



Joint stock company "Latvijas Gāze"

Annual accounts for the year ended 31 December 2013

Prepared in accordance with the International Financial Reporting Standards

Translation from Latvian original*

Riga, 2014

* This version of financial statements 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 financial statements takes precedence over this translation.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
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INFORMATION ON THE COMPANY

Name of the Company	JSC Latvijas Gāze
Legal status of the Company	Joint Stock Company
Registration number, place and date of registration	000300064 Riga, March 25, 1991
Address	Reregistered in Commercial Register December 20, 2004 with common registration No 40003000642 Vagonu street 20 Riga, LV-1009 Latvia
Names of major shareholders	E.ON Ruhrgas International GmbH (47.2%) JSC Gazprom (34.0%) LLC Itera Latvija (16.0%)
Names and positions of the Board members	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 December 31, 2013 Mario Nullmeier – Member of the Board, Deputy Chairman of the Board, from January 1, 2014 Anda Ulpe – Member of the Board Gints Freibergs – Member of the Board
Names and positions of the Council members	Kiril Seleznov (Кирилл Селезнев) – Chairman of the Council Juris Savickis – Deputy Chairman of the Council Matthias Kohlenbach – Deputy Chairman of the Council, till July 5, 2013, Member of the Council Achim Saul – Deputy Chairman of the Council, from July 5, 2013 Uwe Fip – Member of the Council Mario Nullmeier – Member of the Council, till December 31, 2013 Andreas Rau – Member of the Council, till July 5, 2013 Peter Klingenberger – Member of the Council, till July 5, 2013 Rainer Link – Member of the Council, from July 5, 2013 Jörg Tumat – Member of the Council, from January 1, 2014 Jelena Karpel (Елена Карпель) – Member of the Council Vlada Rusakova (Влада Русакова) – Member of the Council Igor Nazarov (Игорь Назаров) – Member of the Council, till July 5, 2013 Aleksandr Krasnenkov (Александр Красненков) – Member of the Council, till July 5, 2013 Jelena Mihailova (Елена Михайлова) – Member of the Council, from July 5, 2013 Nikolay Dubik (Николай Дубик) – Member of the Council, from July 5, 2013
Financial year	1 January – 31 December 2013

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Information on the Company (continued)

Name and address of the auditor and responsible certified auditor	PricewaterhouseCoopers SIA Certified audit company Licence No.5 Kr. Valdemara iela 21-21 Riga, LV-1010 Latvia Certified auditor in charge: Lolita Čapkeviča Certified auditor Certificate No.120
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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 thru 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 with 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 natural gas retail 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 from 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 annual natural gas consumption over 25 thousand m³, the applicable natural gas sale end-user tariff changes monthly, whereas for users with the annual natural gas consumption 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 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 millin) 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 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 was 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 (hereinafter the EC) 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

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Report of the Board of Directors (continued)

1. Activity of the Company in the reporting year (continued)

Daugava river and a pig receiver were granted Ls 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 project implementation reached EUR 24.1 million, incl. 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 Ls 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 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 centres in Daugavpils and Bauska.

Company's main ratios:

	2013	2012	2011	2013	2012	2011
	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
Revenue	403 384	427 413	353 338	573 963	608 154	502 755
EBITDA	47 738	53 584	50 102	67 925	76 244	71 290
EBITDA %	11.83%	12.54%	14.18%	11.83%	12.54%	14.18%
Profit from operating activities	24 472	24 448	28 888	34 821	34 787	41 105
Profitability of operating activities (%)	6.07%	5.72%	8.18%	6.07%	5.72%	8.18%
Profit for the year	20 702	21 201	25 729	29 457	30 167	36 610
Net profitability (%)	5.13%	4.96%	7.28%	5.13%	4.96%	7.28%
Total liquidity	1.77	1.94	2.15	1.77	1.94	2.15
Total assets	610 193	582 793	463 777	868 226	829 240	659 895
Equity	427 811	426 795	345 537	608 721	607 275	491 655
Return on assets (ROA)	3.47%	4.05%	5.76%	3.47%	4.05%	5.76%
Return on equity (ROE)	4.84%	5.49%	7.52%	4.84%	5.49%	7.52%
Number of shares	39 900	39 900	39 900	39 900	39 900	39 900

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Report of the Board of Directors (continued)

1. Activity of the Company in the reporting year (continued)

	2013	2012	2011	2013	2012	2011
	LVL	LVL	LVL	EUR	EUR	EUR
Profit per share (EPS)	0.519	0.531	0.645	0.738	0.756	0.918
P/E	12.72	11.31	8.76	12.72	11.31	8.76
BV	10.72	10.70	8.66	15.26	15.22	12.32
P/BV	0.62	0.56	0.65	0.62	0.56	0.65
Dividends per share (DPS)*	0.506	0.500	0.600	0.72	0.71	0.85
Return on dividends (dividends per share/ profit per share)	0.98	0.94	0.93	0.98	0.94	0.93
Share price at the end of the period	6.60	6.01	5.65	9.39	8.55	8.04

* The Board of the Company will propose to the Council to pay dividends in amount of LVL 0.506 (EUR 0.72) for each share for year 2013.

2. Research and development measures

In order to ensure uninterrupted natural gas supply to users and safe operation of the gas supply system in 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 the Russian companies “Gazobezопасnostj” and “Lentransgaz”, the institutes “VNIIGAZ” and “Giprospepgaz”, as well as the 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 investment in safety improvement for the total amount of LVL 50.6 million (EUR 72 million).

In 2011, the OJSC „Gazprom VNIIGAZ” prepared a programme of modernization of the Inčukalns UGS up to 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) or LVL 133.5 million (EUR 190 million) respectively. Based on this document, the Company has prepared the project “The modernisation and growth of Inčukalns UGS” and project “Increasing the Capacity of Interconnection between Latvia and Lithuania” in cooperation with JSC “Lietuvos Dujos”, and submitted them to European Commission for inclusion into the list of European projects, as it is defined by the Regulation on Infrastructure. Both of the projects are included into the initial regional list of European projects. In case of positive decision, it is possible to attract the resources from the European Foundation for the realization of the projects.

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 USD and subsequently recalculated into EUR, whereas gas sale tariffs are set in lats (LVL). Settlements for the supplied gas are made in EUR. The lats rate is pegged to the euro rate since January 1, 2005, so fluctuations of the LVL/EUR rate are limited and unlikely to have a notable influence on further financial results. Gas purchase price changes in USD depending on the oil products quotation are covered by the PUC-approved natural gas sale tariffs, which to a certain extent cover the fluctuations of both the LVL/EUR and

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Report of the Board of Directors (continued)

3. Financial Risk Management (continued)

EUR/USD rate. The risk of fluctuation of foreign currency rates as concerns debts to suppliers is kept under control by holding a considerable part of cash assets in deposits of the respective currency.

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

The financial assets subject to credit risk basically consist of customer debts and cash. The Company is exposed to a considerable degree of credit risk because a notable share of the net turnover applies to a limited number of customers. Four of the Company's customers make up to 51.5% (in 2012 – 48.6%) of sales, and one of these debtors as at December 31, 2013 comprised 29.5% (34.7% in 2012) of the total amount 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 a proper credit history.

The Company observes cautious liquidity risk management, ensuring sufficient availability of credit resources for meeting liabilities in due time.

4. Post balance sheet events

There are no subsequent events since the last date of the reporting year that would have a significant effect on the financial position of the Company as at December 31, 2013.

5. Distribution of the Profit of 2013 as Recommended by the Board

Distribution of the profit is made based on net profit which is reported in the Company's financial statements prepared in accordance with the Law on Annual Reports of the Republic of Latvia.

Difference with the net profit shown in those financial statements is LVL 1.9 million (EUR 2.7 million) and it arises as a result of different accounting treatment for disposed revalued property, plant and equipment and related deferred income tax adjustment.

	2013	2013
	LVL	EUR
Profit of the reporting year	22 595 513	32 150 519
Share of profit not available for distribution (unrealized deferred tax gain related to the revaluation of 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 (LVL/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 listed in the financial statement) 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.

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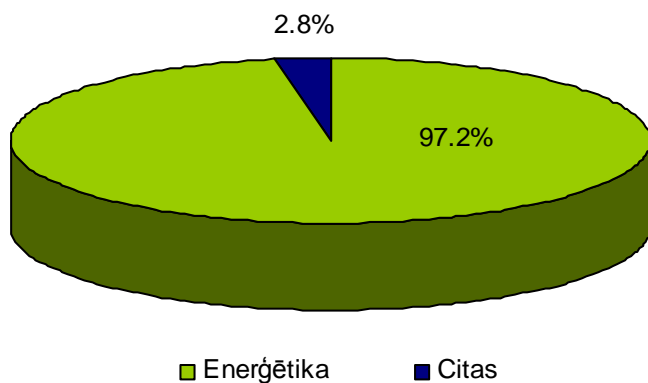
Report of the Board of Directors (continued)

6. Shares and shareholders

Composition of shareholders¹ of the Company as on December 31, 2013 and previous periods:

Shareholder	31.12.2013.	31.12.2012.	31.12.2011.
"E.ON Ruhrgas International" GmbH	47.2%	47.2%	47.2%
"Gazprom" AAS	34.0%	34.0%	34.0%
"Itera Latvija" SIA	16.0%	16.0%	16.0%
Other	2.8%	2.8%	2.8%
TOTAL	100.0%	100.0%	100.0%

Distribution of holdings according to holding groups as on December 31, 2013:



List of shareholders as on December 31, 2013:

Members of the Board		Number of shares
Chairman of the Board	Adrians Dāvis	417
Vice-Chairman of the Board	Jörg Tumat	0
Vice-Chairman of the Board	Alexander Mihejev	0
Member of the Board	Anda Ulpe	729
Member of the Board	Gints Freibergs	416

Members of the Council		Number of shares
Chairman of the Council	Kirill Seleznev	0
Vice-chairman of the Council	Juris Savickis	0
Vice-chairman of the Council	Achim Saul	0
Member of the Council	Matthias Kohlenbach	0
Member of the Council	Rainer Link	0
Member of the Council	Mario Nullmeier	0
Member of the Council	Uwe Fip	0
Member of the Council	Vlada Rusakova	0
Member of the Council	Nikolay Dubik	0
Member of the Council	Jelena Karpel	0
Member of the Council	Jelena Mihailova	0

Since February 15, 1999 the shares of the Company are quoted at the NASDAQ OMX Riga Stock Exchange. Its share trade code since August 1, 2004 is GZE1R.

¹ Shareholders owning not less than 5% of capital

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JOINT STOCK COMPANY "LATVIJAS GĀZE"
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Report of the Board of Directors (continued)

6. Shares and shareholders (continued)

ISIN	LV0000100899
Stock exchange code	GZE1R
List	Second list
Nominal value	1.00 LVL
Total shares	39 900 000
Shares traded	25 328 520
Liquidity provider	None

Shares price of the Company as on December 31, 2013 and previous periods:

	2013	2012	2011	2010	2009
Shares price (LVL):					
First	6.110	5.895	4.8000	4.57	4.55
Highest	6.930	6.350	7.000	6.00	6.00
Lowest	6.030	5.380	4.601	4.57	3.32
Average	6.360	5.863	5.320	5.15	4.31
Last	6.600	6.010	5.651	4.90	4.10
Change	8.02%	1.95%	17.73%	7.22%	-9.89%
Number of deals	1 479	1 767	1 284	988	1 267
Share turnover, number	121 774	168 115	218 132	85 493	64 319
Share turnover, million LVL	0.774	0.986	1.160	0.440	0.277
Capitalisation (million LVL)	263.340	239.799	225.475	195.510	163.590

Source: NASDAQ OMX Riga

The capitalization value of the Company on December 31, 2013 reached LVL 263.34 million (EUR 374.7 million) – by 23.54 million (EUR 33.5 million) more than at the end of previous reporting period. By share market capitalization of the Company took the 1st place among companies quoted at the NASDAQ OMX RIGA and the 4th place among companies quoted at the NASDAQ OMX Baltic Stock Exchange (2012: 1st and 4th place respectively).

LG share prices OMX Riga GI un OMX Baltic GI index changes (01.01.2011. - 31.12.2013.):



Source: NASDAQ OMX Riga

Indexes/shares	01.01.2011.	31.12.2013.	Change
OMX Riga	393.53	460.13	16.92%
OMX Baltic GI	421.36	463.36	10.21%
GZE1R (LVL)	4.90	6.60	34.69%

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Report of the Board of Directors (continued)

7. 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 considering the situation in the fuel market of Latvia, the Board of the Company believes that in 2014 the Company will continue successful development and take a stable place in the fuel supply market.

Chairman of the Board

A. Dāvis

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

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**JOINT STOCK COMPANY “LATVIJAS GĀZE”
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STATEMENT OF DIRECTORS' RESPONSIBILITY

The Board of Directors of JSC “Latvijas Gāze” (hereafter – the Company) is responsible for the preparation of the financial statements of the Company.

The financial statements on pages 15 to 61 are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Company as of 31 December 2013 and the results of its operations and cash flows for the year ended 31 December 2013.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Board of Directors in the preparation of the financial statements.

The Board of Directors of the Company is responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in the Company. The Board of Directors is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

On behalf of the Board of Directors,

Adrians Dāvis
Chairman of the Board

Riga, April 29, 2014

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AUDITORS' REPORT



Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC "Latvijas Gāze"

Report on the Financial Statements

We have audited the accompanying financial statements of JSC "Latvijas Gāze" set out on pages 15 to 61 of the accompanying annual report, which comprise the balance sheet as of 31 December 2013 and the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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AUDITORS' REPORT



Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Report of the Board of Directors for 2013 set out on pages 5 to 11 of the accompanying annual report for 2013 and did not identify material inconsistencies between the financial information contained in the Report of the Board of Directors and that contained in the financial statements for 2013.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

A handwritten signature in blue ink, appearing to read "Ilepiņa".

Ilandra Lejiņa
Member of the Board

Riga, Latvia
29 April 2014

A handwritten signature in blue ink, appearing to read "Lolita Čapkeviča".

Lolita Čapkeviča
Certified auditor in charge
Certificate No. 120

* 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.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

BALANCE SHEET AS AT 31 DECEMBER 2013

	Note	31.12.2013. LVL'000	31.12.2012. LVL'000	31.12.2013. EUR'000	31.12.2012. EUR'000
ASSETS					
<u>Non-current assets</u>					
Property, plant and equipment	3	397 863	402 397	566 108	572 559
Intangible assets	4	1 961	2 119	2 790	3 015
Trade receivables	5	6	2 113	9	3 007
		<u>399 830</u>	<u>406 629</u>	<u>568 907</u>	<u>578 581</u>
<u>Current assets</u>					
Inventories	6	130 136	93 276	185 167	132 719
Trade receivables	5	27 734	57 253	39 462	81 464
Current income tax receivable	21	1 186	1 734	1 688	2 467
Other receivables	7	27 725	1 317	39 448	1 875
Cash and cash equivalents	8	23 582	22 584	33 554	32 134
		<u>210 363</u>	<u>176 164</u>	<u>299 319</u>	<u>250 659</u>
TOTAL ASSETS		<u>610 193</u>	<u>582 793</u>	<u>868 226</u>	<u>829 240</u>
EQUITY AND LIABILITIES					
<u>Equity</u>					
Share capital	9	39 900	39 900	56 773	56 773
Share premium		14 320	14 320	20 376	20 376
Revaluation reserve		265 732	267 362	378 103	380 422
Other reserves		80 040	78 639	113 887	111 893
Retained earnings		27 819	26 574	39 582	37 811
Total equity		<u>427 811</u>	<u>426 795</u>	<u>608 721</u>	<u>607 275</u>
<u>Liabilities</u>					
<u>Non-current liabilities</u>					
Deferred income tax liabilities	21	39 672	40 237	56 447	57 252
Accruals for post-employment benefits and other employee benefits	22	3 825	4 348	5 442	6 187
Deferred income	11	20 215	20 363	28 763	28 974
		<u>63 712</u>	<u>64 948</u>	<u>90 652</u>	<u>92 413</u>
<u>Current liabilities</u>					
Trade payables		91 114	61 440	129 643	87 421
Deferred income	11	816	794	1 161	1 130
Other payables	12	26 740	28 816	38 049	41 001
		<u>118 670</u>	<u>91 050</u>	<u>168 853</u>	<u>129 552</u>
Total liabilities		<u>182 382</u>	<u>155 998</u>	<u>259 505</u>	<u>221 965</u>
TOTAL EQUITY AND LIABILITIES		<u>610 193</u>	<u>582 793</u>	<u>868 226</u>	<u>829 240</u>

The notes on pages 20 to 61 are an integral part of these financial statements.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 LVL'000	2012 LVL'000	2013 EUR'000	2012 EUR'000
Revenue	13	403 384	427 413	573 963	608 154
Cost of sales	14	(365 491)	(394 693)	(520 046)	(561 597)
Gross profit		37 893	32 720	53 917	46 557
Administrative expenses	15	(12 664)	(9 084)	(18 019)	(12 926)
Other income	16	3 179	5 383	4 524	7 660
Other expenses	17	(3 936)	(4 571)	(5 601)	(6 504)
Operating profit		24 472	24 448	34 821	34 787
Finance income	19	109	286	155	407
Profit before income tax		24 581	24 734	34 976	35 194
Income tax expense	21	(3 879)	(3 533)	(5 519)	(5 027)
Profit for the year		20 702	21 201	29 457	30 167
Earnings per share		LVL	LVL	EUR	EUR
Basic	23a	0.519	0,531	0.738	0,756
Diluted	23a	0.519	0,531	0.738	0,756

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

OTHER COMPREHENSIVE INCOME

Items that will not be reclassified to profit or loss

Revaluation of property, plant and equipment - gross		311	98 820	443	140 608
Deferred income tax liability arising on the revaluation of property, plant and equipment	21	(47)	(14 823)	(67)	(21 091)
Other comprehensive income for the year, net of tax		264	83 997	376	119 517
Profit for the year		20 702	21 201	29 457	30 167
Total comprehensive income for the year		20 966	105 198	29 833	149 684

The notes on pages 20 to 61 are an integral part of these financial statements.

The financial statements on pages 15 to 61 were approved by the Board of Directors and were signed on its behalf by:

Adrians Dāvis
Chairman of the Board

Anda Ulpe
Board Member

April 29, 2014

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital LVL'000	Share premium LVL'000	Revaluation reserve LVL'000	Other reserves LVL'000	Retained earnings LVL'000	Total LVL'000
Balance as at 31 December 2011	39 900	14 320	185 105	76 883	29 329	345 537
<i>Other comprehensive income</i>						
Revaluation of property, plant and equipment - gross	-	-	98 820	-	-	98 820
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(14 823)	-	-	(14 823)
Disposal of revalued property, plant and equipment	-	-	(2 048)	-	2 048	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	307	-	(307)	-
<i>Total other comprehensive income</i>	-	-	82 256	-	1 741	83 997
Profit for the year	-	-	-	-	21 201	21 201
Total comprehensive income for 2012	-	-	82 256	-	22 942	105 198
<i>Transactions with owners</i>						
Transfers to reserves	-	-	-	1 756	(1 756)	-
Dividends for 2011	-	-	-	-	(23 940)	(23 940)
Rounding difference	-	-	1	-	(1)	-
Balance as at 31 December 2012	39 900	14 320	267 362	78 639	26 574	426 795
<i>Other comprehensive income</i>						
Revaluation of property, plant and equipment - gross	-	-	311	-	-	311
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(47)	-	-	(47)
Disposal of revalued property, plant and equipment	-	-	(2 228)	-	2 228	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	334	-	(334)	-
<i>Total other comprehensive income</i>	-	-	(1 630)	-	1 894	264
Profit for the year	-	-	-	-	20 702	20 702
Total comprehensive income for 2013	-	-	(1 630)	-	22 596	20 966
<i>Transactions with owners</i>						
Transfers to reserves	-	-	-	1 401	(1 401)	-
Dividends for 2012	-	-	-	-	(19 950)	(19 950)
Balance as at 31 December 2013	39 900	14 320	265 732	80 040	27 819	427 811

The notes on pages 20 to 61 are an integral part of these financial statements,

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

	Share capital EUR'000	Share premium EUR'000	Revaluation reserve EUR'000	Other reserves EUR'000	Retained earnings EUR'000	Total EUR'000
Balance as at 31 December 2011	56 773	20 376	263 381	109 395	41 730	491 655
<i>Other comprehensive income</i>						
Revaluation of property, plant and equipment - gross	-	-	140 608	-	-	140 608
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(21 091)	-	-	(21 091)
Disposal of revalued property, plant and equipment	-	-	(2 914)	-	2 914	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	437	-	(437)	-
<i>Total other comprehensive income</i>	-	-	117 040	-	2 477	119 517
Profit for the year	-	-	-	-	30 167	30 167
Total comprehensive income for 2012	-	-	117 040	-	32 644	149 684
<i>Transactions with owners</i>						
Transfers to reserves	-	-	-	2 499	(2 499)	-
Dividends for 2011	-	-	-	-	(34 064)	(34 064)
Rounding difference	-	-	1	(1)	-	-
Balance as at 31 December 2012	56 773	20 376	380 422	111 893	37 811	607 275
<i>Other comprehensive income</i>						
Revaluation of property, plant and equipment - gross	-	-	443	-	-	443
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(67)	-	-	(67)
Disposal of revalued property, plant and equipment	-	-	(3 170)	-	3 170	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	476	-	(476)	-
<i>Total other comprehensive income</i>	-	-	(2 318)	-	2 694	376
Profit for the year	-	-	-	-	29 457	29 457
Total comprehensive income for 2013	-	-	(2 318)	-	32 151	29 833
<i>Transactions with owners</i>						
Transfers to reserves	-	-	-	1 993	(1 993)	-
Dividends for 2012	-	-	-	-	(28 386)	(28 386)
Rounding difference	-	-	(1)	1	(1)	(1)
Balance as at 31 December 2013	56 773	20 376	378 103	113 887	39 582	608 721

Dividends are distributed and transfers to other reserves are made based upon profits and retained earnings as per statutory financial statements prepared under Latvian accounting regulations. Changes in other reserves can be made only with shareholders' approval. Revaluation reserve and share premium cannot be distributed as dividends to shareholders.

The notes on pages 20 to 61 are an integral part of these financial statements.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 LVL'000	2012 LVL'000	2013 EUR'000	2012 EUR'000
Cash flows from operating activities					
Cash generated from operations	24	69 245	32 843	98 527	46 731
Interest received		272	713	387	1 015
Income tax paid	21	(3 608)	(3 557)	(5 134)	(5 061)
Net cash generated from operating activities		65 909	29 999	93 780	42 685
Cash flows used in investing activities					
Purchases of property, plant and equipment		(19 055)	(18 337)	(27 113)	(26 091)
Proceeds from sale of property, plant and equipment		55	69	78	98
Purchases of intangible assets		(751)	(851)	(1 068)	(1 211)
EC funding received		2 129	1 380	3 029	1 964
Received term deposits		-	9 207	-	13 100
Deposited on term		(27 339)	-	(38 900)	-
Net cash used in investing activities		(44 961)	(8 532)	(63 974)	(12 140)
Cash flows used in financing activities					
Dividends paid		(19 950)	(23 940)	(28 386)	(34 064)
Net cash used in from financing activities		(19 950)	(23 940)	(28 386)	(34 064)
Net increase /(decrease) in cash and cash equivalents during the year		998	(2 473)	1 420	(3 519)
Cash and cash equivalents at the beginning of the year		22 584	25 057	32 134	35 653
Cash and cash equivalents at the end of the year	8	23 582	22 584	33 554	32 134

The notes on pages 20 to 61 are an integral part of these financial statements.

Translation from Latvian Original

**JOINT STOCK COMPANY “LATVIJAS GĀZE”
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

NOTES TO THE FINANCIAL STATEMENTS

1 INCORPORATION AND ACTIVITIES

The Company was re-organised on January 31, 1994 as a joint stock company wholly owned by the Government of the Republic of Latvia. The Company was formerly a state enterprise, which had its assets transferred to and obligations assumed by the joint stock company in accordance with the law. Since 15 February, 1999 the shares of the Company are quoted on NASDAQ OMX Riga Stock Exchange. The registered office of the Company is 20 Vagonu Street, Riga, Latvia.

The Company is involved in import and sales of natural gas in the territory of Latvia as well as supply of gas transmission and storage services to foreign companies. The Company is the sole supplier of natural gas in Latvia. The service territory of the Company has a population of approximately 2 million.

The applied differential natural gas sale end tariffs consist of two parts: fixed tariffs for regulated services and the natural gas sale price, which changes with a step of 5 LVL/thous.m³ depending on the actual natural gas purchase costs. The tariffs of gas sold to corporate and retail customers are set by the Public Utilities Commission (PUC) of the Republic of Latvia. Changes to tariffs are considered by PUC based on applications of the Company and in accordance with the methodology approved by PUC. The natural gas sale end tariff applied to users with the annual consumption volume over 25 thousand nm³ changes every month, whereas to users with the annual consumption up to 25 thousand nm³ – once in half year, on January 1 and July 1.

During 2013 the average number of persons employed by the Company was 1 267 (2012: 1 275).

These financial statements have been approved by the Board of Directors on April 29, 2014.

2 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU). Due to the European Union's endorsement procedure, the standards and interpretations not approved for use in the European Union are presented in this note as they may have impact on financial statements of the Company in the following periods if endorsed.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment as disclosed in the Accounting policies Note (d) below.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those. Significant accounting estimates are described in Note 28.

The following new and amended IFRSs and interpretations became effective in 2013 (approved by European Union (EU)).

IFRS 13, “Fair value measurement” improved consistency and reduced complexity by providing a revised definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. (Effective for annual periods beginning on or after 1 January 2013)

Amendment to IAS 19, “Employee benefits” (effective for annual periods beginning on or after 1 January 2013). Among other changes, actuarial gains and losses' are renamed 'remeasurements' and will be recognised immediately in 'other comprehensive income' (OCI). Actuarial gains and losses will no longer be deferred using the corridor approach or recognised in profit or loss; Remeasurements recognised in OCI will not be recycled through profit or loss in subsequent periods.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

The following new and amended IFRSs and interpretations became effective in 2013, but are not relevant for the Company's operations and did not have an impact on these financial statements.

Annual improvements 2011 (effective for annual periods beginning on or after 1 January 2013);

Amendment to IFRS 1, "First time adoption", on government loans (effective for annual periods beginning on or after 1 January 2013);

Amendment to IFRS 7, "Financial instruments: Disclosures", on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013);

Amendment to IAS 12, "Income taxes" on deferred tax (effective for annual periods beginning on or after 1 January 2012 but endorsed by EU for annual periods beginning on or after 1 January 2013);

IFRIC 20, "Stripping costs in the production phase of a surface mine" (effective for annual periods beginning on or after 1 January 2013);

Amendment to IAS 1, "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 July 2013).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2014 or later periods and which is relevant to the Company or are not yet endorsed by the EU.

IFRS 10, "Consolidated financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014);

IFRS 11, "Joint arrangements" (effective for annual periods beginning on or after 1 January 2013 although endorsed by EU for annual periods beginning on or after 1 January 2014);

IFRS 12, "Disclosures of interests in other entities" (effective for annual periods beginning on or after 1 January 2013 although endorsed by EU for annual periods beginning on or after 1 January 2014);

Amendments to IFRS 10, 11 and 12 on transition guidance (mandatory application for annual periods beginning on or after 1 January 2014 with early adoption allowed, endorsed by EU for annual periods beginning on or after 1 January 2014);

IFRS 14 "Regulatory Deferral Account" (effective for annual periods beginning on or after 1 January 2016, not yet endorsed by the EU)

IAS 27 (revised in 2011) "Separate financial statements" (effective for annual periods beginning on or after 1 January 2013 although endorsed by EU for annual periods beginning on or after 1 January 2014);

IAS 28 (revised in 2011) "Associates and joint ventures" (effective for annual periods beginning on or after 1 January 2013 although endorsed by EU for annual periods beginning on or after 1 January 2014);

Amendments to IAS 19 "Employee benefits plans" (effective for annual periods beginning on or after 1 July 2014, not yet endorsed by the EU);

Amendments to IAS 32 "Financial instruments: Presentation", on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014, not yet endorsed by the EU);

Amendments to IFRS 10, IFRS 12 and IAS 27 for investment entities (effective for annual periods beginning on or after 1 January 2014, not yet endorsed by the EU);

IFRS 9 "Financial Instruments - Classification and Measurement" (effective date to be determined, not yet endorsed by the EU);

Amendments to IAS 36 "Impairment of assets" (effective for annual periods beginning on or after 1 January 2014);

Amendments to IAS 39 "Financial instruments: Recognition and measurement", on novation of derivatives and hedge accounting (effective for annual periods beginning on or after 1 January 2014);

Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014, not yet endorsed by the EU);

Annual improvements 2013 (effective for annual periods beginning on or after 1 July 2014, not yet endorsed by the EU);

IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014, not yet endorsed by the EU).

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board that makes strategic decisions. Board uses profit before tax as a profit measure of segments.

The Company has five operating segments: gas transmission (a type of power supply, which includes transportation of natural gas through high-pressure gas line to deliver it to respective distribution system or directly to a consumer, except sale of natural gas), gas storage (natural gas storage at the Inčukalns Underground Gas Storage Facility), gas distribution (a type of power supply, which includes transportation of natural gas through high-, moderate- and low-pressure gas line, except sale of natural gas), gas realization (a type of power supply, which includes purchasing of natural gas for realization and sale to natural gas to consumers) and other services. Division into segments corresponds to technological process of gas supply and is required for analysis of tariffs and expenses.

(c) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Latvian Lats (LVL), which is the Company's functional and presentation currency. In accordance with the requirements of the NASDAQ OMX RIGA all balances are also presented in Euro (EUR). For disclosure purposes the translation into EUR is based on the official exchange rate as set by the Bank of Latvia (determined by Bank of Latvia as of December 30, 2004 reposing to resolution of the Council of Bank of Latvia) during period from 1 January 2013 to 31 December 2013 – EUR/LVL (1 EUR = LVL 0.702804).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 income statement.

(d) Property, plant and equipment

Buildings, gas transmission and distribution system and equipment are stated at fair value, based on periodic valuation less subsequent depreciation or impairment charge. Revaluation shall be made with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Revaluation is performed every 5 years using depreciated replacement cost method. All other property, plant and equipment (including land and buffer gas) are stated at historical cost, less accumulated depreciation and impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Assets purchased, but not yet ready for intended use or under installation process are included in Assets under construction.

Subsequent costs are included in the asset's carrying amount or recognized 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. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of building, gas transmission and distribution system and equipment are credited to Revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; any further decreases are charged to the income statement. The revaluation surplus is transferred to retained earnings on the retirement or disposal of the asset.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

Land and assets under construction are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings	60 - 100
Gas transmission and distribution system	40 - 50
Machinery and equipment	5 - 20
Furniture and fittings	5 - 10
Computers and equipment	3.33

The Company's policy is to capitalize property, plant and equipment with cost exceeding LVL 150 (EUR 213) and useful life exceeding 1 year.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note (f)).

Costs of borrowing to finance assets under construction and other direct charges related to the particular asset under construction are capitalised, during the time that is required to complete and prepare the asset for its intended use, as part of the cost of the asset. Capitalisation of the borrowing costs is suspended during extended periods in which active developments are interrupted.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the income statement during the period in which they are incurred. When revalued assets are sold, the amounts included in Revaluation reserve are transferred to retained earnings.

(e) Intangible assets

Intangible assets primarily consist of software licences and patents. Intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their useful lives. Generally intangible assets are amortised over a period of 5 years.

(f) Impairment of non-financial assets

All Company's non-financial assets have a finite useful life (except land). Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Financial assets

The Company classifies all its financial assets as Loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for assets with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Receivables are classified as 'trade receivables', 'other current assets' and 'cash and cash equivalents' in the balance sheet (Notes 2(i) and 2(j)).

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(h) 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. Materials, spare parts, gas meters and other inventories cost is determined using the weighted average method. The cost of natural gas comprises cost of gas purchased which is recognized and charged to the income statement 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 applicable variable selling expenses. When the net realisable value of inventories is lower than its purchase price, provisions are created to reduce the value of inventories to their realisable value.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of trade receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

If, in subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as improvement of the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances of current accounts with banks and deposits held at call with banks with original term less than 90 days and other short-term highly liquid investments, which can be easily converted to cash and are not subject of significant change in value.

(k) Share capital and dividend authorised

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issues of new shares, are shown in equity as a deduction, net of tax, from the proceeds. Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(m) Deferred income tax (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the temporary differences will reverse.

The principal temporary differences arise from different intangible asset amortization and property, plant and equipment depreciation rates, revaluation of property, plant and equipment, as well as provisions for slow-moving inventory, accrued expenses for unused annual leave and bonuses, accruals for post-employment and other employee 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". Deferred income tax asset is recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Increase in deferred income tax liability that results from revaluation of property, plant and equipment is charged to other comprehensive income as deduction from respective increase in the Revaluation reserve. Decrease in deferred income tax liability that results from depreciation of revalued property, plant and equipment is charged to the income statement.

(n) Income tax

Income tax is assessed for the period in accordance with Latvian tax legislation. The tax rate stated by Latvian tax legislation is 15 percent.

(o) Accrued unused annual leave expenses

Amount of accrual for unused annual leave 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.

(p) Employee benefits

Bonus plans

The Company recognizes a liability and expense for bonuses, based on formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Social security and pension contribution

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. The Company also makes contributions to an external defined contribution pension plan (the Plan). A defined contribution plan is a plan under which the Company pays fixed contributions into the Fund or the Plan and will have no legal or constructive obligations to pay further contributions if the Fund or the Plan does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security and pension contributions are recognised as an expense on an accrual basis and are included within staff costs.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (continued)

Post-employment and other employee benefits

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, calculation are performed using the Projected Unit Credit method. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the market rates on government bonds. Actuarial gains and losses arise from experience adjustments and changes in actuarial assumptions are charge or credited to equity in other comprehensive income in the period in which they arise.

(q) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

(r) Revenue recognition

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of natural gas

Sales are recognised upon delivery of gas, net of value added tax and discounts and the difference between the forecasted and actual purchase cost of natural gas, which is used for determination of applicable natural gas selling price for the following month, but including excise tax. Sales of natural gas to residential customers are recorded on the basis of meter readings reported by customers. Where relevant, this includes an estimate of the sales volume of gas supplied between the date of the last meter reading and the year-end. Natural gas sales to corporate customers are recognized based on invoice issued according to meter reading of customers.

Income of transmission and storage on natural gas

Income from rendering of services is recognised upon performance of services, net of value added tax and discounts. Income on natural gas transmission and storage is recognized based on actual amount of transmitted and stored gas, which are determined by meter readings.

Applicable natural gas selling price is calculated based on latest available data. The exchange rate for EUR/USD set by ECB in the last day of the previous month, actual gross calorific value of gas in the previous month 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 PUC's Council, taking into account the exchange rate of EUR/USD at last day of the month when gas is delivered, actual gas gross calorific value as well as actual volume of gas purchased from suppliers.

Interest income

Interest income is recognized using the effective interest method. Interest income on term deposits is classified as Other income and interest on cash balances is classified as Finance income. Accrual of interest income is ceased, if its recoverability is uncertain.

Penalties income

Based on prudence principle penalties, including fines for late payments for gas, are recognized when received.

Income from contribution to financing of construction works

The income from residents and enterprises contribution to financing of construction works of gas pipelines is accounted for as deferred income and recognized in the income statement over the expected period of the customer relationship of 30 to 40 years.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(r) Revenue recognition (continued)

Other services

Sales of services are recognised in the accounting period in which the services are rendered.

(s) Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

(t) Related parties

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

(u) Grants

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT

	Land	Buffer gas	Buildings and gas transmission system	Equipment and machinery	Other assets	Advances	Assets under construction	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Cost or revaluation								
At December 31, 2011	1 785	6 590	626 412	84 593	12 572	85	10 732	742 769
Additions	-	-	-	-	48	2 573	15 629	18 250
Reclassified	31	-	13 356	9 762	1 913	(2 625)	(22 437)	-
Revaluation	-	-	88 758	(2 394)	-	-	-	86 364
Disposals	-	-	(5 548)	(853)	(369)	(2)	-	(6 772)
Rounding	-	-	-	-	-	1	-	1
At December 31, 2012	1 816	6 590	722 978	91 108	14 164	32	3 924	840 612
Depreciation								
At December 31, 2011	-	-	372 419	47 494	7 726	-	-	427 639
Charged for 2012	-	-	17 059	(3 096)	1 300	-	-	15 263
Disposals	-	-	(3 551)	(785)	(351)	-	-	(4 687)
At December 31, 2012	-	-	385 927	43 613	8 675	-	-	438 215
Net book value at December 31, 2012	1 816	6 590	337 051	47 495	5 489	32	3 924	402 397
Net book value at December 31, 2011	1 785	6 590	253 993	37 099	4 846	85	10 732	315 130

During 2012 the management has identified assets which had no carrying value, proper correction of book values and depreciation are made in the financial statements.

	Land	Buffer gas	Buildings and gas transmission system	Equipment and machinery	Other assets	Advances	Assets under construction	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Cost or revaluation								
At December 31, 2012	1 816	6 590	722 978	91 108	14 164	32	3 924	840 612
Additions	-	-	-	-	-	2 120	17 025	19 145
Reclassified	-	-	13 404	2 539	1 012	(1 872)	(15 083)	-
Revaluation	-	-	335	37	-	-	-	372
Disposals	-	-	(4 306)	(1 228)	(580)	-	(15)	(6 129)
At December 31, 2013	1 816	6 590	732 411	92 456	14 596	280	5 851	854 000
Depreciation								
At December 31, 2012	-	-	385 927	43 613	8 675	-	-	438 215
Charged for 2013	-	-	16 178	4 849	1 403	-	-	22 430
Disposals	-	-	(2 797)	(1 139)	(572)	-	-	(4 508)
At December 31, 2013	-	-	399 308	47 323	9 506	-	-	456 137
Net book value at December 31, 2013	1 816	6 590	333 103	45 133	5 090	280	5 851	397 863
Net book value at December 31, 2012	1 816	6 590	337 051	47 495	5 489	32	3 924	402 397

During the reporting year the management has identified assets which had no carrying value, proper correction of book values and depreciation are made in the financial statements.

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JOINT STOCK COMPANY "LATVIJAS GĀZE"
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buffer gas	Buildings and gas transmission system	Equipment and machinery	Other assets	Advances	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revaluation								
At December 31, 2011	2 540	9 377	891 304	120 366	17 890	120	15 272	1 056 869
Additions	-	-	-	-	68	3 662	22 238	25 968
Reclassified	44	-	19 004	13 890	2 722	(3 735)	(31 925)	-
Revaluation	-	-	126 291	(3 406)	-	-	-	122 885
Disposals	-	-	(7 894)	(1 213)	(525)	(3)	-	(9 635)
At December 31, 2012	2 584	9 377	1 028 705	129 637	20 155	44	5 585	1 196 087
Depreciation								
At December 31, 2011	-	-	529 905	67 580	10 994	-	-	608 479
Charged for 2012	-	-	24 273	(4 405)	1 850	-	-	21 718
Disposals	-	-	(5 053)	(1 117)	(499)	-	-	(6 669)
At December 31, 2012	-	-	549 125	62 058	12 345	-	-	623 528
Net book value at December 31, 2012	2 584	9 377	479 580	67 579	7 810	44	5 585	572 559
Net book value at December 31, 2011	2 540	9 377	361 399	52 786	6 896	120	15 272	448 390

	Land	Buffer gas	Buildings and gas transmission system	Equipment and machinery	Other assets	Advances	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revaluation								
At December 31, 2012	2 584	9 377	1 028 705	129 637	20 155	44	5 585	1 196 087
Additions	-	-	-	-	-	3 016	24 224	27 240
Reclassified	-	-	19 072	3 613	1 440	(2 664)	(21 461)	-
Revaluation	-	-	476	53	-	-	-	529
Disposals	-	-	(6 127)	(1 747)	(825)	-	(21)	(8 720)
At December 31, 2013	2 584	9 377	1 042 126	131 556	20 770	396	8 327	1 215 136
Depreciation								
At December 31, 2012	-	-	549 125	62 058	12 345	-	-	623 528
Charged for 2013	-	-	23 019	6 900	1 996	-	-	31 915
Disposals	-	-	(3 980)	(1 621)	(814)	-	-	(6 415)
At December 31, 2013	-	-	568 164	67 337	13 527	-	-	649 028
Net book value at December 31, 2013	2 584	9 377	473 962	64 219	7 243	396	8 327	566 108
Net book value at December 31, 2012	2 584	9 377	479 580	67 579	7 810	44	5 585	572 559

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During 2003 and 2004 buildings, gas transmission and distribution system and equipment were revalued using cost (amortised replacement cost) method. The amortised replacement cost was determined by a certified independent assessor JSC BDO "Invest Riga". During 2012 the Company performed subsequent revaluation of all asset groups mentioned above using amortised replacement cost method. The amortised replacement cost was determined by independent certified valuator JSC BDO.

Fixed assets include fully depreciated assets with a total cost of LVL 7 702 thousand or EUR 10 959 thousand (31.12.2012: LVL 4 906 thousand or EUR 6 981 thousand).

As at December 31, 2013 the carrying amount in case the revaluated property, plant and equipment would be carried under the cost model is LVL 173 451 thousand or EUR 246 799 thousand including buildings LVL 135 454 thousand (EUR 192 734 thousand) and equipment and machinery LVL 37 997 thousand (EUR 54 065 thousand) (31.12.2012: LVL 165 914 thousand or EUR 236 074 thousand including buildings LVL 126 950 thousand (EUR 180 633 thousand) and equipment and machinery LVL 38 964 thousand (EUR 55 441 thousand)).

During the reporting year the Company has capitalized depreciation in amount of LVL 11 thousand or EUR 16 thousand (2012: LVL 13 thousand or EUR 18 thousand).

According to local legislation the Company discloses a cadastral value of the land plots and buildings. Determination of a precise cadastral value of the land plots and buildings owned by the Company is in process. Assessed cadastral value on December 31, 2013 of the buildings is LVL 6 824 thousand or EUR 9 710 thousand (2012: LVL 6 370 thousand or EUR 9 064 thousand), cadastral value on December 31, 2013 of the land plots is LVL 2 521 thousand or EUR 3 587 thousand (31.12.2012: LVL 3 158 thousand or EUR 4 493 thousand), LVL 38 thousand (EUR 54 thousand) for container equipment (31.12.2012: LVL 31 thousand (EUR 45 thousand)).

Engineering buildings (distribution pipelines, drillings un reservoirs) cadastral value on December 31, 2013 is LVL 41 594 thousand or EUR 59 183 thousand (31.12.2012: LVL 41 682 thousand or EUR 59 308 thousand)).

Cadastral value is not determined for 1 building and for 117 drillings.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 INTANGIBLE ASSETS

	LVL'000	EUR'000
<u>Cost</u>		
As at December 31, 2011	7 296	10 381
Additions	894	1 272
Disposals	(33)	(47)
As at December 31, 2012	8 157	11 606
<u>Amortisation</u>		
As at December 31, 2011	5 220	7 427
Charge for the year	851	1 211
On disposals	(33)	(47)
As at December 31, 2012	6 038	8 591
Net Book Value as at December 31, 2012	2 119	3 015
Net Book Value as at December 31, 2011	2 076	2 954

	LVL'000	EUR'000
<u>Cost</u>		
As at December 31, 2012	8 157	11 606
Additions	751	1 068
Disposals	(41)	(58)
As at December 31, 2013	8 867	12 616
<u>Amortisation</u>		
As at December 31, 2012	6 038	8 591
Charge for the year	909	1 293
On disposals	(41)	(58)
As at December 31, 2013	6 906	9 826
Net Book Value as at December 31, 2013	1 961	2 790
Net Book Value as at December 31, 2012	2 119	3 015

Intangible assets include fully amortised intangible assets with a total cost value of LVL 2 875 thousand or EUR 4 091 thousand (31.12.2012: LVL 2 198 thousand or EUR 3 127 thousand).

The major intangible assets are a geographic-informative system (GIS) of Inchukalns (Inčukalns) 3D data base, an Individual customer billing system PUNS-2 and distribution GIS at a carrying amount of LVL 168 thousand (EUR 239 thousand) and LVL 140 thousand (EUR 199 thousand) and LVL 133 thousand (EUR 189 thousand) respectively as at December 31, 2013 (31.12.2012: LVL 202 thousand (EUR 287 thousand) and LVL 204 thousand (EUR 290 thousand) and LVL 176 thousand (EUR 250 thousand)).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 TRADE RECEIVABLES

	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
	LVL'000	LVL'000	EUR'000	EUR'000
<i>Non-current trade receivables</i>				
Gross value	5	7 949	7	11 310
Other receivables	4	4	6	6
Provisions for impairment of receivables	(3)	(5 840)	(4)	(8 309)
	6	2 113	9	3 007
<i>Current trade receivables</i>				
Gross value	35 048	62 477	49 869	88 897
Provisions for impairment of receivables	(7 314)	(5 224)	(10 407)	(7 433)
	27 734	57 253	39 462	81 464
Total trade receivables	27 740	59 366	39 471	84 471

Provisions for impairment of bad and doubtful debts:

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Provisions at the beginning of the year	11 151	9 922	15 865	14 116
Charged to income statement	3 400	1 705	4 838	2 426
Released to income statement	(1 125)	(441)	(1 601)	(627)
Net charge to income statement (see Note 15)	2 275	1 264	3 237	1 799
Written off	(6 036)	(35)	(8 588)	(50)
Provisions at the year end	7 390	11 151	10 514	15 865

Provisions as at December 31, 2013 of LVL 7 387 thousand (EUR 10 510 thousand) relate to to current trade receivables, whereas as at 31 December 2012 they amounted to 5 310 thousand (EUR 7 555 thousand). Provisions as at December 31, 2013 of LVL 76 thousand (EUR 108 thousand) relate to other trade receivables (2012: LVL 5 840 thousand (EUR 8 310 thousand) (see Note 7). Provisions were created based on evaluation of the financial position and operations of separate groups of customers. The actual losses may differ from the current calculations, as the specific amounts required are regularly reviewed and changes are reflected in the income statement.

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JOINT STOCK COMPANY "LATVIJAS GĀZE"
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 INVENTORIES

	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
	LVL'000	LVL'000	EUR'000	EUR'000
Materials and spare parts (at net realisable value)	5 081	3 217	7 230	4 577
Gas and fuel (at cost)	125 055	90 059	177 937	128 142
	130 136	93 276	185 167	132 719

The cost of inventories recognized as expense and included in "Cost of sales" amounted to LVL 306 313 thousand or EUR 435 844 thousand (2012: LVL 329 726 thousand or EUR 469 158 thousand).

Provisions for impairment of obsolete and slow moving inventories:

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Provisions at the beginning of the year	404	615	575	874
Charged to income statement	7	34	10	48
Released to income statement	(81)	(242)	(115)	(344)
Written off	(6)	(3)	(9)	(4)
Provisions at the year end	324	404	461	574

Provisions have been created for slow moving materials and spare parts. During 2013 the Company used in operations inventories amounting to LVL 64 thousand or EUR 91 thousand (2012: LVL 162 thousand or EUR 231 thousand) that had been written off in previous years.

7 OTHER RECEIVABLES

	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
	LVL'000	LVL'000	EUR'000	EUR'000
Term deposits	27 339	-	38 900	-
Prepayments and deferred expense	268	375	381	534
Interest accrued on bank deposits	8	1	11	1
Receivable for services supplied	12	14	17	21
Prepayment for natural gas	-	665	-	946
Other debtors	170	348	241	495
	27 797	1 403	39 550	1 997
Provisions for impairment of bad and doubtful debts*	(72)	(86)	(102)	(122)
	27 725	1 317	39 448	1 875

*Provisions for impairment of bad and doubtful debts relate principally to Other debtors.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 CASH AND CASH EQUIVALENTS

	31.12.2013. LVL'000	31.12.2012. LVL'000	31.12.2013. EUR'000	31.12.2012. EUR'000
Cash on hand	-	1	-	2
Current accounts with banks	18 599	12 364	26 464	17 592
Term deposits*	4 983	10 219	7 090	14 540
	23 582	22 584	33 554	32 134

* As at December 31, 2013 deposits with initial maturity term over 90 days were LVL 27 339 thousand (EUR 38 900 thousand). As at December 31, 2012 there were no deposits with initial maturity term over 90 days. They are shown in Note 7, position "Term deposits". Term deposits fixed interest rate during 2013 is from 0.05% to 2.0% per annum (2012: from 0.1% to 3.3% per annum).

9 SHARE CAPITAL

(a) Authorised, subscribed and paid-up share capital as at December 31, 2013 consists of 39 900 000 ordinary shares of LVL 1 each. All shares have equal voting rights and rights to dividend.

	31.12.2013.		31.12.2012.	
	% from total share capital	Number of shares	% from total share capital	Number of shares
Registered (closed issues) shares	36,52	14 571 480	36,52	14 571 480
Bearer (public issues) shares	63,48	25 328 520	63,48	25 328 520
	100,00	39 900 000	100,00	39 900 000

(b) Shareholders

	31.12.2013.		31.12.2012.	
	% from total share capital	Number of shares	% from total share capital	Number of shares
E.ON Ruhrgas International GmbH <i>(including registered shares of closed issues 7 285 740)</i>	47,23	18 846 385	47,23	18 846 385
Itera Latvija LLC	16,00	6 384 001	16,00	6 384 001
JSC Gazprom <i>(including registered shares of closed issues 7 285 740)</i>	34,00	13 566 701	34,00	13 566 701
Shares owned by the State	0,00	117	0,00	117
Bearer (public issues) shares	2,77	1 102 796	2,77	1 102 796
	100,00	39 900 000	100,00	39 900 000

State owned shares are given for holding to the Ministry of Economics of the Republic of Latvia.

10 BORROWINGS

During 2013 or 2012 the Company did not have borrowings.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 DEFERRED INCOME

(a) Income from residents and enterprises contribution to financing of construction works of gas pipelines:

	31.12.2013. LVL'000	31.12.2012. LVL'000	31.12.2013. EUR'000	31.12.2012. EUR'000
Non-current portion	13 792	13 752	19 624	19 568
Current portion	628	606	893	862
	14 420	14 358	20 517	20 430

Deferred income movement:

	2013 LVL'000	2012 LVL'000	2013 EUR'000	2012 EUR'000
At the beginning of the year	14 358	14 340	20 430	20 404
Received from residents and enterprises during the reporting year	677	610	963	869
Written down to income statement in the reporting year (see Note 16)	(615)	(592)	(876)	(843)
Deferred to the following periods	14 420	14 358	20 517	20 430

Deferred income movement:

	2013 LVL'000	2012 LVL'000	2013 EUR'000	2012 EUR'000
At the beginning of the year	-	4 669	-	6 644
Written down to income statement in the reporting year	-	(4 669)	-	(6 644)
Deferred to the following periods	-	-	-	-

(b) EC funding recognised

Non-current portion	6 423	6 611	9 139	9 406
Current portion	188	188	268	268
	6 611	6 799	9 407	9 674

Deferred income movement:

	2013 LVL'000	2012 LVL'000	2013 EUR'000	2012 EUR'000
At the beginning of the year	6 799	6 770	9 674	9 632
Recognised deferred income from EC grants in the reporting year	21	226	30	322
Written down to income statement in the reporting year	(209)	(197)	(297)	(280)
Deferred to the following periods	6 611	6 799	9 407	9 674

Total deferred to the following periods

	21 031	21 157	29 924	30 104
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 DEFERRED INCOME (CONTINUED)

In accordance with the European Commission resolution No.C(2011) 5554 dated August 13, 2008 on the award of a financial grant under the EC Regulation (EC) No.663/2009 on gas and electricity interconnections, the Company has received funding of 50%, but not more than LVL 7 million (EUR 10 million) for realization of Actions No.EEPR-2010-INTg-RF-LV-LT-I2.566527 "Modernization of 15 wells at the Inčukalns UGS" and SI2.566531 "Construction of a gas passage below the River Daugava and a pig receiver". The objects were put into operation in 2011. The unused portion of funds is granted for reconstruction of two other wells. The final payment from EC was received in 2013.

See also Accounting policies Note (u).

12 OTHER PAYABLES

	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
	LVL'000	LVL'000	EUR'000	EUR'000
Prepayments received	7 690	6 404	10 943	9 112
Social insurance contributions	547	797	778	1 134
Personal income tax	345	499	491	710
Value added tax	7 111	12 381	10 118	17 617
Excise tax	1 511	2 375	2 150	3 379
Salaries	607	527	864	750
Accrued expenses for unused annual leave	841	934	1 197	1 329
Accrued expenses for bonuses	4 860	4 190	6 915	5 962
Accrued other expenses	315	335	448	476
Accrued post-employment benefit liabilities and other obligations to employees *	260	233	370	331
Other current liabilities	2 653	141	3 775	201
	26 740	28 816	38 049	41 001

* Accrued post-employment benefit liabilities and other obligations to employees in Note 22.

13 REVENUE

Sales per customers` groups are as follows:

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Income from natural gas sales to industrial customers	345 106	363 270	491 041	516 886
Income from natural gas sales to residential customers	44 176	46 841	62 857	66 649
Income from transmission and storage of natural gas	13 396	16 548	19 061	23 546
Other services	706	754	1 004	1 073
	403 384	427 413	573 963	608 154

If sales of natural gas based on leveraged payment (residential customers) increased or decreased by 5%, then income from natural gas sales to residential customers would increase or decrease by 5%. Income from rendering of services is recognised upon performance of services, net of value added tax and discounts, but including excise tax in amount of LVL 15 236 thousand or EUR 21 679 thousand in 2013 (2012: LVL 14 895 thousand or EUR 21 193 thousand).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 COST OF SALES

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Purchase of natural gas	314 634	335 949	447 684	478 012
Salaries	11 716	12 102	16 670	17 220
Social insurance contributions	2 783	2 865	3 960	4 077
Life, health and pension insurance	798	852	1 135	1 212
Materials and spare parts	7 385	9 013	10 508	12 824
Depreciation and amortisation	22 617	28 425	32 181	40 445
Other expenses	5 558	5 487	7 908	7 807
	365 491	394 693	520 046	561 597

15 ADMINISTRATIVE EXPENSES

Salaries	3 619	3 393	5 149	4 828
Social insurance contributions	790	765	1 124	1 088
Life, health and pension insurance	145	153	206	218
Maintenance and utilities	671	744	955	1 059
Real estate tax	763	769	1 086	1 094
Depreciation and amortisation	576	573	820	815
Bank charges	86	88	122	125
Provisions for impairment of bad and doubtful debts, net (see Note 5)	2 275	1 264	3 237	1 799
Other expenses	3 739	1 335	5 320	1 900
	12 664	9 084	18 019	12 926

16 OTHER INCOME

Penalties from customers	993	953	1 413	1 356
Income from contribution to financing of construction works (see Note 11)	615	592	876	843
Income from change in provisions of slow moving and obsolete inventories	74	208	105	296
Other income	693	1 207	986	1 718
Net foreign exchange gains	666	2 093	948	2 978
Interest income	138	330	196	469
	3 179	5 383	4 524	7 660

17 OTHER EXPENSES

Materials	27	28	39	40
Salaries	197	215	280	306
Social insurance contributions	25	28	36	40
Depreciation and amortisation	73	138	104	196
Sponsorship	2 104	2 183	2 994	3 106
Loss from sale of fixed assets*	1 190	1 683	1 693	2 395
Other expenses	320	296	455	421
	3 936	4 571	5 601	6 504

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 EXPENSES BY NATURE

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Purchase of natural gas	314 634	335 949	447 684	478 012
Depreciation and amortisation	23 266	29 136	33 105	41 456
Employee benefit expenses (see Note 26)	20 073	20 373	28 560	28 989
Material and spare parts	7 412	9 041	10 547	12 864
Net provisions for impaired receivables	2 275	1 264	3 237	1 799
Other expenses	14 431	12 585	20 533	17 907
	382 091	408 348	543 666	581 027

19 FINANCE INCOME

Finance income				
- Interest income	109	286	155	407

20 NET FOREIGN EXCHANGE GAIN AND INTEREST INCOME

The exchange net differences are credited to the income statement under Other income and Other expenses (see Notes 16 and 17).

Interest income credited to the income statement is included as follows:

Other income (see Note 16)	138	330	196	469
Finance income (see Note 19)	109	286	155	407
	247	616	351	876

21 INCOME TAX EXPENSE

Current income tax	4 157	4 256	5 915	6 055
Deferred income tax	(278)	(723)	(396)	(1 028)
	3 879	3 533	5 519	5 027

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 15% rate stipulated by the law to profit before taxation:

Profit before income tax	24 581	24 734	34 976	35 194
Theoretically calculated tax at tax rate of 15%	3 687	3 710	5 246	5 279
<i>Tax effect of:</i>				
Tax non-deductible expenses, net	1 127	826	1 603	1 175
Tax relief on donations	(935)	(1 003)	(1 330)	(1 427)
Tax charge	3 879	3 533	5 519	5 027

Deferred income tax is calculated by using the enacted tax rate – 15%.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 INCOME TAX EXPENSE (CONTINUED)

Reconciliation between actual corporate income tax charge and the amount of corporate income tax payable:

Receivable as at 1 January	(1 734)	(2 432)	(2 467)	(3 460)
Charge for the year	4 156	4 255	5 913	6 054
Paid during the year	(3 608)	(3 557)	(5 134)	(5 061)
Receivable as at 31 December	(1 186)	(1 734)	(1 688)	(2 467)

Calculation of deferred income tax:

	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
	LVL'000	LVL'000	EUR'000	EUR'000
Deferred income tax liabilities at the beginning of the reporting year	40 237	26 444	57 252	37 626
Increase in deferred income tax liabilities that results from revaluation of property, plant and equipment (charged to other comprehensive income)	47	14 823	67	21 091
Decrease in deferred income tax liabilities (credited to income statement)	(278)	(723)	(396)	(1 028)
Deferred income tax that results from disposal of revalued property, plant and equipment (credited to equity)	(334)	(307)	(476)	(437)
Deferred income tax liabilities at the end of the reporting year	39 672	40 237	56 447	57 252

	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
	LVL'000	LVL'000	EUR'000	EUR'000
Deferred tax liabilities:				
– Deferred tax liabilities to be recovered after more than 12 months	39 672	40 237	56 447	57 252
– Deferred tax liabilities to be recovered within 12 months	-	-	-	-
Deferred tax liabilities, net	39 672	40 237	56 447	57 252

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 INCOME TAX EXPENSE (CONTINUED)

Deferred income tax assets and liabilities are attributable to the following items:

	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
	LVL'000	LVL'000	EUR'000	EUR'000
Difference on depreciation of property, plant and equipment (to be settled within 12 months)	1 498	1 381	2 131	1 965
Difference on depreciation of property, plant and equipment (to be settled after more than 12 months)	40 772	41 931	58 013	59 662
Impairment of bad and doubtful debts (to be settled within 12 months) *	(883)	(1 516)	(1 256)	(2 157)
Accrued expenses for unused annual leave and bonuses (to be settled within 12 months)	(860)	(761)	(1 224)	(1 082)
Accruals for post-employment benefits and other employee benefits (to be settled after more than 12 month)	(613)	(687)	(872)	(978)
Accruals for other liabilities (to be settled within 12 months)	(194)	(50)	(276)	(71)
Impairment of inventories (to be settled within 12 months)	(48)	(61)	(69)	(87)
Deferred income tax liability, net	39 672	40 237	56 447	57 252

* These are provisions for impairment of bad and doubtful debts that are expected to become allowable for corporate income tax purposes in the foreseeable future as relevant debtor companies are in liquidation.

22 ACCRUALS FOR EMPLOYMENT AND POST EMPLOYMENT BENEFITS

At the beginning of reporting year	4 581	4 274	6 518	6 082
Current service (cost) / income	(265)	185	(377)	263
Interest expense	371	309	528	439
Post-employment benefits paid	(143)	(106)	(203)	(151)
Remeasurements of post employment benefit obligations	(459)	(81)	(654)	(115)
Provisions at the end of the reporting year	4 085	4 581	5 812	6 518

Non-current portion of provisions	3 825	4 348	5 442	6 187
Current portion of provisions (see Note 12)	260	233	370	331
Provisions at the end of the reporting year	4 085	4 581	5 812	6 518

Post-employment benefits are unique or monthly (in limited time period) benefits, which are paid to an employee, whose employment conditions meet defined criteria according to the Employment contract. Accruals for benefits are calculated based on the current level of the salaries and the number of those employees, who might be entitled to such benefits, if they terminated employment with the Company, as well as previously applied benefit rates and actuarial assumptions.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 ACCRUALS FOR EMPLOYMENT AND POST EMPLOYMENT BENEFITS (CONTINUED)

For calculation of provisions following assumptions have been used:

	2013	2012
Discount rate (considering profitability of government bonds at the balance sheet date), %	2.1265	3.2515
Employee rotation ratio	3.10	3.21
Pension age of employees, years	62	62
Mortality, years	***	***
Change in payroll, %:		
2012	-	4.00
2013	4.00	4.00
2014	4.00	4.00
2015	4.00	4.00
2016	4.00	4.00
2017	4.00	4.00
2018	4.00	-
Contributions in private pension funds, % of total gross income of employees	5.00	5.00
SSC*	23.55%	23.63%
PIT**	24%	25%

* average rate according to the Cabinet of Ministers rules in force during 2013 and 2012

** average rate according to the Cabinet of Ministers rules in force during 2013 and 2012.

*** according to provision calculation methodology.

Sensitivity of total employment and post-employment allowance depending on the assumption changes:

	Change in assumptions	Impact on the total liabilities
Discount rate	Increase/decrease of 0.5%	Decrease of 2.48% / increase of 4.57%
Employee rotation ratio	Increase/decrease of 0.5	Decrease of 2.48% / increase of 2.20%
Pension age	Increase/decrease of 1 year	Decrease of 4.68% / increase of 3.52%
Life period	Increase/decrease of 1 year	Increase of 0.97% / decrease of 0.97%
Payroll growth ratio	Increase/decrease of 0.5%	Increase of 3.51% / decrease of 3.43%
Contribution to the private pension funds	Increase/decrease of 0.5%	Increase of 0.33% / decrease of 0.33%
SSC	Increase/decrease of 0.5%	Increase of 0.33% / decrease of 0.33%
PIT	Increase/decrease of 0.5%	Increase of 0.01% / decrease of 0.01%

23 EARNINGS AND DIVIDENDS PER SHARE

(a) EARNINGS PER SHARE

The Company has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as the basic earnings per share.

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(a) EARNINGS PER SHARE (CONTINUED)

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Net profit attributable to shareholders (a)	20 702	21 201	29 457	30 167
	number, th.	number, th.	number, th.	number, th.
Ordinary shares as at 1 January	39 900	39 900	39 900	39 900
Ordinary shares as at 31 December	39 900	39 900	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b)	39 900	39 900	39 900	39 900
Basic earnings per share during the year (a/b) in LVL or EUR	0,519	0,531	0,738	0,756

(b) DIVIDENDS PER SHARE

Dividends payable are not accounted for until they are declared at the Annual General Meeting. At the meeting in 2014, a dividend in respect to 2013 of LVL 0.506 (EUR 0.72) per share will be proposed by the management. These financial statements do not reflect these dividends payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings for 2013.

The dividends paid in 2013 for 2012 were LVL 19 950 thousand (LVL 0.50 per share) or EUR 28 386 thousand (EUR 0.711 per share). The dividends paid in 2012 for 2011 were LVL 23 940 thousand (LVL 0.60 per share) or EUR 34 064 thousand (EUR 0.85 per share).

24 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Profit before income tax	24 581	24 734	34 976	35 194
<i>Adjustments for:</i>				
Depreciation (Note 3)	22 430	15 263	31 915	21 718
Amortisation (Note 4)	909	851	1 293	1 211
Deviations of actual and predictable purchases of natural gas and income from participation fees (see Note 11)	(824)	(5 458)	(1 173)	(7 767)
Provision for impairment of slow moving inventories (Note 6)	(74)	(208)	(105)	(296)
Change in accrued expenses for bonuses	670	(714)	953	(1 016)
Change in accrued expenses for unused annual leave	(93)	41	(132)	58
Change in accruals for other liabilities	2 527	(80)	3 596	(114)
Change in accrued expenses for post-employment benefits and other employee benefits (Note 22)	(496)	307	(706)	436
Interest income (Note 20)	(247)	(616)	(351)	(876)
Loss on sale of property, plant and equipment (Note 17)	1 190	1 683	1 693	2 395
<i>Changes in working capital</i>				
- trade and other receivables	31 893	(26 685)	45 380	(37 969)
- inventories	(36 860)	(54 685)	(52 447)	(77 810)
- trade and other payables	23 639	78 410	33 635	111 567
	69 245	32 843	98 527	46 731

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 RELATED PARTY TRANSACTIONS

No entity exercises a control over the Company. Entities disclosed below own or owned more than 20% of the shares that deemed to provide a significant influence over the Company.

(a) Sale of transmission services

	2013 LVL'000	2012 LVL'000	2013 EUR'000	2012 EUR'000
JSC "Gazprom"	<u>12 343</u>	<u>15 503</u>	<u>17 563</u>	<u>22 058</u>

(b) Purchase of natural gas

JSC "Gazprom"	<u>224 100</u>	<u>248 339</u>	<u>318 866</u>	<u>353 354</u>
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The entity has long-term agreement with JSC Gazprom based on "take or pay" rules that determine the minimum quantity which should be purchased for respective period. If the entity is not able to consume the agreed volume, legal obligations might arise.

(c) Accounts payable for natural gas and services

	31.12.2013. LVL'000	31.12.2012. LVL'000	31.12.2013. EUR'000	31.12.2012. EUR'000
JSC "Gazprom"	411	1	585	1
Companies controlled by JSC Gazprom	-	426	-	606
E.ON Ruhrgas AG	9	13	12	18
	<u>420</u>	<u>440</u>	<u>597</u>	<u>625</u>

Payables are payable in cash and are not secured by a pledge or otherwise.

(d) Accounts receivable for natural gas in transit

JSC "Gazprom"	<u>1 029</u>	<u>2 434</u>	<u>1 464</u>	<u>3 463</u>
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Receivables are receivable in cash and are not secured by a pledge or otherwise.

(e) Advance payment for natural gas to related company

JSC "Gazprom" for natural gas	<u>-</u>	<u>665</u>	<u>-</u>	<u>946</u>
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Advance payments for natural gas injected into the Inčukalns UGS for the needs of Latvia.

(f) Expenses for services from companies controlled by related party

	2013 LVL'000	2012 LVL'000	2013 EUR'000	2012 EUR'000
E.ON Ruhrgas AG	14	13	20	18
Companies controlled by JSC "Gazprom"	3 293	4 937	4 686	7 025
	<u>3 307</u>	<u>4 950</u>	<u>4 706</u>	<u>7 043</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 RELATED PARTY TRANSACTIONS (CONTINUED)

(g) Remuneration to Board of Directors and Council

A list of the members of the Board of Directors and Council is shown on page 3.

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Salaries	1 658	1 432	2 359	2 038
Social insurance contributions	257	299	366	425
Change in accruals for post-employment benefits and other employee benefits	(20)	-	(28)	-
Health and life insurance	3	3	4	4
Contributions to pension funds	50	46	71	65
	1 948	1 780	2 772	2 532

Salaries and social insurance contributions include accrued bonuses for the reporting year.

26 EMPLOYEE BENEFIT EXPENSE

Wages and salaries	15 370	14 975	21 868	21 308
Post-employment benefits and other employee benefits	162	735	231	1 046
Social insurance contributions	3 566	3 522	5 074	5 011
Social insurance contributions related to post-employment benefits and other employee benefits	32	136	46	194
Life, health and pension insurance	943	1 005	1 341	1 430
	20 073	20 373	28 560	28 989

In accordance with the Rules of the Cabinet of Ministers of Latvia 75.80% (2012: 76.20%) of the social insurance contributions are used to fund the state defined contribution pension system.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 SEGMENT REPORTING

31.12.2013.

	Gas transmission LVL'000	Gas storage LVL'000	Gas distribution LVL'000	Gas realization LVL'000	Other services LVL'000	TOTAL LVL'000
Segment revenue from external customers	3 382	9 981	-	389 315	706	403 384
Inter-segment revenue	16 458	11 326	35 674	270	152	63 880
Inter-segment costs	(42)	(197)	(524)	(63 117)	-	(63 880)
Interest income	-	-	-	-	109	109
Profit before tax	3 280	5 477	9 629	6 307	(112)	24 581
Corporate income tax	391	742	1 442	1 060	244	3 879
Assets	140 481	101 004	180 252	181 745	6 711	610 193
Liabilities	18 413	14 576	40 452	108 672	269	182 382
Other information on segment						
<i>Depreciation and amortisation</i>	<i>9 531</i>	<i>5 140</i>	<i>7 976</i>	<i>513</i>	<i>106</i>	<i>23 266</i>
<i>Additions of non-current assets</i>	<i>8 814</i>	<i>4 879</i>	<i>5 848</i>	<i>263</i>	<i>2</i>	<i>19 806</i>

31.12.2013.

	Gas transmission EUR'000	Gas storage EUR'000	Gas distribution EUR'000	Gas realization EUR'000	Other services EUR'000	TOTAL EUR'000
Segment revenue from external customers	4 812	14 202	-	553 945	1 004	573 963
Inter-segment revenue	23 418	16 115	50 760	384	216	90 893
Inter-segment costs	(60)	(280)	(746)	(89 807)	-	(90 893)
Interest income	-	-	-	-	155	155
Profit before tax	4 667	7 793	13 701	8 974	(159)	34 976
Corporate income tax	556	1 056	2 052	1 508	347	5 519
Assets	199 886	143 716	256 476	258 599	9 549	868 226
Liabilities	26 199	20 740	57 558	154 626	382	259 505
Other information on segment						
<i>Depreciation and amortisation</i>	<i>13 561</i>	<i>7 314</i>	<i>11 349</i>	<i>730</i>	<i>151</i>	<i>33 105</i>
<i>Additions of non-current assets</i>	<i>12 542</i>	<i>6 942</i>	<i>8 321</i>	<i>374</i>	<i>2</i>	<i>28 181</i>

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27 SEGMENT REPORTING (CONTINUED)

31.12.2012.

	Gas transmission LVL'000	Gas storage LVL'000	Gas distribution LVL'000	Gas realization LVL'000	Other services LVL'000	TOTAL LVL'000
Segment revenue from external customers	3 987	12 525	-	410 147	754	427 413
Inter-segment revenue	16 694	11 470	36 699	334	103	65 300
Inter-segment costs	(28)	(211)	(661)	(64 400)	-	(65 300)
Interest income	-	-	-	-	286	286
Profit before tax	5 990	6 989	7 808	2 421	1 526	24 734
Corporate income tax	777	1 057	1 341	793	(435)	3 533
Assets	142 426	100 975	180 552	152 278	6 562	582 793
Liabilities	19 729	14 783	41 283	80 779	(576)	155 998
Other information on segment						
<i>Depreciation and amortisation</i>	<i>10 912</i>	<i>5 892</i>	<i>11 751</i>	<i>406</i>	<i>175</i>	<i>29 136</i>
<i>Additions of non-current assets</i>	<i>5 374</i>	<i>5 851</i>	<i>6 965</i>	<i>995</i>	<i>3</i>	<i>19 188</i>

31.12.2012.

	Gas transmission EUR'000	Gas storage EUR'000	Gas distribution EUR'000	Gas realization EUR'000	Other services EUR'000	TOTAL EUR'000
Segment revenue from external customers	5 673	17 822	-	583 587	1 073	608 155
Inter-segment revenue	23 754	16 320	52 218	475	147	92 914
Inter-segment costs	(40)	(300)	(941)	(91 633)	-	(92 914)
Interest income	-	-	-	-	407	407
Profit before tax	8 523	9 944	11 110	3 445	2 172	35 194
Corporate income tax	1 106	1 504	1 908	1 128	(619)	5 027
Assets	202 654	143 674	256 902	216 673	9 337	829 240
Liabilities	28 072	21 035	58 740	114 938	(820)	221 965
Other information on segment						
<i>Depreciation and amortisation</i>	<i>15 526</i>	<i>8 384</i>	<i>16 719</i>	<i>578</i>	<i>249</i>	<i>41 456</i>
<i>Additions of non-current assets</i>	<i>7 647</i>	<i>8 325</i>	<i>9 910</i>	<i>1 416</i>	<i>4</i>	<i>27 302</i>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 SEGMENT REPORTING (CONTINUED)

The largest customers:

Five of the Company's customers comprise up to 47.5% (in 2012 – 44.7%) of income. Income generated by the largest customer as of December 31, 2013 was 35.4% (in 2012 – 29.0%), the second and the third largest customers constituted 6.5% and 2.8% respectively (in 2012 – 8.0% and 3.1%) of the total income amount. This income is related to the natural gas realization segment.

No geographical segment information is provided as all principal operations are carried out in Latvia.

28 CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

IFRS requires that in preparing the financial statements, management of the Company make estimates and assumptions that affect the reported amounts of assets and liabilities and required disclosure at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgement and thus having significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year are revaluation of property, plant and equipment, determination of frequency of revaluations, the management assumptions and estimates in determination of useful lives of property, plant and equipment, recoverable amount of accounts receivable and inventories, post-employment benefits and other employee benefits as described in respective notes.

Revaluation of fixed assets

The management determines fair value and the remaining useful life of buildings, gas transmission and distribution system and equipment based on valuations performed by independent certified valuers in accordance with real estate valuation standards and based on the average construction costs relevant for the reporting year. The Company's internal policy is to perform the revaluations when there are indications that average construction costs and/or purchase prices related to the buildings, gas transmission and distribution system and equipment have changed significantly once per 5 years at least. On 1 February 2012 the Company performed revaluation of the buildings, gas transmission and distribution system and equipment that increased the carrying amount of these assets by LVL 85.04 million (EUR 121 million). The amortised replacement cost was determined by an independent certified valuator JSC BDO.

Recoverable amount of trade receivables

The estimated collectability of accounts receivable is assessed on an individual basis for each customer. In case individual assessment is not possible due to the large number of individual balances, only the significant debtors are assessed individually. Receivables that are not individually assessed for impairment are classified into groups of receivables with similar credit risk characteristics and are collectively assessed for impairment, using historical loss experience. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Refer to Note 5.

Inventory valuation

Upon valuation of inventories, the management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of inventory is taken into consideration. Refer to Note 6.

Evaluation of post-employment and other employee benefits

Liabilities for the employee benefits are presented in the balance sheet at their present value. Employee benefit liabilities are calculated for each year using the Projected Unit Credit method. Both actuaries defined and publicly available assumptions are used in calculations regarding changes in demographic and financial variables. Refer to Note 22.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 CRITICAL ESTIMATES AND JUDGEMENTS (CONTINUED)

Recognition of revenues using the leveraged consumption payment scheme

Customers, who settle payments using the leveraged consumption payment scheme, when paying bills (commercial users and private persons, who perform an operating activity), perform the readings of meters twice a year and determine the leveraged consumption for the winter season (November to April) and summer season. Customers are invoiced on the monthly basis.

Customers who are residents (household customers) settle accounts using the leveraged consumption payment scheme in the self-service order. Customers perform the readings of meters (depending on consumption) once a year or when tariffs are changed. All customers of the households are invoiced on a monthly basis by summing the leveraged consumption for which a seasonal rate is applied.

29 FINANCIAL RISK MANAGEMENT

29.1. Financial risk factors

The Company’s overall risk management program is based on “JSC “Latvijas Gāze” risk management guidelines and procedures” developed by SIA Marsh in 2005, as well as “The Rules of “JSC “Latvijas Gāze” on management of financial resources” (hereafter – Rules) developed in 2012.

The Company’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company’s financial performance. An approach of assessment of the financial stability of Latvian commercial **banks** and foreign credit institutions’ **branches** by evaluating various criteria (both quantitative and qualitative) with the added assessment scales is described in the Rules.

Financial instruments owned by the Company (according to IFRS 7):

	31.12.2013		31.12.2012	
	LVL’000		LVL’000	
	Loans and receivables	Financial liabilities at amortized cost	Loans and receivables	Financial liabilities at amortized cost
Financial assets				
Receivables from related companies	1 029	-	2 434	-
Trade receivables	26 706	-	54 819	-
Other receivables	27 725	-	1 317	-
Cash and cash equivalents	23 582	-	22 584	-
Total financial assets:	79 042	-	81 154	-
Financial liabilities				
Payables to related companies	-	420	-	734
Trade payables	-	90 694	-	60 706
Other payables	-	26 740	-	28 816
Total financial liabilities:	-	117 854	-	90 256

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

	31.12.2013 EUR'000		31.12.2012 EUR'000	
	Loans and receivables	Financial liabilities at amortized cost	Loans and receivables	Financial liabilities at amortized cost
Financial assets				
Receivables from related companies	1 464	-	3 463	-
Trade receivables	37 998	-	78 001	-
Other receivables	39 448	-	1 875	-
Cash and cash equivalents	33 554	-	32 134	-
Total financial assets:	112 464	-	115 473	-
Financial liabilities				
Payables to related companies	-	597	-	1 043
Trade payables	-	129 046	-	86 378
Other payables	-	38 049	-	41 001
Total financial liabilities:	-	167 692	-	128 422

Financial instruments by categories

All financial assets are included in category Loans and Receivables and all financial liabilities are measured at amortised cost.

Company's activities are exposed to following risks:

- Credit risk
- Liquidity risk
- Market risk, incl.
 - Interest rate risk
 - Currency exchange rate risk

Credit risk

The Company is exposed to credit risk, which is a risk of material losses arising in a case when counterparty is not able to fulfil its contractual obligations to the Company. The credit risk is critical to the operations of the Company, so it is important to manage this risk effectively.

The credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions.

Sources of credit risk

Credit risk mainly relates to few largest customers of the Company. Largest part 51.5% (2012: 48.6%) of trade receivables natural gas comprises of debts of 4 largest customers of the Company, one of these customers debt comprised 29.5% (2012: 34.7%), second and third largest customer debt comprised 6.9% and 4.5% respectively (2012: 9.8% and 5.4%) of total trade receivables as at December 31, 2013. The Company has introduced and observes such 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. Debts of 4 largest customers are not impaired as at December 31, 2013.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

Credit risk management

Control over debtors is performed by Individual customer transaction department (hereinafter - Individual CTD), Industrial customers transaction department (hereinafter - Industrial CTD), Contact centre (hereinafter - CC) and Financial accounting department of the Company.

A debtors aging analysis is prepared on a monthly basis. Debtors are analysed in the following groups:

- households, which use natural gas for heating purposes or for heating purposes and for other purposes simultaneously;
- households, which use natural gas for other purposes than heating;
- companies with gas consumption less than 25 thousand m³ a year;
- companies with gas consumption more than 25 thousand m³ a year.

Debt monitoring process of households, which use natural gas for heating purposes or for heating purposes and for other purposes in parallel

1. When the payment due date, specified in the settlement procedures, for the natural gas received during the settlement period, is reached (according to leveraged consumption payment scheme), Individual CTD arranges dispatching of a reminder about debts overdue to Debtors.
2. If the debt is not repaid within a time limit set in the reminder, a warning of natural gas supply's termination is sent to the household.
3. If the payment is not repaid within a specified date, a debtor for heating is included in a natural gas supply's termination list and the supply of natural gas is terminated.
4. After receiving of the natural gas supply's termination deed, Individual CTD or a respective Department performs a final debt calculation and sends a claim for a debt to the debtor with a notice of debt recovery procedures.
5. If the debt amount exceeds EUR 300 and the payment deadline set in the claim falls due, Individual CTD or a respective Department evaluates possibilities of collecting the debt from the debtor under compulsory, by legal proceedings.
6. If the Debtor is declared insolvent, Individual CTD or a respective Department organises a termination of natural gas supply for the gasified object of the Debtor at the earliest possible time, as well as prepares required documentation and transfers the documents to the Legal department for submission of creditors' claim.

Debt monitoring process of households, which use natural gas for other purposes than heating

1. When the payment due date, specified in the settlement procedures for the natural gas received during the settlement period is reached (according to leveraged consumption payment scheme), Individual CTD arranges dispatching of a reminder about debts overdue to Debtors.
2. If the debt is not repaid within a time limit set in the reminder, a warning of natural gas supply's termination is sent to the household.
3. If the debt is not paid during the term indicated in the warning letter, Individual CTD initiates a repeated warning letter of natural gas termination sent out to the Debtor, at the same time informing Debtors about submitting their personal data to the debt collection companies and the possibility that their personal data may be included in the public data bases.
4. If a Debt collection company could not collect the debt of the Debtor, or the debt for natural gas supplied based on leveraged consumption payment scheme exceeds EUR 150, or the Debtor has not paid for supplied natural gas for the last 5 (five) years, the debtor is included in the natural gas supply's termination list and the supply of natural gas is terminated.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

5. After receiving of the natural gas supply's termination deed Individual CTD or a respective Department performs a final debt calculation and sends a claim for a debt to the debtor with a notice of debt recovery procedures.

6. If the debt amount exceeds EUR 300 and the payment deadline set in the claim falls due, Individual CTD or a respective Department evaluates possibilities of collecting the debt from the debtor under compulsory, by legal proceedings.

7. If the Debtor is declared insolvent, Individual CTD or a respective Department organises the termination of natural gas supply for the gasified object of the Debtor at the earliest possible time, as well as prepares required documentation and transfers the documents to the Legal department for submission of creditors' claim.

Debt monitoring process of companies with gas consumption less than 25 thousand m³ a year

1. When the payment due date, specified in the settlement procedures, for the natural gas received during settlement period, is reached (according to leveraged consumption payment scheme), Individual CTD arranges dispatching of reminder to Debtors about overdue.

2. If the payment for the natural gas received during the settlement period is not received after the date specified in the settlement procedures, Individual CTD and Departments send a warning letter to Debtors about termination of natural gas supply.

3. If a payment is not received during the term indicated in the warning letter, respective departments of the Company issue an order for termination of the supply of natural gas to the gasified object of the Debtor.

4. If a termination of the natural gas supply or reading the Counter data is not possible at the gasified object of the Debtor, Individual CTD or a respective Department sends to the Debtor, as well as to the gasified object owner (if the Debtor is not an owner of the gasified object) a repeated warning letter about the gas supply's termination, at the same time informing about administrative responsibility.

5. After receiving of the natural gas supply's termination deed, Individual CTD or a respective Department performs a final debt calculation and sends a claim for a debt to the debtor with a notice of debt recovery procedures.

6. If the debt amount exceeds EUR 300 and the payment deadline set in the claim falls due, Individual CTD or a respective Department evaluates possibilities of collecting the debt from the debtor under compulsory, by legal proceedings.

7. If the Debtor is declared insolvent, Individual CTD or a respective Department organises termination of natural gas supply for the gasified object of the Debtor at the earliest possible time, as well as prepares required documentation and transfers the documents to Legal department for submission of creditors' claim.

Debt monitoring process of companies with gas consumption more than 25 thousand m³ a year

1. When the payment due date specified in the settlement procedures for the natural gas received during the settlement period is reached, Industrial CTD, as well as Departments (agreed in advance with Individual CTD) arranges a dispatching of a warning letter to Debtors about natural gas supply's termination.

2. Agreeing with the head of Gas accounting and payment department, Industrial CTD and Departments prepare and send warning letters to the Debtors also if the payment for supplied natural gas during any of the current month decades has not been received.

3. Every month CC or a respective Department contacts debtors included in the list via phone and reminds about the payment due date. If a debt due from a debtor is accumulated for natural gas supplied to an apartment type house' heating, Industrial CTD or a respective Department may inform residents of the apartment type house by means of placing a corresponding announcement about the termination of gas supply.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

4. If a payment is not received after the actions mentioned above, the Company shall decide before the expiration of the term indicated in the warning letter on either the termination of gas supply or the delay of gas supply termination.

5. If a payment is not received during the term indicated in the warning letter and the decision to terminate gas supply to the client has been made, an order is given to terminate gas supply to the debtor during a corresponding day.

6. If the debt amount exceeds EUR 300 and the payment deadline set in the claim falls due, Industrial CTD evaluates possibilities of collecting the debt from the debtor under compulsory, by legal proceedings.

7. If a client has been declared insolvent or is subject to legal protection process, Industrial CTD may organize gas supply with a prepayment.

December 31, 2013 (LVL'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	26 674	24 894	1 780	-
<i>incl. renegotiated receivables</i>	68	68	-	-
Other services	1 060	1 060	-	-
Total current trade receivables	27 734	25 954	1 780	-

December 31, 2013 (EUR'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	37 954	35 421	2 533	-
<i>incl. renegotiated receivables</i>	97	97	-	-
Other services	1 508	1 508	-	-
Total current trade receivables	39 462	36 929	2 533	-

December 31, 2012 (LVL'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	54 793	49 246	5 547	-
<i>incl. renegotiated receivables</i>	64	64	-	-
Other services	2 460	2 460	-	-
Total current trade receivables	57 253	51 706	5 547	-

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

December 31, 2012 (EUR'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	77 963	70 071	7 892	-
<i>incl. renegotiated receivables</i>	92	92	-	-
Other services	3 501	3 501	-	-
Total current trade receivables	81 464	73 572	7 892	-

* 100% provisions are created for doubtful debtors (see Note 5).

December 31, 2013 (LVL'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Advance payments for materials	8	8	-	-
Tax receivables	1	1	-	-
Other receivables	89	52	37	-
Total other receivables	98	61	37	-

December 31, 2013 (EUR'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Advance payments for materials	11	11	-	-
Tax receivables	1	1	-	-
Other receivables	127	74	53	-
Total other receivables	139	86	53	-

December 31, 2012 (LVL'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Advance payments for materials	111	111	-	-
Advance payments to employees	1	1	-	-
Tax receivables	1	1	-	-
Other receivables	149	102	47	-
Total other receivables	262	215	47	-

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

December 31, 2012 (EUR'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Advance payments for materials	158	158	-	-
Advance payments to employees	2	2	-	-
Tax receivables	1	1	-	-
Other receivables	212	145	67	-
Total other receivables	373	306	67	-

* 100% provisions are created for doubtful debtors (see Note 7).

Quality of the debtors

Fully performing debtors having no overdue debts are mainly heat supply companies which as at December 31, 2013 account for 61% of trade receivables for gas or LVL 16.2 million (EUR 23.1 million). The shareholders of major part of the heat supply companies are local municipalities, which guarantee timely settlement of the debts or make advance payments for natural gas.

Past due not impaired and impaired debtors are not secured (with mortgage or commercial pledge).

Aging analysis of trade receivables past due, but not impaired is following:

	31.12.2013. LVL'000	31.12.2012. LVL'000	31.12.2013. EUR'000	31.12.2012. EUR'000
Up to 3 months	1 780	5 547	2 533	7 892
	1 780	5 547	2 533	7 892

Aging analysis of other trade receivables past due, but not impaired is following:

	31.12.2013. LVL'000	31.12.2012. LVL'000	31.12.2013. EUR'000	31.12.2012. EUR'000
Up to 3 months	37	22	53	31
3 to 6 months	-	25	-	36
	37	47	53	67

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

Term deposits and cash at bank

Before placing a term deposit the Board of the Company evaluates credit ratings, financial performance as well as offered interest rates of the banks.

Moody's Investors Services credit ratings of banks (or its owners) are used by the Company (as at February 20, 2014):

Bank	Long term rating	Short term rating	Rating of financial security	Rating forecast
Nordea Bank Finland	Aa3	P-1	C	Stable
Pohjola Bank Plc	Aa3	P-1	C-	Stable
DnB ASA	A1	P-1	C-	Stable
SEB group	A1	P-1	C-	Stable
Swedbank AB	A1	P-1	C-	Stable
Danske Bank AB	Baa1	P-2	C-	Positive
SMP bank (Russia)	Baa3	-*	E+	Stable
Citadele bank	B2	Not prime	E+	Stable

* Data on credit rating is not available

	31.12.2013. LVL'000	31.12.2012. LVL'000	31.12.2013. EUR'000	31.12.2012. EUR'000
Citadele bank	1 479	4 549	2 104	6 472
Swedbank	940	1 548	1 337	2 203
SEB bank	717	5 720	1 020	8 139
DnB bank	5 051	5 120	7 187	7 285
GE Money Bank	-	154	-	219
Nordea Bank Finland Latvia branch	728	1 556	1 036	2 214
Danske Bank Latvia branch	14 383	3 893	20 465	5 539
Pohjola Bank Latvia branch	5	-	8	-
SMP Bank	279	41	397	58
UniCredit Bank	-	2	-	3
Total accounts with banks	23 582	22 583	33 554	32 132

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

Credit quality of cash and cash equivalents (Moody's Investors Service)

	31.12.2013. LVL'000	31.12.2012. LVL'000	31.12.2013. EUR'000	31.12.2012. EUR'000
Aa3	733	1 556	1 044	2 214
A1	6 708	10 994	9 544	15 643
A2	-	1 548	-	2 203
A3	-	2	-	3
Baa1	14 383	3 893	20 465	5 539
Baa3	279	41	397	58
B2	1 479	4 549	2 104	6 472
Total accounts with banks	23 582	22 583	33 554	32 132

Liquidity risk

Liquidity risk is associated with the Company's ability to settle its liabilities within agreed due dates.

Main guidelines applied by the Company – do not permit delay of payments to creditors and prioritise payments to suppliers for the delivered gas. If the Company does not have sufficient amount of cash, a credit line is used.

An operating cash flow plan is prepared to manage liquidity risk on a monthly basis after actual data of the previous month is received, or in cases which may significantly affect financial performance (significant changes in heavy fuel global market price / or natural gas purchase prices) of the Company.

Contractual maturity of liabilities as at 31 December, 2013 (LVL'000):

	< 1 month	1-3 months	3 months- 1 year	Total
Trade payables	3 439	6 466	81 209	91 114
Other liabilities, incl.	106	-	315	421
<i>Accrued expenses for other expenses</i>	-	-	315	315
<i>Other short term liabilities</i>	106	-	-	106
	3 545	6 466	81 524	91 535

Contractual maturity of liabilities as at 31 December, 2013 (EUR'000):

	< 1 month	1-3 months	3 months- 1 year	Total
Trade payables	4 893	9 200	115 550	129 643
Other liabilities, incl.	151	-	448	599
<i>Accrued expenses for other expenses</i>	-	-	448	448
<i>Other short term liabilities</i>	151	-	-	151
	5 044	9 200	115 998	130 242

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Liquidity risk (continued)

Contractual maturity of liabilities as at 31 December, 2012 (LVL'000):

	< 1 month	1-3 months	3 months- 1 year	Total
Trade payables	1 358	60 023	59	61 440
Other liabilities, incl.	138	3	335	476
<i>Accrued expenses for other expenses</i>	-	-	335	335
<i>Other short term liabilities</i>	138	3	-	141
	1 496	60 026	394	61 916

Contractual maturity of liabilities as at 31 December, 2012 (EUR'000):

	< 1 month	1-3 months	3 months- 1 year	Total
Trade payables	1 932	85 405	84	87 421
Other liabilities, incl,	197	4	476	677
<i>Accrued expenses for other expenses</i>	-	-	476	476
<i>Other short term liabilities</i>	197	4	-	201
	2 129	85 409	560	88 098

Market risk

Interest rate risk

The Company is not exposed to cash flow interest rate risk, as it has no borrowings as at December 31, 2013 (see Note 10). Other financial assets and liabilities bear no interest, or interest rate is fixed. As all financial assets and liabilities are accounted for at amortised cost, the Company is not exposed to the fair value interest rate risk.

Foreign currency exchange risk

Foreign currency exchange risk is a probability, that foreign currency exchange fluctuations will affect the financial position and cash flows 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 USD and afterwards recalculated in EUR, whereas the gas sales tariffs are set in LVL. Settlements for the supplied gas are made in EUR. The changes in gas purchase prices in USD depending on the quotation of oil products are covered by the PUC-approved natural gas sales tariffs, which to a certain extent cover the fluctuations of both the EUR/USD rate. The risk of fluctuations of foreign currency rates related to debts to suppliers is under control by keeping a significant share of financial resources in deposits of the respective currency.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Market risk (continued)

Latvia has joined the Euro Zone and its national currency is Euro since 1 January 2014. Fluctuations of currency exchange rates will no longer influence the operational activities of the Company. The Company does not use any currency hedge tools.

Open foreign currencies positions:

	31.12.2013.		
	USD'000	RUB'000	Citas'000
Financial assets	562	-	55
Financial liabilities	-	-	(18)
Balance sheet position in original currency	562	-	37
Balance sheet position in LVL'000	289	-	4
Balance sheet position in EUR'000	412	-	5

Open foreign currencies positions:

	31.12.2012.		
	USD'000	RUB'000	Other'000
Financial assets	53	192	55
Financial liabilities	-	-	-
Balance sheet position in original currency	53	192	55
Balance sheet position in LVL'000	28	3	4
Balance sheet position in EUR'000	40	5	6

Exchange rate fluctuations sensitivity analysis

In determination of future fluctuations of exchange rates, assumption is made based on prior year USD currency exchange rate fluctuations, which were in the range of 3% (2012: 5%) and for other currencies in range of 1% (2012: 1%) (net of tax effect).

December 31, 2013

	Currency	Book value	Impact to	Impact to	Book value	Impact to	Impact to
			current year profit	current year profit		current year profit	current year profit
			+3% (USD)	-3% (USD)		+3% (USD)	-3% (USD)
			+1% (other currencies)	-1% (other currencies)		+1% (other currencies)	-1% (other currencies)
		LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
Assets							
Cash	USD	3	0	0	4	0	0
	Other	4	0	0	6	0	0
Accounts receivable	USD	286	10	(10)	407	14	(14)
		293	10	(10)	417	14	(14)
Liabilities							
Accounts payable	USD	9	1	(1)	13	1	(1)
		9	1	(1)	13	1	(1)
Net impact		284	9	(9)	404	13	(13)

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Market risk (continued)

December 31, 2012

	Currency	Book value	Impact to	Impact to	Book value	Impact to	Impact to
			current year profit	current year profit		current year profit	current year profit
			+5% (USD)	-5% (USD)		+5% (USD)	-5% (USD)
			+4% (RUB)	-4% (RUB)		+4% (RUB)	-4% (RUB)
			+1% (other currencies)	-1% (other currencies)		+1% (other currencies)	-1% (other currencies)
		LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
Assets							
Cash	USD	28	2	(2)	40	3	(3)
	Other	4	0	0	6	0	0
Accounts receivable	USD	3	0	0	4	0	0
		35	2	(2)	50	3	(3)
Net impact		35	2	(2)	50	3	(3)

29.2. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital.

The Company manages capital, based on a proportion of borrowed capital against the total capital. This ratio is calculated as proportion of total liabilities to the total capital of the Company, except cash and cash equivalents. Liabilities include all current and non-current liabilities, but total capital includes all liabilities of the Company and equity. This ratio is used to evaluate the structure of the capital of the Company, as well as its solvency. The strategy of the Company is to ensure that the ratio is not lower than 3% and not higher than 30%.

In 2013 and 2012 proportion of borrowed capital to total capital was as follows:

	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
	LVL'000	LVL'000	EUR'000	EUR'000
Total liabilities	182 382	155 998	259 505	221 965
(Cash and cash equivalents)	(23 582)	(22 584)	(33 554)	(32 134)
Net total liabilities	158 800	133 414	225 951	189 831
Total liabilities and equity	610 193	582 793	868 226	829 240
Borrowed capital proportion to total capital	26.02%	22.89%	26.02%	22.89%

29.3. Fair value

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.3. Fair value (continued)

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The objective of the fair value measurement, even in inactive markets, is to arrive at the price at which an orderly transaction would take place between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

In order to arrive at the fair value of a financial instrument different methods are used: quoted prices, valuation techniques incorporating observable data and valuation techniques based on internal models. These valuation methods are divided according with the fair value hierarchy in Level 1, Level 2 and Level 3.

The level in the fair value hierarchy within which the fair value of a financial instrument is categorized shall be determined on the basis of the lowest level input that is significant to the fair value in its entirety.

The classification of financial instruments in the fair value hierarchy is a two-step process:

1. Classifying each input used to determine the fair value into one of the three levels;
2. Classifying the entire financial instrument based on the lowest level input that is significant to the fair value in its entirety.

Quoted market prices - Level 1

Valuations in Level 1 are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available and the prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques using observable inputs - Level 2

Valuation techniques in Level 2 are models where all significant inputs are observable for the asset or liability, either directly or indirectly. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as price) or indirectly (that is, derived from prices).

Valuation technique using significant unobservable inputs - Level 3

A valuation technique that incorporates significant inputs that are not based on observable market data (unobservable inputs) is classified in Level 3. Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. Level 3 inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

Assets and liabilities for which fair value is disclosed

The carrying amount of liquid and short-term financial instruments (with maturity below 3 months), for example, cash and cash equivalents, short-term deposits, short-term trade payables and trade receivables corresponds to its fair value.

Assets measured at fair value

Company's buildings, gas transmission and distribution system and equipment are stated at revalued amount, determined by using depreciated replacement cost method which is based on the definition of the assets' market value formulated in the International valuation standards. Depreciated replacement cost method was selected as the most appropriate one given the specialised nature of the assets subject to revaluation, as such assets are rarely sold or even not sold at all on the market. For the purposes of assessing the replacement cost, the data about the construction costs of the Latvia's leading construction companies for 2011 was analysed, taking into account the loss of technical and functional value of the assets over time. As a result, it may be concluded that both observable and unobservable market data is being used in valuation which corresponds to the 3rd level valuation technique.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.3. Fair value (continued)

The management of the Company has evaluated the trend in the construction costs during the period from 2011 till 2013 and has concluded that based on data provided by the Central Statistical Bureau of Latvia, the non-residential building construction costs have increased by 5%, industrial and underground pipeline construction costs have increased by 7% during reporting period. New equipment purchase costs compared to those used in revaluation, have not significantly changed.

30 CAPITAL COMMITMENTS

The Company has planned to invest the following amounts of capital expenditures for property, plant and equipment and intangible assets in the subsequent year:

	31.12.2013.	31.12.2012.	31.12.2013.	31.12.2012.
	LVL'000	LVL'000	EUR'000	EUR'000
Contracted for, but not delivered	8 307	5 529	11 820	7 867
Authorised, but not yet contracted for	13 691	19 866	19 480	28 267
	21 998	25 395	31 300	36 134

31 TAX CONTINGENT LIABILITIES

The tax authorities may at any time inspect the books and records within 3 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

32 LITIGATION

On September 2011 the Company was investigated in accordance with the European Council Regulation No.1/2003 part 4 of Article 20 (Case COMP/39.816) in connection with the alleged abuse by the related company “Gazprom” of a dominant position in the gas sector, which would be contrary to Article 102 of LESD and Article 54 of the Agreement on the European Economic Area and suspected participation of JSC “Latvijas Gāze” in the agreements, which would be directed against competition and would be contrary to Article 101 of LESD and Article 53 of the Agreement on the European Economic area. The Company has signed an agreement with a law firm that has international experience in the competition proceedings and has prepared an assessment of potential risks as well as defence strategy. As of the date of issuing these financial statements, no effective claims, complains or court cases have been filed in this regard.

The management of the Company considers it to be impossible at the moment to estimate when the above two issues will be clarified or any potential losses can be estimated.

On October 1, 2013 Latvian State Competition Council made a decision of December 16, 2011 case No. E02-48 No.95 (Prot. No.59, 2. §) about the case brought by the Competition Council on Article 13 of the competition law (abuse of dominant position) for the violation of the prohibition stated in part 1. With the Competition Council's decision the Company is legally obligated to end the unfair trade rules to new users, stopping to link natural gas supply contracts and gas supply to the user's previous debt payments, and imposed a fine of 1.57 million Ls. As at 31 December 2013 the Company had accrued a totally 2.6 million LVL related to imposed fine and estimated losses resulting from debt repayments.

Decision of the Competition Council is not effective, because the Company has appealed it in Regional court.

33 SUBSEQUENT EVENTS

There are no subsequent events since the last date of the reporting year that would have a significant effect on the financial position of the Company as at December 31, 2013.