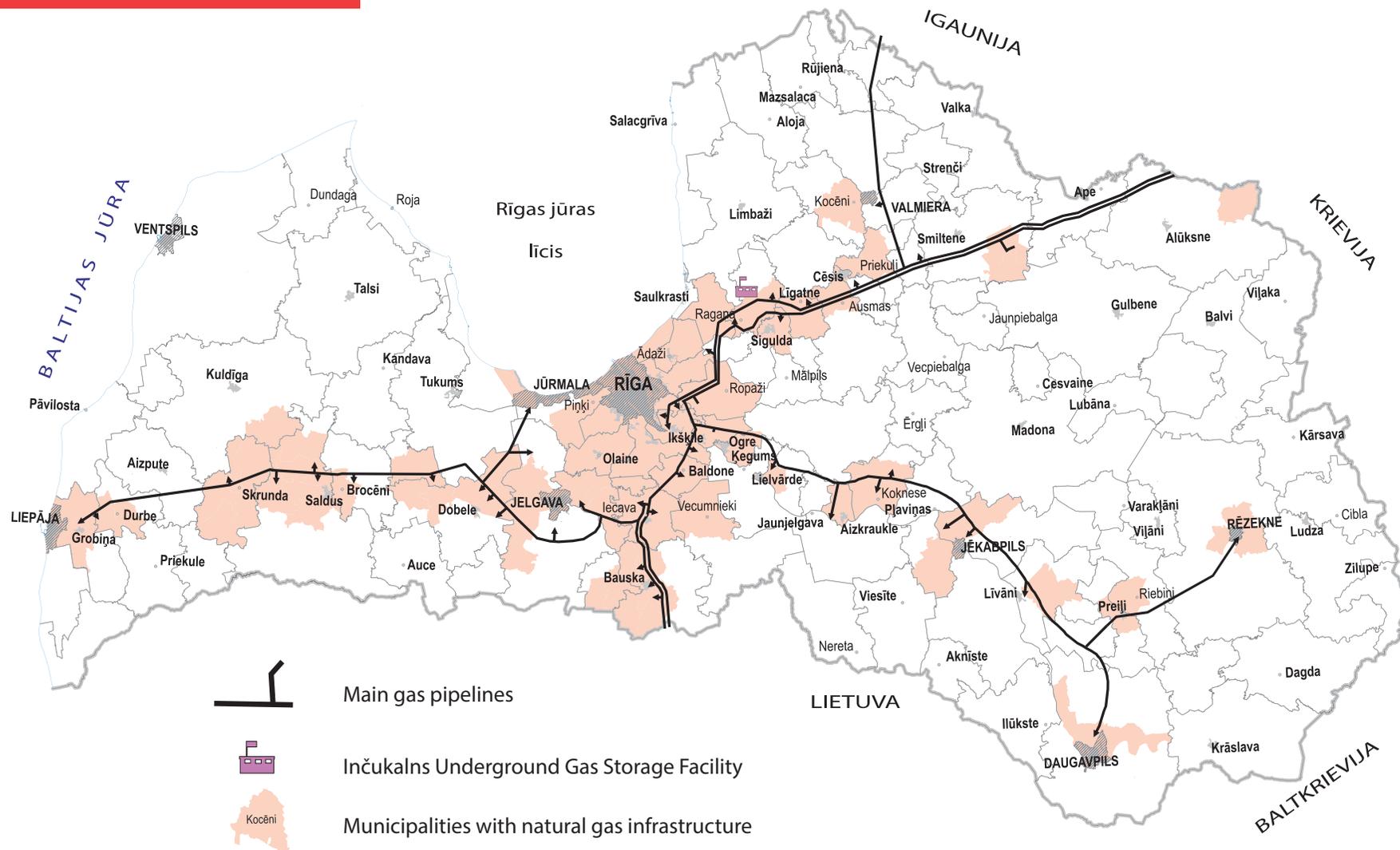
SERVICE

In 2013, 100 thousand customers were served in presence at the units of the JSC "Latvijas Gāze". The company devotes much attention to the development of electronic services and the improvement of operation of the contact centre, thus making communication cheaper and more convenient for the customers. For instance, 75% of the industrial customers are already using the e-services portal, while the number of e-mails responded to has grown by 32%. The number of calls not answered by the contact centre was 64% lower and the connection waiting time was 35% shorter than in 2012.

WWW.LG.LV



Municipalities with natural gas infrastructure



GLIMPSE INTO THE FUTURE

NATURAL GAS MARKET LIBERALIZATION

The year 2013 saw further work on the legislation governing the liberalization of the natural gas market. In early 2014, amendments to the Energy Law were adopted whereby the liberalization shall take place gradually with completion set for April 3, 2017. The deadline has not been selected randomly, as that is the expiration date of the privatization agreement of the JSC "Latvijas Gāze" signed in 1997.

A key initial step is third party access to the infrastructure as of April 4, 2014, which has already been put into practice by ensuring the storage and transmission of natural gas for the neighbouring countries. Rules effective as of January 1, 2015 will permit injection of biogas and liquefied natural gas provided that the requirements are met.

The distribution system operator will be unbundled till April 3, 2017, and so will the transmission operator unless any of two conditions comes into effect earlier: the Latvian natural gas system gets connected to the system of a European Union country other than Lithuania, Estonia, and Finland (the Baltic States and Finland are only connected either mutually or with the system of Russia or Belarus); the dominant supplier's market share drops below 75%.

This will determine the date when the consumers become entitled to freely choose supplier. However, these conditions are unlikely to materialize before 2017.

A decision as to the model of operator unbundling has not yet been made.

CONSTRUCTION OF REGIONAL INTERCONNECTIONS

In order to fully ensure the liberalization of the market, it is necessary to build interconnections of regional importance. Since such projects are of a substantial financial burden and not profitable under market conditions without additional support, two of them – the regional liquefied natural gas terminal with the location not finally decided (Finland or Estonia) and the Polish-Lithuanian interconnection (GIPL) – are included in the list of European projects of common interest, thus qualifying as contenders to be co-funded by the European Union.

Given that the projects will only receive a final approval in 2015 and take several years to implement, real alternative supplies will not reach the Latvian consumers before 2019-2020. Thus, the consumers will benefit from the decision to unbundle the JSC "Latvijas Gāze" as late as in 2017



because the unbundling of the company will be followed by a tariff increase due to the doubled costs of administration, customer service and IT systems.

KLAIPEDA LIQUEFIED NATURAL GAS TERMINAL

The Lithuanian liquefied natural gas terminal is planned to become operational in 2015, with its maximum capacity of 3.8 billion m³ per year (10.3 million m³ per day) exceeding the annual consumption of Lithuania (around 3 billion m³).

However, the terminal's capabilities are currently limited by the Lithuanian transmission system, and the maximum daily supply volume will be 4 million m³.

Thus, initially the terminal will only cover the needs of Lithuania. The information publicly available also suggests that the terminal's annual load will not exceed 780 million m³ till 2019, with no more than 100 million m³ sold to Latvia and Estonia.

The Klaipeda terminal is due for integration with the features of the Inčukalns UGS in Latvia. Even though the terminal has not yet been built, in December 2013 the JSC "Latvijas Gāze" and the terminal operator UAB "Litgas" signed an agreement on the storage of the terminal's natural gas for the needs of Lithuania from 2015 till 2017. The agreement stipulates injection of 100 million m³ of natural gas in the injection seasons of 2015 and 2016.

LATVIAN-LITHUANIAN INTERCONNECTION

Given the capacities of the Klaipeda terminal planned in the next few years, currently there is no need to increase the capacity of the

Latvian-Lithuanian interconnection, which is 6 million m³ per day in both directions. However, taking account of the future scenarios, including the possible Polish-Lithuanian interconnection, the lists of European projects of common interest also feature a joint project of the JSC "Latvijas Gāze" and the Lithuanian transmission company AB "Amber Grid" on the enhancement of cross-border interconnection capacity, which might materialize if the Polish-Lithuanian interconnection is built.

DEVELOPMENT OF INČUKALNS UGS

The priority infrastructure object of the JSC "Latvijas Gāze" is the Inčukalns UGS, which is due for a further modernization. Moreover, a possible expansion of the facility is considered in the light of the prospective LNG terminals and Polish-Lithuanian interconnection.

In May 2014, the JSC "Latvijas Gāze" was granted a permission of the Latvian and Lithuanian regulatory authorities to promote a project of common EU interest – the first stage of modernization of the Inčukalns UGS, which contends for co-funding from the EU. The total costs of the first stage amount to EUR 89.7 million, with EUR 37.5 million of it covered by the EU, EUR 6.9 million covered by the Lithuanian transmission company AB "Amber Grid", and EUR 45.4 million covered by the JSC "Latvijas Gāze". The European Commission is yet to decide whether the co-funding will be granted.

The first stage of modernization will take place from 2014 till 2018. It includes the reconstruction of wells, collection points, and

compressors and the installation of a new compressor, which will result in an improved safety of the facility and the parameters of natural gas extraction will increase from 30 million m³ per day to 32 million m³ per day.

In the second stage of modernization, scheduled for 2019-2020, the infrastructure is to be modernized further to increase the parameters of natural gas extraction to 35 million m³ per day. The investments for the second stage are estimated to EUR 45.3 million EUR.

The third stage features both a further reconstruction of the infrastructure and an option to expand the facility from the present active natural gas volume of 2.3 billion m³ to 2.8 billion m³. The expansion will entirely depend on the development of regional infrastructure objects and the requests of companies from the neighbouring countries. Such a project would require a financial participation from both the EU and the neighbouring countries because of the need to purchase cushion gas as well. The estimated costs of the third stage are EUR 241.5 million.

INTERNATIONAL ORGANIZATIONS

All current regional projects are being developed in a close cooperation among countries.

In order to ensure a coordinated implementation of European projects of common interest and prepare applications for submission to the national regulatory authorities and to the EC for project funding,

the gas transmission system operators from the Eastern part of the Baltic Sea – "Latvijas Gāze", "Võrguteenus" of Estonia, "Gasum" of Finland, and "Amber Grid" of Lithuania – set up a working group tasked with an analysis of project interoperability using gas system modelling. In September 2013, the results of the analysis were presented to representatives of the ministries and regulatory authorities of the Baltic States and Finland. Later the results were also presented to the EC.

In 2013, the company continued to participate actively in the events of the ENTSOG ("European Network of Transmission System Operators for Gas"), especially within the investment working group. This working group develops methods for assessment of European projects of common interest and a ten-year network development plan for the EU.



INČUKALNS UNDERGROUND GAS STORAGE FACILITY

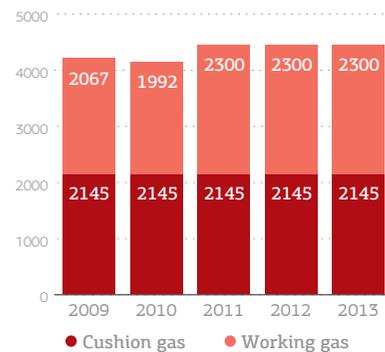
The Inčukalns Underground Gas Storage Facility (Inčukalns UGS) is the only object of its kind in the Baltic States. It ensures stability of gas supply in the Baltic region. The injection of natural gas into the storage facility takes place from spring till autumn. During heating season, natural gas is supplied from the storage facility to customers in Latvia, Estonia, the North-western part of Russia, and, if necessary, Lithuania. During heating season, Latvia receives natural gas only from the storage facility.



TECHNICAL PARAMETERS OF INČUKALNS UGS

In 2013, 2.14 billion m³ of natural gas were injected into the Inčukalns UGS. After injection, the total volume of active natural gas (i.e., one that can be regularly injected and withdrawn) at the storage facility reached 2.3 billion m³ equalling the figure of the previous year.

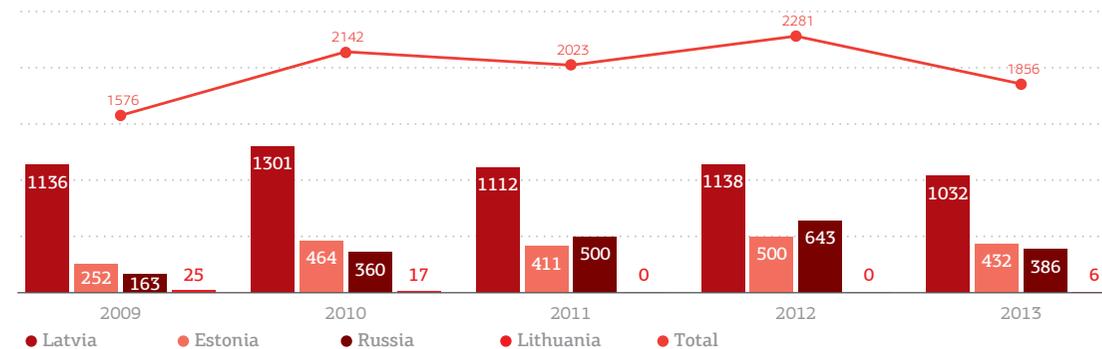
(million m³)



NATURAL GAS DELIVERIES FROM INČUKALNS UGS

The volume of natural gas extraction in 2013 was 1.86 billion m³, 425 million m³ less than the year before. The decrease was caused by the warmer weather conditions of 2013.

(million m³)

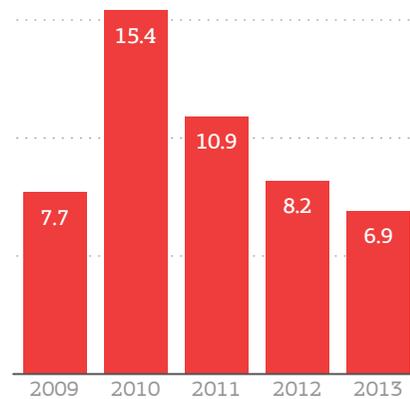


Modernization of Lithuania-Latvia interconnection

August 2013 saw completion of the project of capacity enhancement for the Lithuanian-Latvian interconnection, co-funded by the European Union, whereby 17 wells were modernized and the gas pipeline Riga-Vilnius was reconstructed. The upgrade of wells cost EUR 16.2 million, with 50% co-funded under the EC European Energy Programme for Recovery.

Foreign guests at Inčukalns UGS

In 2013, the Inčukalns UGS was visited by delegations of the Baltic Ministries of Economics and the Presidents of Finland and Latvia, as well as from the Japanese Embassy in Latvia.



INČUKALNS UGS INVESTMENTS (million EUR)

In 2013, eight wells of the storage facility underwent renovation following a tender, while one was renovated by the company's employees. The renovation works cost EUR 4.8 million.

Amongst other activities, equipment was purchased for reconstruction of 27 wells, and one of the injection aggregates underwent capital repair.

The design for the capital repair of 27 wells was developed in partnership with the scientific research institute VNIIGAZ of the OJSC "Gazprom". The rights to perform a capital repair of 24 wells in 2014-2016 were tendered in 2013.

- ◀ In September 2013, a complex inspection took place at the Inčukalns UGS with the participation of representatives of the State Environment Service, the State Fire and Rescue Service, and the State Labour Inspection, while in October the LLC "Bureau Veritas Latvia" conducted a re-certification audit for the ISO 14000 and OHSAS 18000 management systems of the Inčukalns UGS. Both the inspection and the audit yielded positive results. Moreover, the auditors were very appreciative of the labour safety level at the company and the employees' knowledge in the field of integrated management systems.

Natural gas is stored at a depth of 700m in a porous sandstone layer covered by gas-tight rocks. The sandstone storing natural gas is similar to those found at the banks of the Gauja River.

Natural gas is injected among the grains of sandstone, with all water squeezed out. Thus, there are no gaps underground. During injection, the pressure is raised in multiple cycles to the level required for natural gas. When the storage is full, it reaches 105 bars.

The storage takes up an area of 25 square kilometers. Its operation is secured by 180 wells, half of them being production wells and the other half being observation wells.

NATURAL GAS TRANSMISSION

The natural gas transmission system of the JSC "Latvijas Gāze" consists of gas transmission pipelines (GTP), gas regulation stations, underground anti-corrosion equipment for electrochemical protection of pipelines, communication and remote control lines, the information system SCADA, as well as the commercial cross-border gas metering station "Korneti".

The priority in 2013 was the internal diagnostics of gas transmission pipelines and a due elimination of any damage found in order to ensure safe and stable functioning of the system. A key purpose of the internal diagnostics of pipes is to find out the maximum permissible operating pressure in order to maintain a higher pressure inside gas transmission pipelines in future when the gas volume to be transmitted increases.

In 2013, in partnership with the company "Specneftegaz" (SAO "НПО "Спецнефтегаз"), the JSC "Latvijas Gāze" performed internal diagnostics for gas pipelines in the total length of 320.6 km. Taking into account the diagnostics carried out in the reporting year and in previous years, by the end of 2013 the JSC "Latvijas Gāze" had completed diagnostics for pipelines spanning 94% of the total transmission system length.

EUR 7 million was spent on the renovation of gas pipelines and the modernization of valve units during the reporting period.

In 2011, a bank washout was found on the crossing of the gas transmission pipelines Pskov-Rīga and Izborsk-Inčukalns Underground Gas Storage Facility (UGS) over the Gauja River. In order to check the technical condition of

the GTPs, an inspection and measurements of underwater passages were conducted at that place, and the results prompted a decision to repair the underwater passages of gas pipelines in 2013-2015, also transferring the line and rider valve units to flood-proof locations.

The year 2013 saw completion of the detail design for the Gauja crossing, and an expert examination of the design was carried out at the Project Examination Office of the Strategic Development Department of the OJSC "Gazprom". A tender on capital repairs was announced, and construction began already in December. It is expected to finish in late 2016, with the total costs of the project reaching EUR 13.4 million, incl. EUR 2.1 million spent in 2013.

In the reporting period, the gas metering station "Korneti" underwent reconstruction

and had a gas flow regulation unit built. The works cost EUR 1.1 million in total, and the object was put into operation in January 2014.

In August 2013, the project of capacity enhancement for the Lithuanian-Latvian interconnection, co-funded by the European Union, reached conclusion following reconstruction of the gas pipeline Riga-Vilnius and modernization of the Inčukalns UGS. Already in 2012, a new passage was built under the Daugava River, whereas on the Lithuanian side the Panevežys compressor station was modernized and gas pipeline sections were reconstructed. The construction costs of the Daugava crossing were EUR 7.9 million, and 50% of the investments were covered under the EC's European Energy Programme for Recovery.



WE LOOK FURTHER

Company's investment in employees,
society, and environment

CORPORATE SOCIAL RESPONSIBILITY

DIRECTIONS AND PRINCIPLES



ENVIRONMENT

- Natural gas is the most environment-friendly type of fuel with the lowest emissions of CO₂, ashes and other substances
- Promotion of energy-efficient appliances and heating solutions in the market
- Investment in reduction of losses of natural gas and other substances
- Improvement of energy efficiency at the company's objects



CORPORATE MANAGEMENT

- Listed on the "NASDAQ OMX" exchange with high standards of company management
- Transparency and publicity
- Equal treatment of all shareholders



COOPERATION AND STATE

- The company is one of the major taxpayers
- Cooperation with various state institutions in environmental, safety, planning and other areas
- Legislative initiatives
- Membership of international gas supply partnership and planning organizations



PERSONNEL

- High standards of occupational health and safety
- Support for education and qualification-raising
- Remuneration policy and collaboration with trade unions
- Improvement of the labour environment and team



CHARITY

- Support for sports and culture
- Support for education and science
- Support for children's social programmes



SAFETY

- Investment in the improvement of safety and infrastructure capacity
- Educating society in the safe use of natural gas
- Regular infrastructure monitoring and efficient emergency service
- Instruction and training of emergency service employees and other staff
- The company has a training centre where gas specialists of the company and beyond are instructed





PERSONNEL

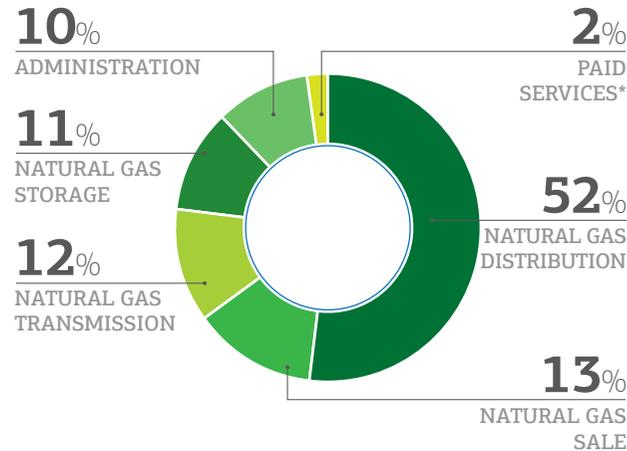
The JSC “Latvijas Gāze” realizes the crucial importance of qualified and motivated employees at the company.

We respect and value our employees. Hence, the personnel management policy is aimed at hiring employees who contribute to the efficiency of labour and to the achievement of the company’s strategic goals.

Personnel Policy

In order to draw employees satisfying the core values of its personnel policy, the company has introduced a competitive system of remuneration and bonuses, created a safe and modern labour environment, and implemented a programme of social protection and guarantees. In addition to the regulation of employment relations under state legislation, the company has a "Collective Labour Agreement" and "Rules of Labour Routine". The main purpose of the collective agreement is to set rules more beneficial terms to the employees. It covers aspects of employment guarantees, social guarantees, labour safety, and health protection. The company makes monthly payments to its employees in an open pension fund.

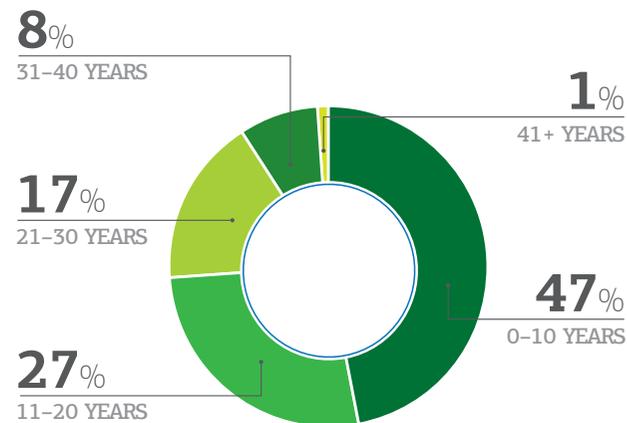
Personnel Description



* Services provided beyond regulated activity areas

◀ BREAKDOWN OF EMPLOYEES (by areas of activity)

The average number of employees of the JSC "Latvijas Gāze" has seen little change in a year. In 2013, the company employed 1267 people, which is 8 people less than in 2012. More than half of them worked in the sector of natural gas distribution, and this prevalence stems from the structure of customers. The vast majority of customers (98%) are households, most of which are stove users predominantly residing in an urban environment with broad distribution networks. These networks require maintenance and an emergency service. The second largest share of employees is that of natural gas sales, which is similarly subject to the influence of customer structure, because a large number of customers require proper customer service in Riga and other cities of Latvia.



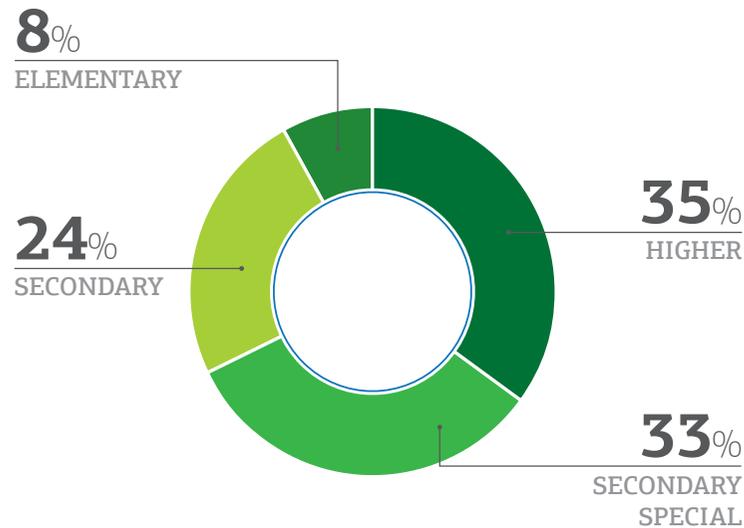
◀ LENGTH OF SERVICE OF EMPLOYEES

The company is notable for the longevity and stability of employees. 44% of the employees have worked at the JSC "Latvijas Gāze" for 11 to 30 years. A similar share (47%) is comprised of employees with a length of service up to 10 years. This hints at staff rejuvenation, but the company has enough experienced employees who can pass on their skills and knowledge to young specialists.

EDUCATION STRUCTURE OF EMPLOYEES

The company promotes both academic education and qualification-raising at specialized courses, seminars, and experience exchange programmes.

One of the priorities is support for gas technology studies. In 2013, for instance, four holders of the JSC “Latvijas Gāze” scholarship studies at the Russian State Oil and Gas University named after I.M.Gubkin; one of them was enrolled in 2013. The company now employs twelve graduates of this specialized university, and ten of them have held the company’s scholarship..



JSC “Latvijas Gāze” Training Centre

The JSC “Latvijas Gāze” cares not only for the qualification of its employees, but also for the industry in general. The company runs a training centre, which instructs and certifies almost all specialists of the gas industry. The centre provides tuition not only to employees of the JSC “Latvijas Gāze”, but also to individual specialists and those representing other companies.

In 2013, the Training Centre of the JSC “Latvijas Gāze” hosted courses for 236 training groups. 910 of 1677 attendees were employees of the company.





SOCIETY

The JSC “Latvijas Gāze” believes that a sustainable development lies in responsibility for the society overall, support to eminent people, and care for those in trouble.

For that reason we contribute funds to programmes in support of education, culture, science, and sports, as well as to environmental and social projects. Our goal is to implement a socially responsible policy, to promote the development of culture and a healthy society, and to improve the general level of education. Particularly important in our view is the development of the natural gas industry and the related education, as well as the public knowledge in the matters of safe natural gas usage.

EDUCATION AND HISTORY

The year 2013 saw continuation of our partnership with the Latvian Academy of Sciences (LAoS), the Riga Technical University (RTU) and other establishments of science, research, and education. Last year, funds were donated to the foundation "Riga Technical University Development Fund" to be spent on scholarships for students of the Institute of Heat, Gas and Water Technologies of the RTU Faculty of Building and Civil Engineering, as well as on graduation paper scholarships for the most prominent students and their advisers.

In partnership with the LAoS, the company annually presents an award to eminent scientists and creative practitioners in the field of gas, heat, and related chemical technologies, as well as in heart surgery, cardiology, and organ transplantation for a

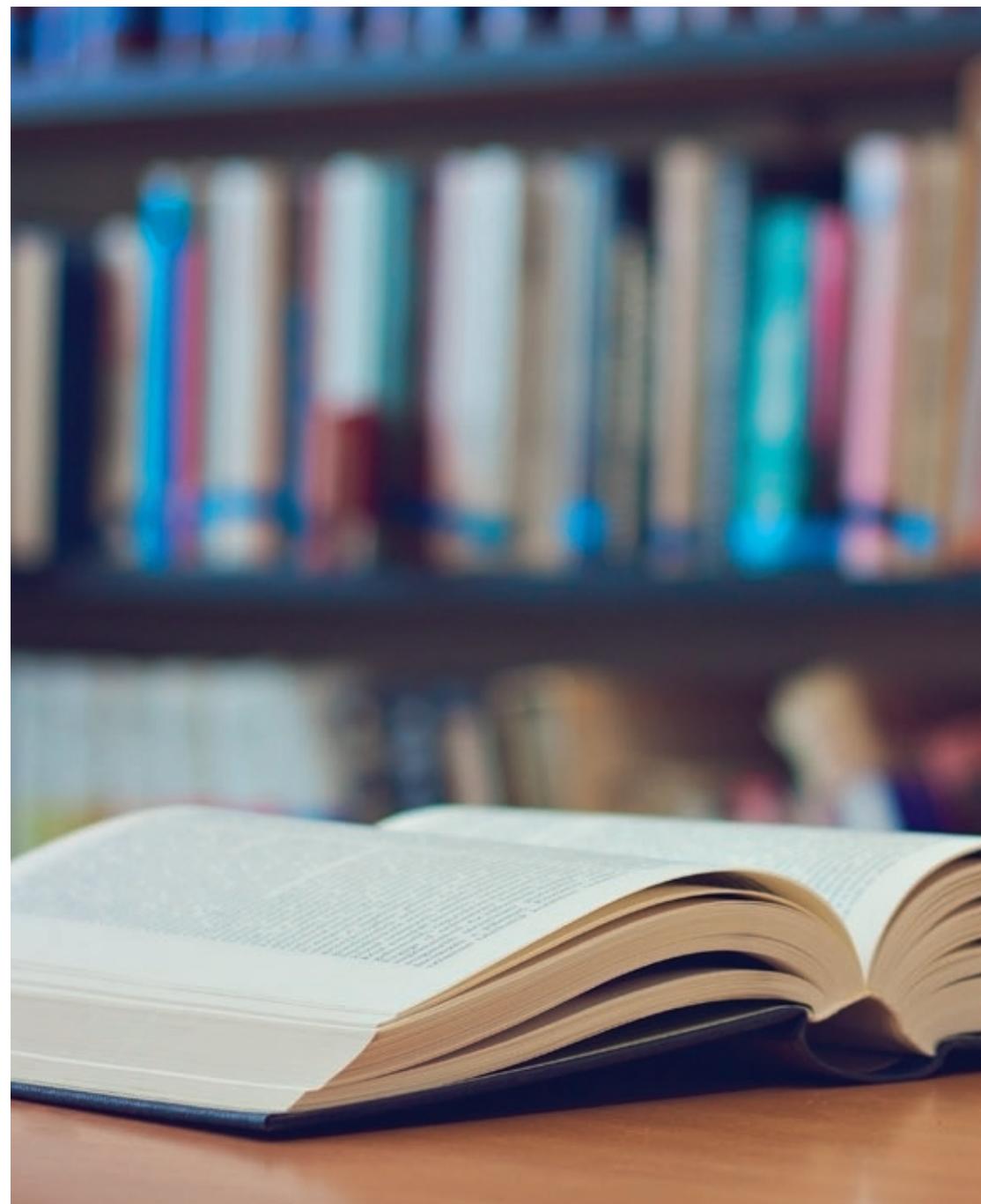
SOCIAL PROJECTS

More support than typically was granted to a variety of social and charity projects. The range of beneficiaries was very broad. For instance, we funded the renovation of the Riga St. Mary Magdalen's church, which is a European-importance monument of Gothic-Renaissance architecture and art included in the UNESCO World Cultural Heritage List. We also gave support to children, disabled persons, and other groups of people requiring aid.

distinguished set of works or life contribution. Prizes are also awarded to doctoral students in the sciences of gas and heat technologies, cardiology and organ transplantation.

We provided financial support for the conference on the analysis of current social developments organized by the LAoS, the University of Latvia, and several public organizations. We also supported the LAoS public dignity award "Cicero" and the preparation of a digest of writings "Romis Bēms. Domu un atmiņu dārzos" ('Romis Bēms. In the Gardens of Thoughts and Memories') in remembrance of honoured LAoS member, painter, and art scientist professor Romis Bēms. Another beneficiary of our support in 2013 was the Museum of History of Latvian Chemistry.

As in previous years, we allocated funding to the foundation "Latvian Children's Fund", the charity foundation "Mazais Princis" ('Little Prince'), and the Latvian Association of Foster Families. The society "Latvijas bērniem ar kustību traucējumiem" ('Association for Latvian Children with Physical Disabilities') received support for the summer programme of intensive social and medical rehabilitation "Mēs varam, ja mēs gribam" ('We Can If We Want').



CULTURE

We made our annual contribution to the Latvian National Opera (LNO). Its purpose is to maintain the national cultural heritage of opera and ballet, to develop the culture of opera, operetta, ballet and music, and to popularize it in Latvia and abroad, as well as to ensure accessibility of achievements of the world culture of opera, ballet, and music in our country. The partnership with the LNO began in 2005, and since then we have become the most generous sponsor in the opera's history and a patron of it. As is traditional, the new theatre season is inaugurated by the JSC "Latvijas Gāze" award-giving ceremony and the concert given by the prize-winners.

In 2013, we rendered support to the festival "Summertime – aicina Inese Galante" ('Summertime – Inese Galante Invites') organized by the Inese Galante Foundation in Jūrmala and the commemoration event of Edgars Liepiņš in Saulkrasti. As in previous years, one of the beneficiaries of our support was the Hermann Braun Foundation – a music agency popularizing the work of Latvian musicians and arranging concerts of distinguished guest artists in Latvia. Also supported was the Bach Music Foundation for organizing the concerts of the annual Bach Music Festival.

We co-funded the concerts of "Mūsdienu mūzikas centrs" ('Contemporary Music Centre') and the projects of the Latvian Radio Big Band under the leadership of Raimonds Pauls. Funding in 2013 was also granted to the folk dance collectives "Līgo", "Sānsolis", the Daile Theatre and the Riga

Musical Theatre, as well as to the staging of new productions at the Latvian National Theatre and the Daugavpils Theatre.

We were also of help with the personal exhibition of textile artist Edīte Pauls-Vīgnere in observance of her 75th birthday and with the documentary "Dzīvot labāk" ('To Live Better') produced by Andrejs Ēķis about Latvia joining the eurozone.

Another noteworthy initiative supported by us in 2013 is the emerging project "Prāta piedzīvojums" ('The Adventure of Mind') by the publishing house "Dienas Grāmata" targeted to publish and promote new Latvian prose works. 16 new notable pieces of prose are to be written by Latvian authors and published in 2014 under the project.





SPORTS

We are one of the major contributors to sports in Latvia, having aided the development of the Latvian Olympic Movement and professional sports for more than fifteen years. In 2013, as is traditional, we financed the Latvian Olympic Committee in its preparation for the XXII Winter Olympic Games in Sochi, and prominent Latvian winter sports bodies – the Latvian Bobsleigh

and Skeleton Federation and the Latvian Biathlon Federation – for the events of the Olympic season 2013/2014. Support was also rendered to the project “Latvijas māja” (‘House of Latvia’) implemented during the Olympics in Sochi.

Funding was granted to both national basketball teams of Latvia, the Latvian Volleyball Federation, the Latvian Tennis

Union, the Latvian Floorball Union, and the Latvian Orienteering Federation – for the youth, junior, and senior national teams to compete and for a stage of the Latvian Cup to take place.

We also supported the Latvian Association for Ice-Hockey Development, the Latvian Cycling Federation received funds for their youth programmes, and the

Latvian Dance Sport Federation was co-funded the Latvian Championships of Standard Dances and the annual competition “Dzintarjūra” (‘Amber Sea’).

ENVIRONMENTAL PROTECTION

Given the global importance of environmental protection and the specific nature of our company, environmental matters hold a prominent role in the operation of the JSC "Latvijas Gāze". The technological processes taking place in the gas industry imply the emission of multiple chemical substances, such as methane in the storage, transmission and distribution systems, or carbon dioxide in the units used to inject natural gas into the Inčukalns UGS. Being aware of our interaction with the environment, we take a number of compulsory and vocational measures to mitigate the harm as much as possible.

We implement an environment policy such as to:

- achieve sustainable environmental protection and economic activity indices;
- maintain a mutual understanding and close communication with state and municipal institutions, as well as society;
- actively improve the qualifications of our personnel;
- ensure due identification of the impact of economic activity on the environment, analysis of its causes and assessment of issues;
- constantly study, analyse and observe the requirements of normative acts;
- ensure proper action in emergency situations.

In the reporting year, the company submitted to the Environmental Risk Division of the Latvian Environment, Geology and Meteorology Centre the information necessary for admission to the unified register of greenhouse gas emission allowances set up by the European Union.

Furthermore, the Ministry of Environmental Protection and Regional Development approved amendments to the company's allowance of greenhouse gas emissions at the Inčukalns UGS for the period of 2013-2020. The plan envisages an increase of emissions, as the volume of extraction and injection at the storage facility has grown over the recent years, and this trend is expected to persist in the future.

SUMMARY FINANCIAL STATEMENTS

Board report on financial indicators of 2013





REPORT OF THE BOARD OF DIRECTORS

1. ACTIVITY OF THE COMPANY IN THE REPORTING YEAR

The Joint Stock Company “Latvijas Gāze” (hereinafter the Company) is an energy supply company engaged in natural gas transmission, storage, distribution and sale. In 1997, the Energy Supply Regulation Council of the Republic of Latvia issued to the Company exclusive licences for the provision of regulated public services till February 10, 2017. On January 31, 2007, the Council of the Public Utility Commission (hereinafter the PUC) issued to the Company a licence for natural gas sale till February 10, 2012. The licence for natural gas sale from February 11, 2012 through February 10, 2017 was issued by the PUC Council on January 12, 2012. Under the Energy Law, the Company is a natural gas supply system operator, which ensures uninterrupted and safe natural gas supply to customers in Latvia, avoiding overloads of system capacity.

Over the reporting year, the users were supplied 1 451.9 million m³ of natural gas. In comparison with 2012, natural gas sales in m³ fell by 0.8%. The decrease of natural gas sales stemmed from the record-high air temperature at the end of the reporting year, as well as the investments of heat supply companies in the use of renewable energy sources and partial replacement of fossil fuels with woodchip. The changes in the natural gas sale prices in 2013 compared with 2012 were influenced by changes in oil product quotations at the stock exchange, currency rates and gas supply flows.

In 2013, natural gas was sold to customers for the natural gas sale end-user tariffs set in the resolution No.247 “On natural gas supply tariffs of the Joint Stock Company “Latvijas Gāze”” of the PUC Council dated July 24, 2008, which under the resolution No.258 “On the procedure of application of resolution No.247” of the PUC Council dated June 2, 2010 are exclusive of excise tax. As of July 1, 2011, natural gas used as heating fuel

is applied an excise tax of 12 LVL/thsd. m³ (17.07 EUR/thsd. m³), while natural gas used as motor fuel – 70 LVL/thsd. m³ (99.60 EUR/thsd. m³).

The applied differential natural gas sale end-user tariffs consist of two parts: fixed regulated service tariffs and the natural gas sale price, which changes with a step of 5 LVL/thsd. m³ (7.11 EUR/thsd.m³) depending on the actual natural gas purchase costs. For users with the annual natural gas consumption over 25 thsd. m³, the applicable natural gas sale end-user tariff changes monthly, whereas for users with the annual natural gas consumption of up to 25 thsd. m³ – once in six months, i.e., on January 1 and July 1.

In 2013, the Company sold natural gas and provided services to customers for LVL 403.4 million (EUR 574 million), which is a decrease by 5.6% year-on-year; the expenses (excluding the administrative costs) amounted to LVL 365.5 million (EUR 520.1 million) and the gross profit to LVL

37.9 million (EUR 53.9 million). The changes in the structure of net turnover resulted from changes in the natural gas sales volume and the natural gas sale price, as well as the increased efficiency of usage of the Inčukalns Underground Gas Storage Facility (hereinafter Inčukalns UGS).

Over the season of 2013, 2.14 billion m³ of natural gas were injected into the Inčukalns UGS and 1.86 billion m³ were withdrawn. Compared with the season of 2012, the volume of natural gas injected fell by 2.7% with 182.3 million m³ of gas remaining at the end of the 2012/2013 heating season, while volume of natural gas withdrawn fell by 18.4%.

The Company completed the year 2013 with a net profit of LVL 22.6 million (EUR 32.2 million), which is LVL 0.3 million (EUR 0.4 million) or 1.3% below that of 2012 with LVL 22.9 million (EUR 32.6 million). The net profitability was 5.6% in 2013 and 5.4% in 2012.

In 2013, the Company invested LVL 19.8 million (EUR 28.2 million) in the modernization of the gas supply system and the creation of new fixed assets. 44.1% of the total investment was spent on the modernization of gas transmission pipeline system, 29% – on the expansion of distribution networks and the renewal of fixed assets, and 24.3% – on the improvement of operation safety and the modernization of equipment at the Inčukalns UGS. The total number of gas-enabled objects at the end of the year reached 443.3 thousand.

The year 2013 saw completion of the EERP-INTG-RF-LV-LT project. On August 17, 2010, the Company received the resolution No.C(2010) 5554 of the European Commission dated August 13, 2010 on the award of a financial grant to Action No.EEPR-2009-INTg-RF-LV-LT-I2.566527/I2.566531/ SI2.566541/ SI2.566543 under the EC Regulation No.663/2009 on gas and electricity interconnections.

With this resolution, the modernization of 15 wells at the Inčukalns UGS and the construction of a gas passage under the Daugava River and a pig receiver was granted LVL 7 million (EUR 10 million) to stabilize natural gas supplies between Lithuania and Latvia in emergency situations.

The planned jobs were completed in 2011, whereas in 2012 two additional wells of the Inčukalns UGS were modernized for the funding granted but not yet spent. The total costs of the project implementation reached EUR 24.1 million, including EUR 16.2 million for the modernization of wells at the Inčukalns UGS and EUR 7.9 million for the construction of a gas passage under the

Daugava River and a pig receiver. The last EUR 3 million of the funding granted by the EC was received on August 1, 2013.

The reporting period saw completion of the modernization of eight wells, with LVL 3.4 million (EUR 4.8 million) spent, and reception of the equipment necessary for the capital repair of further 27 wells in 2014-2016.

The elimination of damage found during the diagnostics of gas transmission pipelines is in progress. LVL 4.9 million (EUR 7.0 million) has been spent on the renovation of gas pipelines and the modernization of valve units. The year 2013 also marked completion of the reconstruction of the GMS "Korneti", which included the construction of a flow regulator and cost LVL 0.8 million (EUR 1.1 million) in total, and the beginning of the construction of new passages of gas transmission pipelines Pskov-Riga and Izborsk-Inčukalns UGS across the Gauja river with the shifting of inverted siphons and cables to a safer, flood-proof location using the sloped drilling method. The job is due for completion in late 2016, and the total project costs are estimated to LVL 9.4 million (EUR 13.4 million), including LVL 1.5 million (EUR 2.1 million) already spent in 2013.

In 2013, LVL 0.9 million (EUR 1.3 million) was spent on the construction of gas distribution pipelines and LVL 1.4 million (EUR 2.0 million) on the renovation of existing gas pipelines.

The heat-insulation and reconstruction of engineering and technological buildings and constructions is in progress. LVL 1.6 million (EUR 2.3 million) has been spent for this purpose, including the renovation of the administrative building and the construction of customer service centers in Daugavpils and Bauska.

2. RESEARCH AND DEVELOPMENT

In order to ensure uninterrupted natural gas supply to users and safe operation of the gas supply system in the long term, the Company has developed the "Plan of Measures for the Improvement of Safety of the Gas Supply System of the Joint Stock Company "Latvijas Gāze" 2010-2015". It has been prepared based on the conclusions made by Russian companies "Gazobezopasnostj" and "Lentransgaz", institutes "VNIIGAZ" and "Giprospecgaz", as well as German companies "Pipeline Engineering GmbH", "Untergrundspeicher und Geotechnologie – Systeme GmbH", "E.ON Engineering GmbH", "E.ON Ruhrgas International AG" and other partners regarding the technical condition of the equipment and modernization options. The plan of measures envisages investments in safety improvement with the total amount of LVL 50.6 million (EUR 72 million).

In 2011, the OJSC „Gazprom VNIIGAZ” developed a program of the modernization of technological equipment and the improvement of operation safety at the Inčukalns UGS till 2025. The concept covers two development scenarios – with and without increasing the natural gas storage capacity. The projected costs are LVL 253 million (EUR 360 million) and LVL 133.5 million (EUR 190 million) respectively. On the basis of this document, the Company drew up a project "Modernization and Expansion of Inčukalns UGS" and another project jointly with the JSC "Lietuvos Dujos" "Increasing the Capacity of Interconnection between Latvia and Lithuania" and submitted both projects

to the EC for inclusion in the list of Projects of common European interest under the Infrastructure Regulation. Both projects are featured in the initial regional list of Projects of common European interest. In the case of a favourable decision, it is possible to attract funding from the European funds.

3. FINANCIAL RISK MANAGEMENT

The operation of the Company is exposed to a variety of financial risks, including credit risk and risks of fluctuation of foreign currency rates and interest rates. The management of the Company strives to minimize the negative impact of potential financial risks on the financial state of the Company.

The Company is not directly subject to the risk of fluctuation of foreign currency rates as the gas purchase price is set in US dollars (USD) and subsequently recalculated into euros (EUR), whereas gas sale tariffs are set in lats (LVL). Settlements for the supplied gas are made in EUR. Gas purchase price changes in US dollars (USD) depending on the oil products quotation are covered by the PUC Council approved natural gas sale tariffs, which to a certain extent cover the fluctuations of both LVL/EUR and EUR/USD rate. The risk of fluctuation of foreign currency rates concerning debts to suppliers is kept under control by holding a considerable part of cash assets in deposits in the respective currency.

As of the end of the reporting year, the Company has no loans, thus it is not subject to the risk of interest rate fluctuations.

The financial assets subject to credit risk mainly consist of customer debts and cash. The Company is exposed to a considerable degree of credit risk concentration due to the fact that a notable share of the net turnover is bound to a limited number of customers. Four of the Company's customers make up to 51.5% (in 2012 – 48.6%) of sales. One of these debtors as of December 31, 2013 comprised 29.5% (34.7% in 2012) of the total number of customer debts, the second and third major debtors 6.9% and 4.5% respectively (9.8% and 5.4% in 2012).

The Company has introduced and observes a credit policy that envisages selling goods on credit only to customers with a good credit history, controlling the amount of credit set for each customer.

The customer debts are shown at their recoverable value. The Company's partners in monetary transactions are local financial institutions with proper credit history.

The Company observes prudent liquidity risk management, ensuring sufficient

availability of credit resources for meeting liabilities in due time.

4. POST BALANCE SHEET EVENT

During the period since the last day of the reporting year there have been no events of a material effect on the result of the reporting year.

5. FUTURE PROSPECTS

Having regard of the investments in the improvement of the system operation safety, the expansion of the gas pipeline network and the attraction of new customers of previous years and the reporting year, as well as taking into account the situation in the fuel market of Latvia, the Board of the Company believes that in 2014 the Company will continue successful development and maintain a stable place in the fuel supply market.

6. DISTRIBUTION OF THE PROFIT OF 2013 AS RECOMMENDED BY THE BOARD

	2013 (LVL)	2013 (EUR)
Profit of the reporting year	22 595 513	32 150 519
Share of profit not available for distribution (unrealised deferred tax credit resulting from the revalued fixed assets)	(1 789 351)	(2 546 017)
Share of profit available for distribution	20 806 162	29 604 502
Suggested distribution of profit:		
dividends to shareholders (89.4 %)	20 190 153	28 728 000
dividends per share (Ls/1 share)	0,506	0,72
Statutory reserves	616 009	876 502

Some members of the Council and the Board of the Company hold shares and interests at numerous companies registered in the Registry of Enterprises of the Republic of Latvia, and they perform managerial functions there. Over the reporting year, the Company has not executed transactions of considerable amount (except for those disclosed in the financial

statements) with these companies.

Information of the shares of the Company held by members of the Board and the Council of the Company is available at the Board of the Company.

Adrians Dāvis
Chairman of the Board



Board meeting minutes No. 18 (2014)
Riga, April 29, 2014

PROFIT AND LOSS ACCOUNT

FOR THE YEAR (ENDED DECEMBER 31, 2013)

	2013 (LVL)	2012 (LVL)	2013 (EUR)	2012 (EUR)
1 Net sales	403 383 501	427 412 773	573 963 012	608 153 586
2 Cost of sales	(365 490 459)	(394 693 027)	(520 046 071)	(561 597 582)
3 Gross profit	37 893 042	32 719 746	53 916 941	46 556 004
5 Administrative expenses	(6 981 166)	(6 924 598)	(9 933 304)	(9 852 815)
6 Other operating income	1 908 353	1 984 974	2 715 342	2 824 364
7 Other operating expenses	(5 294 131)	(2 888 180)	(7 532 870)	(4 109 510)
10 Other interest income and similar income	1 914 448	3 423 886	2 724 014	4 871 751
11 Changes in the value of long term financial investments and short term securities	(101)	188	(144)	267
12 Interest expenses and similar expenses	(2 097)	(16 930)	(2 983)	(24 089)
13 Provisions for bad and doubtful debtors, net	(2 275 021)	(1 263 706)	(3 237 063)	(1 798 092)
14 Provisions for obsolete and slow moving inventories, net	74 307	207 989	105 729	295 942
16 Profit before taxes	27 237 634	27 243 369	38 755 662	38 763 822
17 Corporate income tax for the reporting year	(4 156 598)	(4 255 396)	(5 914 306)	(6 054 883)
18 Deferred income tax	277 858	722 653	395 356	1 028 242
19 Other taxes	(763 381)	(769 066)	(1 086 193)	(1 094 282)
20 Current year's profit	22 595 513	22 941 560	32 150 519	32 642 899
Unrealised deferred tax gain related to fixed assets revaluation	(1 789 351)	(1 590 168)	(2 546 017)	(2 262 605)
Current year's profit available for distribution	20 806 162	21 351 392	29 604 502	30 380 294

BALANCE SHEET AS AT DECEMBER 31, 2013

(1)

	31.12.2013. (LVL)	31.12.2012. (LVL)	31.12.2013. (EUR)	31.12.2012. (EUR)	
ASSETS					
LONG-TERM INVESTMENTS					
I Intangible assets:					
2	Concessions, patents, licenses, trademarks and similar rights	1 932 519	2 090 460	2 749 727	2 974 457
5	Advance payments for intangible assets	28 966	28 966	41 215	41 215
Total intangible assets:		1 961 485	2 119 426	2 790 942	3 015 672
II Fixed assets:					
1	Land, buildings, constructions and gas transmission system	341 509 764	345 457 809	485 924 616	491 542 178
3	Equipment and machinery	45 134 810	47 496 309	64 221 049	67 581 159
4	Other fixed assets	5 088 960	5 487 511	7 240 938	7 808 025
5	Advances for fixed assets and fixed assets under construction	6 129 355	3 955 223	8 721 286	5 627 775
Total fixed assets:		397 862 889	402 396 852	566 107 889	572 559 137
V Long-term financial investments:					
3	Investment in associated companies	80	80	114	114
5	Other securities and investments	4 120	4 221	5 862	6 005
9	Other long-term debtors	2 070	2 108 412	2 945	3 000 000
Total long-term financial investments:		6 270	2 112 713	8 921	3 006 119
Total long-term investments:		399 830 644	406 628 991	568 907 752	578 580 928
CURRENT ASSETS					
I Inventories:					
1	Raw materials and consumables	130 135 941	93 275 769	185 166 762	132 719 462
5	Advances for goods receivable	7 835	776 807	11 148	1 105 297
Total inventories:		130 143 776	94 052 576	185 177 910	133 824 759
III Debtors:					
1	Trade debtors	26 685 527	54 817 083	37 970 084	77 997 682
3	Receivables from affiliated companies	1 047 975	2 436 225	1 491 134	3 466 436
4	Other debtors	1 296 075	1 899 120	1 844 149	2 702 205
7	Deferred expenses	267 955	375 582	381 266	534 405
Total debtors:		29 297 532	59 528 010	41 686 633	84 700 728
IV Short-term financial investments:					
5	Other securities and investments	198	198	282	282
9	Term deposits	27 339 076	-	38 900 000	-
Total short-term financial investments:		27 339 274	198	38 900 282	282
V Cash and bank:					
Total current assets:		210 362 260	176 164 413	299 318 530	250 659 378
Total assets		610 192 904	582 793 404	868 226 282	829 240 306

BALANCE SHEET AS AT DECEMBER 31, 2013

(2)

	31.12.2013. (LVL)	31.12.2012. (LVL)	31.12.2013. (EUR)	31.12.2012. (EUR)	
LIABILITIES					
SHAREHOLDERS' FUNDS:					
1	Share capital	39 900 000	39 900 000	56 772 585	56 772 585
2	Share premium	14 320 210	14 320 210	20 375 823	20 375 823
3	Long-term investments revaluation reserve	265 589 712	267 219 703	377 900 114	380 219 383
5	Reserves				
	c) statutory reserve	72 206 274	70 804 882	102 740 271	100 746 270
6	Retained earnings				
	a) previous years' retained earnings	13 198 431	11 608 263	18 779 676	16 517 071
	b) current year's retained profit	22 595 513	22 941 560	32 150 519	32 642 899
	Total shareholders' funds:	427 810 140	426 794 618	608 718 988	607 274 031
CREDITORS:					
Long-term creditors:					
12	Deferred income	20 215 361	20 363 168	28 763 867	28 974 177
15	Accruals for post-employment benefits and other employee benefits	4 084 631	4 581 002	5 811 906	6 518 179
16	Deferred tax liabilities	39 671 542	40 237 046	56 447 519	57 252 158
	Total long-term creditors:	63 971 534	65 181 216	91 023 292	92 744 514
Short-term creditors:					
5	Advances received	7 690 515	6 403 994	10 942 618	9 112 063
6	Trade creditors	90 693 599	61 000 372	129 045 366	86 795 710
8	Accounts payable to related companies	420 011	439 449	597 622	625 280
10	Taxes and state compulsory social insurance contributions	9 548 842	16 083 290	13 586 778	22 884 460
11	Other creditors	679 112	637 048	966 289	906 438
12	Deferred income	816 293	794 211	1 161 480	1 130 060
15	Accrued liabilities	8 562 858	5 459 206	12 183 849	7 767 750
	Total short-term creditors:	118 411 230	90 817 570	168 484 002	129 221 761
	Total creditors:	182 382 764	155 998 786	259 507 294	221 966 275
	Total liabilities and shareholders' funds	610 192 904	582 793 404	868 226 282	829 240 306

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR (ENDED DECEMBER 31, 2013)

	Share capital (LVL)	Share premium (LVL)	Long-term investments revaluation reserve (LVL)	Statutory reserve (LVL)	Retained earnings (LVL)	Total (LVL)
Balance as at 31 December 2011	39 900 000	14 320 210	184 963 409	69 048 633	37 304 512	345 536 764
Dividends	-	-	-	-	(23 940 000)	(23 940 000)
Transferred to reserves	-	-	-	1 756 249	(1 756 249)	-
Revaluation of fixed assets	-	-	98 820 238	-	-	98 820 238
Deferred tax liability arising on the revaluation of fixed assets	-	-	(14 823 036)	-	-	(14 823 036)
Disposal of revalued fixed assets	-	-	(2 048 127)	-	-	(2 048 127)
Deferred tax on disposal of revalued fixed assets	-	-	307 219	-	-	307 219
Profit for the year	-	-	-	-	22 941 560	22 941 560
Balance as at 31 December 2012	39 900 000	14 320 210	267 219 703	70 804 882	34 549 823	426 794 618
Dividends	-	-	-	-	(19 950 000)	(19 950 000)
Transferred to reserves	-	-	-	1 401 392	(1 401 392)	-
Revaluation of fixed assets	-	-	310 573	-	-	310 573
Deferred tax liability arising on the revaluation of fixed assets	-	-	(46 586)	-	-	(46 586)
Disposal of revalued fixed assets	-	-	(2 228 210)	-	-	(2 228 210)
Deferred tax on disposal of revalued fixed assets	-	-	334 232	-	-	334 232
Profit for the year	-	-	-	-	22 595 513	22 595 513
Balance as at 31 December 2013	39 900 000	14 320 210	265 589 712	72 206 274	35 793 944	427 810 140

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR (ENDED DECEMBER 31, 2013, continued)

	Share capital (EUR)	Share premium (EUR)	Long-term investments revaluation reserve (EUR)	Statutory reserve (EUR)	Retained earnings (EUR)	Total (EUR)
Balance as at 31 December 2011	56 772 585	20 375 823	263 179 221	98 247 353	53 079 539	491 654 521
Dividends	-	-	-	-	(34 063 551)	(34 063 551)
Transferred to reserves	-	-	-	2 498 917	(2 498 917)	-
Revaluation of fixed assets	-	-	140 608 531	-	-	140 608 531
Deferred tax liability arising on the revaluation of fixed assets	-	-	(21 091 280)	-	-	(21 091 280)
Disposal of revalued fixed assets	-	-	(2 914 222)	-	-	(2 914 222)
Deferred tax on disposal of revalued fixed assets	-	-	437 133	-	-	437 133
Profit for the year	-	-	-	-	32 642 899	32 642 899
Balance as at 31 December 2012	56 772 585	20 375 823	380 219 383	100 746 270	49 159 970	607 274 031
Dividends	-	-	-	-	(28 386 293)	(28 386 293)
Transferred to reserves	-	-	-	1 994 001	(1 994 001)	-
Revaluation of fixed assets	-	-	441 906	-	-	441 906
Deferred tax liability arising on the revaluation of fixed assets	-	-	(66 286)	-	-	(66 286)
Disposal of revalued fixed assets	-	-	(3 170 458)	-	-	(3 170 458)
Deferred tax on disposal of revalued fixed assets	-	-	475 569	-	-	475 569
Profit for the year	-	-	-	-	32 150 519	32 150 519
Balance as at 31 December 2013	56 772 585	20 375 823	377 900 114	102 740 271	50 930 195	608 718 988

Changes in Statutory reserves can only be made with shareholders' approval.

Revaluation reserve and share premium cannot be distributed to shareholders.

CASH FLOW STATEMENT

FOR THE YEAR (ENDED DECEMBER 31, 2013)

	2013 (LVL)	2012 (LVL)	2013 (EUR)	2012 (EUR)
I Cash flows from operating activities				
1 Profit before taxes	27 237 634	27 243 369	38 755 662	38 763 822
Adjustments for:				
- fixed asset depreciation and write-down of intangible assets	23 265 952	29 135 683	33 104 467	41 456 342
- difference between the actual and forecasted purchase cost of natural gas and income from participation charge	(823 714)	(5 459 068)	(1 172 039)	(7 767 554)
- change in provisions for inventories	(74 307)	(207 989)	(105 729)	(295 942)
- change in provisions for long-term financial investments	101	(188)	144	(267)
- change in accrued expenses for bonuses for reporting year's financial results	670 000	(713 600)	953 324	(1 015 361)
- change in accrued unused annual leave expenses	(93 338)	41 339	(132 808)	58 820
- change in other provisions	2 526 990	(80 345)	3 595 583	(114 321)
- changes in accruals for post employment benefits and other employee benefits	(496 371)	306 748	(706 273)	436 463
- interest income	(1 914 448)	(3 423 886)	(2 724 014)	(4 871 751)
- interest expense	2 097	16 930	2 983	24 089
- profit on sale of fixed assets	(703 855)	(57 860)	(1 001 495)	(82 327)
Adjustments for:				
Trade debtors decrease/ (increase)	29 519 806	(28 372 472)	42 002 900	(40 370 391)
Inventories increase	(36 054 216)	(17 147 190)	(51 300 528)	(24 398 253)
Trade creditors' increase	29 673 789	25 779 500	42 221 998	36 680 924
Other debtors' decrease	3 005 626	2 681 920	4 276 621	3 816 028
Other creditors' (increase) / decrease	(6 496 463)	3 099 751	(9 243 634)	4 410 548
3 Cash generated from operations	69 245 283	32 842 642	98 527 162	46 730 869
Interest income	271 809	712 828	386 749	1 014 263
Corporate income tax paid	(3 608 506)	(3 557 156)	(5 134 442)	(5 061 377)
6 Net cash flows generated from operating activities	65 908 586	29 998 314	93 779 469	42 683 755
II Cash flows used in investing activities				
Acquisition of fixed assets and intangible assets	(19 805 776)	(19 187 977)	(28 181 080)	(27 302 032)
Proceeds from sale of fixed assets	55 113	69 209	78 418	98 476
(Increase) / decrease of other investments in term deposits over 90 days, net	(27 339 076)	9 206 732	(38 900 000)	13 100 000
9 Net cash used in investing activities	(47 089 739)	(9 912 036)	(67 002 662)	(14 103 556)
III Cash flows used in financing activities				
EC funding received	2 129 202	1 380 141	3 029 582	1 963 764
Dividends paid	(19 950 000)	(23 940 000)	(28 386 293)	(34 063 551)
7 Net cash used in financing activities	(17 820 798)	(22 559 859)	(25 356 711)	(32 099 787)
Net increase / (decrease) during the reporting year in cash and cash equivalents	998 049	(2 473 581)	1 420 096	(3 519 588)
Cash and cash equivalents at the beginning of the reporting year	22 583 629	25 057 210	32 133 609	35 653 197
Cash and cash equivalents at the end of the reporting year	23 581 678	22 583 629	33 553 705	32 133 609

ACCOUNTING POLICIES

(a) Information on the Company

The legal address of the Joint Stock Company "Latvijas Gāze" is Vagonu street 20, Riga. The Company is registered in Commercial Register with common registration number 4000 300 0642. The Company's main shareholders are E.ON Ruhrgas International AG (47.23%), OJSC Gazprom (34.0%) and LLC Itera Latvija (16.0%). The Board of the Company consists of Adrians Dāvis (Chairman of the Board), Aleksandrs Mihejevs (Александр Михеев) (Member of the Board, Deputy Chairman of the Board), Jörg Tumat (Member of the Board, Deputy Chairman of the Board till 31 December, 2013), Mario Nulmeiers (Member of the Board, Deputy Chairman of the Board from 1 January, 2014), Anda Ulpe (Member of the Board) and Gints Freibergs (Member of the Board). The Company's auditor is the certified audit company PricewaterhouseCoopers SIA and certified auditor in charge Lolita Čapkeviča.

(b) Summary Financial Statements Preparation Basis

These summary financial statements, which comprise the balance sheet as at 31 December 2013, the profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, have been prepared by extraction from the relevant information included in the audited financial statements for the year ended 31 December 2013 prepared in accordance with the Law on Annual Reports of the Republic of Latvia. Accordingly, these summary financial statements are consistent with those accounts.

Audited financial statements are available from the Company's management.

(c) Net sales and income recognition

Sales are recognised upon delivery of gas or performance of services. Net sales represent the total of goods and services sold during the year net of discounts, value added tax and the difference between the actual and forecasted purchase cost of natural gas, which is used for determination of applicable natural gas selling price for the following month. Applicable natural gas selling price is calculated based on latest available data. The exchange rate for EUR/USD set by European Central Bank (hereinafter the ECB) set currency EUR/USD rate in the last day of the previous month, actual gross calorific value as well as planned volume of received and delivered gas are used in the calculation. Actual purchase costs of natural gas are calculated based on methodology approved by the Public Utility Commission (PUC's) Council, taking into account the exchange rate of EUR/USD at the last day of the month when gas is delivered, actual gross calorific value as well as actual volume of gas received from suppliers. The part of income to be written down in the next reporting periods related to difference between the actual and forecasted purchase cost of natural gas is recorded as deferred income.

Interest income is recognized according to the principle of time proportion using effective interest rate. Interest income from term deposits is classified as other operating income, while interest income from short-term deposits, cash and cash equivalents, late payment and other penalties is classified as interest income.

Accrual of interest income is ceased if its recoverability is uncertain. Based on prudence principle, penalties, including fines for late payments for gas, are recognised when received.

The income from residents and enterprises contribution to financing of construction works of gas pipelines is accounted for as deferred income and recognised in the profit and loss account over the expected useful life of constructed fixed assets of 30 to 40 years.

Income from EC funding related to property, plant and equipment is recognized as deferred income and is credited to the income statement systematically over the expected lives of the related assets.

(d) Foreign currency translation

The Company maintains its accounts in Latvian Lats. All transactions denominated in foreign currencies are converted to Lats at the exchange rate set by the Bank of Latvia prevailing on the day on which the transactions took place. Monetary assets and liabilities denominated in foreign currencies are translated in Lats in accordance with the official Bank of Latvia exchange rate for the last day of the reporting period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

	31.12.2013.	31.12.2012.
	LVL	LVL
1 USD	0,515	0,531
1 EUR	0,702804	0,702804

Financial statements in Euro currency are prepared using account closing balances in Ls at the last day of the reporting period, performing conversion to EUR by using the official fixed EUR / Ls rate set by the Bank of Latvia 1 EUR = Ls 0.702804 (1 EUR = Ls 0.702804, determined by Bank of Latvia as of December 30, 2004 reposing to resolution of the Council of Bank of Latvia) for all period January 1, 2013 till December 31, 2013.

(e) Intangible assets

Intangible assets are recorded at historic cost net of accumulated amortisation and impairment charge. Amortisation is calculated on a straight-line basis to write down each intangible asset to its estimated residual value over its estimated useful life. Generally, intangible assets are amortised over a period of 5 years.

(f) Fixed assets

Fixed assets are recorded at historic cost or revaluated amount net of accumulated depreciation and impairment charge. The company reevaluates buildings, gas transmission and distribution systems and equipment every 5 years.

Increase in value arising on revaluation is shown in equity under "Long-term investments revaluation reserve". Decrease that offsets a previous increase of the same asset's value recognised in the said reserve is charged against that reserve; any further decrease is charged to the current year's profit and loss account.

Depreciation is calculated on a straight-line basis to write down each fixed asset to its estimated residual value over its estimated useful life using following rates set by management:

	% per annum
Buildings	1 – 3
Gas transmission system	2 – 2,5
Machinery and equipment	5 – 20
Furniture and fittings	10 – 20
Computers and equipment	30

Depreciation is not calculated for land and buffer gas, advances for fixed assets and assets under construction.

The Company capitalises fixed assets with cost exceeding Ls 150 (EUR 213) and useful life exceeding 1 year.

Direct charges related to the particular fixed asset under construction are capitalised, during the period of time that is required to complete and prepare the asset for its intended use, as part of the cost of the asset.

Where the carrying amount of a fixed asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount and the impairment loss is recognised as an expense in the profit and loss account or off-set against the revaluation reserve if the fixed asset is carried at revalued amount. Recoverable amount is the higher of the fair value less costs to sell and the value in use of the related fixed asset.

Subsequent costs are included in the asset's carrying amount or recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Such costs are depreciated over the remaining useful life of the related asset. Capitalising the cost of mounted spare parts, the carrying value of the part replaced is written off to the profit and loss account.

Repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and gains from related asset's revaluation reserve write-off and are charged to the profit and loss account during the period in which they are incurred.

(g) Inventories

The cost of natural gas in Inčukalns UGS and in gas transmission pipelines is determined separately using the first-in first-out (FIFO) method based on total natural gas movement. The cost of natural gas comprises cost of gas purchased. Materials, spare parts, gas meters and other inventories cost is determined by the weighted average method. Direct labour, other direct costs and related production overheads are recognised on an accruals basis and charged to the profit and loss account in the period when incurred.

Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realisable value of inventories is lower than its cost, provisions are created to reduce the value of inventories to its net realisable value.

(h) Accounts receivable

Accounts receivable are recorded in the balance sheet at their amortised cost less provisions made to cover anticipated loss on bad and doubtful accounts receivable. Provisions for bad and doubtful accounts receivable are established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provisions for bad and doubtful accounts receivable is the difference between the amortised cost and the recoverable amount. The amount of the provision for bad and doubtful accounts receivable is recognised in the profit and loss account.

(i) Other long-term investments

Other long-term investments are disclosed at the cost less provisions created to cover losses on other than temporary diminution of value of investments. Assessment of investments is made each year based on latest available financial information.

(j) Borrowings

Borrowings are recognised initially at the proceeds received net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account.

(k) Taxes

Corporate income tax for the reporting period is included in the annual accounts based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided for using liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the annual accounts. The deferred tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed assets depreciation and intangible asset amortisation rates, accrued unused annual leave and bonus expenses, accruals for post employment and other benefits and provisions for bad and doubtful debts where the management is of the opinion that they will meet the criteria stated in Article 9 of the law "On Corporate Income Tax", and other accrued expenses and provisions for write down to net realisable value of inventory. The deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Increase in deferred tax liability that results from revaluation of fixed assets is charged to equity as respective increase in 'Long-term investments revaluation reserve' decrease. Decrease in deferred tax liability that results from depreciation of revaluated fixed assets is charged to the profit and loss account and the respective unrealised tax gain is shown in the notes to the annual report.

(l) Accrued liabilities and accrued unused annual leave expenses

Accrued liabilities are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Amount of accrued unused annual leave expenses is determined by multiplying the average daily wage of employees for the last six months of the reporting year by the amount of accrued but unused annual leave at the end of the reporting year.

The Company provides defined benefits upon retirement and in the period of employment for employees whose employment conditions meet defined criteria according to the Employment contract. Amount of benefit liability is calculated based on current salary level and number of employees, which are entitled or may become entitled to receive those payments, as well as based on actuarial assumptions. Once a year an actuary evaluates these liabilities. Expected benefit expenses are accrued during the employment period.

Liabilities for the employee benefits are presented in the balance sheet at their present value. Employee benefit liabilities are calculated for each year using Projected Unit Credit method. Both actuaries defined and publicly available assumptions are used in calculations regarding changes in demographic and financial variables.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances of current account with banks and short-term deposits with the original maturity up to 3 months, which can be easily converted to cash and are not subject of significant change in value.

(n) Related parties

Related parties are defined as the Company's major shareholders, which have a significant influence, members of the Council and members of the Board, their close relatives and companies in which they have a significant influence or control.

(o) Profit available for distribution

On revaluation of fixed assets additional temporary difference arises between fixed asset values for financial and tax purposes. According to accounting policies section (k) the respective increase in deferred tax liability is attributed to the 'Long-term investments revaluation reserve'. Decrease in deferred tax liability that results from depreciation of revalued fixed assets is charged to the profit and loss account as tax gain.

In order to comply with the Law on Annual reports of the Republic of Latvia Section 29 article 4, the said income cannot be distributed. Therefore, the profit available for distribution is calculated as net difference between net profit and unrealised deferred tax gain related to fixed asset revaluation.

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS (Translation from Latvian original*)

TO THE SHAREHOLDERS OF JSC "LATVIJAS GĀZE"

The accompanying summary financial statements, which comprise the balance sheet as at 31 December 2013 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, are derived from the audited financial statements of JSC "Latvijas Gāze" for the year ended 31 December 2013. We expressed an unmodified audit opinion on those financial statements in our report dated 29 April 2014. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by the Law on the Annual Reports of the Republic of Latvia. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of JSC "Latvijas Gāze".

MANAGEMENT'S RESPONSIBILITY FOR THE SUMMARY FINANCIAL STATEMENTS

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in the Accounting policies note (b) Summary Financial Statements Preparation Basis.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements."

OPINION

In our opinion, the summary financial statements derived from the audited financial statements of JSC "Latvijas Gāze" for the year ended 31 December 2013 are consistent, in all material respects, with those financial statements, in accordance with the relevant requirements established in Accounting policies note (b) Summary Financial Statements Preparation Basis.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5



Ilandra Lejiņa
Member of the Board



Lolita Čapkeviča
Certified auditor in charge
Certificate No. 120

Rīga, Latvia
1 July 2014

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.