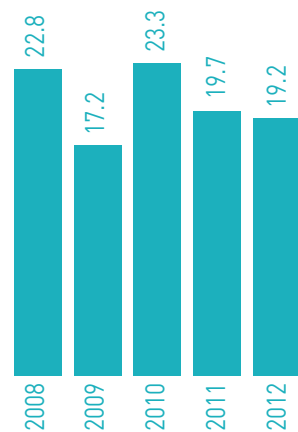
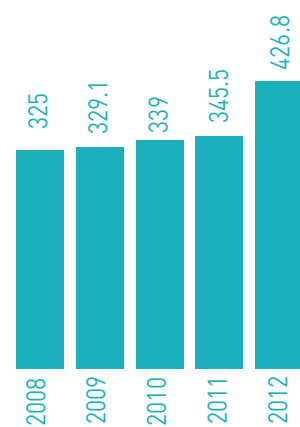
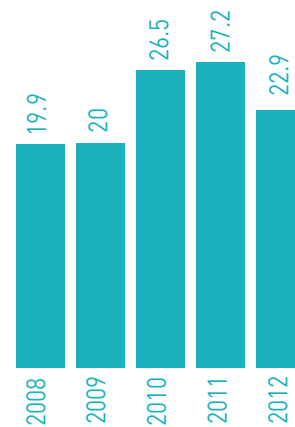
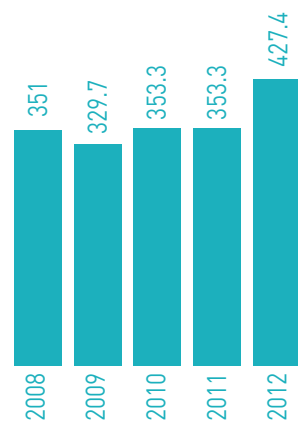


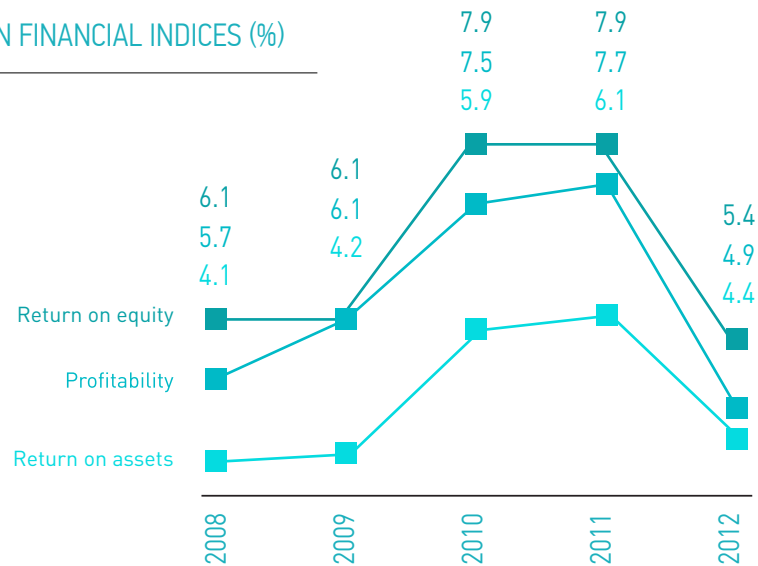
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# ANNUAL REPORT 2012

JSC "LATVIJAS GĀZE"

INVESTMENT  
(LVL MILLION)EQUITY  
(LVL MILLION)NET PROFIT  
(LVL MILLION)NET TURNOVER  
(LVL MILLION)

## MAIN FINANCIAL INDICES (%)



# JSC “LATVIJAS GĀZE” IN 2012

## OBJECTIVE

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Our objective is to strengthen the position of JSC “Latvijas Gāze” as a leader in the Latvian heating market by increasing the availability of natural gas, promoting various ways to use it, and providing Latvia with one of the most stable supplies of natural gas in Europe.

## VISION

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Our vision is to transform Latvia into one of Europe’s largest natural gas storage centers, utilizing our country’s unique geological formations.

## MISSION

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Our mission is to contribute to the Baltic region’s economy by ensuring the security of energy supply, the development of the sector, and competitive pricing.



# 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, and our investments are primarily aimed at these aspects, because natural gas in our region is a primary need due to heating and is subject to variable consumption due to weather conditions. We pay no less attention to educating people about using natural gas safely, to emergency service operations and network monitoring.

## SUSTAINABLE INVESTMENT

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

## EFFICIENT MANAGEMENT OF THE COMPANY

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.

## PERSONNEL

The JSC "Latvijas Gāze" has a big staff with specialists in many areas. Due to the key role of safety in gas supply, the company pays much attention to the qualification of specialists and occupational health and safety. We have created contemporary labour conditions and operate in line with our personnel policy, which ensures efficiency at work and staff recruitment.



# THE COMPANY'S **FOCUS**

## QUALITY OF PRODUCT

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

## QUALITY OF SERVICE

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

## 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.

# CONTENTS

---

**07** COUNCIL REPORT

---

**09** COUNCIL

---

**11** BOARD

---

**12** SHAREHOLDERS AND SHARES

---

**14** NATURAL GAS IN THE ENERGY RESOURCES MARKET

---

**16** DEVELOPMENT

---

**18** INČUKALNS UNDERGROUND GAS STORAGE FACILITY

---

**20** NATURAL GAS TRANSMISSION

---

**21** PERSONNEL

---

**23** INTERNATIONAL CO-OPERATION

---

**24** CORPORATE SOCIAL RESPONSIBILITY

---

**25** SOCIETY

---

**27** ENVIRONMENT POLICY

---

**29** BOARD REPORT

---

**32** SUMMARY FINANCIAL STATEMENTS

---

**38** NOTES TO THE SUMMARY FINANCIAL STATEMENTS

---

**41** REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY  
FINANCIAL STATEMENTS

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# COUNCIL REPORT

In 2012, JSC "Latvijas Gāze" (hereinafter – the Company) not only further advanced towards its strategic goals by strengthening its positions in the Latvian energy resources market and implemented development programmes, but also recalled historical events. 150 years ago, the first gas factory started operating in Riga producing gas from coal to be initially used for lighting the streets of Riga. Exactly 100 years later, the first cubic metres of natural gas arrived in Riga from the natural gas fields of Dashau. Over the next two decades, with the rapid expansion of gas supply network, natural gas secured and still retains a key position in the energy supply of national economy and people.

The priority of the Company in 2012, just as in previous years, was the continuous and safe supply of natural gas to customers both in Latvia and neighbouring countries: Russia, Estonia and Lithuania. Early in February 2012, when Europe experienced an unusually cold weather and natural gas consumption was restricted in many countries, both Latvia and its neighbouring states received their entire requested volume thanks to the modernization programme implemented at Inčukalns UGS. The daily gas volume of 26.4 million cubic metres received from Inčukalns UGS is the highest ever withdrawn from this facility per day.

According to the priorities of European energy infrastructure till 2020 developed by the European Commission (hereinafter – EC), the Baltic Sea region has been identified as one of four priority

corridors, thus new gas infrastructure projects are likely to be implemented in these countries. Due to these projects, the role of the IUGS in the security of gas supply of both Latvia and the neighbouring countries and the formation of a gas market will increase. In order to achieve the European energy and climate policy goals, the EC has drafted a new infrastructure regulation with criteria for the projects featured in the list of projects of common European interest to ensure that their implementation can be fast-tracked and they receive financial support. The Company has registered two projects for inclusion in the list: the modernization and expansion of Inčukalns UGS and the increase of capacity of the Latvia-Lithuania interconnection. The new regulation is expected to take effect in autumn 2013, and the list of projects of common European interest is due for approval late in the year.

In 2012, consumers were sold 1 464.1 billion m<sup>3</sup> of natural gas. The Company's net profit reached LVL 22.9 million (EUR 32.6 million). The Company invested LVL 19.2 million (EUR 27.3 million) in modernization, attracting new customers and the improvement of safety. The key projects completed by the Company in 2012 were the reconstruction of wells, construction of a drying unit at Inčukalns UGS and the reconstruction of gas regulation station "Rīga-2" etc. It should also be noted that in recent years the Company has devoted much attention to the due detection and elimination of transmission pipeline damage.



In 2012, 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 2011 and the draft budget of 2013. The Council issued directions and recommendations to the Board on improving the Company's operation. The Council reviewed and approved the amendments to the agreements with the natural gas suppliers the OJSC Gazprom and the LLC ITERA Latvija prepared by the Board.

The Council has studied 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 JSC "NASDAQ OMX Riga" and believes 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 from the Board regarding the operation, and economic and financial standing of the Company. The Council supervised the operation of the Board in all key aspects and made

sure the Company operates in compliance with legislation, 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 operations.

The Annual Accounts 2012 of the Company were audited by the International Auditor Company PricewaterhouseCoopers LLC. The Council has received the auditor's reports attesting that the financial statements provide a fair and clear presentation of the JSC Latvijas Gāze and its financial results and cash flows in 2012 in compliance with the Annual Accounts Law of the Republic of Latvia. The Council has reviewed and accepted the Board's report on the operations of the Company during the reporting year, research and development measures, financial risk management and suggestions as to the distribution of the profits made in 2012.

The Company's Council acknowledges the successful performance of the Board and employees in 2012 and wishes them further success and progress in future.



KIRILL SELEZNEV

Chairman of the Council

A stylized handwritten signature in black ink, corresponding to the name Kirill Seleznev.



# COUNCIL



## KIRILL SELEZNEV

Chairman of the Council

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

Member of the Board of OJSC "Gazprom".

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

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



## JURIS SAVICKIS

Vice-Chairman of the Council

Since 1996 – President of LLC "ITERA Latvija".

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

1970-1972 Postgraduate Course at Riga Polytechnical Institute.



## MATTHIAS KOHLENBACH

Vice-Chairman of the Council

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

2009-2012 Head of Corporate Law Department of E.ON Ruhrgas

Degree of doctor in Law



### ANDREAS RAU

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

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

1995–1997 Master's degree in European Studies from the University of Aachen

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



### UWE H. FIP

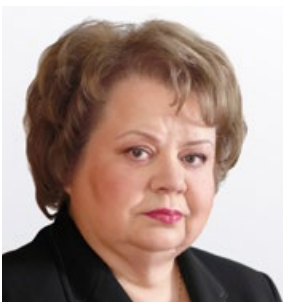
Since 2002 – Senior Vice-President of "E. ON Ruhrgas AG", Head of Eastern Gas Supply Department.

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



### ALEXANDER KRASNENKOV

Since 2006 – General Director of LLC "Baltic LNG".  
International Institute of Finance and Economics, Speciality of International Economics and International Relations.



### YELENA KARPEL

Since 2004 – Member of the Board of Directors of OJSC "Gazprom" following a resolution by shareholders' meeting.

1968 Korotchenko Kyiv Economic Institute, Speciality of Industry Planning.



### MARIO NULLMEIER

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

2000 Master Degree in Global Business Administration.

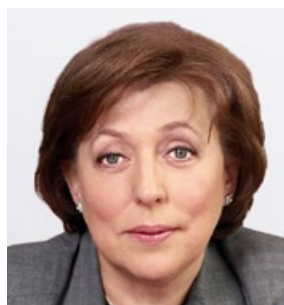


### PETER KLINGENBERGER

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

April 2009 Managing Director of E.ON Gas Storage GmbH

1978–1986 Studied mining and economics in Aachen  
Received a Dipl.-Ing. and a Dr.-Ing. degree



### VLADA RUSAKOVA

Since 2003 Head of the Strategic Development Department, OJSC "Gazprom"

Since 2003 Board member of the OJSC "Gazprom"

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



### IGOR NAZAROV

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

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

# BOARD



## ADRIANS DĀVIS

Chairman of the Board

Since 1997 – Chairman of the Board of the JSC "Latvijas Gāze"; involved in gas industry since 1965

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



## JÖRG TUMAT

Board Member, Vice-Chairman of the Board

2001–2006 E.ON Ruhrgas AG / Ruhrgas AG. Eastern Gas Purchase Department, Head of Division; OJSC "Gazprom" share and eastern gas purchase contracts; involved in gas industry since 1998.

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



## GINTS FREIBERGS

Board Member

Since 1997 Board member of the JSC "Latvijas Gāze"; involved in gas industry since 1984

1984 Polytechnical Institute of Riga, engineer in industrial heat power



## ALEXANDER MIHEYEV

Board Member, Vice-Chairman of the Board

Since 2003 – First Deputy Head of the Marketing, Gas and Liquid Hydrocarbon Processing Department of the OJSC "Gazprom"; involved in gas industry since 1968

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



## ANDA ULPE

Board Member

Since 1997 – Board Member of the JSC "Latvijas Gāze"; involved in gas industry since 1984

2002 the University of Latvia, Master Degree of Social Sciences in Economics



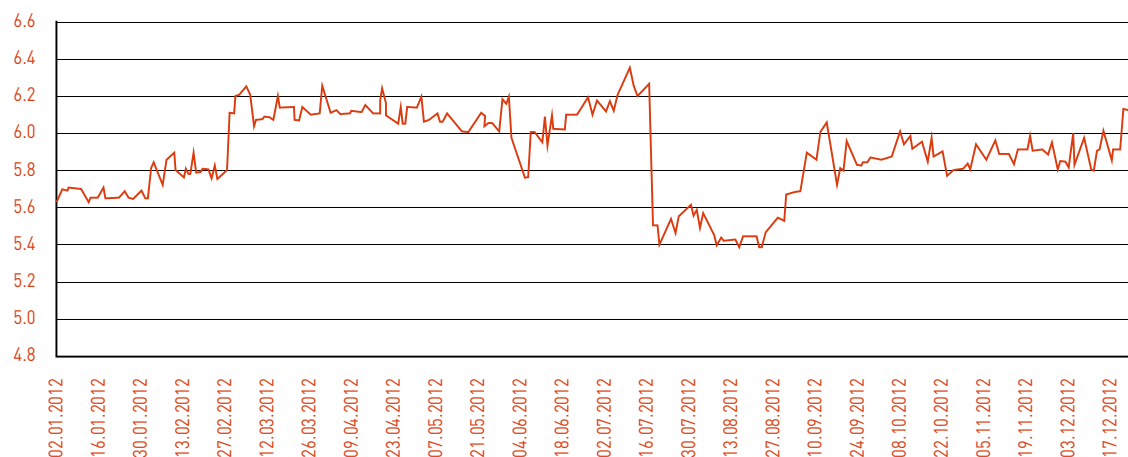
# SHAREHOLDERS AND SHARES

The shares of JSC "Latvijas Gāze" have been listed on the NASDAQ OMX Riga exchange since 1999. The shares are traded on the second Baltic list with the ticker GZE1R. The nominal value of one voting share is LVL 1 (EUR 1.42). The company's stock capital remained at LVL 39.9 million (EUR 56.8 million) throughout the reporting year. The total number of securities was 39.9 million, while the number of securities in public trading was 25 328 520.

The capitalization value of the company at the end of 2012 reached LVL 239.8 million (EUR 341.2 million), which is LVL 14.3 million (EUR 20.3 million) more than at the end of the previous reporting period. In terms of the stock market capitalization, the company ranked number one among companies listed on NASDAQ OMX Riga and number four among those listed on NASDAQ OMX Baltics.

Over the reporting year, the turnover of the company's shares at the exchange reached 168 115 shares valued at LVL 0.986 million (EUR 1.403 million), which is by 50 017 shares less than in 2011.

JSC "LATVIJAS GĀZE" SHARE PRICE  
01.01.2012-31.12.2012

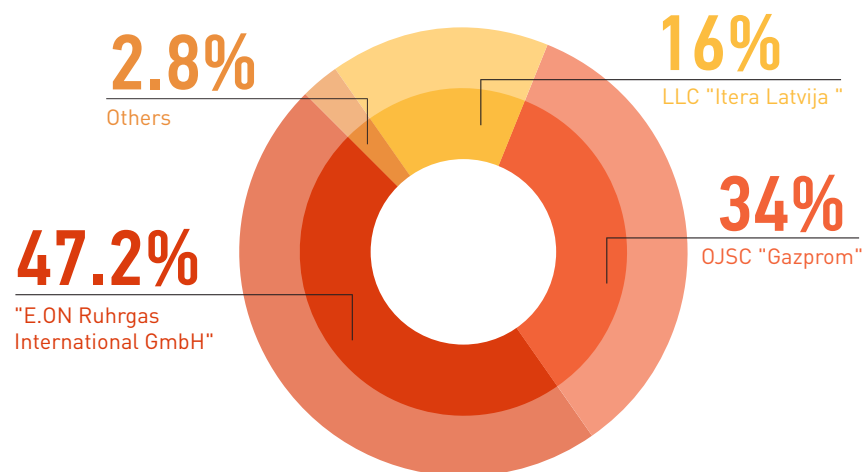


The price of one share on the stock markets fluctuated from LVL 5.38 to LVL 6.35 (from EUR 7.655 to EUR 9.035) during this time. At the end of the reporting year, the share price reached LVL 6.01 (EUR 8.55), thus having increased by 1.95% year on year.

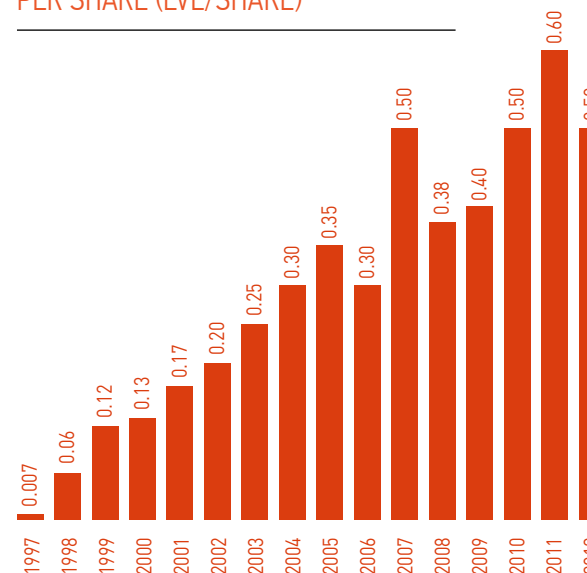
According to the proposal for distribution of the 2012 profits of JSC "Latvijas Gāze", LVL 19.95 million (EUR 28.386 million) or 87% of the company's profit of 2012 is due to be paid out in dividends. The amount of dividends payable equals the level of 2007 and 2010, but falls LVL 0.10 or

16.7% short of the dividend amount per share paid for 2011.

#### SHAREHOLDER STRUCTURE OF JSC "LATVIJAS GĀZE" AS AT 31.12.2012.



#### JSC "LATVIJAS GĀZE" DIVIDENDS PER SHARE (LVL/SHARE)



	2012	2011	2010	2009	2008
Share price (LVL)					
First	5,895	4,800	4,57	4,55	7,25
Highest	6,350	7,000	6,00	6,00	8,20
Lowest	5,380	4,601	4,57	3,32	3,62
Average	5,863	5,320	5,15	4,31	6,77
Last	6,010	5,651	4,90	4,10	4,55
Change	1,95%	17,73%	7,22%	-9,89%	-37,24%
Number of transactions	1 767	1 284	988	1 267	1 711
Share turnover (pcs.)	168 115	218 132	85 493	64 319	46 565
Share turnover (million LVL)	0,986	1,160	0,440	0,277	0,315
Capitalization (million LVL)	239,799	225,475	195,510	163,590	181,545

#### TRANSACTIONS WITH SHARES OF JSC "LATVIJAS GĀZE" AT JSC "NASDAQ OMX RIGA" STOCK EXCHANGE IN 2000-2011

Source: NASDAQ OMX Riga

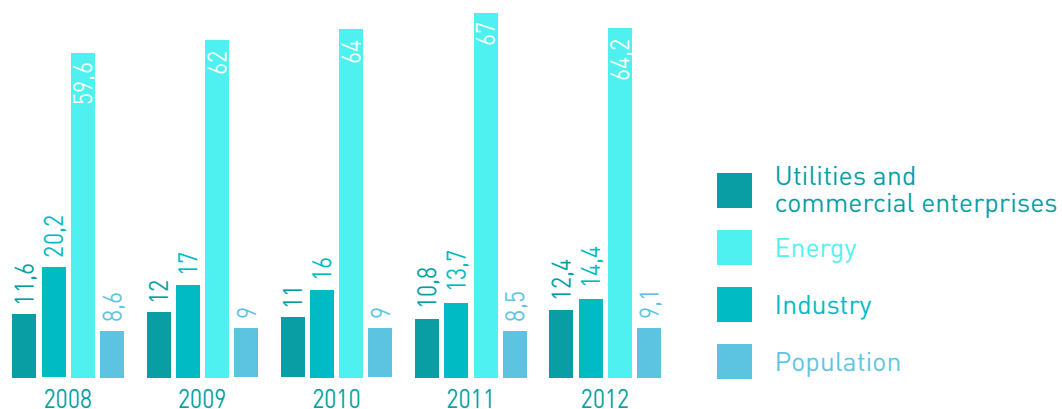
# NATURAL GAS IN THE ENERGY RESOURCES MARKET

The year 2012 saw a decrease in natural gas consumption and a slight fall in the consumption of energy resources in general. The consumption and market share of natural gas in the conversion sector during this time also fell, whereas the number and capacity of gas cogeneration stations and boiler houses where natural gas and firewood can be used simultaneously saw a further growth.

The total consumption of energy resources in Latvia in 2012 was 183 petajoules (PJ), which is 0.9% less than in 2011.

The volume of natural gas sold in 2012 was 1 464 million m<sup>3</sup>, which is 97 million m<sup>3</sup> or 6% less than in 2011 when JSC "Latvijas Gāze" sold 1561 million m<sup>3</sup>. Compared with 2011, natural gas consumption substantially changed only in the energy sector where it fell by 10% but still retained a majority in the overall consumption (64.2%). The decline primarily stemmed from the improved efficiency of energy production, transmission and consumption and support for renewable energy resources. Weather conditions have a key role in consumption changes, and the year 2010, for instance, was notable for exceptionally low temperatures.

NATURAL GAS SALES IN LATVIA  
ACCORDING TO SECTOR (%)



The consumption of firewood fell by 1.3%, while the production and import of wind and water power grew by 22%. The proportion of natural gas in the Latvian balance of primary energy resources decreased from 29.2% to 27.8%.

There were 133 cogeneration stations in Latvia in 2012, and 82 of them were gas-powered. Over the course of the year, the number of cogeneration stations grew by 49, including 20 gas-powered plants.

The total electric capacity of cogeneration stations was 1021 MW. They produced 2339 GWh of electricity and 4688 GWh of heat, which is 63% of the total heat produced. 86% of the energy

resources used at cogeneration stations in 2012 were comprised of natural gas.

The number of boiler houses using natural gas in 2012 fell from 309 to 300 and their installed heating capacity – from 2158 MW to 1941 MW. However, the number of boiler houses using both firewood and natural gas grew from six to nine. Consequently, their capacity grew from 23 MW to 140 MW.

Natural gas consumption decreased in 2012 by 10% at cogeneration stations and by 8.8% at boiler houses. The consumption of firewood in electricity increased by 20.5% owing to the support of compulsory purchase component for the

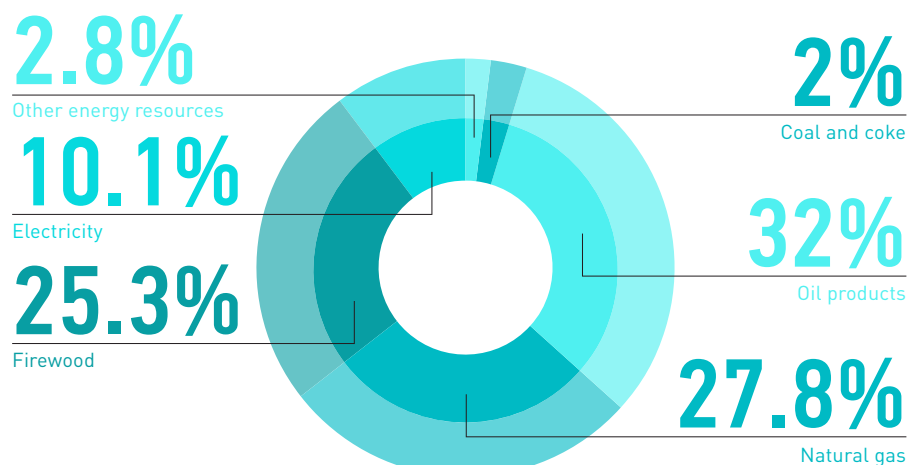
production of electricity from renewable sources and to the price competition with natural gas.

In 2012, the average natural gas price for consumers increased by 33% due to a substantial rise in oil product prices, which gas purchase prices are linked to. In 2013, average natural gas prices are expected to decrease.

Nevertheless, the experience of previous years indicates a price increase for the competing broadly used wood products as well (over the period from 2006 to 2011, prices rose by 85% for natural gas, by 50% for woodchips, by 130% for firewood and by 200% for wood residues), thus natural gas remains sufficiently competitive.

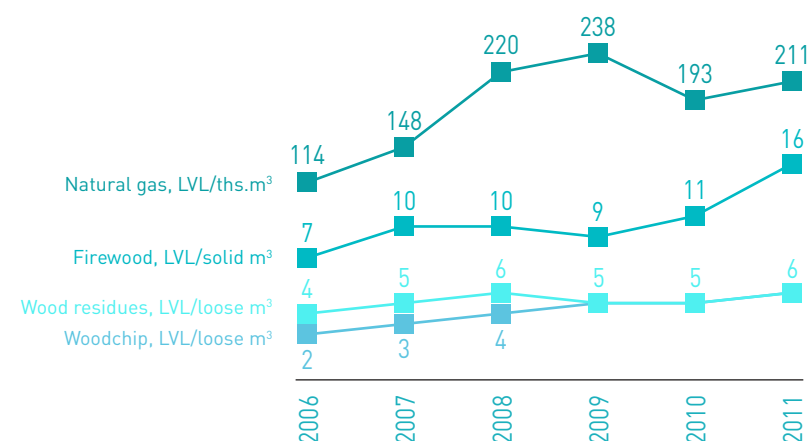
## CONSUMPTION OF PRIMARY ENERGY RESOURCES IN LATVIA (%)

Data of Central Statistics Bureau



## CHANGES IN AVERAGE END-USER PRICES OF ENERGY RESOURCES (EXCL. VAT)

Data of Central Statistics Bureau



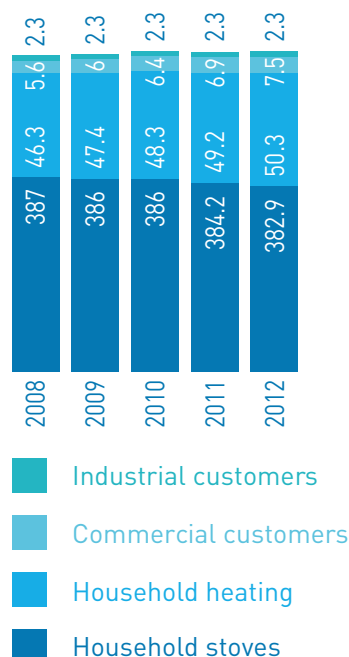
# DEVELOPMENT

In 2012, the company's development brought it towards its pre-crisis figures with the resumption of active gasification in the manufacturing, household and commercial sectors.

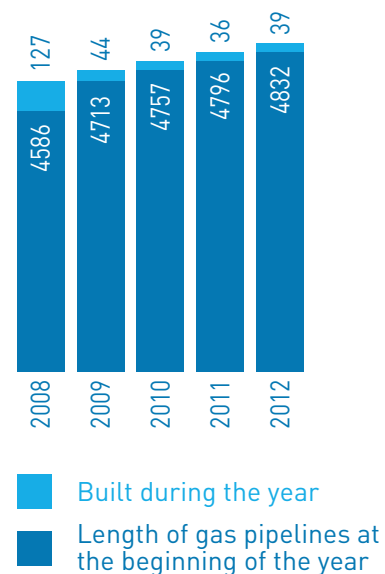
The number of new connections saw a further growth in 2012, mostly in households, and reached 1500 (up from 1300 in 2011). The total number of customers of JSC "Latvijas Gāze" last year was 443,100.

Particularly rapid was the increase in the number of industrial customers, and there was also more interest in using natural gas in cogeneration and agriculture. The estimated natural gas consumption of the new connections is 33.9 million m<sup>3</sup>.

## NUMBER OF CUSTOMERS (THOUSAND)



## LENGTH OF GAS PIPELINES AT THE BEGINNING OF THE YEAR



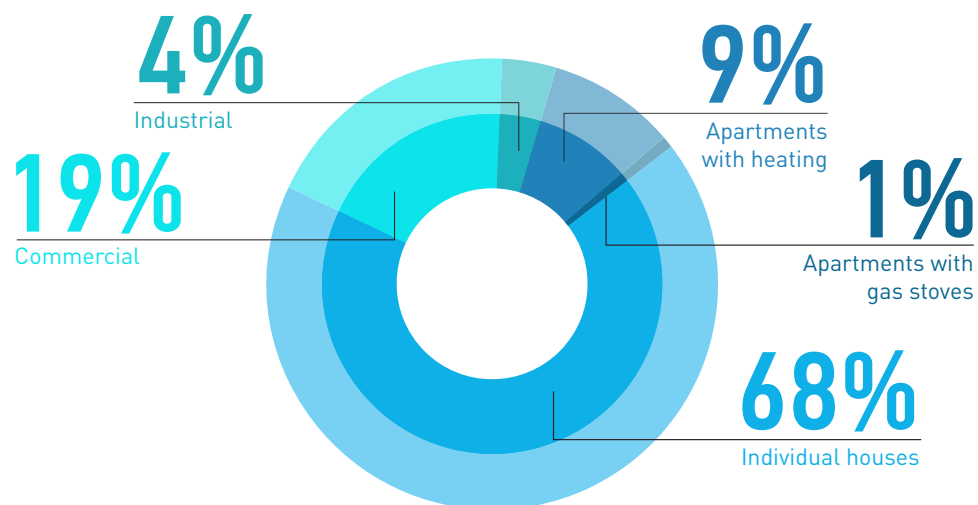
Last year, JSC "Latvijas Gāze" built 39 km of gas distribution pipelines and 5.7 km of branch lines. 63% of the gas distribution pipelines built are in Riga and Riga district, 14% in Daugavpils, 11% in Jūrmala and 12% in other districts of Latvia.

For the convenience of customers, a database of current gasification projects was developed on the company's website. It enables customers to find objects of interest, see their status and the

course of development, as well as to contact the person in charge of the project.

For the convenience of existing customers, JSC "Latvijas Gāze" introduced bill payment on its e-services portal as a key step in the portal's development to further raise the interest of customers. For those visiting customer service centres, computer access points were installed.

#### BREAKDOWN OF NEW CONNECTIONS IN 2012



# INČUKALNS UNDERGROUND GAS STORAGE FACILITY

**Inčukalns Underground Gas Storage Facility (IUGS) is the only functioning storage facility in the Baltic States. It ensures the stable supply of the Baltic region with gas irrespective of external factors. During the summer season, natural gas is injected into the facility to be supplied to customers in Latvia, Estonia, the north-western part of Russia and Lithuania during the heating season.**

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2.2 billion m<sup>3</sup> of natural gas was injected into Inčukalns UGS in 2012 falling 62 million m<sup>3</sup> behind the volume injected in 2011. After injection, the total volume of active natural gas at the facility was 2.3 billion m<sup>3</sup>.

In 2012, the volume of gas extraction at Inčukalns UGS reached 2.28 billion m<sup>3</sup>, which equals 99% of the total volume of active gas at the facility – 2.3 billion m<sup>3</sup>. It is the highest ever natural gas extraction volume in the history of Inčukalns UGS.

A new natural gas drying unit enabling higher maximum volumes of natural gas extraction from the facility has been put into operation. The total costs of reconstruction amounted to LVL 8.8 million (EUR 12.5 million).

In early 2012, owing to the reconstruction of drying unit, the highest ever maximum daily volume of natural gas supply from Inčukalns UGS was reached – 26.4 million m<sup>3</sup>, incl. 14.4 million m<sup>3</sup> to foreign customers.

The modernization of eight wells was completed, while that of two wells was commenced, with LVL 4.9 million (EUR 7.0 million) spent.

In partnership with the scientific research institute VNIIGAZ of OJSC "Gazprom" (Научно-исследовательский институт природных газов и газовых технологий – Газпром ВНИИГАЗ), a concept of development of the facility for the period until 2025 was drafted. The concept features a plan of further modernization and possible expansion of the facility to 2.8 billion m<sup>3</sup> of active natural gas.

In order to improve energy efficiency, the engineering building at the compressor shop of Inčukalns UGS was renovated. The renovated building was awarded a prize in the nomination "Plumbing works" in the contest "Best Building of Latvia 2012".

## NATURAL GAS FLOW IN 2012

SUPPLY FROM INČUKALNS UGS (MILLION M<sup>3</sup>)

1138

DIRECT SUPPLY FROM RUSSIA (MILLION M<sup>3</sup>)

326

NATURAL GAS SALES IN LATVIA (MILLION M<sup>3</sup>)

1464

ENERGY (MILLION M<sup>3</sup>)

940



UTILITIES AND COMMERCIAL  
UNDERTAKINGS (MILLION M<sup>3</sup>)

182



INDUSTRY (MILLION M<sup>3</sup>)

210

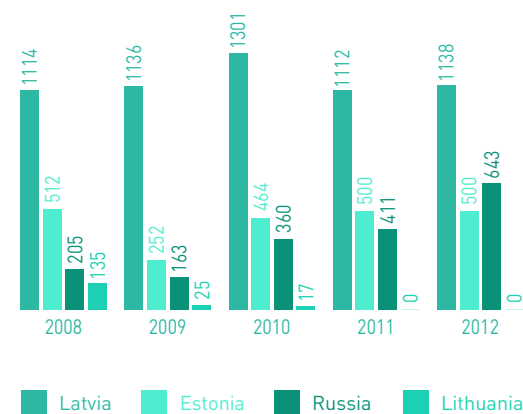


HOUSEHOLDS (MILLION M<sup>3</sup>)

133



## NATURAL GAS SUPPLY FROM INČUKALNS UGS (MILLION M<sup>3</sup>)



# NATURAL GAS TRANSMISSION

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

The priority of 2012 was the internal diagnostics of gas pipes and the elimination of any damage found. The purpose of diagnostics is to find out the maximum permissible operating pressures inside gas transmission pipelines in order to be able to maintain a higher pressure in future. By the end of 2012, the company completed internal diagnostics for pipelines spanning 94% of the total transmission system length.

In partnership with the company "Weatherford Kopp GmbH", the JSC "Latvijas Gāze" performed internal diagnostics of the gas pipelines Iecava – Liepāja, Rīga – Daugavpils and Vireši – Tallinn spanning a total length of 366.5 km. The defects diagnosed have been eliminated by repairing localized places, replacing the damaged sections and restoring the anti-corrosion coating of pipelines.

A project of modernization of the gas metering station "Korreti" has been drafted.

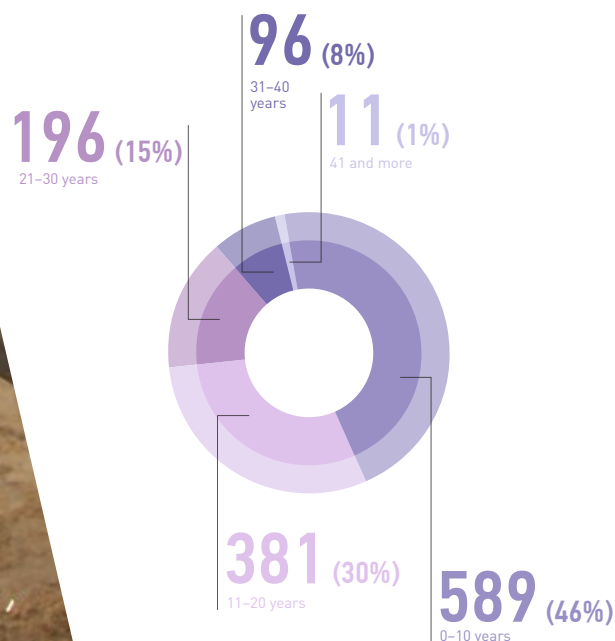
Projects entailing reconstruction of seven cathodic protection stations with the replacement of transformers, anode beds and anode lines have been drafted.



# PERSONNEL

The employees of JSC "Latvijas Gāze" are the company's golden capital, which is thought of and cared for particularly. There are a number of events at the company aimed at bonding the staff and creating a pleasant work environment. The goal and policy of personnel management at JSC "Latvijas Gāze" is to ensure the recruitment of such employees who contribute to the efficiency of the company's overall operations and the achievement of its strategic objectives.

## BREAKDOWN OF EMPLOYEES' LENGTH OF SERVICE



Last year, JSC "Latvijas Gāze" employed 1275 people, which is five people more than the year before. More than half of the employees worked in the sector of natural gas distribution, and this prevalence stems from the structure of customers. The vast majority of customers (98%) are households, most of which are stove users predominantly residing in an urban environment with broad distribution networks. These networks require maintenance and an emergency service. The second largest share of employees is that of natural gas sales, which is similarly subject to the influence of customer structure, because a large number of customers require proper customer service in Riga and Latvia's other cities.

The company has a high proportion of long-serving employees. 45% of the employees have worked at JSC "Latvijas Gāze" for 11 to 30 years. A similar share (46%) is comprised of employees with a length of service of up to 10 years. This hints at staff rejuvenation, but the company has enough experienced employees who can pass on their skills and knowledge to young specialists.

The company keeps promoting both academic education and qualification-raising at specialized courses, seminars and experience exchange programmes. Last year, four holders of the company's scholarship studied at the Russian State Oil and Gas University named after I.M.Gubkin. JSC "Latvijas Gāze" now employs eleven graduates of this specialized university, and nine of them have held the company's scholarship.

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

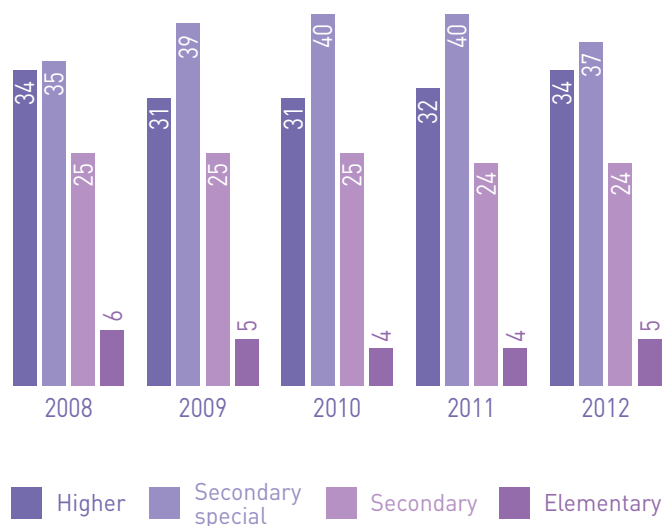
The company is represented in the Latvian Confederation of Employers, which is the largest organization representing employers in Latvia. Membership enables the company to be present at the making of topical decisions at an early stage, to participate in a variety of educational professional seminars, receive the latest information and exchange experience with fellow members of the organization.

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

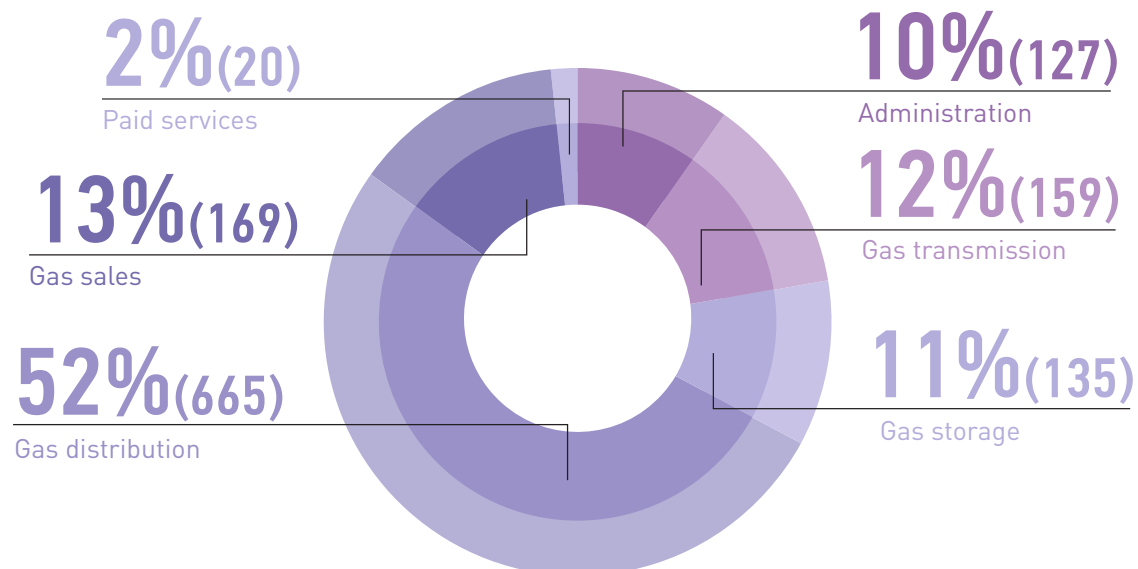
and those representing other companies.

JSC "Latvijas Gāze" was at the top of the rankings of most preferred employers in 2012. According to the research of career and recruitment websites, the company was placed 6th in the ranking of most preferred employers of the portal "CV Market Latvia" and 8th in the ranking of "WorkingDay Latvia". "CV Market Latvia" polled employers and job seekers via e-mails, on the portal cvmarket.lv and on the social networks Facebook, Twitter and Google Plus, receiving 416 properly filled inquiry forms and 2496 answers with mentions of more than 602 companies where the respondents would like to work. The poll of "WorkingDay" on the Internet covered 2000 respondents.

## EDUCATION PROFILE OF EMPLOYEES (%)



## BREAKDOWN OF EMPLOYEES BY AREAS OF ACTIVITY, AVG NO. OF PEOPLE (%)



# INTERNATIONAL CO-OPERATION

**In 2012, JSC "Latvijas Gāze" had three main directions of international co-operation – with the European Commission, with the international organizations of the industry and with the company's institutional shareholders in the matters of technological modernization and customer relations.**

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In order to achieve the energy and climate policy goals of the European Union (EU), the responsible EU institutions intensively worked on a new draft regulation of the European Parliament and of the Council on guidelines of trans-European energy infrastructure. JSC "Latvijas Gāze" took an active part in the group of Baltic Sea countries, which compiled a list of projects of common European interest (PCI).

JSC "Latvijas Gāze" applied for co-funding two projects from the EC – "Modernization and Expansion of Inčukalna UGS" and "Increase of the Capacity of the Interconnection between Latvia and Lithuania". These projects meet the criteria set out in the Infrastructure Regulation. They are expected to be included in the final list of PCI projects, which the EC is due to decide upon in the autumn of 2013.

Last year, the JSC "Latvijas Gāze" became an associate member of the European Network of Transmission System Operators for Gas (ENTSO-G). The organization is tasked with facilitating and improving the co-operation among national gas transmission system operators in Europe in order to ensure development in the European transmission system in compliance with the EU energy goals.

In September 2012, ENTSOG began to work on the EU Ten Year Network Development Plan, which will be one of the points of reference in the assessment of PCI projects.

Within the framework of the European Energy Programme for Recovery (EEPR), JSC "Latvijas Gāze" together with JSC "Lietuvos Dujos" continued the project of increasing the capacity of the interconnection between Latvia and Lithuania. In 2012, JSC "Latvijas Gāze" received co-funding of EUR 7 million (LVL 4.9 million) due from the EEPR fund. In 2013, JSC "Latvijas Gāze" will be paid the remaining EUR 3 million (LVL 2.1 million).

# CORPORATE SOCIAL RESPONSIBILITY

## DIRECTIONS AND PRINCIPLES

### ENVIRONMENT



Natural gas is the most environment-friendly type of fuel with the lowest emissions of CO<sub>2</sub>, ashes and other substances

Promotion of energy-efficient appliances and heating solutions in the market

Investment in reduction of losses of natural gas and other substances

Improvement of energy efficiency at the company's sites

### SAFETY



Investment in the improvement of safety and infrastructure capacity

Educating society in the safe use of natural gas

Regular infrastructure monitoring and efficient emergency service

Instruction and training of emergency service employees and other staff

The company has a training centre where gas specialists of the company and beyond are instructed

### CORPORATE MANAGEMENT



Listed on the NASDAQ OMX exchange with high standards of company management

Transparency and publicity

Equal treatment of all shareholders

### COOPERATION AND STATE



The company is one of the major taxpayers

Cooperation with various state institutions in environmental, safety, planning and other areas

Legislative initiatives

Membership of international gas supply partnership and planning organizations

### PERSONNEL



High standards of occupational health and safety

Support for education and qualification-raising

Remuneration policy and collaboration with trade unions

Improvement of the labour environment and team

### CHARITY



Support for sports and culture

Support for education and science

Support for children's social programmes

## SOCIETY

JSC "Latvijas Gāze" allocates substantial funds to various support programmes, with culture, education, science, sports and environmental and society projects set as priorities. The purpose of this support is to implement a socially responsible policy promoting the development of culture and a healthy society and to improve the general level of education. Particularly important in the view of JSC "Latvijas Gāze" is the development of the natural gas industry and related education, as well as public knowledge in the matters of safe natural gas usage.

## EDUCATION AND HISTORY

The JSC "Latvijas Gāze" has close links with the Riga Technical University (RTU) and other academic and scientific institutions. Last year, funds were donated to the foundation "Riga Technical University Development Fund" to be spent on scholarships for students of the Institute of Heat, Gas and Water Technologies of the RTU Faculty of Building and Civil Engineering, as well as on graduation paper scholarships for the most prominent students and their advisers.

In partnership with the Latvian Academy of Sciences, the company annually presents an award to eminent scientists and creative practitioners in the field of gas, heat and related chemical technologies, as well as in heart surgery, cardiology and organ transplantation for a distinguished set of works or life contribution in the concerned

field. Prizes are also awarded to doctoral students in the sciences of gas and heat technologies, cardiology and organ transplantation.

In an effort to preserve state cultural monuments and the cultural heritage of Latvia, support was also rendered to culture and cultural monuments including the renovation of the Liepāja Holy Trinity Cathedral and the maintenance and improvement of culture-historical heritage of the Ogre St. Meinhard Roman Catholic congregation.

## CULTURE

In order to maintain the national cultural heritage of opera and ballet, to develop the culture of opera, operetta, ballet and music, as well as to popularize it in Latvia and abroad, the JSC "Latvijas Gāze" partners with the Latvian National Opera (LNO). The partnership began in 2005, and the company has become the most generous sponsor in the opera's history and a patron of it. As is traditional, the new theatre season is inaugurated by the JSC "Latvijas Gāze" award-giving ceremony and the concert given by the prize-winners.

The company also partners with the Daile Theatre, the Latvian National Theatre and the Daugavpils Theatre by rendering support to staging the new productions of the season.

Another tradition is a contribution to the Bach Music Festival and the festivals "Summertime" and "Winterfest". In partnership with the Foundation "Mūsdienu mūzikas centrs" ('Contemporary Music Centre'), the company organized a concert of the Latvian Radio Big Band under the leadership of Raimonds Pauls, while actor Imants Skrastiņš and the Latvian Association of Local and Regional Gov-



ernments received funding for organizing a concert in remembrance of Edgars Liepiņš in Saulkrasti.

The company also donated funds to the International Society of Culture Projects Promotion "Can-tare" and the vocal ensemble "Latvian Voices" for organizing a presentation concert of the ensemble's new album "Tā Kā Taka" ('Like a Trail'). The highest achievement of "Latvian Voices" so far is its participation in the World Choir Games in Cincinnati (USA) in the summer of 2012. The choir "Latvian Voices" was awarded a golden diploma and the title of champion among women's chamber choirs.

## NEW PUBLICATIONS AND FILMS

The company's funding enabled several ideas to materialize in the form of a sound recording or printed text. For instance, the Latvian Union of Journalists received support enabling it to publish the book "Foto albums (Kuprijanovs 75)" ('Photo Album (Kuprijanovs 75)') by the photographer Juris Kuprijanovs.

With the company's help, JSC "Diena" is implementing the literary creation project "Prāta piedzīvojums" ('Adventure of Mind'), under which the publishing and promotion of 13 prose works by young and notable Latvian writers has been funded.

JSC "Latvijas Gāze" was one of the founders of the National Literature Support Fund established in

2012. The company's contribution also helped to produce the publicly acclaimed full-length feature film "Sapņu komanda 1935" ('Dream Team 1935').

## CHILDREN AND CHARITY

In the reporting year, the JSC "Latvijas Gāze" continued the tradition of sponsoring the Latvian Children's Fund and other organizations related to protecting the rights of children and to charity.

The company rendered support to the society "Latvijas bērniem ar kustību traucējumiem" ('Association for Latvian Children with Physical Disabilities') so that it could implement a summer rehabilitation programme.

## SPORTS

JSC "Latvijas Gāze" is one of the major contributors to sports in Latvia, having aided the development of the Latvian Olympic Movement and professional sports for more than fifteen years. The company's contribution is allocated for co-funding the country's best athletes training for the Olympic Games as Latvian Olympic Team members or for other professional competitions. In 2012, JSC "Latvijas Gāze" financially supported the Latvian federations of biathlon, cycling, volleyball and orienteering, the Latvian unions of floorball, tennis, orienteering and basketball, and the national basketball team.



# ENVIRONMENT

## POLICY

**JSC “Latvijas Gāze” is aware of its influence on the environment and relates it to its business. When taking any particular environmental measures and drawing one’s operations in an ecological direction, there will always be financial and reputational gains yielding better business prospects. The company implements an environmental policy in order to:**

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

During the period from 2008 to 2012, the funds of the European Union’s greenhouse gas emission trading system granted the company a certain allowance of greenhouse gases that could be emitted into the environment free of charge.

In 2012, by implementing its environmental policy, the company achieved a substantial reduction in the volume of greenhouse gas emissions into the environment from technological equipment during operations.

The planned modernization of technological facilities and equipment implemented by the JSC “Latvijas Gāze” resulted in a reduction of harmful environment impact and production costs, also ensuring a continuous analysis of operational parameters. As a result, the emission of greenhouse gases into the environment decreased by 48 487 tons.



# BOARD REPORT

## 1. ACTIVITY OF THE COMPANY IN THE REPORTING YEAR

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

Over the reporting year, users were supplied with 1 464.1 million m<sup>3</sup> of natural gas. In comparison with 2011, natural gas sales in m<sup>3</sup> fell by 6.2%. The decrease of natural gas sales stemmed from the deviations in air temperatures, as well as the investments of heat supply companies in the use of renewable energy sources and partial replacement of fossil fuels with woodchip. The changes in natural gas retail prices in 2012, compared with 2011, were

influenced by oil product quotations on the stock exchange, currency rates and gas supply flows.

In 2012, natural gas was sold to customers for the natural gas sale end-user tariffs set in the resolution No.247 "On natural gas supply tariffs of the Joint Stock Company "Latvijas Gāze"" of the PUC Council dated July 24, 2008, which under the resolution No.258 "On the procedure of application of resolution No.247" of the PUC Council dated June 2, 2010 are exclusive of excise tax. As from July 1, 2011, the natural gas which is used as fuel is subject to an excise tax of Ls 12/thousands m<sup>3</sup> (EUR 17.07/ thousands m<sup>3</sup>), but if used as gas – Ls 70/thousand m<sup>3</sup> (EUR 99.60/thousand m<sup>3</sup>).

The applied differential natural gas sale end-user tariffs consist of two parts: fixed regulated service tariffs and the natural gas sale price, which changes with a step of 5 Ls/thousand nm<sup>3</sup> depending on the actual natural gas purchase costs. For users with annual natural gas consumption over 25 000 nm<sup>3</sup>, the applicable natural gas sale end-user tariff changes monthly, whereas for users with the annual natural gas consumption up to 25 000 nm<sup>3</sup> – once in six months, i. e., on January 1 and July 1.

During 2012, the natural gas sale tariffs for the end-users changed also due to tax changes, because VAT rate was reduced for all consumers as of July 1, 2012 – from 22% to 21%. Natural gas

supplied to households had been sold with the reduced VAT rate at 12% until July 1, 2011; after July 1 – with the VAT rate at 22%, set for all consumers.

In 2012, the Company sold natural gas and provided services to customers for Ls 427.4 million (EUR 608.2 million), which is 21% more than during the corresponding period in 2011; the expenditures (excluding administrative expenses) amounting to Ls 394.7 million (EUR 561.6 million) and the gross profit of Ls 32.7 million (EUR 59.5 million). The changes in the structure of net turnover resulted from changes in the natural gas sales volume and the natural gas sale price, as well as the increased efficiency of usage of the Inčukalns Underground Gas Storage Facility (hereinafter – Inčukalns UGS).

Over the season of 2012, 2.2 billion m<sup>3</sup> of natural gas was injected into Inčukalns UGS and 2.82 billion m<sup>3</sup> was withdrawn. Compared with the season of 2011, the volume of natural gas injected fell by 2.8%, because after the 2011/2012 heating season end there was 144.7 million m<sup>3</sup> of gas left in stock; whereas the amount of natural gas withdrawn grown by 12.7%.

The Company completed the year 2012 with a net profit of Ls 22.9 million (EUR 32.6 million), which is Ls 4.3 million (EUR 6.1 million) or 15.8% below that of 2011 – Ls 27.2 million (EUR 38.7 million). Net operating profitability was 5.4% in 2012 and 7.7% in 2011.



In 2012, the Company invested Ls 19.2 million (EUR 27.3 million) in the modernization of the gas supply system and the creation of new fixed assets. 27.2% of the total investment was spent on the modernization of gas transmission pipeline system, 30% – on the improvement of operational safety and the modernization of equipment at the Inčukalns UGS, and 35.3% – on the expansion of distribution networks and the renewal of fixed assets. The total number of gas-enabled sites at the end of the year reached 443.1 thousand.

On August 17, 2010, the Company received the resolution No. C(2010) 5554 of the European Commission dated August 13, 2010 on the award of a financial grant to Action No. EEPR-2009-INTg-RF-LV-LT-I2.566527/I2.566531/SI2.566541/SI2.566543 under the EC Regulation No. 663/2009 on gas and electricity interconnections. With this resolution, Ls 7 million (EUR 10 million) was granted for the modernization of 15 wells at Inčukalns UGS and the construction of a gas passage under the Daugava and a pig receiver with a view to stabilizing natural gas supplies between Lithuania and Latvia in emergency situations. The planned works were finished in 2011; while granted, but previously unused funds were used to modernize another two wells at Inčukalns UGS in 2012.

The modernisation of eight wells was finished and that of another two wells at Inčukalns UGS was commenced during the reporting year, acquiring Ls 4.9 million (EUR 7.0 million). The gas drying unit KC-1 was put into exploitation in January 2012, the reconstruction of which continued for two years long period and total expenses reached Ls 8.8 million (EUR 12.5 million). The usefulness of these investments could be seen at the beginning of the reporting year when the air temperature in Europe dropped to -30° C degrees and the volume of daily

gas supply from Inčukalns UGS had reached its historical maximum – 26.4 million m<sup>3</sup>, including consumers in other countries – 14.4 million m<sup>3</sup>.

The elimination of damage found during the diagnostics of gas transmission pipelines is in progress. Ls 2.7 million (EUR 3.8 million) has been spent on the renovation of gas pipelines. The construction of an underwater gas pipeline under the Daugava and a pig receiver was completed in 2011, but in year 2012 the draft of project for the construction of the new transition of the gas distribution pipeline Pleskava-Riga and Izborska-Inčukalns UGS over the River Gauja was finished, entailing the relocation of cables to a place safe from floods, using the inclined drilling method.. It is planned that the works will be completed in the year 2015 and the costs of the object will amount to Ls 9.5 million (EUR 13.5 million).

In 2012, Ls 1 million (EUR 1.4 million) was spent on the construction of gas distribution pipelines. The reconstruction of GRS "Riga-2" was also completed in the reporting year by constructing two new container-type GRS – the total costs of the project amounted to Ls 1 million (EUR 1.4 million).

The works to equip the largest sites using natural gas with the telemetry equipment – the billing recording system for remote data control – is continuing. The thirty largest sites using natural gas are linked to this system, which gives the possibility to record and control ~ 70% of the total amount of supplied natural gas.

## 2. RESEARCH AND DEVELOPMENT MEASURES

In order to ensure uninterrupted natural gas supply to users and safe operation of the gas supply

system in long term, the Company has developed the "Plan of measures for the improvement of safety of the gas supply system of the Joint Stock Company "Latvijas Gāze" 2010-2015". It has been prepared based on the conclusions made by the Russian companies "Gazobezopasnostj" and "Lentransgaz", the 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 modernization options. The plan of measures envisages investment in safety improvement totalling Ls 50.6 million (EUR 72 million).

In 2011, OJSC "Gazprom VNIIGAZ" prepared a programme of modernization of the Inčukalns UGS up to 2025. The concept covers two development scenarios – with and without increasing the natural gas storage capacity. The projected costs are Ls 253 million (EUR 360 million) or Ls 133.5 million (EUR 190 million) respectively. Based on this document, the Company has prepared the project "The modernisation and growth of Inčukalns UGS" and project "The boost of interconnection capacity of Latvia and Lithuania" in cooperation with JSC "Lietuvos Dujos", and submitted them to European Commission for inclusion on the list of European projects, as it is defined by the Regulation on Infrastructure. Both of the projects are included into the initial regional list of European projects. In case of positive decision, it is possible to attract the resources from the European Foundation for the realization of the projects.

## 3. FINANCIAL RISK MANAGEMENT

The operation of the Company is exposed to a vari-

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

The Company is not directly subject to the risk of fluctuation of foreign currency rates as the gas purchase price is set in USD and subsequently recalculated into EUR, whereas gas sale tariffs are set in lats. Settlements for the supplied gas are made in EUR. The exchange of the lat has been pegged to the euro rate since January 1, 2005, so fluctuations of the Ls/EUR rate are limited and unlikely to have a notable influence on further financial results. Gas purchase price changes in USD depending on the oil products quotation are covered by the PUC-approved natural gas sale tariffs, which to a certain extent cover the fluctuations of both the Ls/EUR and EUR/USD rate. The risk of fluctuation of foreign currency rates related to debts to suppliers is kept under control by holding a considerable part of cash assets in deposits of the respective currency.

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

The financial assets subject to credit risk basically consist of customer debts and cash. The Company is exposed to a considerable degree of credit risk because a notable share of the net turnover applies to a limited number of customers. Four of the Company's customers make up to 48.6% (in 2011 – 52.9%) of sales, and one of these debtors as at December 31, 2012 comprised 34.7% (in 2011 – 21.8%) of the total amount of customer debts, the second and third major debtors 9.8% and 5.4% respectively (in 2011 – 6.7% and 6.9%).

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

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

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

#### 4. POST BALANCE SHEET EVENTS

There are no subsequent events since the last date of the reporting year that would have a significant effect on the financial position of the Company as at December 31, 2012.

#### 5. DISTRIBUTION OF 2012 PROFITS SUGGESTED BY THE BOARD

Some members of the Council and the Board of the Company hold shares and interests in nu-

merous companies registered in the Registry of Enterprises of the Republic of Latvia, and they perform managerial functions there. Over the reporting year, the Company has not executed sizable transactions of considerable amount (except for those listed in the financial statement) with these companies.

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

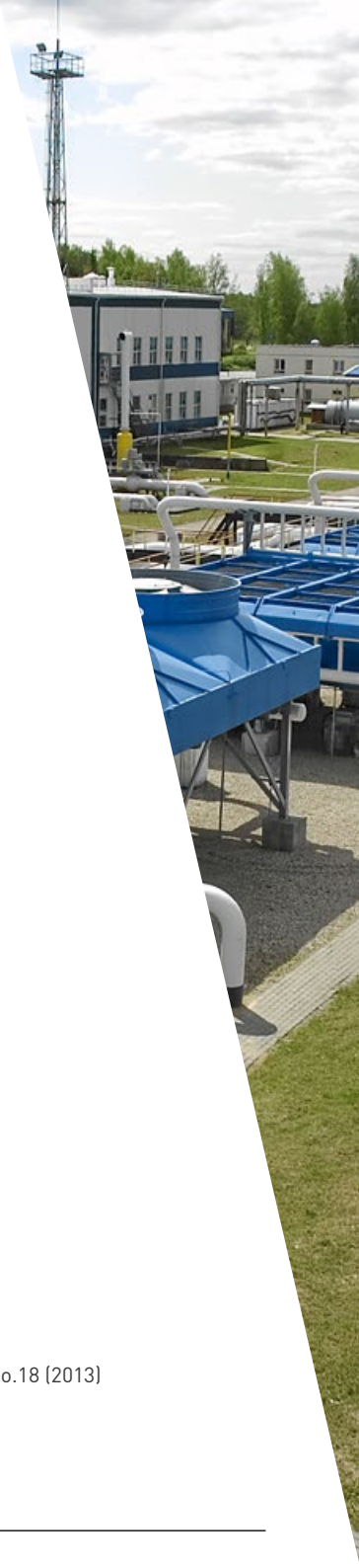
#### 6. FUTURE PROSPECTS

Based on the investments in the improvement of the operational safety of the system, the expansion of the gas pipeline network and the attraction of new customers made in previous years and in the reporting year, as well as considering the situation in the fuel market of Latvia, the Board of the Company believes that in 2013 the Company will continue successful development and occupy a stable place in the fuel supply market.

	2012 LVL	2012 EUR
Profit of the reporting year	22 941 560	32 642 899
Share of profit not available for distribution (unrealized deferred tax gain related to the revaluation of fixed assets)	(1 590 168)	(2 262 605)
Share of profit available for distribution	21 351 392	30 380 294
Suggested distribution of profit:		
dividends to shareholders (87%)	19 950 000	28 386 293
dividends per share (Ls/1 share)	0.50	0.71
Statutory reserves	1 401 392	1 994 001

Chairman of the Board  
A. Dāvis

Board Meeting Minutes No.18 (2013)  
Riga, April 25, 2013



# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
<b>1</b> Net sales	427 412 773	353 338 171	608 153 586	502 754 923
<b>2</b> Cost of sales	(394 693 027)	(311 576 638)	(561 597 582)	(443 333 615)
<b>3</b> Gross profit	<b>32 719 746</b>	<b>41 761 533</b>	<b>46 556 004</b>	<b>59 421 308</b>
<b>5</b> Administrative expenses	(6 924 598)	(7 053 909)	(9 852 815)	(10 036 808)
<b>6</b> Other operating income	1 984 974	2 040 854	2 824 364	2 903 873
<b>7</b> Other operating expenses	(2 888 180)	(2 900 792)	(4 109 510)	(4 127 455)
<b>10</b> Other interest income and similar income	3 423 886	1 496 999	4 871 751	2 130 038
<b>11</b> Changes of long term financial investments and short term securities	188	912	267	1 298
<b>12</b> Interest expenses and similar expenses	(16 930)	(1 151 672)	(24 089)	(1 638 682)
<b>13</b> Provisions for bad and doubtful debtors, net	(1 263 706)	(2 801 572)	(1 798 092)	(3 986 278)
<b>14</b> Provisions for obsolete and slow moving inventories, net	207 989	39 570	295 942	56 303
<b>16</b> Profit before taxes	<b>27 243 369</b>	<b>31 431 923</b>	<b>38 763 822</b>	<b>44 723 597</b>
<b>17</b> Corporate income tax for the reporting year	(4 255 396)	(4 753 241)	(6 054 883)	(6 763 253)
<b>18</b> Deferred income tax	722 653	1 263 448	1 028 242	1 797 725
<b>19</b> Other taxes	(769 066)	(766 930)	(1 094 282)	(1 091 243)
<b>20</b> Current year's profit	<b>22 941 560</b>	<b>27 175 200</b>	<b>32 642 899</b>	<b>38 666 826</b>
Unrealised deferred tax gain related to fixed assets revaluation	(1 590 168)	(1 478 951)	(2 262 605)	(2 104 358)
<b>Current year's profit available for distribution</b>	<b>21 351 392</b>	<b>25 696 249</b>	<b>30 380 294</b>	<b>36 562 468</b>

# BALANCE SHEET AS AT DECEMBER 31, 2012 <sup>(1)</sup>

	31.12.2012 LVL	31.12.2011 LVL	31.12.2012 EUR	31.12.2011 EUR
<b>Assets</b>				
<b>Long-term investments</b>				
<b>I Intangible assets:</b>				
2 Concessions, patents, licenses, trademarks and similar rights	2 090 460	2 031 326	2 974 457	2 890 316
5 Advance payments for intangible assets	28 966	44 624	41 215	63 494
<b>Total intangible assets:</b>	<b>2 119 426</b>	<b>2 075 950</b>	<b>3 015 672</b>	<b>2 953 810</b>
<b>II Fixed assets:</b>				
1 Land, buildings, constructions and gas transmission system	345 457 809	262 369 659	491 542 178	373 318 392
3 Equipment and machinery	47 496 309	37 099 668	67 581 159	52 788 072
4 Other fixed assets	5 487 511	4 843 090	7 808 025	6 891 096
5 Advances for fixed assets and fixed assets under construction	3 955 223	10 817 467	5 627 775	15 391 869
<b>Total fixed assets:</b>	<b>402 396 852</b>	<b>315 129 884</b>	<b>572 559 137</b>	<b>448 389 429</b>
<b>V Long-term financial investments:</b>				
3 Investment in associated companies	80	80	114	114
5 Other securities and investments	4 221	4 033	6 005	5 738
9 Other long-term debtors	2 108 412	1 894 315	3 000 000	2 695 368
Total long-term financial investments:	2 112 713	1 898 428	3 006 119	2 701 220
<b>Total long-term investments:</b>	<b>406 628 991</b>	<b>319 104 262</b>	<b>578 580 928</b>	<b>454 044 459</b>
<b>Current assets</b>				
<b>I Inventories:</b>				
1 Raw materials and consumables	93 275 769	38 590 703	132 719 462	54 909 623
5 Advances for goods receivable	776 807	38 037 043	1 105 297	54 121 836
<b>Total inventories:</b>	<b>94 052 576</b>	<b>76 627 746</b>	<b>133 824 759</b>	<b>109 031 459</b>
<b>III Debtors:</b>				
1 Trade debtors	54 817 083	27 522 037	77 997 682	39 160 331
3 Receivables from affiliated companies	2 436 225	1 358 799	3 466 436	1 933 397
4 Other debtors	1 899 120	4 485 452	2 702 205	6 382 223
7 Deferred expenses	375 582	414 056	534 405	589 149
<b>Total debtors:</b>	<b>59 528 010</b>	<b>33 780 344</b>	<b>84 700 728</b>	<b>48 065 100</b>
<b>IV Short-term financial investments:</b>				
5 Other securities and investments	198	198	282	282
9 Term deposits	-	9 206 732	-	13 100 000
<b>Total short-term financial investments:</b>	<b>198</b>	<b>9 206 930</b>	<b>282</b>	<b>13 100 282</b>
<b>V Cash and bank:</b>	<b>22 583 629</b>	<b>25 057 210</b>	<b>32 133 609</b>	<b>35 653 197</b>
<b>Total current assets:</b>	<b>176 164 413</b>	<b>144 672 230</b>	<b>250 659 378</b>	<b>205 850 038</b>
<b>Total assets</b>	<b>582 793 404</b>	<b>463 776 492</b>	<b>829 240 306</b>	<b>659 894 497</b>

# BALANCE SHEET AS AT DECEMBER 31, 2012 (2)

	31.12.2012 LVL	31.12.2011 LVL	31.12.2012 EUR	31.12.2011 EUR
<b>Liabilities</b>				
<b>Shareholders' funds:</b>				
<b>1</b> Share capital	39 000 000	39 900 000	56 772 585	56 772 585
<b>2</b> Share premium	14 320 210	14 320 210	20 375 823	20 375 823
<b>3</b> Long-term investments revaluation reserve	267 219 703	184 963 409	380 219 383	263 179 221
<b>5</b> Reserves				
c) statutory reserve	70 804 882	69 048 633	100 746 270	98 247 353
<b>6</b> Retained earnings				
a) previous years' retained earnings	11 608 263	10 129 312	16 517 071	14 412 713
b) current year's retained profit	22 941 560	27 175 200	32 642 899	38 666 826
<b>Total shareholders' funds:</b>	<b>426 794 618</b>	<b>345 536 764</b>	<b>607 274 031</b>	<b>491 654 521</b>
<b>Creditors:</b>				
<b>Long-term creditors:</b>				
<b>12</b> Deferred income	20 363 168	20 340 917	28 974 177	28 942 517
<b>15</b> Accruals for post employment benefits and other employee benefits	4 581 002	4 274 254	6 518 179	6 081 716
<b>16</b> Deferred tax liabilities	40 237 046	26 443 882	57 252 158	37 626 253
<b>Total long-term creditors:</b>	<b>65 181 216</b>	<b>51 059 053</b>	<b>92 744 514</b>	<b>72 650 486</b>
<b>Short-term creditors:</b>				
<b>5</b> Advances received	6 403 994	7 795 197	9 112 063	11 091 567
<b>6</b> Trade creditors	61 000 372	35 643 649	86 795 710	50 716 344
<b>8</b> Accounts payable to related companies	439 449	16 672	625 280	23 722
<b>10</b> Taxes and state compulsory social insurance contributions	16 083 290	11 506 488	22 884 460	16 372 257
<b>11</b> Other creditors	637 048	568 802	906 438	809 333
<b>12</b> Deferred income	794 211	5 438 055	1 130 060	7 737 655
<b>15</b> Accrued liabilities	5 459 206	6 211 812	7 767 750	8 838 612
<b>Total short-term creditors:</b>	<b>90 817 570</b>	<b>67 180 675</b>	<b>129 221 761</b>	<b>95 589 490</b>
<b>Total creditors:</b>	<b>155 998 786</b>	<b>118 239 728</b>	<b>221 966 275</b>	<b>168 239 976</b>
<b>Total liabilities and shareholders' funds</b>	<b>582 793 404</b>	<b>463 776 492</b>	<b>829 240 306</b>	<b>659 894 497</b>

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2012

	Share capital LVL	Share premium LVL	Long-term investments revaluation reserve LVL	Statutory reserve LVL	Retained earnings LVL	Total LVL
<b>Balance as at 31 December 2010</b>	<b>39 900 000</b>	<b>14 320 210</b>	<b>185 612 319</b>	<b>64 076 387</b>	<b>35 051 558</b>	<b>338 960 474</b>
Dividends	-	-	-	-	(19 950 000)	(19 950 000)
Transferred to reserves	-	-	-	4 972 246	(4 972 246)	-
Revaluation of fixed assets	-	-	938 036	-	-	938 036
Deferred tax liability arising on the revaluation of fixed assets	-	-	(140 705)	-	-	(140 705)
Disposal of revalued fixed assets	-	-	(1 701 460)	-	-	(1 701 460)
Deferred tax on disposal of revalued fixed assets	-	-	255 219	-	-	255 219
Profit for the year	-	-	-	-	27 175 200	27 175 200
<b>Balance as at 31 December 2011</b>	<b>39 900 000</b>	<b>14 320 210</b>	<b>184 963 409</b>	<b>69 048 633</b>	<b>37 304 512</b>	<b>345 536 764</b>
Dividends	-	-	-	-	(23 940 000)	(23 940 000)
Transferred to reserves	-	-	-	1 756 249	(1 756 249)	-
Revaluation of fixed assets	-	-	98 820 238	-	-	98 820 238
Deferred tax liability arising on the revaluation of fixed assets	-	-	(14 823 036)	-	-	(14 823 036)
Disposal of revalued fixed assets	-	-	(2 048 127)	-	-	(2 048 127)
Deferred tax on disposal of revalued fixed assets	-	-	307 219	-	-	307 219
Profit for the year	-	-	-	-	22 941 560	22 941 560
<b>Balance as at 31 December 2012</b>	<b>39 900 000</b>	<b>14 320 210</b>	<b>267 219 703</b>	<b>70 804 882</b>	<b>34 549 823</b>	<b>426 794 618</b>

The notes on pages 14 to 33 are an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)

	Share capital EUR	Share premium EUR	Long-term investments revaluation reserve EUR	Statutory reserve EUR	Retained earnings EUR	Total EUR
<b>Balance as at 31 December 2010</b>	<b>56 772 585</b>	<b>20 375 823</b>	<b>264 102 536</b>	<b>91 172 485</b>	<b>49 873 874</b>	<b>482 297 303</b>
Dividends	-	-	-	-	(28 386 293)	(28 386 293)
Transferred to reserves	-	-	-	7 074 868	(7 074 868)	-
Revaluation of fixed assets	-	-	1 334 705	-	-	1 334 705
Deferred tax liability arising on the revaluation of fixed assets	-	-	(200 205)	-	-	(200 205)
Disposal of revalued fixed assets	-	-	(2 420 959)	-	-	(2 420 959)
Deferred tax on disposal of revalued fixed assets	-	-	363 144	-	-	363 144
Profit for the year	-	-	-	-	38 666 826	38 666 826
<b>Balance as at 31 December 2011</b>	<b>56 772 585</b>	<b>20 375 823</b>	<b>263 179 221</b>	<b>98 247 353</b>	<b>53 079 539</b>	<b>491 654 521</b>
Dividends	-	-	-	-	(34 063 551)	(34 063 551)
Transferred to reserves	-	-	-	2 498 917	(2 498 917)	-
Revaluation of fixed assets	-	-	140 608 531	-	-	140 608 531
Deferred tax liability arising on the revaluation of fixed assets	-	-	(21 091 280)	-	-	(21 091 280)
Disposal of revalued fixed assets	-	-	(2 914 222)	-	-	(2 914 222)
Deferred tax on disposal of revalued fixed assets	-	-	437 133	-	-	437 133
Profit for the year	-	-	-	-	32 642 899	32 642 899
<b>Balance as at 31 December 2012</b>	<b>56 772 585</b>	<b>20 375 823</b>	<b>380 219 383</b>	<b>100 746 270</b>	<b>49 159 970</b>	<b>607 274 031</b>

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, 2012

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
<b>I Cash flows from operating activities</b>				
<b>1</b> Profit before taxes	27 243 369	31 431 923	38 763 822	44 723 597
<b>Adjustments for:</b>				
- fixed asset depreciation and write-down of intangible assets	29 135 683	21 213 887	41 456 342	30 184 642
- difference between the actual and forecasted purchase cost of natural gas and income from participation charge	(5 459 068)	(2 943 988)	(7 767 554)	(4 188 918)
- change in provisions for inventories	(207 989)	(39 570)	(295 942)	(56 303)
- change in provisions for long-term financial investments	(188)	(912)	(267)	(1 298)
- change in accrued expenses for bonuses for reporting year's financial results	(713 600)	(16 400)	(1 015 361)	(23 336)
- change in accrued unused annual leave expenses	41 339	(27 479)	58 820	(39 099)
- change in other provisions	(80 345)	109 650	(114 321)	156 019
- changes in accruals for post employment benefits and other employee benefits	306 748	(932 769)	436 463	(1 327 210)
- interest income	(3 423 886)	(1 496 999)	(4 871 751)	(2 130 038)
- interest expense	16 930	1 151 672	24 089	1 638 682
- profit on sale of fixed assets	(57 860)	(465 515)	(82 327)	(662 368)
<b>Adjustments for:</b>				
Trade debtors (increase) / decrease	(28 372 472)	8 157 898	(40 370 391)	11 607 643
Inventories increase	(17 147 190)	(41 186 825)	(24 398 253)	(58 603 572)
Trade creditors' increase	25 779 500	23 926 568	36 680 924	34 044 439
Other debtors' decrease	2 681 920	4 074 504	3 816 028	5 797 497
Other creditors' decrease / (increase)	3 099 751	(2 964 331)	4 410 548	(4 217 864)
<b>3 Cash generated from operations</b>	<b>32 842 642</b>	<b>39 991 314</b>	<b>46 730 869</b>	<b>59 902 513</b>
Interest income	712 828	1 184 259	1 014 263	1 685 049
Corporate income tax paid	(3 557 156)	(8 415 173)	(5 061 377)	(11 973 712)
<b>6 Net cash flows generated from operating activities</b>	<b>29 998 314</b>	<b>32 760 400</b>	<b>42 683 755</b>	<b>46 613 850</b>
<b>II Cash flows used in investing activities</b>				
Acquisition of fixed assets and intangible assets	(19 187 977)	(19 709 075)	(27 302 032)	(28 043 487)
Proceeds from sale of fixed assets	69 209	37 360	98 476	53 158
Decrease / (increase) of other investments in term deposits over 90 days, net	9 206 732	(9 206 732)	13 100 000	(13 100 000)
<b>9 Net cash used in investing activities</b>	<b>(9 912 036)</b>	<b>(28 878 447)</b>	<b>(14 103 556)</b>	<b>(41 090 329)</b>
<b>III Cash flows used in financing activities</b>				
EC funding received	1 380 141	3 552 377	1 963 764	5 054 577
Dividends paid	(23 940 000)	(19 950 000)	(34 063 551)	(28 386 293)
<b>7 Net cash used in financing activities</b>	<b>(22 559 859)</b>	<b>(16 397 623)</b>	<b>(32 099 787)</b>	<b>(23 331 716)</b>
<b>Net decrease during the reporting year in cash and cash equivalents</b>	<b>(2 473 581)</b>	<b>(12 515 670)</b>	<b>(3 519 588)</b>	<b>(17 808 195)</b>
Cash and cash equivalents at the beginning of the reporting year	25 057 210	37 572 880	35 653 197	53 461 392
<b>Cash and cash equivalents at the end of the reporting year</b>	<b>22 583 629</b>	<b>25 057 210</b>	<b>32 133 609</b>	<b>35 653 197</b>

# NOTES TO THE SUMMARY FINANCIAL STATEMENTS

## Accounting policies

### (a) Information on the Company

The legal address of the Joint Stock Company "Latvijas Gāze" is Vagonu street 20, Riga. The Company is registered in Commercial Register with common registration number 4000 300 0642. The Company's main shareholders are E.ON Ruhrgas International AG (47.23%), OJSC Gazprom (34.0%) and LLC Itera Latvija (16.0%). The Board of the Company consists of Adrians Dāvis (Chairman of the Board), Aleksandrs Mihejevs (Александр Михеев) (Member of the Board, Deputy Chairman of the Board), Jörg Tumat (Member of the Board, Deputy Chairman of the Board), 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 2012, 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 2012 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.

The profit and loss account is prepared in accordance with turn-over method.

Cash flow statement is prepared using indirect cash flow method.

The accounting policies used by the Company are consistent with those used in the previous accounting period.

### (c) Net sales and income recognition

Sales are recognised upon delivery of gas or performance of services. Net sales represent the total of goods and services sold during the year net of discounts, value added tax and the difference between the actual and forecasted purchase cost of natural gas, which is used for determination of applicable natural gas selling price for the following month. Applicable natural gas selling price is calculated based on latest available data. The exchange rate for EUR/USD set by ECB in the last day of the previous month, actual gross calorific value as well as planned volume of received and delivered gas are used in the calculation. Actual purchase costs of natural gas are calculated

based on methodology approved by the Public Utility Commission (PUC's) Council, taking into account the exchange rate of EUR/USD at the last day of the month when gas is delivered, actual gross calorific value as well as actual volume of gas received from suppliers. The part of income to be written down in the next reporting periods related to difference between the actual and forecasted purchase cost of natural gas is recorded as deferred income.

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

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

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

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

### (d) Foreign currency translation

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

	31.12.2012 LVL	31.12.2011 LVL
1 USD	0.531	0.544
1 EUR	0.702804	0.702804

Financial statements in Euro currency are prepared using account closing balances in Ls at the last day of the reporting

period, performing conversion to EUR by using the official fixed EUR / Ls rate set by the Bank of Latvia 1 EUR = Ls 0.702804 (1 EUR = Ls 0.702804, determined by Bank of Latvia as of December 30, 2004 reposing to resolution of the Council of Bank of Latvia) for all period January 1, 2012 till December 31, 2012.

#### **(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 historical cost or revaluated amount net of accumulated depreciation and impairment charge. The company revaluates buildings, gas transmission and distribution systems and equipment every five 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:

	<b>% per year</b>
Buildings	1–3
Gas transmission system	2–2.5
Machinery and equipment	5–20
Furniture and fittings	10–20
Computers and equipment	30

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

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

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

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

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

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

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

#### **(g) Inventories**

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

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

#### **(h) Accounts receivable**

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

#### **(i) Other long-term investments**

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

#### **(j) Borrowings**

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

### **(k) Taxes**

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

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

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

### **(l) Accrued unused annual leave expenses and accrued liabilities**

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 "Annual Accounts Act" of the Republic of Latvia Section 29 article 4, the said income cannot be distributed. Therefore, the profit available for distribution is calculated as net difference between net profit and unrealised deferred tax gain related to fixed asset revaluation.

# REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

To the Shareholders of JSC "Latvijas Gāze"

Translation from Latvian original\*

The accompanying summary financial statements, which comprise the balance sheet as at December 31, 2012 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, are derived from the audited financial statements of JSC "Latvijas Gāze" for the year ended December 31 2012. We expressed an unmodified audit opinion on those financial statements in our report dated April 25, 2013. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

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

## Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis

described in the Accounting policies note (b) Summary Financial Statements Preparation Basis.

## Auditor's Responsibility

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

## Opinion

In our opinion, the summary financial statements derived from the audited financial statements of JSC "Latvijas Gāze" for the year ended December 31, 2011 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



Ahmed Abu Sharkh  
Chairman of the Board



Lolita Čapkeviča  
Certified auditor in charge  
Certificate No. 120

Rīga, Latvija  
2013. gada 5. jūlijā

\* 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.