

JSC "Latvijas Gāze"

ANNUAL REPORT

2014

TO STRIVE FOR EXCELLENCE

Excellence is reached through persistent work, and true excellence lies in not resting on one's laurels and in being able to see and stimulate excellence in others. The JSC "Latvijas Gāze" is a prominent natural gas company nationally and regionally, with its excellence achieved over the years by constantly improving the quality of its services, as well as accepting new challenges.

At the same time, excellence raises the standards of responsibility – for the company's future, for our customers, for the professional growth of employees of "Latvijas Gāze", and for the people of Latvia in general. The year 2014 shows that we have succeeded in maintaining these values and turning them into real accomplishments.

In any sphere of life, those who excel not only fulfil their own potential, but also inspire others to follow their foot-steps in serving the common good. We invest with confidence in science, education, culture, sports, public welfare, environmental protection, and other areas, because we are sure of their benefits in the long run.

We want to excel further in our industry and in the Latvian and Baltic economy, so we encourage aspiring to the highest standards – both at our company and in Latvia overall. I wish us all to continue on this road to excellence in 2015!

Adrians Dāvis

Chairman of
the Board



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WE THINK SMARTER

“LATVIJAS GĀZE” –
INDUSTRY LEADER IN THE REGION

“
Visionary idealists who are able to
foresee the possibilities will make
Latvia a thriving nation. Our success
depends on forward thinking.”

JĀNIS STRADIŅŠ

One of the most honored 20th century Latvian scientists, chemists, and historians, academician, recipient of the Trīs Zvaigžņu order's highest level as well as many other national and international awards and honours. From 1998 to 2004 he was the president of the Latvian Academy of Science.

“LATVIJAS GĀZE” 2014

The “Latvijas Gāze” is the only natural gas transmission, storage, distribution, and sales operator in Latvia. The company ensures the supply of natural gas to 443,000 customers in Latvia, and the transmission and storage of natural gas for customers in Estonia, Russia, and Lithuania.

OUR OBJECTIVE

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

OUR MISSION

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

OUR VISION

To promote the use of natural gas for a variety of purposes, both in households and enterprises, and to promote Latvia as a regional leader in the supply of natural gas, utilising the unique Inčukalns Underground Gas Storage Facility.

THE COMPANY'S FOCUS

SAFETY AND SECURITY OF GAS SUPPLY

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

SUSTAINABLE INVESTMENT

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

EFFICIENT MANAGEMENT

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

PROFESSIONAL STAFF

Our company has a large staff with specialists in many areas. Due to the key role of safety in supplying gas, we pay great attention to the qualifications of gas supply specialists, and labour safety. We have ensured up-to-date labour conditions and operate in line with our personnel policy, which ensures efficiency at work and in staff recruitment.

QUALITY OF PRODUCT

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

QUALITY OF SERVICE

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

COMPETITIVENESS OF PRICES

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

NETWORK DEVELOPMENT AND CUSTOMER ATTRACTION

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

COUNCIL REPORT

The year 2014 in Latvia saw a further economic development. The "Latvijas Gāze" (hereinafter – the Company) was among those contributing to this development by supplying 1.29 billion m³ of natural gas to its more than 443 thousand customers. The decrease in natural gas sales by more than 10% year-on-year was primarily caused by the atypically warm weather conditions during the heating seasons and the switching of some customers from natural gas to renewable energy resources because of their lower price, as well as the possibility to receive funding from the Cohesion Fund of the European Union (EU) for the purchase and installation of new equipment. Despite the decline of natural gas sales in 2014, the Company's net profit reached 32.03 million EUR, which is on par with that of previous years owing to the increase of profitability.

The priority of the Company in 2014, just as in previous years, was a continuous and safe natural gas supply to customers both in Latvia and the neighbouring countries: Russia, Estonia and Lithuania. Last year, the Company implemented a number of key projects. The construction of underwater passages under the Gauja river bed for the gas pipelines Pskov-Riga and Izborsk-Inčukalns UGS using the horizontal drilling method proceeded. Having progressed ahead of schedule, the project is now due for completion in 2015 and will substantially contribute to the improvement of safety of natural gas supply. A further modernisation of wells took place at the Inčukalns UGS, with

four wells renovated over the year. Under the programme of diagnostics of gas transmission pipelines, 97% of the total length of gas transmission pipelines have undergone inspection. The Company invested 30.0 million EUR in the modernisation, the attraction of new customers and the improvement of safety.

As the Latvian natural gas supply system is not connected with the EU common gas network and has one dominant gas supplier, Latvia has been granted a derogation from certain requirements of the Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC. On March 13, 2014, the Parliament adopted the law "Amendments to the Energy Law", which prescribes a gradual liberalisation of the gas market and stipulates that as of April 4, 2014 the natural gas system operator has to ensure for all system users an equal and open access to the relevant system in Latvia and provide all necessary services. Already in 2014, in line with this requirement, the Company signed numerous gas transmission and storage agreements with Lithuanian and Estonian gas market players and developed and submitted to the Public Utilities Commission the rules of usage of the transmission system and the Inčukalns UGS, which are under further revision in 2015.

Last year, the composition of the Council and the Board did not change. In 2014, during its meetings, the Council discussed the reports on the operation of the Company prepared by

the Board, reviewed and accepted the draft annual report of 2013 and the draft budget of 2015. The Council gave to the Board directions and recommendations on improving the Company's operation. The Council reviewed and accepted the changes in the Regulations of the Company's Council and Board and accepted and recommended for the Shareholders' meeting to approve the changes in the Company's Articles of Association, as well as accepted and recommended for election the auditor of the Company's financial accounts and the Auditing Committee. The Council has become acquainted with the Corporate Governance Report for the last year prepared by the Board in compliance with the "Principles of Corporate Governance and Recommendations on the Implementation thereof" issued by the JSC "NASDAQ OMX Riga" and holds a view that the Board has done significant work to ensure that the Company complies with the recommended principles of corporate governance. The Council follows the same principles.

Over the reporting period, the Council regularly received reports by the Board regarding the operation, economic and financial standing of the Company. The Council supervised the operation of the Board in all key aspects and made sure the Company works in compliance with the laws, the Company's Articles of Association and the resolutions of the Shareholders' meeting. The Council also verified and accepted the budget submitted by the Company and made proposals for improving the Company's work.

The Annual Accounts 2014 of the Company were audited by the International Auditor Company "PricewaterhouseCoopers" LLC. The Council has received the auditor's report attesting that the financial statements give a true and fair view of the "Latvijas Gāze" financial results and cash flows in 2014 in compliance with the Law of the Republic of Latvia on Annual Reports. The Council has reviewed and accepted the Board report on the operation of the Company in the reporting year, research and development measures, financial risk management and suggestions as to the distribution of the profit of 2014.

The Council of the Company acknowledges the successful performance of the Board and employees in 2014 and wishes success and progress in future as well.



KIRILL SELEZNEV
Chairman of the Council

SHAREHOLDERS

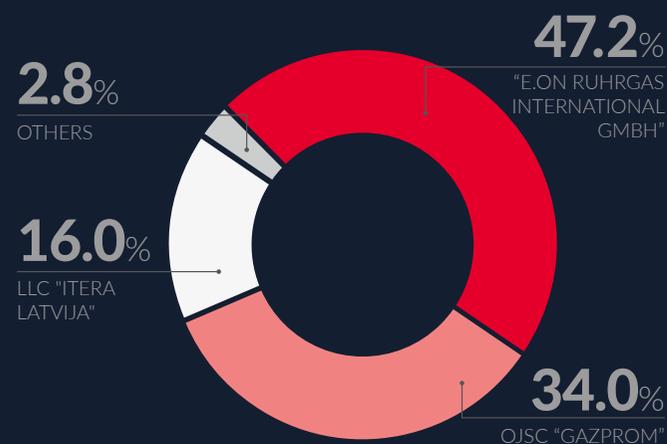
The major shareholders of the "Latvijas Gāze" are enterprises engaged in the energy and gas supply industry, and two of them – the OJSC "Gazprom" and the LLC "ITERA Latvija" – are also suppliers of natural gas to the "Latvijas Gāze". The composition of the major shareholders has been unchanged since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

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

e-on



STRUCTURE OF SHAREHOLDERS (as at 31.12.2014)



COUNCIL

The Council's term of office:
from January 1, 2014, to December 31, 2016



KIRILL SELEZNEV

(КИРИЛЛ СЕЛЕЗНЕВ)
Chairman of the Council

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

Member of the Management Committee of OJSC “Gazprom”

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

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



JURIS SAVICKIS

Deputy Chairman of the Council

Since 1996 – President of LLC “ITERA Latvija”

1970–1972 – Postgraduate Course at Riga Polytechnical Institute

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



ACHIM SAUL

Deputy Chairman of the Council

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

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

PhD in Engineering



MATTHIAS KOHLENBACH

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

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

PhD in Law



UWE FIP

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

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



RAINER LINK

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

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

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

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

PhD in Economics



JÖRG TUMAT

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

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

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



NIKOLAY DUBIK

(НИКОЛАЙ ДУБИК)

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

MBA Degree from National Academy of Economics of Russian Federation

Degree in Law from Lomonosov Moscow State University



ELENA KARPEL

(ЕЛЕНА КАРПЕЛЬ)

Since 1997 - Head of the Department for Pricing and Economic Expert Analysis of Gazprom

1968 – Korotchenko Kyiv Economic Institute, Speciality of Industry Planning



ELENA MIKHAYLOVA

(ЕЛЕНА МИХАЙЛОВА)

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

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

MBA Degree from National Academy of Economics of Russian Federation

Degree in Law from Moscow State Industrial University



VLADA RUSAKOVA

(ВЛАДА РУСАКОВА)

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

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

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

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

BOARD

The Board's term of office:
from August 16, 2012, to August 16, 2015



ADRIANS DĀVIS
Chairman of the Board

Since 1997 – Chairman of the Board of “Latvijas Gāze”

Working in the gas industry since 1965

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



MARIO NULLMEIER
Member of the Board, Deputy Chairman of the Board
(January 1, 2014 to December 31, 2016)

Since 2014 – Member of the Board, Deputy Chairman of the
Board of “Latvijas Gāze”

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

2000 – Master's Degree in Global Business Administration



ALEXANDER MIHEYEV (АЛЕКСАНДР МИХЕЕВ)
Member of the Board,
Deputy Chairman of the Board

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

Working in the gas industry since 1968

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



GINTS FREIBERGS
Member of the Board

Since 1997 – Member of the Board of “Latvijas Gāze”

Working in the gas industry since 1984

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



ANDA ULPE
Member of the Board

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

Since 1997 – Member of the Board of “Latvijas Gāze”

Working in the gas industry since 1984

WE STEP HIGHER

COMPANY'S FINANCIAL
PERFORMANCE IN 2014

“

I'm a perfectionist and so reach for perfection in sport and in life. Even when we have won, we must raise the crossbar higher and play even better.

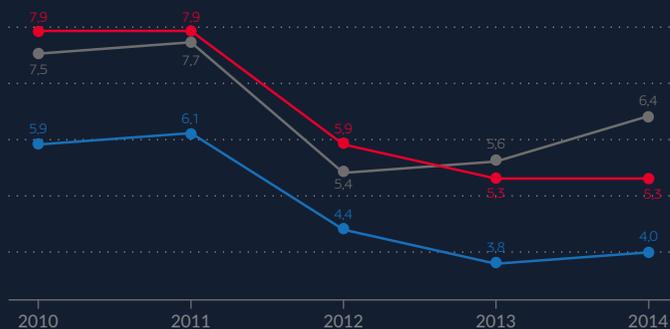
”



ANETE JĒKABSONE-ŽOGOTA

An exceptional Latvian female basketball player who has won several championship titles playing for clubs in Latvia and other countries. In 2007 she received the title of Europe's best female basketball player, and has twice been recognised as Latvia's best athlete.

MAIN OPERATION INDICATORS



MAIN FINANCIAL INDICATORS (%)

- Return on equity
- Net profitability
- Return on assets



PROFIT (million EUR)

In 2014, the company operated in compliance with the parameters of the capital return rate set by the Public Utility Commission.



* Distribution of profit as recommended by the Board

DIVIDENDS (EUR/Share)

The profit gained in 2014 enables the company to pay dividends of 0.72 EUR per one share, which is equal to the previous year's. The total amount of dividends is EUR 28.7 million and accounts for 89.47% of the company's profit in 2014.

THE OBJECTIVES AND CORE PRINCIPLES OF FINANCIAL ACTIVITY OF THE "LATVIJAS GĀZE" ARE:

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

NATURAL GAS SALES (million m³)

In the long run, the volume of natural gas sold is mostly influenced by the following factors: the development of business by industrial customers, the increase in the efficiency of heat production and consumption, and the growth of alternative – including subsidized – means of energy production. Overall these factors have had an adverse effect on the rate of natural gas consumption over the last five years.

A positive effect on consumption in recent years has been brought by the electricity market where natural gas has been used as a source of production, as well as by the increased number of household, utility, and commercial customers.

A comparison of natural gas consumption between different years shows that the most important changes are due to fluctuations in the average air temperature, since natural gas is predominantly used for the production of heat. During most months of the 2014 heating season air temperature rose above the norm, and the first four months were much warmer than in 2013. Furthermore, heat supply companies increasingly use alternative types of fuel, mostly woodchip because of the lower price. It was primarily for these reasons that natural gas sales fell by 10.9% year-on-year in 2014.



NET TURNOVER (million EUR)

The company's net turnover depends primarily on two factors – the volume of natural gas sold and the tariffs applicable.

In 2014, the total net turnover from the sale of natural gas and the services provided fell by 12.4%. The changes were mainly due to a decline in natural gas sales and, to a lesser extent, from the reduction in tariffs. The services of natural gas transmission and storage services for foreign countries, however, saw an increase, reaching an income of EUR 23.2 million and a growth of 22.0%.



INVESTMENT (million EUR)

The "Latvijas Gāze" makes investments based on long-term planning, and investment differences from year to year primarily stem from the specific nature of work scheduled for that particular period.

49.2% of total investments were spent on the modernization of the gas transmission pipeline system, 21.3% – on the expansion of distribution networks and the renewal of fixed assets, and 26.5% – on the improvement of operational safety and the modernization of equipment at the Inčukalns UGS.

SHARES

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

SHARE PRICE (EUR)

At the end of 2014 the capitalization value of the "Latvijas Gāze" reached EUR 364.7 million, which is EUR 10.0 million less than at the end of the previous reporting period.

	2012	2013	2014
First	8.39	8.69	9.39
Highest	9.04	9.86	10.40
Lowest	7.66	8.58	8.90
Average	8.33	9.03	9.47
Last	8.55	9.39	9.14
Change	1.9%	8.0%	-2.66%
Share turnover	168 115	121 774	118 685
Turnover (million EUR)	1.40	1.10	1.12
Number of transactions	1767	1479	1290
Capitalization (million EUR)	341.2	374.7	364.7

Source: "NASDAQ Riga"

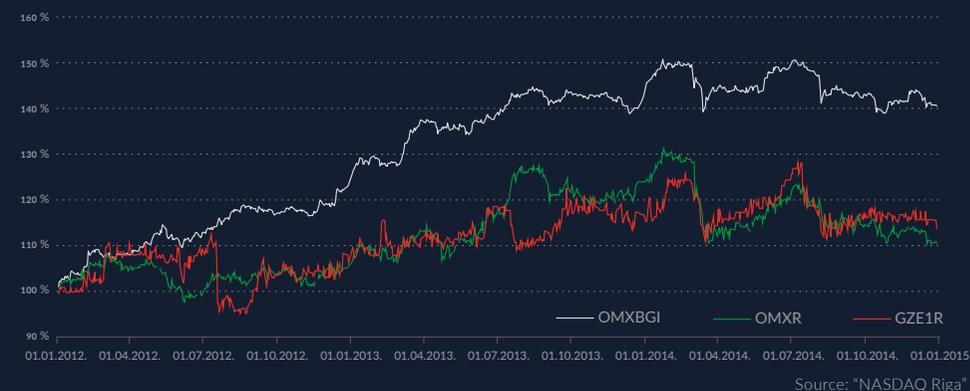
ISIN	LV0000100899
Ticker code	GZE1R
List	Second Baltic list
Nominal value	EUR 1.40
Total number of securities	39 900 000
Number of securities in public trading	25 328 520
Company's stock capital	EUR 55.86 million
Liquidity warrantors	None

In terms of the stock market capitalization the company ranked number one among companies listed on "NASDAQ Riga" and number five among companies listed on "NASDAQ Baltics". The price of one share on the "NASDAQ Riga" exchange fluctuated between EUR 8.90 and EUR 10.40 during the reporting period. At the end of the reporting year it reached EUR 9.14, which is 2.7% less than at the end of 2013.

"LATVIJAS GĀZE" SHARE PRICE (EUR)

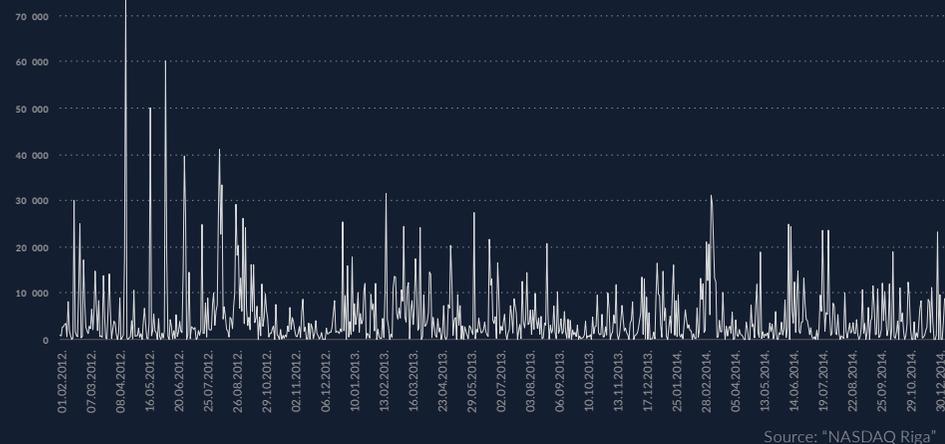


BALTIC MARKET INDICES (%)



Over the year 2014 the turnover of the company's shares at "NASDAQ Riga" reached 118 685 shares valued at EUR 1.1 million, which is 3089 shares less than in 2013.

SHARE TURNOVER (EUR)



OMX BALTIC

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

OMX RIGA

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

WE WORK HARDER

NATURAL GAS MARKET AND
COMPANY'S SERVICES

“

In jazz you must always look for something new, you must play as your heart tells you to play. If you want to achieve something you have to find your own sound, your own life, your own music.

”

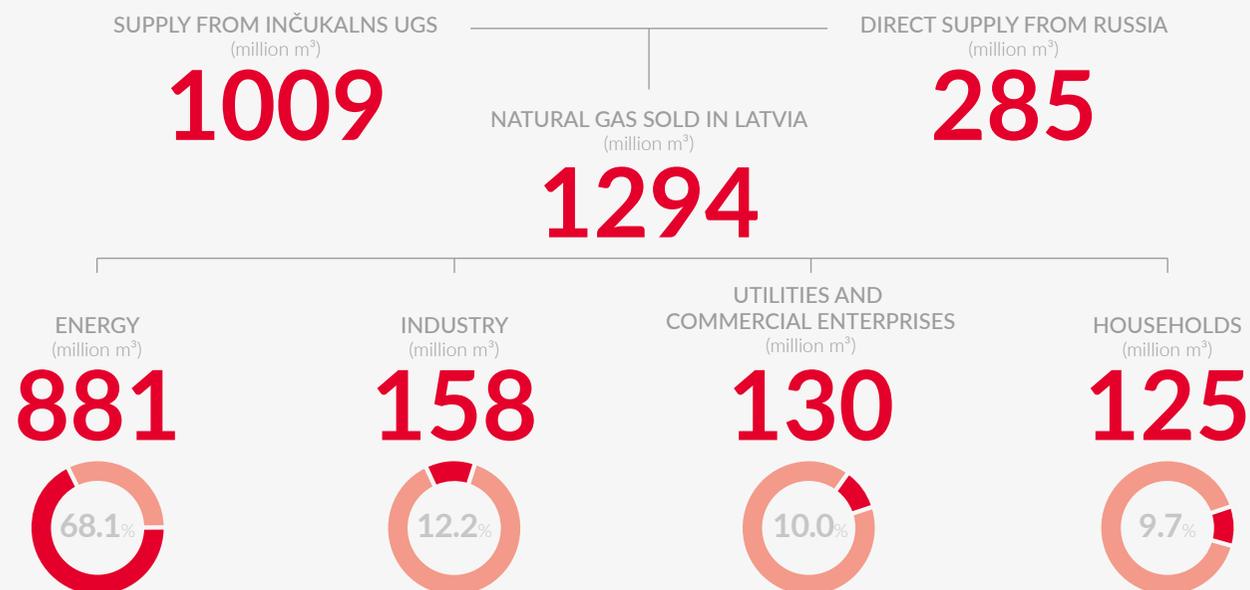
MĀRIS BRIEŽKALNS

A remarkable Latvian jazz musician, a virtuoso percussionist, who has made Latvian jazz famous throughout the world. He is the founder of the "Rīgas ritmi" festival as well as the Saulkrasti International Jazz Festival, and is a recipient of the Triju Zvaigžņu cavalier medal of honour.



NATURAL GAS IN THE ENERGY RESOURCES MARKET

NATURAL GAS DELIVERIES (in 2014)



In 2014 the volume of natural gas sales fell by 10.9% year-on-year. The decline was mainly due to higher air temperature during the winter months and the increased use of renewable energy resources by heat supply companies. Contrary to initial expectations, the insolvent metallurgy company JSC "Liepājas metalurģs" did not resume operation, while several other manufacturing companies downscaled production because of the market situation.

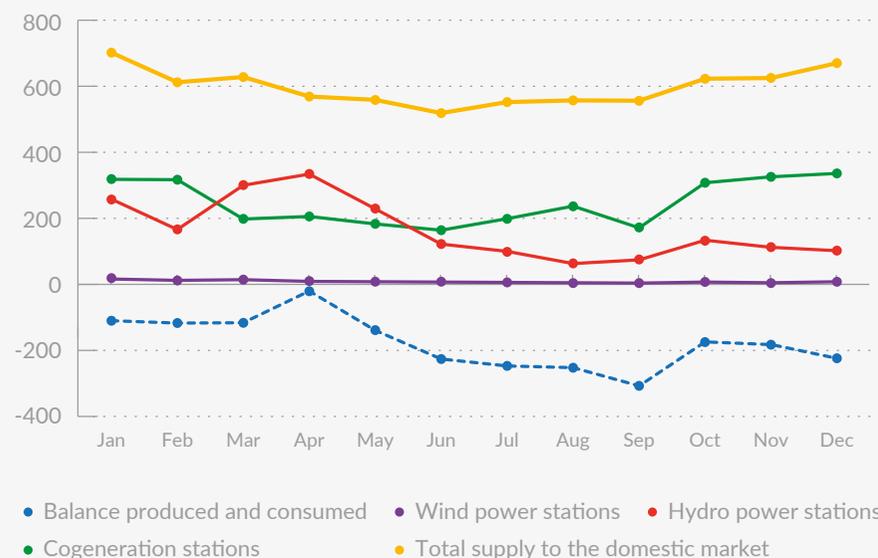
The sharpest decrease in percentage was registered in the sector of utilities and commercial companies (-26.7%), while the energy sector saw the biggest drop in consumption by volume - 100 million m³. Consumption was boosted by the SJSC "Latvenergo", as it bought substantially more gas than initially requested.

STRUCTURE OF NATURAL GAS CONSUMPTION

The year-on-year decline in natural gas consumption was particularly sharp in the first four months of 2014. A substantial rise was only registered in December. The changes in consumption primarily stemmed from the outdoor air temperature. For instance, according to the data of the SLLC "Latvian Environment, Geology and Meteorology Centre" the average air temperature in March in Latvia was +3.4 °C, up from -5.5 °C a year before. Accordingly, natural gas consumption in March was 86 million m³ lower year-on-year. In December, however, air temperature in Latvia averaged -0.4 °C, down from +2.2 °C a year before, and natural gas consumption rose by 32 million m³. Overall in 2014 only two months were colder than the long-term norm.

HEAT AND ELECTRICITY PRODUCTION

SOURCES OF ELECTRICITY IN LATVIA (in 2014, million kWh)



Source: CSB

In the energy sector overall, natural gas is used specifically for heat production, including at cogeneration stations, and electricity generation is an add-on product. However, cogeneration stations consume the most part of natural gas.

In 2014, the electricity consumption and production balance was negative

throughout the year (as opposed to, e.g., April and May 2013 when the balance was positive). Even though existing natural gas cogeneration could improve this balance, beyond the heating season other sources of electricity, including import, tend to prevail.

COGENERATION STATIONS IN LATVIA

	Number of cogeneration stations	Installed electric capacity, MW	Produced electricity, GWh	Produced thermal energy, GWh
2012	132	1016	2340	4834
2013	166	1252	3170	5038
2014	175	1265	3006	5190
Change	+9	+13	-164	+152

Source: CSB

During the period from 2007 till 2014 the installed electric capacity of cogeneration stations has doubled, and their number reached 175 in 2014 – nine stations more than the year before. In 2014 the Latvian cogeneration stations produced 58% of electricity and 73% of thermal energy.

Natural gas retains its dominant role in cogeneration. In 2014, 78% of electricity and 91% of thermal energy at cogeneration stations was produced using natural gas.

INSTALLED CAPACITY AT COGENERATION STATIONS (%)

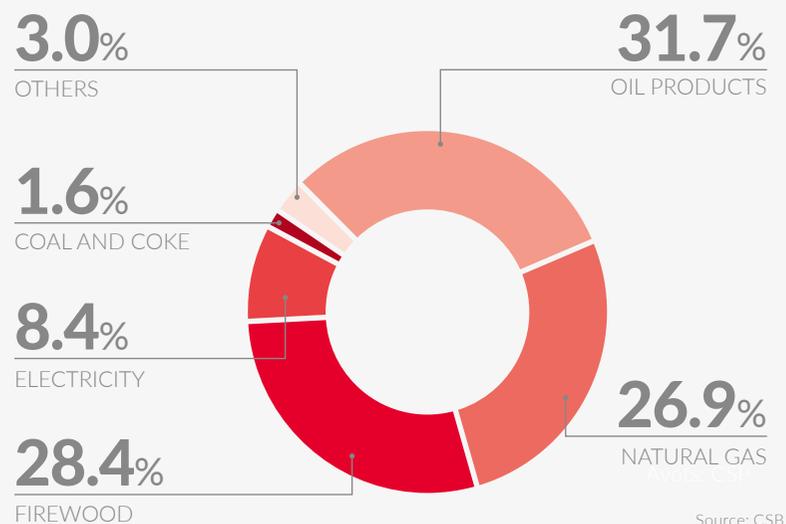
	Natural gas	Biogas	Firewood	Others
2012	93.8%	4.2%	1.7%	0.4%
2013	91.2%	4.1%	4.3%	0.4%
2014	90.1%	4.6%	5.0%	0.3%

Source: CSB

In fact the installed capacity of natural gas cogeneration stations in 2014 remained at the previous year's level – 1 140 MW, while the capacity of stations powered by other types of fuel saw a further increase. The total capacity of alternative sources, however, still remains low.

CONSUMPTION OF PRIMARY ENERGY RESOURCES IN LATVIA (2013)

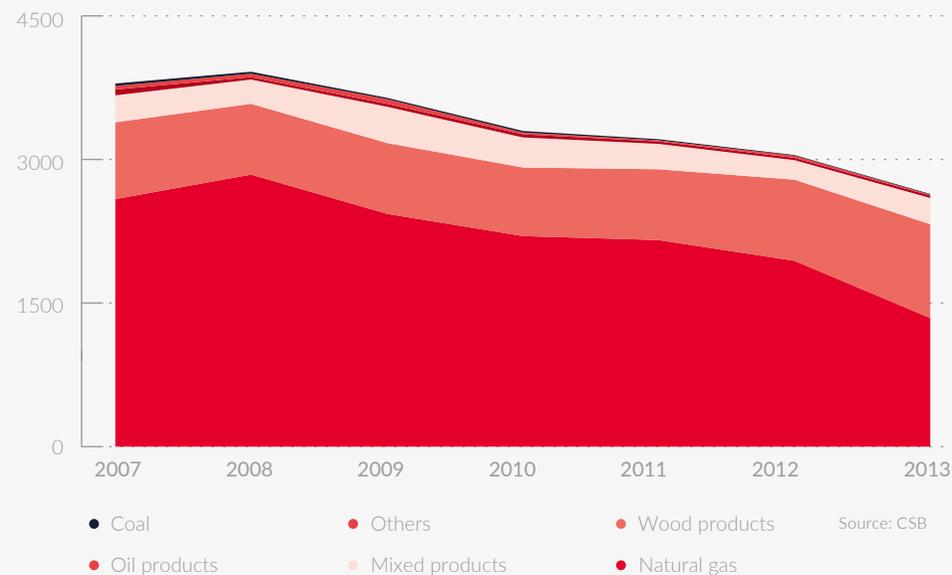
At the time of the drafting of this report the data on the consumption of primary energy resources in Latvia was only available for the year 2013. The share of natural gas was 0.9% lower than in 2012, while that of firewood increased. These trends are likely to have persisted in 2014, with the increased number and capacity of woodchip equipment installed by heat producers.



INSTALLED THERMAL ENERGY CAPACITY AT BOILER HOUSES (MW)

The installed heat capacity at boiler houses has been decreasing since 2008. It is primarily the installed capacity of natural gas that decreases, being replaced by either cogeneration stations, including those of natural gas, or boiler houses powered by wood products.

The installed capacity of firewood powered boiler houses has been rapidly growing since 2010, and, although the data for 2014 are not yet available, the trend is expected to persist. The increase in the firewood capacity results from state subsidised programmes and the competitive firewood price.



CUSTOMER ATTRACTION AND SERVICING

NATURAL GAS CONNECTIONS

NUMBER OF CUSTOMERS

Over the reporting year, 1211 customers had new connections installed and 435 customers had the capacity of their connection increased, totalling 1646 customers with either a new connection or increased capacity. The number of new connections and capacity increases surpassed that of 2013 by 4% and that of 2012 by 9%.

The new connections are expected to consume 9.2 million m³ of natural gas in 2015, with 64 industrial and commercial customers (including cogeneration stations) accounting for 76% of that consumption.

(thousands)



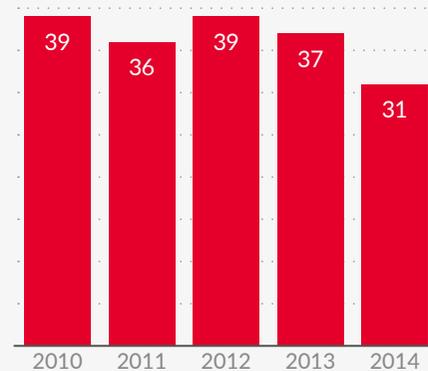
- Industrial customers
- Household heating
- Commercial customers
- Household stoves

CONSTRUCTION OF NEW GAS DISTRIBUTION PIPELINES

In 2014, 31.3 km of gas distribution pipelines were built, and the total investment reached EUR 1.2 million.

As in previous years, new connections were installed most actively in Rīga, its vicinity, and Jūrmala. 68% of the connections lie within the coverage area of the Rīga unit, and 11% within that of the Jūrmala unit.

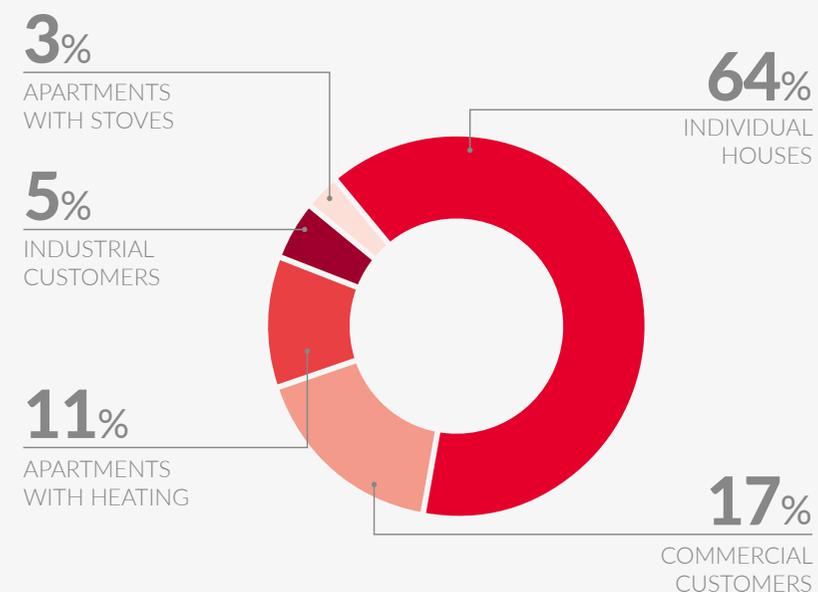
(km)



BREAKDOWN OF NEW CONNECTIONS (in 2014)

The reporting year retained the tendency of 2013 with an increasing number of industrial customers using natural gas in cogeneration to produce electricity, thus reducing their thermal energy costs. 5 of the 64 new industrial customers connected in 2014 were cogeneration stations.

As at the end of 2014, the new connections installed since 2012 have consumed 103.7 million m³ of natural gas.



FOR THE CONVENIENCE OF CUSTOMERS

PAKALPOJUMI

In 2014, 97 thousand customers were served in person at the offices of "Latvijas Gāze", an average of 390 customers per day. The number of customers served in person has fallen by 3.5 thousand year-on-year. The company devotes much attention to the development of electronic services and the improvement of operations at the customer contact centre, thus making communications cheaper and more convenient for the customers.

In 2014, 351 industrial customers were newly connected to the e-services portal, and now 79% of all industrial natural gas consumers use the portal. 17 thousand households and 765 commercial customers have also registered in the portal over the last year.

WWW.LG.LV

GAZIFIKĀCIJAS PROJEKTI

The section "Gas connection projects" of the "Latvijas Gāze" website features a publicly available database of current gas connection projects. In order to make it more convenient for the customers, the plans have been supplemented with gas supply layouts and their locations have been mapped on the "Google Maps" website. This enables the customers to recognize building sites easily, follow the course of their development, and to contact the company's employee responsible for a particular project.

E-PIETEIKUMS GĀZAPGĀDEI

A website for electronic applications for the supply of natural gas will be launched in the summer of 2015. Customers will be able to submit information to find out the possibilities of a gas connection, as well as to submit information and documents to receive the technical regulations for the construction of a new connection or for the enhancement of capacity of an existing one.

GLIMPSE INTO THE FUTURE

THIRD-PARTY ACCESS TO TRANSMISSION AND STORAGE

The reporting year saw amendments to the Energy Law providing for the free access of third parties (consumers outside Latvia) to the transmission and storage infrastructure as of April 4, 2014, even though such access has been in place since the establishment of the company through providing storage and transmission of natural gas for neighbouring countries. Previously the Latvian system had been used to inject natural gas into the storage facility in summer and then supply it to neighbouring countries during the heating season, but in December 2014 and 2015 five contracts were signed and direct transit deliveries took place from Lithuania to Estonia through the territory of Latvia. However, the volumes supplied from December until May – 44.3 million m³ – were rather low compared with those technically possible and those stored at the facility.

Rules on third-party access to the transmission and storage system were drafted during the reporting year and 2015, covering the conditions of access to the system, the procedure of settlements, the model contracts, the information to be published, and other provisions that will make the process more open and standardized. The Public Utility Commission is expected to approve these rules in the summer of 2015, and in the second half of the year the "Latvijas Gāze" will publish the complete information on the capacities used and available at each access point of the system and at the Inčukalns UGS.

The amendments also stipulated permission for the injection of biogas and liquefied natural gas into the system as of January 1, 2015, provided that the requirements are met.

“

I recommend that everyone take that first step and just start. If you don't believe in your own idea no-one else will either.

”

AIGARS GRAUBA

Latvian musician, member of the legendary group Jumprava, film director and producer, recipient of the Triju Zvaigžņu order. Has filmed the noteworthy historical films "Baigā vasara", "Rīgas sargi" and "Sapņu komanda 1935", presently working on the film "Nameja gredzens".



NATURAL GAS MARKET LIBERALIZATION AND COMPANY'S UNBUNDLING

Under the amendments to the Energy Law adopted in 2014, the market is due to become liberalized until April 3, 2017. The deadline has not been selected randomly, as that is the expiration date of the privatization agreement of the "Latvijas Gāze" signed in 1997. The law stipulates that the distribution system operator shall be unbundled on April 3, 2017, and so shall the transmission operator, unless any of two conditions comes into effect earlier: the Latvian natural gas system gets connected to the system of a European Union country other than Lithuania, Estonia, and Finland (the Baltic States and Finland are only connected either mutually or with the system of Russia or Belarus); or the dominant supplier's market share drops below 75%. This would determine the date when consumers become entitled to freely choose their supplier. However, these conditions are unlikely to materialize before 2017.

Further amendments to the Energy Law were submitted to a meeting of the State Secretaries of the Republic of Latvia in June 2015 whereby the transmission and storage operator had to become legally detached from the natural gas sale and distribution operator before January 1, 2017, with all the assets and human resources necessary for the provision of services included in the commercial company of the transmission and storage operator and the shareholders represented proportionally in the new commercial company.

Moreover, the draft law stipulates the unbundling of the controlling shareholders of both commercial companies before December 31, 2017, with state having

pre-emptive rights on the transmission and storage operator.

Under the draft law, the Latvian natural gas market will be open as of April 3, 2017, enabling users to choose their supplier. Households will be given an option to remain a captive consumer and keep buying natural gas for the regulated tariffs.

Work on the draft law is likely to continue for several months.

LITHUANIAN LIQUEFIED NATURAL GAS TERMINAL

The Klaipeda liquefied natural gas terminal became operational in late 2014. Its maximum designed capacity of 3.8 billion m³ per year (10.3 million m³ per day) exceeds the annual consumption of Lithuania (around 3 billion m³). However, the terminal's capabilities are currently limited by the Lithuanian transmission system – according to the publicly available information the maximum daily supply volume is 4 million m³. For comparison, Lithuania's own daily consumption in winter is 13-18 million m³.

Thus initially the terminal will only cover the needs of Lithuania. In 2014 the Lithuanian natural gas supplier and trader UAB "Litgas" signed a contract with the supplier "Statoil" ASA for the supply of 540 million m³ in 2015. The information publicly available suggests that following the construction of Lithuania's domestic gas pipeline Klaipeda-Kuršėnai in 2015 the terminal's annual load will not exceed 660 million m³ till 2019, with no more than 100 million m³ sold to Latvia and Estonia.

The Klaipeda terminal is due for integration with the features of the Inčukalns UGS in Latvia, and already in December 2013 the "Latvijas Gāze" and the terminal operator UAB

"Litgas" signed an agreement on the storage of the terminal's natural gas for the needs of Lithuania from 2015 till 2017. 100 million m³ of natural gas may, under the agreement, be injected in the injection seasons of 2015 and 2016, but in 2015 the "Latvijas Gāze" did not receive a request to begin injection.

LATVIAN-LITHUANIAN INTERCONNECTION

A second factor currently limiting supplies from Lithuania to Latvia and Estonia is the Kiemėnai commercial natural gas metering station situated in Lithuania near the Latvian border. Given the capacities of the Klaipeda terminal planned in the next few years, currently there is no need to increase the capacity of the Latvian-Lithuanian interconnection, which is 6 million m³ per day in both directions. However, taking into account future scenarios, including the possible Polish-Lithuanian interconnection, the lists of European projects of common interest also feature a joint project of the "Latvijas Gāze" and the Lithuanian transmission company AB "Amber Grid" on the enhancement of cross-border interconnection capacity, which might materialize if the Polish-Lithuanian interconnection is built. The plan envisages an increase in the daily capacity to 12 million m³.

CONSTRUCTION OF REGIONAL INTERCONNECTIONS

In order to fully ensure the diversity of suppliers on the market, it is necessary to build interconnections of regional importance. Since such projects are of a substantial financial burden and not profitable under market conditions without additional support, two of them – the regional liquefied natural gas terminal with the location not finally

decided (Finland or Estonia) and the Polish-Lithuanian interconnection (GIPL) – are included in the list of European projects of common interest, thus qualifying as contenders to be co-funded by the European Union.

However, the prospects and timeframe of these projects are currently unclear. Given that such projects take several years to implement, real alternative supplies will not reach Latvian consumers before 2019-2020.

DEVELOPMENT OF INČUKALNS UGS

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

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

The first stage of modernization includes the reconstruction of wells, collection points, and compressors, and the installation of a new compressor, which will result in the improved safety of the facility and the parameters of natural gas extraction will increase from

30 million m³ per day to 32 million m³ per day.

In the second stage of modernization the infrastructure is to be modernized further to increase the parameters of natural gas extraction to 35 million m³ per day. The investment for the second stage is estimated at EUR 45.3 million.

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

It was initially planned to complete the first two stages by 2020, but no funding was awarded in the first round of applications, so the "Latvijas Gāze" has applied for the second round. Accordingly, the first two stages are now due for completion in 2022, while the third stage will take approximately five years to complete. Although no funding has been granted yet, the company continues the reconstruction with adjustments to the timeframe of certain measures that can only be implemented if co-funded.



INČUKALNS UNDERGROUND GAS STORAGE FACILITY

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

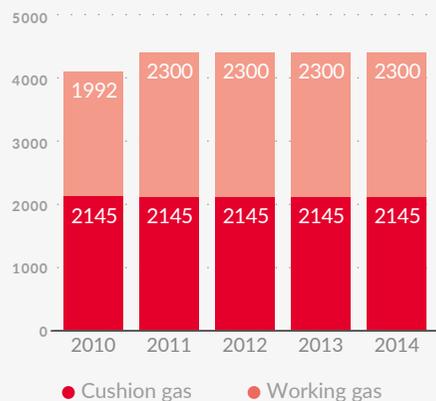
In 2014 the injection of natural gas began about a month later than usual, as due to the warm winter there was a lot of gas remaining at the storage facility. The unused reserves enabled longer deliveries from the facility to Latvian, Estonian, and Russian consumers, as well as made possible additional repairs to the Inčukalns UGS and the transmission network connecting Latvia and Russia, which are not possible during injection.

Injection began on May 23 but was suspended in July for planned repairs to the transmission system, so the injection rate was the highest in the last 15

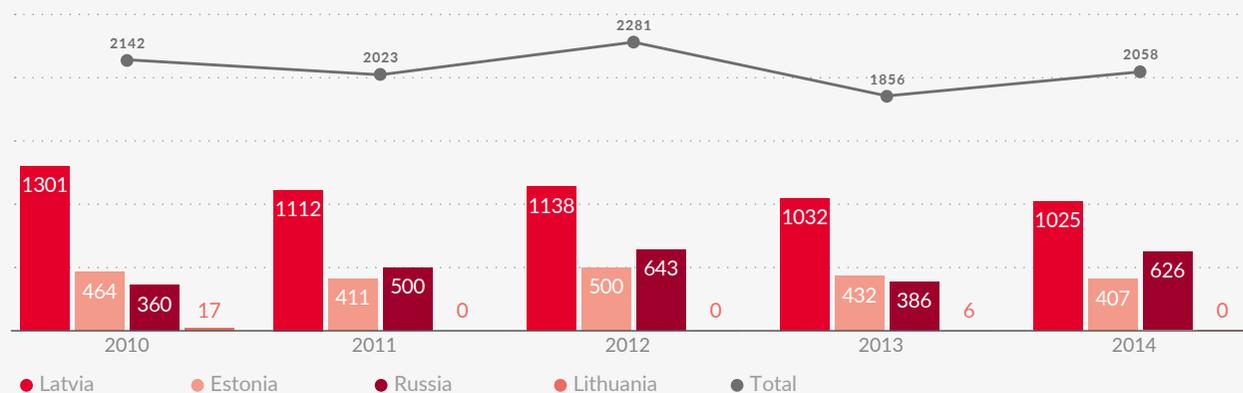
years. However, the season was completed successfully, with 1.91 billion m³ of natural gas injected into the storage facility. After injection the total volume of active natural gas (available for regular injection and withdrawal) reached 2.3 billion m³, which equals that of the previous year.

Although overall the weather during the heating season was warmer than in 2013, the total volume supplied from the storage facility reached 2.06 billion m³, which is an increase of 202 million m³ against the previous year, caused by additional demand from Russia.

TECHNICAL PARAMETERS OF INČUKALNS UGS (million m³)

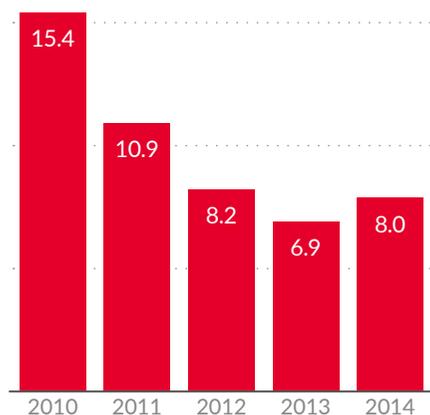


NATURAL GAS DELIVERIES FROM INČUKALNS UGS (million m³)



INČUKALNS UGS

INVESTMENTS (million EUR)



Investments in the Inčukalns UGS take place under the long-term development programme covering the period until 2025.

In 2014, a full capital repair was completed on four wells and is in progress on four others. The completed renovation work cost EUR 5.9 million.

The capital repair of one gas compression unit was one of the many jobs performed at the Inčukalns UGS by its own staff. In 2014, many technological devices and units were replaced with new ones, and several aggregates and their spare parts – such as a new gas compression unit crankshaft for EUR 535 thousand – were purchased.

In 2014, a complex inspection took place at the Inčukalns UGS, with the participation of representatives of the State Environment Service, the State Fire and Rescue Service, the State Labour Inspection, the Consumer Rights Protection Centre and the local municipality. Furthermore, the LLC “Bureau Veritas Latvia” conducted a re-certification audit for the ISO 14000 and OHSAS 18000 management systems of the Inčukalns UGS. Both the inspection and the audit yielded positive results. Moreover, the auditors were very appreciative of the labour safety level at the company and the employees’ knowledge in the field of integrated management systems.

ISO 14001
OHSAS 18001
BUREAU VERITAS
Certification



RECONSTRUCTION PLANS FOR THE COMING YEARS

In 2014, a contract was signed with the LLC “Gazprom georesurs” on the reconstruction of 24 wells by the end of 2016 for EUR 14.5 million. Three wells will be rebuilt by our own staff, with one completed in 2014, and the other two due in 2015 and 2016 respectively. The reconstruction of wells takes place as part of the project for the capital repair of 27 wells developed in partnership with the scientific research institute VNIIGAZ of the OJSC “Gazprom” (Научно-исследовательский институт природных газов и газовых технологий – Газпром ВНИИГАЗ). A contract was also signed on the right to perform the reconstruction of a gas collection point, which is due for completion by the end of 2018 with EUR 24-30 million to be invested. A project of common European interest - “Modernisation and expansion of Inčukalns Underground Gas Storage Facility”, which received positive reviews during the public consultation, has been submitted to the European Commission for co-funding.

The Inčukalns UGS is a facility of regional importance and therefore is regularly included in the agenda of visits of state officials. In 2014, the Inčukalns UGS was visited by the Lithuanian and Estonian Prime Ministers who were acquainted with the principles of operation of the company. The storage facility was also visited by the Ambassador of Germany, the Lithuanian Minister of Energy, the Latvian Ministry of Economy and others.

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

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

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

NATURAL GAS TRANSMISSION

The natural gas transmission system of the "Latvijas Gāze" consists of gas transmission pipelines (GTP), gas regulation stations, underground anti-corrosion equipment for the electrochemical protection of pipelines, communication and remote control lines, the information system SCADA, as well as the commercial cross-border gas metering station "Korneti". The transmission system ensures the supply of natural gas between countries and the Inčukalns UGS, as well as to the Latvian distribution system and end-users.

In 2014, as in previous years, the priority was the internal diagnostics of the gas transmission pipelines and the elimination of any damage found, in order to ensure the safe and stable functioning of the system. A key aim of the internal diagnostics of the pipes was to find out the maximum permissible operating pressure, in order to maintain a higher pressure inside gas transmission pipelines in future, when the gas volume to be transmitted increases. The largest project, however, was the pipeline crossing the Gauja River.

INVESTMENT IN THE TRANSMISSION SYSTEM (million EUR)



GAS PIPELINE DIAGNOSTICS

In 2014, the "Latvijas Gāze" began internal diagnostics on the gas pipeline branch to the Sloka gas regulation station, and replaced the blocked pig and dirty sections of the pipe. Both lines of the pipeline Rīga-Inčukalns UGS underwent internal diagnostics as well. By the end of 2014 the "Latvijas Gāze" had completed diagnostics of the pipelines spanning 94% of the total transmission system length. EUR 4 million was spent on the renovation of gas pipelines and the modernisation of valves during the reporting period.

RIVER CROSSINGS

In 2011, a bank washout was found at the crossing of the gas transmission pipelines Pskov-Rīga and Izborsk-Inčukalns UGS over the Gauja River, and it was decided to repair the underwater sections of the gas pipelines in 2013-2015, also transferring the line and rider valve units to flood-proof locations.

2013 saw the completion of the detailed design project for the Gauja crossing, and an expert examination of the design was carried out at the Project Examination Office of the Strategic Development Department of the OJSC "Gazprom". The construction of new passages began the same year and continued in 2014, with three

underwater channels, each 650m in length, drilled beneath the Gauja River to accommodate the pipelines. Furthermore, four new valve units were built and assembly was completed for the capital repair of the GTP Pskov-Rīga. EUR 7.6 million was spent on all work part of this project. The expected time for completion is late 2015, with the total cost of the project reaching EUR 13.8 million.

Also, in 2014, assembly was completed on the underwater passage of the GTP Rīga-Panevežys across the Mēmele and Mūsa Rivers, including the capital repair and replacement of pipes and valves. The work will cost EUR 1.7 million in total, and is due for completion in 2015. The total cost of the project will reach EUR 2.3 million.

WE LOOK FURTHER

COMPANY'S INVESTMENT IN
EMPLOYEES, SOCIETY,
AND ENVIRONMENT

“

History is not the past threatened by oblivion.
It is what has remained in the present – of
each of us, the landscape, the language.

”

PAULS BANKOVSKIS

A well-known Latvian writer and publicist, the author of ten novels and several collections of stories. The most recent novel "18" about establishment of the Latvian state was published in the framework of the series of novels "Mēs. Latvija, XX gadsimts" ("We. Latvia. XX Century"), supported by the JSC "Latvijas Gāze".



CORPORATE SOCIAL RESPONSIBILITY DIRECTIONS AND PRINCIPLES

ENVIRONMENT

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

PERSONNEL

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

CHARITY

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

CORPORATE MANAGEMENT

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

SAFETY

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

COOPERATION AND STATE

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

PERSONNEL

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

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

PERSONNEL POLICY

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

LATVIJAS GĀZES MĀCĪBU CENTRS

ANNO 1963

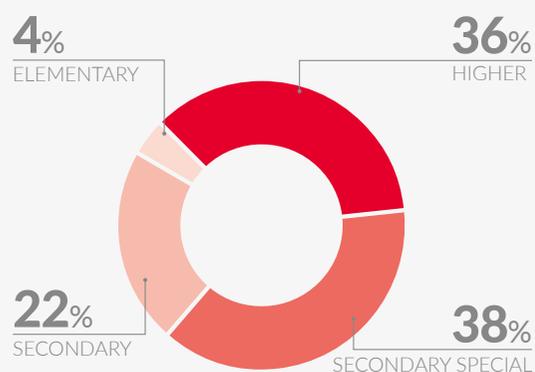
“LATVIJAS GĀZE” TRAINING CENTRE

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

In 2014, the Training Centre of the “Latvijas Gāze” hosted courses for 243 training groups. 1077 of 1796 attendees were employees of the company.

PERSONNEL DESCRIPTION

EDUCATIONAL BACKGROUND OF EMPLOYEES

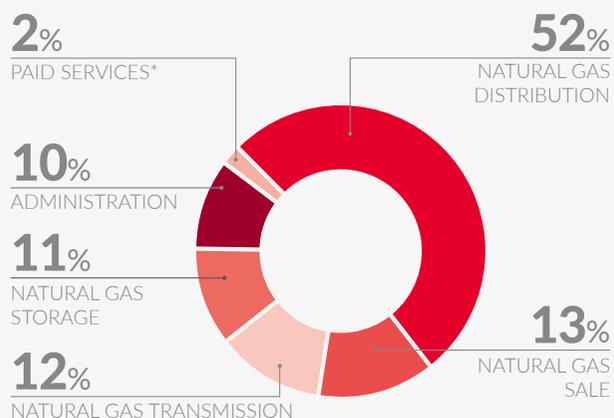


The company promotes both academic education and qualification-raising through specialized courses, seminars, and experience exchange programmes.

One of the priorities is support for gas technology studies. The number of employees with higher education is 1% higher than in 2013. Four recipients of the "Latvijas Gāze" scholarship continue studies at the I. M. Gubkin Russian State Oil and Gas University. The company now employs ten graduates of this specialized university, and nine of them have received company scholarships.

BREAKDOWN OF EMPLOYEES

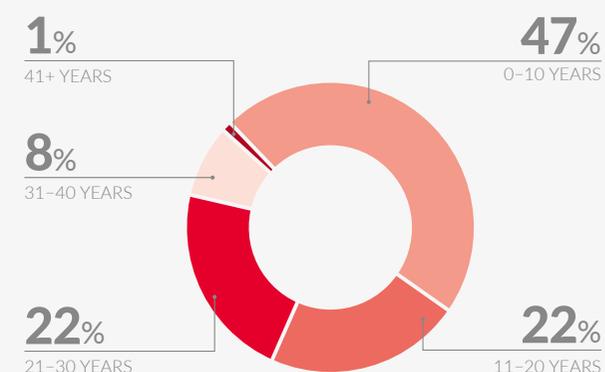
(by areas of activity)



* Services provided beyond regulated activity areas

The average number of employees of the "Latvijas Gāze" has seen little change in this year. In 2014, the company employed 1255 people, which is 12 people less than in 2013. More than half of them worked in the natural gas distribution sector, and this prevalence stems from the structure of the customers. The vast majority of customers (98%) are households, most of which are stove users, predominantly residing in an urban environment with broad distribution networks. These networks require maintenance and an emergency service. The second largest share of employees is in the natural gas sales sector, which is similarly subject to the influence of customer structure, because a large number of customers require proper customer service in Riga and other cities of Latvia.

LENGTH OF SERVICE OF EMPLOYEES



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

SOCIETY

The JSC "Latvijas Gāze" is convinced that sustainable development can only be accomplished if we accept responsibility for society overall, not just for our own sphere. We see a key importance in creating an environment for education, culture, and business, where the best representatives in different fields can develop their skills and reach their peak. For that reason we contribute funds to programmes in support of education, culture, science, and sports, as well as to environmental and social projects. Our goal is to create favourable conditions for outstanding achievements, to implement a socially responsible policy, to promote the development of culture and a healthy society, and to improve the general level of education. Particularly important in our view is the development of the natural gas industry and its related education, as well as improving public knowledge on the safe use of natural gas.

EDUCATION AND SCIENCE

The year 2014 saw an increased partnership with the Latvian Academy of Sciences (LAoS), Riga Technical University (RTU), and other establishments of science, research, and education. Last year funds were donated to the foundation "Riga Technical University Development Fund" for scholarships for students of the Institute of Heat, Gas and Water Technology of the RTU Faculty of Construction and Civil Engineering, as well as on graduate paper scholarships for the best students and their advisers. Moreover, our company supported the establishment of the RTU Engineering High School and the organization of the conference "Heating, Ventilation, Air Conditioning and Natural Gas Technologies of Tomorrow" in 2015.

In cooperation with the LAoS, the company presents annual awards to eminent scientists and creative practitioners in the fields of gas, heat, and related chemical technologies, as well as in heart surgery, cardiology, and organ transplantation for distinguished work, as well as for life-long contributions. Prizes are also awarded to doctoral students in the sciences of gas and heat technologies, cardiology and organ transplantation.

We provided financial support for a conference on the analysis of the further development of Latvian science and higher education organized by the LAoS, the University of Latvia, and several public organizations. We also supported the LAoS annual public award for merit "Cicero".

SOCIAL PROJECTS

In 2014 we continued to support a variety of social and charitable projects. The range of beneficiaries was very broad. For instance, we supported the continued renovation of Riga's St. Mary Magdalen's church, which is a monument of Gothic-Renaissance architecture and art of European importance, and is included in the UNESCO World Cultural Heritage List. We also funded the renovation of the roof of the Krimulda Evangelic Lutheran Church, which is the oldest preserved stone church in Latvia still functioning. We also gave support to children, disabled persons, and other groups of people requiring assistance.

As in previous years, we financially supported the foundation "Latvian Children's Fund", the charity foundation "Mazais Princis" ('Little Prince'), and the Latvian Association of Foster Families. The society "Latvijas bērniem ar kustību traucējumiem" ('Association for Latvian Children with Physical Disabilities') received support for the summer programme of intensive social and medical rehabilitation "Mēs varam, ja mēs gribam" ('We Can If We Want'), as did the Riga Baltic Rotary Club – for the organization of the Sixth Song Festival of Latvian Orphanages "Cielaviņa 2014" ('Wagtail 2014').

CULTURE

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

In 2013, we gave support to the festival "Summertime – aicina Inese Galante" ('Summertime – Inese Galante Invites') organized by the Inese Galante Foundation in Jūrmala and to the events dedicated to the 130th anniversary of the prominent Latvian conductor Teodors Reiters. We supported the Christmas concerts organized by the Imants Ziedonis Fund "Viegli" and the publishing of the audio book "Sounds of Latvian Nature" by the vocal group "Latvian Voices". The Bach Music Foundation, which organizes the concerts of the annual Bach Music Festival, was also supported.

We co-funded the concerts of "Mūsdienu mūzikas centrs" ('Contemporary Music Centre') and the projects of the Latvian Radio Big Band under the leadership of Raimonds Pauls. Funding in 2014 was also granted to the 19th International Baltic Ballet Festival and new productions of the Mikhail Chekhov Riga Russian Theatre and the Latvian Operetta Fund, as well as to Ivars Kleins' book "Iemiesošanās" ('Incarnation') about Latvian stage actors. We also supported the folk dance ensemble "Līgo" and the participation of the mixed choir "Medera" in an international folklore and contemporary art festival in Italy.

In 2014 the JSC "Latvijas Gāze" allocated funds to one of Latvia's largest cinematic projects in recent years, the full-length feature film by Aigars Grauba – the historical

heroic story "Nameja gredzens" ('The Ring of Namejs'). "Filmu studija Grants", for its part, received support for filming documentaries under the project "Laika dimensija" ('Temporal Dimension').

The year 2014 also saw the publishing of several books as part of our supported fiction projects by the publishing house "Dienas Grāmata" – a series of historical novels "Mēs. Latvija, XX gadsimts" ('We. Latvia, XX Century') and the project "Prāta piedzīvojums" ('Adventure of the Mind'), targeted at publishing and promoting new Latvian prose works.

“
Music is exchange of energy
between me and the listener.
It opens the heart and allows
transferring this so needed
kindness and soul lucidity
to the other person.”

INGA ŠĻUBOVSKA

A Latvian opera singer, soloist of the Latvian National Opera, she has played the lead roles in operas of Mozart, Verdi, Donizetti and other composers. In 2009 the artist received the JSC "Latvijas Gāze" Opera Award of the Year in the nomination "The Best Opera Soloist".



SPORTS

We are one of the major contributors to sports in Latvia, having aided the development of the Latvian Olympic Movement and professional sport for more than fifteen years. In 2014, as is traditional, we provided funding to the Latvian Olympic Committee – at the XXII Winter Olympic Games in Sochi our athletes won two silver and two bronze medals, which was the best result since Latvia regained its independence. Further support was also rendered to the prominent Latvian winter sports organizations – the Latvian Bobsleigh and Skeleton Federation and the Latvian Biathlon Federation. The athletes of these sports performed exceptionally throughout the year both at world and European competitions. Skeletonist Martins Dukurs received the Latvian Annual Sports Award as the best male athlete.

Funding was granted to both national basketball teams of Latvia, the Latvian Volleyball Federation, the Latvian Tennis Union, and the Latvian Orienteering Federation – for the youth, junior, and senior national teams to compete, and for a stage of the Latvian Cup to take place.

We also supported the tournaments of power athletes organized by the society “Par stipru Latviju” (‘For a Strong Latvia’), and the Latvian Dance Sport Federation was co-funded for the Latvian Championships of Standard Dances and the annual competition “Dzintarjūra” (‘Amber Sea’).

OSKARS MELBĀRDIS

The leader of currently the greatest Latvian bobsleigh four-man team, the pilot of the sled, silver medalist of the XXII Winter Olympics in Sochi, World Cup winner in the season 2014 – 2015.

“
I like the spirit of competition,
emotions which take over me
at that moment. However,
the fortune has to be earned
through hard working, and
it will follow you when
it counts the most.”



ENVIRONMENTAL PROTECTION

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

The reporting year saw a further enforcement of our environmental policy, which stipulates a continuous monitoring of greenhouse gas emissions and development of mitigation plans, cooperation with state institutions, coordination of reconstruction plans and management of the company's daily operations.

A key event of the reporting year was the environmental impact assessment and receiving the opinions of state authorities for the Inčukalns UGS modernisation plan in order to successfully

implement the plan and apply for the European Union co-funding.

All main reconstruction work at the Inčukalns UGS not only mitigates a negative environmental impact, but also yields economic benefits and reduces the risks of accidents. For instance, the aim in reconstructing 64 wells is to improve the degree of operational safety of the wells, to reduce the amount of emissions, and to enhance the productivity of the wells. The modernisation of five gas compressors, for its part, is designed to reduce

emissions resulting from running the compressors – reduce the CO₂ emissions into the environment to 25% and to reduce the emission of NOx into the environment to 90%, as well as to improve the productivity of the compressors by 5-10% and reduce the consumption of natural gas during their operation by 3-5%. Benefits are expected from other reconstruction work as well.

The public and the company gain similar environmental, safety, and economic benefits from modernisation measures in the transmission and distribution system.

WE IMPLEMENT AN ENVIRONMENT POLICY SO AS TO:

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

SUMMARY FINANCIAL STATEMENTS

BOARD REPORT ON FINANCIAL
INDICATORS OF 2014

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 until February 10, 2017. On January 31, 2007, the Council of the Public Utility Commission (hereinafter the PUC) issued to the Company a licence for the sale of natural gas until February 10, 2012. The licence for the sale of natural gas from February 11, 2012 through February 10, 2017, was issued by the PUC Council on January 12, 2012. Under the Energy Law, the Company is a natural gas supply system operator, which ensures an uninterrupted and safe natural gas supply to customers in Latvia,

avoiding overloads of the system capacity.

Over the reporting year, users were supplied 1 293.9 million m³ of natural gas. In comparison with 2013 natural gas sales (in m³) fell by 10.9%. The decrease of natural gas sales stemmed from the record high air temperatures in the winter months of the reporting year, as well as the investments by heating supply companies in the use of renewable energy sources and the partial replacement of fossil fuels with wood-chips. The changes in the sale price of natural gas in 2014, when compared with 2013, were influenced by changes in oil product quotations on the stock exchange, currency rates, and the flow of gas supplies.

In 2014, natural gas was sold to customers for the natural gas sale end-user tariffs set forth in resolution No.247 "On natural gas supply tariffs of the Joint Stock Company "Latvijas Gāze"" by the PUC Council, dated July 24,

2008, which under 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. Natural gas used as heating fuel is applied an excise tax of 17.07 EUR/thsd. m³, while natural gas used as motor fuel – 99.60 EUR/thsd. m³. As of January 1, 2014, natural gas used to supply heat to covered areas (greenhouses) of agricultural land and industrial manufacturing, according to the respective NACE classification codes specified in Regulation No.1893/2006, "For the operation of technological equipment and the provision of the technologically required climate in the premises of such industrial manufacturing", is subject to an excise tax of 5.65 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 7.11 EUR/thsd.m³, depending on the actual

natural gas purchase costs. For users with an annual natural gas consumption over 25 thsd. m³, the applicable natural gas sale end-user tariff changes monthly, whereas for users with an annual natural gas consumption of up to 25 thsd. m³ – once every six months, i.e., on January 1 and July 1.

In 2014, the Company sold natural gas and provided services to customers for EUR 503.1 million, which is a decrease of 12.4% year-on-year; expenses (excluding administrative costs) amounted to EUR 452.3 million and gross profits to EUR 50.7 million. The changes in the structure of net turnover resulted from changes in the natural gas sales volume and the natural gas sale price, as well as changes in the structure of services of the Inčukalns Underground Gas Storage Facility (hereinafter Inčukalns UGS) provided to foreign countries.

During the 2014 season, 1.907 billion m³ of natural gas was injected into the Inčukalns

UGS and 2.058 billion m³ was withdrawn. Compared with the 2013 season, the volume of natural gas injected fell by 10.7% with 425.4 million m³ of gas remaining at the end of the 2013/2014 heating season. As the natural gas storage tariffs have been set for one season of gas storage, the year 2014 saw an increased income from the storage of natural gas. The volume of natural gas withdrawn grew by 10.9% in the reporting period.

The Company completed the year 2014 with a net profit of EUR 32.03 million, which is EUR 0.12 million, or 0.4%, below that of 2013 with EUR 32.15 million. The net profitability was 6.4% in 2014 and 5.6% in 2013.

In 2014, the Company invested EUR 30.0 million in the modernisation of the natural gas supply system and the creation of new fixed assets. 49.2% of the total investment was spent on the modernisation of the gas transmission pipeline system, 21.3% – on the expansion of the distribution networks and the renewal of fixed assets, and 26.5% – on the improvement of operational safety and the modernisation of equipment at the Inčukalns UGS. There were 443.4 thousand gas connections in total at the end of the year.

The reporting period saw the completion of the modernisation of four wells at the Inčukalns UGS, with four more under-way, and EUR 5.9 million was spent.

The elimination of damage found during gas transmission pipeline diagnostics is in progress. EUR 4.0 million has been spent on the renovation of gas pipelines and the modernisation of valve units.

The year 2013 marked the beginning of construction on the new crossings of the gas transmission pipelines Pskov-Riga and

Izborsk-Inčukalns UGS across the Gauja river, with the relocation of inverted siphons and cables to a safer, flood-proof location using the sloped drilling method. EUR 7.6 million was spent in 2014. The job is due to be completed in late 2015, and the total cost of the project is estimated at EUR 13.8 million.

In 2014, installation was completed on the capital repair of the crossings of the Mēmele and Mūsa rivers by gas transmission pipelines Rīga-Panevežys, with the replacement of pipes and valve units. EUR 1.7 million was spent during the year. The job is due for completion in 2015, with the total cost of the project reaching EUR 2.3 million. As well, in 2014 EUR 1.2 million was spent on the construction of gas distribution pipelines and EUR 2.5 million on the renovation of gas pipelines.

2. RESEARCH AND DEVELOPMENT

In order to ensure an uninterrupted natural gas supply to users and the safe operation of the gas supply system in the long term, the Company has developed the “Plan of Measures for the Improvement of Safety of the Gas Supply System of the Joint Stock Company “Latvijas Gāze” 2010-2015”. It has been prepared based on the conclusions made by the Russian companies “Gazobezopasnostj” and “Lentransgaz”, institutes “VNIIGAZ” and “Giprospecgaz”, 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 modernisation options. The plan of measures envisions investments in the improvement of safety with the total amount of EUR 72 million.

In 2011 the OAO „Gazprom VNIIGAZ” developed a program for the modernisation of technological equipment and the improvement of operational safety at the Inčukalns UGS until 2025. The concept covers two development scenarios – with and without increasing natural gas storage capacity. The projected costs are EUR 360 million and EUR 190 million respectively. On the basis of this document, the Company drew up a project “Modernisation and Expansion of Inčukalns UGS” and another project jointly with the JSC “Lietuvos Dujos” “Increasing the Capacity of Interconnection between Latvia and Lithuania”. Both projects were featured in the first list of projects of common European interest. In 2014, the “Latvijas Gāze” submitted the project of modernisation and expansion of the Inčukalns UGS to the European Commission for funding, but the European Commission has not yet granted any funds. The second list of projects of common European interest is now being compiled, and the Company has repeatedly submitted both projects for inclusion, as stipulated by the Infrastructure Regulation.

3. FINANCIAL RISK MANAGEMENT

The operations of the Company are exposed to a variety of financial risks, including credit risks and foreign currency and interest rate fluctuations. The management of the Company strives to minimize the negative impact of potential financial risks on the financial position of the Company.

The Company is not directly subject to the risk of fluctuation of foreign currency rates as the gas purchase price is set in US dollars (USD) and subsequently recalculated into euros (EUR), whereas gas sale tariffs are

set in euros. Settlements for the supplied gas are made in euros. Gas purchase price changes in US dollars (USD), depending on the oil products quotation, are covered by the PUC Council approved natural gas sale tariffs, which cover the fluctuations of EUR/USD rates. The risk of fluctuation of foreign currency rates concerning debts to suppliers is kept under control by holding a substantial part of cash assets in deposits in the respective currency.

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

The financial assets subject to credit risk mainly consist of customer debts and cash. The Company is exposed to a considerable degree of credit risk concentration due to the fact that a significant share of the net turnover is bound to a limited number of customers. Four of the Company’s customers make up to 49.9% (in 2013 – 51.5%) of sales. One of these debtors, as of December 31, 2014, comprised 32.7% (29.5% in 2013) of the total value of customer debts, the second and third major debtors accounted for 9.6% and 3.5% respectively (6.9% and 4.5% in 2013).

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 prudent liquidity risk management, ensuring sufficient availability of credit resources for meeting liabilities in due time.

4. POST BALANCE SHEET EVENTS

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

In January 2015, a statement was signed with one of the natural gas suppliers on the under-performance of the "take or pay" quota set for 2014. Under the agreement, the Company is entitled to take this volume within three years.

5. FUTURE PROSPECTS

The support for renewable energy resources and the changes in the overall energy policy of the European Union have affected the demand for natural gas in Latvia as well. The investments in the improvement of the natural gas system operational safety, the expansion of the gas pipeline network, and the modernisation of the Inčukalns UGS, allow much more gas to be transmitted and supplied to customers than in the reporting year, but the further development of the Company will largely depend on decisions of the government and other external factors beyond the competence of the Board.

DISTRIBUTION OF THE PROFIT OF 2014 AS RECOMMENDED BY THE BOARD

	2014 (EUR)
Profit of the reporting year	32 026 847
Share of profit not available for distribution (unrealised deferred tax credit resulting from the revalued fixed assets)	(2 470 967)
Share of profit available for distribution	29 555 880
Suggested distribution of profit:	
dividends to shareholders (89.7 %)	28 728 000
dividends per share (EUR/1 share)	0,72
Statutory reserves	827 880

Adrians Dāvis

Chairman of
the Board



Board meeting minutes No.17 (2015)
Rīga, April 23, 2015

Some members of the Council and the Board of the Company hold shares and interests in numerous companies registered in the Registry of Enterprises of the Republic of Latvia, and they perform managerial functions there. During the reporting year the Company has not executed transactions of a substantial amount (except for those disclosed in the financial statements) with these companies.

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

PROFIT AND LOSS ACCOUNT

(for the year ended December 31, 2014)

	2014 (EUR)	2013 (EUR)
1 Net sales	503 075 833	573 963 012
2 Cost of sales	(452 335 215)	(520 046 071)
3 Gross profit	50 740 618	53 916 941
5 Administrative expenses	(9 225 495)	(9 933 304)
6 Other operating income	2 374 714	2 715 342
7 Other operating expenses	(7 023 367)	(7 532 870)
10 Other interest income and similar income	1 783 670	2 724 014
11 Changes in the value of long term financial investments and short term securities	(133)	(144)
12 Interest expenses and similar expenses	(5 088)	(2 983)
13 Provisions for bad and doubtful debtors, net	(280 789)	(3 237 063)
14 Provisions for obsolete and slow moving inventories, net	21 011	105 729
16 Profit before taxes	38 385 141	38 755 662
17 Corporate income tax for the reporting year	(6 745 621)	(5 914 306)
18 Deferred income tax	1 492 938	395 356
19 Other taxes	(1 105 611)	(1 086 193)
20 Current year's profit	32 026 847	32 150 519
Unrealised deferred tax gain related to fixed assets revaluation	(2 470 967)	(2 546 017)
Current year's profit available for distribution	29 555 880	29 604 502

BALANCE SHEET AS AT DECEMBER 31, 2014

(1)

	31.12.2014. (EUR)	31.12.2013. (EUR)
ASSETS		
LONG-TERM INVESTMENTS		
I Intangible assets:		
2. Concessions, patents, licenses, trademarks and similar rights	2 229 369	2 749 727
5. Advance payments for intangible assets	-	41 215
Total intangible assets:	2 229 369	2 790 942
II. Fixed assets:		
1. Land, buildings, constructions and gas transmission system	476 693 504	485 924 616
3. Equipment and machinery	61 952 766	64 221 049
4. Other fixed assets	6 292 144	7 240 938
5. Advances for fixed assets and fixed assets under construction	16 736 389	8 721 286
Total fixed assets:	561 674 803	566 107 889
V. Long-term financial investments:		
3. Investment in associated companies	-	114
5. Other securities and investments	5 843	5 862
9. Other long-term debtors	2 476	2 945
Total long-term financial investments:	8 319	8 921
Total long-term investments:	563 912 491	568 907 752
CURRENT ASSETS		
I. Inventories:		
1. Raw materials and consumables	80 189 015	185 166 762
5. Advances for goods receivable	63 678	11 148
Total inventories:	80 252 693	185 177 910
III. Debtors:		
1. Trade debtors	49 295 023	37 970 084
3. Receivables from affiliated companies	2 364 220	1 491 134
4. Other debtors	616 827	1 844 149
7. Deferred expenses	404 850	381 266
Total debtors:	52 680 920	41 686 633
IV. Short-term financial investments:		
5. Other securities and investments	281	282
9. Term deposits	-	38 900 000
Total short-term financial investments:	281	38 900 282
V. Cash and bank:	51 123 681	33 553 705
Total current assets:	184 057 575	299 318 530
Total assets	747 970 066	868 226 282

BALANCE SHEET AS AT DECEMBER 31, 2014

(2)

	31.12.2014. (EUR)	31.12.2013. (EUR)
LIABILITIES		
SHAREHOLDERS' FUNDS:		
1. Share capital	55 860 000	56 772 585
2. Share premium	20 375 823	20 375 823
3. Long-term investments revaluation reserve	376 144 081	377 900 114
4. Post-employment benefits and other employee benefits revaluation reserve	(80 343)	-
5. Reserves:		
c) statutory reserve	104 529 358	102 740 271
6. Retained earnings		
a) previous years' retained earnings	21 325 693	18 779 676
b) current year's retained profit	32 026 847	32 150 519
Total shareholders' funds:	610 181 459	608 718 988
CREDITORS:		
Long-term creditors:		
12. Deferred income	28 339 619	28 763 867
15. Accruals for post-employment benefits and other employee benefits	4 485 854	5 811 906
16. Deferred tax liabilities	54 644 694	56 447 519
Total long-term creditors:	87 470 167	91 023 292
Short-term creditors:		
5. Advances received	12 111 086	10 942 618
6. Trade creditors	2 912 861	129 045 366
8. Accounts payable to related companies	871 819	597 622
10. Taxes and state compulsory social insurance contributions	17 032 567	13 586 778
11. Other creditors	880 629	966 289
12. Deferred income	1 186 686	1 161 480
15. Accrued liabilities	15 322 792	12 183 849
Total short-term creditors:	50 318 440	168 484 002
Total creditors:	137 788 607	259 507 294
Total liabilities and shareholders' funds	747 970 066	868 226 282

STATEMENT OF CHANGES IN EQUITY (FOR THE YEAR ENDED DECEMBER 31, 2014)

	Share capital (EUR)	Share premium (EUR)	Long-term investments revaluation reserve (EUR)	Post-employment benefits and other employee benefits revaluation reserve (EUR)	Statutory reserve (EUR)	Retained earnings (EUR)	Total (EUR)
Balance as at 31 December 2012	56 772 585	20 375 823	380 219 383	-	100 746 270	49 159 970	607 274 031
Dividends	-	-	-	-	-	(28 386 293)	(28 386 293)
Transferred to reserves	-	-	-	-	1 994 001	(1 994 001)	-
Revaluation of fixed assets	-	-	441 906	-	-	-	441 906
Deferred tax liability arising on the revaluation of fixed assets	-	-	(66 286)	-	-	-	(66 286)
Disposal of revalued fixed assets	-	-	(3 170 458)	-	-	-	(3 170 458)
Deferred tax on disposal of revalued fixed assets	-	-	475 569	-	-	-	475 569
Profit for the year	-	-	-	-	-	32 150 519	32 150 519
Balance as at 31 December 2013	56 772 585	20 375 823	377 900 114	-	102 740 271	50 930 195	608 718 988
Dividends	-	-	-	-	-	(28 728 000)	(28 728 000)
Share capital conversion to EUR	(912 585)	-	-	-	912 585	-	-
Transferred to reserves	-	-	-	-	876 502	(876 502)	-
Revaluation of fixed assets	-	-	238 557	-	-	-	238 557
Deferred tax liability arising on the revaluation of fixed assets	-	-	(35 784)	-	-	-	(35 784)
Disposal of revalued fixed assets	-	-	(2 304 478)	-	-	-	(2 304 478)
Deferred tax on disposal of revalued fixed assets	-	-	345 672	-	-	-	345 672
Post-employment benefits and other employee benefits remeasurement	-	-	-	(80 343)	-	-	(80 343)
Profit for the year	-	-	-	-	-	32 026 847	32 026 847
Balance as at 31 December 2014	55 860 000	20 375 823	376 144 081	(80 343)	104 529 358	53 352 540	610 181 459

Changes in Statutory reserves can only be made with shareholders' approval. Revaluation reserve and share premium cannot be distributed to shareholders.

CASH FLOW STATEMENT

(FOR THE YEAR ENDED DECEMBER 31, 2014)

	2014 (EUR)	2013 (EUR)
I Cash flows from operating activities		
1. Profit before taxes	38 385 141	38 755 662
Adjustments for:		
- fixed asset depreciation and write-down of intangible assets	33 832 341	33 104 467
- difference between the actual and forecasted purchase cost of natural gas and income from participation charge	(1 169 374)	(1 172 039)
- change in provisions for inventories	(21 011)	(105 729)
- change in provisions for long-term financial investments	133	144
- change in accrued expenses for bonuses for reporting year's financial results	(65 159)	953 324
- change in accrued unused annual leave expenses	121 421	(132 808)
- change in other provisions	3 082 681	3 595 583
- changes in accruals for post-employment benefits and other employee benefits	(1 326 052)	(706 273)
- interest income	(1 783 670)	(2 724 014)
- interest expense	5 088	2 983
- profit on sale of fixed assets	(809 892)	(1 001 495)
Adjustments for:		
Trade debtors (increase) / decrease	(12 198 025)	42 002 900
Inventories decrease / (increase)	104 760 267	(51 300 528)
Trade creditors (decrease) / increase	(125 858 308)	42 221 998
Other debtors decrease	1 339 370	4 276 621
Other creditors increase / (decrease)	4 221 460	(9 243 634)
3. Cash generated from operations	42 516 411	98 527 162
Interest income	373 597	386 749
Corporate income tax paid	(5 527 690)	(5 134 442)
6. Net cash flows generated from operating activities	37 362 318	93 779 469
II. Cash flows generated from / (used in) investing activities		
Acquisition of fixed assets and intangible assets	(30 013 926)	(28 181 080)
Proceeds from sale of fixed assets	47 017	78 418
Decrease / (increase) of other investments in term deposits over 90 days, net	38 900 000	(38 900 000)
9. Net cash generated from / (used in) investing activities	8 933 091	(67 002 662)
III. Cash flows used in financing activities		
EC funding received	2 567	3 029 582
Dividends paid	(28 728 000)	(28 386 293)
7. Net cash used in financing activities	(28 725 433)	(25 356 711)
Net increase during the reporting year in cash and cash equivalents	17 569 976	1 420 096
Cash and cash equivalents at the beginning of the reporting year	33 553 705	32 133 609
Cash and cash equivalents at the end of the reporting year	51 123 681	33 553 705

ACCOUNTING POLICIES

(a) Information on the Company

The legal address of the Joint Stock Company "Latvijas Gāze" is Vagonu street 20, Riga. The Company is registered in Commercial Register with common registration number 40003000642. The Company's main shareholders are E.ON Ruhrgas International GmbH (47.23%), OAO Gazprom (34.0%) and LLC Itera Latvija (16.0%). The Board of the Company consists of Adrians Dāvis (Chairman of the Board), Aleksandr Mihejev (Александр Михеев) (Member of the Board, Deputy Chairman of the Board), Mario Nullmeier (Member of the Board, Deputy Chairman of the Board), Anda Ulpe (Member of the Board) and Gints Freibergs (Member of the Board). The Company's auditor is the certified audit company PricewaterhouseCoopers SIA and certified auditor in charge Lolita Čapkeviča.

(b) Summary Financial Statements Preparation Basis

These summary financial statements, which comprise the balance sheet as at 31 December 2014, the profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, have been prepared by extraction from the relevant information included in the audited financial statements for the year ended 31 December 2014 prepared in accordance with the Law on Annual Reports of the Republic of Latvia. Accordingly, these summary financial statements are consistent with those accounts.

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

(c) Net sales and income recognition

Sales are recognised upon delivery of gas or performance of services. Net sales represent the total of goods and services sold during the year net of discounts, value added tax, but including exercise tax. Applicable natural gas selling price is calculated based on latest available data. The exchange rate for EUR/USD set by European Central Bank (hereinafter the ECB) set currency EUR/USD rate in the last day of the previous month, actual gross calorific value as well as planned volume of received and delivered gas are used in the calculation. Actual purchase costs of natural gas are calculated based on methodology approved by the Public Utility Commission (PUC's) Council, taking into account the exchange rate of EUR/USD at the last day of the month when gas is delivered, actual gross calorific value as well as actual volume of gas received from suppliers.

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

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

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

Income from EC funding related to property, plant and equipment is recognized as deferred income and is credited to

the income statement systematically over the expected lives of the related assets.

(d) Currency unit and revaluation of foreign currency

In accordance with the requirements of the „Law on the Procedure for Introduction of Euro” all amounts in these financial statements are expressed in the Latvian national currency – euro (EUR). The comparative figures as at 31 December 2013 have been translated from lats to euro in accordance with the rate set by the European Union Council EUR 1 = LVL 0.702804 and the clause 6 of the „Law on the Procedure for Introduction of Euro” on conversion principles.

Foreign currency transactions until 31 December 2013 were translated into lats applying the official exchange rate established by the Bank of Latvia at the transaction date. Starting from 1 January 2014 the foreign currency transactions have been translated into **euro** applying the rate determined by the conversation procedure between central banks of the European System of Central Banks and other central banks and which is published on the European Central Bank's website.

All monetary assets and liabilities denominated in foreign currencies have been translated into lats at the official exchange rate established by the Bank of Latvia at the last day of the calendar year – 31 December 2013. On the Euro implementation day 1 January 2014 all monetary assets and liabilities were translated into **euro** in accordance with the exchange rate set by the European Union Council, considering the rounding principles determined by clause 6 of the „Law on the Procedure for Introduction of Euro”. On the last day of the reporting year all monetary assets and liabilities were translated into **euro** in accordance with the rates published on the European Central Bank's website.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

	31.12.2014. EUR	31.12.2013. EUR
1 USD	0,8237	0,7328

(e) Intangible assets

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

(f) Fixed assets

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

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

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

	% per annum
Buildings	1 - 3
Gas transmission system	2 - 2.5
Machinery and equipment	5 - 20
Furniture and fittings	10 - 20
Computers and equipment	30

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

The Company capitalises fixed assets with cost exceeding EUR 250 and useful life exceeding 1 year.

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

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

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

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

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

(g) Inventories

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

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

(h) Accounts receivable

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

(i) Other long-term investments

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

(j) Borrowings

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

(k) Taxes

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

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

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

(l) Accrued liabilities and accrued unused annual leave expenses

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

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

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

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

(m) Cash and cash equivalents

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

(n) Related parties

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

(o) Profit available for distribution

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

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



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REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

Translation from Latvian original*

The accompanying summary financial statements, which comprise the balance sheet as at 31 December 2014 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, are derived from the audited financial statements of J SC "Latvijas Gāze" for the year ended 31 December 2014. We expressed an unmodified audit opinion on those financial statements in our report dated 23 April 2015. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

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

MANAGEMENT'S RESPONSIBILITY FOR THE SUMMARY FINANCIAL STATEMENTS

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

Ilandra Lejiņa
Member of the Board

Rīga, Latvia
1 July 2015

TO THE SHAREHOLDERS OF JSC "LATVIJAS GĀZE"

AUDITOR'S RESPONSIBILITY

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

OPINION

In our opinion, the summary financial statements derived from the audited financial statements of J SC "Latvijas Gāze" for the year ended 31 December 2014 are consistent, in all material respects, with those financial statements, in accordance with the relevant requirements established in Accounting policies note (b) Summary Financial Statements Preparation Basis.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

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.