Joint stock company "Latvijas Gāze"

Annual accounts for the year ended 31 December 2014

Prepared in accordance with the International Financial Reporting Standards
as adopted by the EU

Translation from Latvian original*

Riga, 2015

JOINT STOCK COMPANY "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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INFORMATION ON THE COMPANY

Name of the Company	JSC Latvijas Gāze
Legal status of the Company	Joint Stock Company
Registration number, place and date of registration	000300064 Riga, March 25, 1991 Reregistered in Commercial Register December 20, 2004 with common registration No 40003000642
Address	Vagonu street 20 Riga, LV–1009 Latvia
Names of major shareholders	E.ON Ruhrgas International GmbH (47.2%) OAO Gazprom (34.0%) LLC ITERA Latvija (16.0%)
Names and positions of the Board members	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 Gints Freibergs – Member of the Board
Names and positions of the Council members	Kiril Seleznov (Кирилл Селезнев) – Chairman of the Council Juris Savickis – Deputy Chairman of the Council Matthias Kohlenbach – Member of the Council Achim Saul – Member of the Council Uwe Fip – Member of the Council Rainer Link – Member of the Council Jörg Tumat – Member of the Council Jelena Karpel (Елена Карпель) – Member of the Council Vlada Rusakova (Влада Русакова) – Member of the Council Jelena Mihailova (Елена Михайлова) – Member of the Council Nikolay Dubik (Николай Дубик) – Member of the Council
Financial year	1 January – 31 December 2014
Name and address of the auditor and responsible certified auditor	PricewaterhouseCoopers SIA Certified audit company Licence No.5 Kr. Valdemāra iela 21-21 Riga, LV-1010 Latvia Certified auditor in charge: Lolita Čapkeviča Certified auditor Certificate No. 120

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 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 m^3 of natural gas. In comparison with 2013 natural gas sales (in m^3) fell by 10.9%. The decrease of natural gas sales stemmed from the record high air temperature 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. m^3, while natural gas used as motor fuel – 99.60 EUR/thsd. m^3. 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.m^3.

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.m^3, depending on the actual natural gas purchase costs. For users with an annual natural gas consumption over 25 thsd. m^3, the applicable natural gas sale end-user tariff changes monthly, whereas for users with an annual natural gas consumption of up to 25 thsd. m^3 – 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 profit 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 m^3 of natural gas was injected into the Inčukalns UGS and 2.058 billion m^3 was withdrawn. Compared with the 2013 season, the volume of natural gas injected fell by 10.7% with 425.4 million m^3 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.

Report of the Board of Directors (continued)

1. Activity of the Company in the Reporting Year (continued)

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 for 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 Riga-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.

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.

Company's main ratios:

	2014 EUR'000	2013 EUR'000	2012 EUR'000
Revenue	503 076	573 963	608 154
EBITDA	68 975	67 925	76 244
EBITDA %	13.71%	11.83%	12.54%
Profit from operating activities	35 143	34 821	34 787
Profitability of operating activities (%)	6.99%	6.07%	5.72%
Profit for the year	30 069	29 457	30 167
Net profitability (%)	5.98%	5.13%	4.96%
Total liquidity	3.66	1.77	1.94
Total assets	747 970	868 226	829 240
Equity	610 182	608 721	607 275
Return on assets (ROA)	3.72%	3.47%	4.05%
Return on equity (ROE)	4.93%	4.84%	5.49%
Number of shares	39 900	39 900	39 900
	EUR	**EUR**	**EUR**
Profit per share (EPS)	0.754	0.738	0.756
P/E	12.13	12.72	11.31
BV	15.29	15.26	15.22
P/BV	0.60	0.62	0.56
Dividends per share (DPS)*	0.72	0.72	0.71
Return on dividends (dividends per share/ profit per share)	0.96	0.98	0.94
Share price at the end of the period	9.14	9.39	8.55

* The Board of the Company will propose to the Council to pay dividends in amount of EUR 0.72 for each share for year 2014.

Report of the Board of Directors (continued)

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 JSC “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 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 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 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.

Report of the Board of Directors (continued)

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. 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

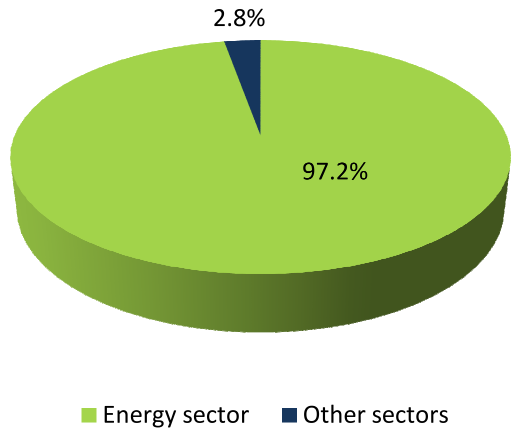
Some members of the Council and the Board of the Company hold shares and interests in numerous companies registered in the Registry of Enterprises of the Republic of Latvia, and they perform managerial functions there. During the reporting year the Company has not executed transactions of a substantial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

6. Shares and shareholders

Composition of shareholders[1] of the Company as on December 31, 2014 and previous periods:

Shareholder	31.12.2014.	31.12.2013.	31.12.2012.
“E.ON Ruhrgas International” GmbH	47.2%	47.2%	47.2%
OAO “Gazprom”	34.0%	34.0%	34.0%
LLC “ITERA Latvija”	16.0%	16.0%	16.0%
Other	2.8%	2.8%	2.8%
TOTAL	100.0%	100.0%	100.0%

Distribution of holdings according to holding groups as on December 31, 2014:



[1] Shareholders owning not less than 5% of capital

Report of the Board of Directors (continued)

6. Shares and shareholders (continued)

Number of shares owned by the members of the Board and Council as on December 31, 2014:

Members of the Board		Number of shares
Chairman of the Board	Adrians Dāvis	**417**
Vice-Chairman of the Board	Mario Nullmeier	**0**
Vice-Chairman of the Board	Aleksandr Mihejev	**0**
Member of the Board	Anda Ulpe	**729**
Member of the Board	Gints Freibergs	**416**

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

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

ISIN	LV0000100899
Stock exchange code	GZE1R
List	Second list
Nominal value	1.40 EUR
Total shares	39 900 000
Shares traded	25 328 520
Liquidity provider	None

Shares price of the Company as on December 31, 2014 and previous periods:

	2014	2013	2012	2011	2010
Shares price (EUR):					
First	9.390	6.110	5.895	4.8000	4.57
Highest	10.400	6.930	6.350	7.000	6.00
Lowest	8.900	6.030	5.380	4.601	4.57
Average	9.470	6.360	5.863	5.320	5.15
Last	9.140	6.600	6.010	5.651	4.90
Change	-2.66%	8.02%	1.95%	17.73%	7.22%
Share turnover, number	118 685	121 774	168 115	218 132	85 493
Share turnover, million EUR	1.123	1.101	1.403	1.651	0.626
Number of deals	1 290	1 479	1 767	1 284	988
Capitalisation (million EUR)	364.686	374.701	341.185	320.836	278.183

Source: NASDAQ OMX Riga

The capitalization value of the Company on December 31, 2014 reached EUR 364.7 million – by EUR 10 million less than at the end of previous reporting period. By share market capitalization of the Company took the 1st place among companies quoted at the NASDAQ OMX RIGA and the 5th place among companies quoted at the NASDAQ OMX Baltic Stock Exchange (2013: 1st and 4th place respectively).

Report of the Board of Directors (continued)

6. Shares and shareholders (continued)

LG share prices OMX Riga GI and OMX Baltic GI index changes (01.01.2011 - 31.12.2014):

Source: NASDAQ OMX Riga

Indexes/shares	01.01.2011.	31.12.2013.	Change
OMX Riga	393.53	408.03	+3.68%
OMX Baltic GI	421.36	457.42	+8.56%
GZE1R (EUR)	6.972	9.140	+31.09%

7. 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.

Chairman of the Board A. Dāvis

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

STATEMENT OF DIRECTORS' RESPONSIBILITY

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

The financial statements on pages 13 to 54 are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Company as of 31 December 2014 and the results of its operations and cash flows for the year ended 31 December 2014.

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

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

On behalf of the Board of Directors,

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Adrians Dāvis
Chairman of the Board

Riga, April 23, 2015

AUDITORS' REPORT

pwc

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC "Latvijas Gāze"

Report on the Financial Statements

We have audited the accompanying financial statements of JSC "Latvijas Gāze" set out on pages 13 to 54 of the accompanying annual report, which comprise the balance sheet as at 31 December 2014 and the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of JSC "Latvijas Gāze" as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Report of the Board of Directors for 2014 set out on pages 4 to 9 of the accompanying annual report for 2014 and did not identify material inconsistencies between the financial information contained in the Report of the Board of Directors and that contained in the financial statements for 2014.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Member of the Board

Lolita Čapkeviča
Certified auditor in charge
Certificate No. 120

Riga, Latvia
23 April 2015

* 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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

BALANCE SHEET AS AT 31 DECEMBER 2014

	Note	31.12.2014. EUR'000	31.12.2013. EUR'000
Assets			
Non-current assets			
Property, plant and equipment	3	561 675	566 108
Intangible assets	4	2 229	2 790
Trade receivables	5	8	9
		563 912	568 907
Current assets			
Inventories	6	80 189	185 167
Trade receivables	5	51 659	39 462
Current income tax receivable	21	470	1 688
Other receivables	7	616	39 448
Cash and cash equivalents	8	51 124	33 554
		184 058	299 319
TOTAL ASSETS		**747 970**	**868 226**
EQUITY AND LIABILITIES			
Equity			
Share capital	9	55 860	56 773
Share premium		20 376	20 376
Revaluation reserve		376 348	378 103
Post-employment benefits and other employee benefits revaluation reserve		(80)	-
Other reserves		115 676	113 887
Retained earnings		42 002	39 582
		610 182	**608 721**
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	21	54 644	56 447
Accruals for post-employment benefits and other employee benefits	22	4 179	5 442
Deferred income	11	28 339	28 763
		87 162	90 652
Current liabilities			
Trade payables		3 785	129 643
Deferred income	11	1 187	1 161
Other payables	12	45 654	38 049
		50 626	168 853
Total liabilities		137 788	**259 505**
TOTAL EQUITY AND LIABILITIES		**747 970**	**868 226**

The notes on pages 18 to 54 are an integral part of these financial statements.

JOINT STOCK COMPANY "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2014

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 EUR'000	2013 EUR'000
Revenue	13	503 076	573 963
Cost of sales	14	(452 334)	(520 046)
Gross profit		**50 742**	**53 917**
Administrative expenses	15	(13 739)	(18 019)
Other income	16	3 303	4 524
Other expenses	17	(5 163)	(5 601)
Operating profit		**35 143**	**34 821**
Finance income	19	179	155
Profit before income tax		**35 322**	**34 976**
Income tax expense	21	(5 253)	(5 519)
Profit for the year		**30 069**	**29 457**
Earnings per share		**EUR**	**EUR**
Basic	23a	0,754	0,738
Diluted	23a	0,754	0,738

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

		2014 EUR'000	2013 EUR'000
Profit for the year		**30 069**	**29 457**
Items that will not be reclassified to profit or loss			
Tax sections, net			
Revaluation of property, plant and equipment – gross		239	443
Deferred income tax liability arising on the revaluation of property, plant and equipment	21	(36)	(67)
Post-employment benefits and other employee benefits remeasurement		(80)	-
Other comprehensive income for the year, net of tax		**123**	**376**
Total comprehensive income for the year		**30 192**	**29 833**

The notes on pages 18 to 54 are an integral part of these financial statements.

The financial statements on pages 13 to 54 were approved by the Board of Directors and were signed on its behalf by:

Adrians Dāvis
Chairman of the Board

Anda Ulpe
Board Member

April 23, 2015

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

	Share capital	Share premium	Revaluation reserve	Employee benefits revaluation reserve	Other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance as at 31 December 2012	**56 773**	**20 376**	**380 422**	**-**	**111 893**	**37 811**	**607 275**
Other comprehensive income							
Revaluation of property, plant and equipment - gross	-	-	443	-	-	-	443
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(67)	-	-	-	(67)
Disposal of revalued property, plant and equipment	-	-	(3 170)	-	-	3 170	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	476	-	-	(476)	-
Total other comprehensive income	-	-	*(2 318)*	-	-	*2 694*	*376*
Profit for the year	-	-	-	-	-	29 457	29 457
Total comprehensive income for 2013	-	-	(2 318)	-	-	32 151	29 833
Transactions with owners							
Transfers to reserves	-	-	-	-	1 993	(1 993)	-
Dividends for 2012	-	-	-	-	-	(28 386)	(28 386)
Rounding	-	-	(1)	-	1	(1)	(1)
Balance as at 31 December 2013	**56 773**	**20 376**	**378 103**	**-**	**113 887**	**39 582**	**608 721**

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

	Share capital	Share premium	Revaluation reserve	Employee benefits revaluation reserve	Other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance as at 31 December 2014	**56 773**	**20 376**	**378 103**	**-**	**113 887**	**39 582**	**608 721**
Other comprehensive income							
Revaluation of property, plant and equipment - gross	-	-	239	-	-	-	239
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(36)	-	-	-	(36)
Disposal of revalued property, plant and equipment	-	-	(2 304)	-	-	2 304	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	346	-	-	(346)	-
Post-employment benefits and other employee benefits remeasurement	-	-	-	(80)	-	-	(80)
Total other comprehensive income	-	-	*(1 755)*	*(80)*	-	*1 958*	*123*
Profit for the year	-	-	-	-	-	30 069	30 069
Total comprehensive income for 2014	-	-	(1 755)	(80)	-	32 027	30 192
Transactions with owners							
Conversion of the share capital into EUR	(913)	-	-	-	913	-	-
Transfers to reserves		-	-	-	876	(876)	-
Dividends for 2013	-	-	-	-	-	(28 728)	(28 728)
Rounding differences	-	-	-	-	-	(3)	(3)
Balance as at 31 December 2014	**55 860**	**20 376**	**376 348**	**(80)**	**115 676**	**42 002**	**610 182**

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

The notes on pages 18 to 54 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 EUR'000	2013 EUR'000
Cash flows from operating activities			
Cash generated from operations	24	42 516	98 527
Interest received		374	387
Income tax paid	21	(5 528)	(5 134)
Net cash generated from operating activities		**37 362**	**93 780**
Cash flows used in investing activities			
Purchases of property, plant and equipment		(29 153)	(27 113)
Proceeds from sale of property, plant and equipment		47	78
Purchases of intangible assets		(861)	(1 068)
EC funding received		3	3 029
Received term deposits		38 900	-
Deposited on term		-	(38 900)
Net cash generated from / (used in) investing activities		**8 936**	**(63 974)**
Cash flows used in financing activities			
Dividends paid		(28 728)	(28 386)
Net cash used in from financing activities		**(28 728)**	**(28 386)**
Net increase in cash and cash equivalents during the year		**17 570**	**1 420**
Cash and cash equivalents at the beginning of the year		33 554	32 134
Cash and cash equivalents at the end of the year	8	**51 124**	**33 554**

The notes on pages 18 to 54 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 INCORPORATION AND ACTIVITIES

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

The Company is involved in import and sales of natural gas in the territory of Latvia as well as supply of gas transmission and storage services to foreign companies. The Company is the sole supplier of natural gas in Latvia. The service territory of the Company has a population of approximately 1.99 million.

The applied differential natural gas sale end tariffs consist of two parts: fixed tariffs for regulated services and the natural gas sale price, which changes with a step of 7,11 EUR/thous. m^3 depending on the actual natural gas purchase costs. The tariffs of gas sold to corporate and retail customers are set by the Public Utilities Commission (PUC) of the Republic of Latvia. Changes to tariffs are considered by PUC based on applications of the Company and in accordance with the methodology approved by PUC. The natural gas sale end tariff applied to users with the annual consumption volume over 25 thousand nm^3 changes every month, whereas to users with the annual consumption up to 25 thousand nm^3 – once in half year, on January 1 and July 1.

During 2014 the average number of persons employed by the Company was 1 255 (2013: 1 267).

These financial statements have been approved by the Board of Directors on April 23, 2015.

1 ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

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

The following new and amended IFRS and interpretations come into force in 2014, but do not apply to the Company`s operations and have no impact on these financial statements:

IFRS 12 "Disclosures of interests in other entities" (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014). This standard includes the disclosure requirements for all forms of interests in other entities.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Amendments to IFRS 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013, endorsed by EU for annual periods beginning on or after 1 January 2014)

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

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

Amendments to IFRS 10, IFRS 12 and IAS 27 on consolidation for investment entities (effective for annual periods beginning on or after 1 January 2014)

Amendments to IAS 32 “Financial instruments: Presentation” on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014)

Amendments to IAS 36 “Impairment of assets” on recoverable amount disclosures (effective for annual periods beginning on or after 1 January 2014)

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

IFRIC 21 “Levies” (effective for annual periods beginning on or after 1 January 2014)

A number of new standards and interpretations have been published and come into force on financial periods beginning on or after 1 January 2015, and do not relate to the Company`s operations or are not endorsed by the European Union:

Amendments to IAS 19 “Employee benefits plans” regarding defined benefit plans (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU)

Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU). These amendments include changes that affect 7 standards:
• IFRS 2 “Share-based payment”
• IFRS 3 “Business Combinations”
• IFRS 8 “Operating segments”
• IFRS 13 “Fair value measurement”
• IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets”
• Consequential amendments to IFRS 9 “Financial instruments”
• IAS 37 “Provisions, contingent liabilities and contingent assets”, and
• IAS 39 “Financial instruments – Recognition and measurement”
Annual improvements 2013 (effective for annual periods beginning on or after 1 July 2014, not yet endorsed in the EU). The amendments include changes that affect 4 standards:
• IFRS 1 “First time adoption”
• IFRS 3 “Business combinations”
• IFRS 13 “Fair value measurement” and
• IAS 40 “Investment property”

Amendment to IFRS 11 “Joint arrangements” on acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Amendments to IAS 16 "Property, plant and **equipment" and IAS 41 "Agriculture" regarding bearer plants** (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU)

Amendment to IAS 16 "Property, plant and equipment" and **IAS 38 "Intangible assets" on depreciation and amortisation** (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU)

IFRS 14 "Regulatory deferral accounts" (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU)

Amendments to IAS 27 "Separate financial statements" on the equity method (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU)

Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures" (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU)

Annual improvements 2014 (effective for annual periods beginning on or after 1 July 2016, not yet endorsed in the EU). The amendments include changes that affect 4 standards:

• IFRS 5 "Non-current assets held for sale and discontinued operations"
• IFRS 7 "Financial instruments: Disclosures" with consequential amendments to IFRS 1
• IAS 19 "Employee benefits"
• IAS 34 "Interim financial reporting"

IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU)

IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU)

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

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

(c) 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 1 EUR = 0.702804 LVL and the clause 6 of the „Law on the Procedure for Introduction of Euro" on conversion principles.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

(c) Currency unit and revaluation of foreign currency

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 income statement.

	31.12.2014.	**31.12.2013.**
	EUR	**EUR**
1 USD	0.8237	0.7328

(d) Property, plant and equipment

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

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

Subsequent costs are included in the asset’s carrying amount or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

The Company’s policy is to capitalize property, plant and equipment with cost exceeding EUR 250 and useful life exceeding 1 year.

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

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

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

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

(e) Intangible assets

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

(f) Impairment of non-financial assets

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

(g) Financial assets

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

(h) Inventories

The cost of natural gas in Inčukalns UGS and in gas transmission pipelines is determined separately using the first-in first-out (FIFO) method based on total natural gas movement. Materials, spare parts, gas meters and other inventories cost is determined using the weighted average method. The cost of natural gas comprises cost of gas purchased which is recognized and charged to the income statement in the period when incurred.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

(i) Trade receivables

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

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

(j) Cash and cash equivalents

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

(k) Share capital and dividend authorised

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

(l) Borrowings

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

(m) Deferred income tax

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

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

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

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

The principal temporary differences arise from different intangible asset amortization and property, plant and equipment depreciation rates, revaluation of property, plant and equipment, as well as provisions for slow-moving inventory, accrued expenses for unused annual leave and bonuses, accruals for post-employment and other employee benefits and provisions for bad and doubtful debts where the management is of the opinion that they will meet the criteria stated in Article 9 of the law "On Corporate Income Tax". Deferred income tax asset is recognized only to

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

(m) Deferred income tax (continued)
the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

Post-employment and other employee benefits
The Company provides defined benefits upon retirement and in the period of employment for employees whose employment conditions meet defined criteria according to the Employment contract. Amount of benefit liability is calculated based on current salary level and number of employees, which are entitled or may become entitled to receive those payments, as well as based on actuarial assumptions, calculation are performed using the Projected Unit Credit method. The defined benefit obligation is calculated annually using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the market rates on government bonds. Actuarial gains and losses arisen from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

(r) Revenue recognition

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

Sales of natural gas

Sales are recognised upon delivery of gas, net of value added tax and discounts, but including excise tax. Sales of natural gas to residential customers are recorded on the basis of meter readings reported by customers. Where relevant, this includes an estimate of the sales volume of gas supplied between the date of the last meter reading and the year-end. Natural gas sales to corporate customers are recognized based on invoice issued according to meter reading of customers.

Income of transmission and storage on natural gas

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

Applicable natural gas selling price is calculated based on latest available data. The exchange rate for EUR/USD set by ECB in the last day of the previous month, actual gross calorific value of gas in the previous month as well as planned volume of received and delivered gas are used in the calculation. Actual purchase costs of natural gas are calculated based on methodology approved by the PUC`s Council, taking into account the exchange rate of EUR/USD at last day of the month when gas is delivered, actual gas gross calorific value as well as actual volume of gas purchased from suppliers.

Interest income

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

Penalties income

Penalty income is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably. Therefore, recognition usually coincides with the receipt of the penalty.

Income from contribution to financing of construction works

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

Other services

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

(s) Earnings per share

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

(t) Related parties

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

(u) Grants

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 PROPERTY, PLANT AND EQUIPMENT

	Land	**Buffer gas**	**Buildings and gas transmis-sion system**	**Equipment and machinery**	**Other assets**	**Advances**	**Assets under construction**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Cost or revaluation								
31.12.2012.	**2 584**	**9 377**	**1 028 705**	**129 637**	**20 155**	**44**	**5 585**	**1 196 087**
Additions	-	-	-	-	-	3 016	24 224	27 240
Reclassified	-	-	19 072	3 613	1 440	(2 664)	(21 461)	-
Revaluation	-	-	476	53	-	-	-	529
Disposals	-	-	(6 127)	(1 747)	(825)	-	(21)	(8 720)
31.12.2013.	**2 584**	**9 377**	**1 042 126**	**131 556**	**20 770**	**396**	**8 327**	**1 215 136**
Depreciation								
31.12.2012.	**-**	**-**	**549 125**	**62 058**	**12 345**	**-**	**-**	**623 528**
Charged for 2013	-	-	23 019	6 900	1 996	-	-	31 915
Disposals	-	-	(3 980)	(1 621)	(814)	-	-	(6 415)
31.12.2013.	**-**	**-**	**568 164**	**67 337**	**13 527**	**-**	**-**	**649 028**
Net book value at December 31, 2013	**2 584**	**9 377**	**473 962**	**64 219**	**7 243**	**396**	**8 327**	**566 108**
Net book value at December 31, 2012	**2 584**	**9 377**	**479 580**	**67 579**	**7 810**	**44**	**5 585**	**572 559**

During 2013 the management has identified assets which had no carrying value, proper correction of book values and depreciation are made in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 PROPERTY, PLANT AND EQUIPMENT (continued)

	Land	Buffer gas	Buildings and gas transmis-sion system	Equipment and machinery	Other assets	Advances	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revaluation								
31.12.2013.	**2 584**	**9 377**	**1 042 126**	**131 556**	**20 770**	**396**	**8 327**	**1 215 136**
Additions	-	-	-	-	-	2 398	27 106	29 504
Reclassified	-	-	15 562	4 812	1 048	(2 730)	(18 692)	-
Revaluation	-	-	239	-	-	-	-	239
Disposals	-	-	(3 541)	(2 464)	(862)	(34)	(32)	(6 933)
31.12.2014.	**2 584**	**9 377**	**1 054 386**	**133 904**	**20 956**	**30**	**16 709**	**1 237 946**
Depreciation								
31.12.2013.	**-**	**-**	**568 164**	**67 337**	**13 527**	**-**	**-**	**649 028**
Charged for 2014	-	-	23 679	6 803	1 982	-	-	32 464
Disposals	-	-	(2 188)	(2 186)	(847)	-	-	(5 221)
31.12.2014.	**-**	**-**	**589 655**	**71 954**	**14 662**	**-**	**-**	**676 271**
Net book value at December 31, 2014	**2 584**	**9 377**	**464 731**	**61 950**	**6 294**	**30**	**16 709**	**561 675**
Net book value at December 31, 2013	**2 584**	**9 377**	**473 962**	**64 219**	**7 243**	**396**	**8 327**	**566 108**

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

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

Fixed assets include fully depreciated assets with a total cost of 13 242 thousand EUR (31.12.2013: 10 959 thousand EUR).

As at December 31, 2014 the carrying amount in case the revaluated property, plant and equipment would be carried under the cost model is 253 804 thousand EUR, including buildings – 200 222 thousand EUR or equipment and machinery – 53 582 thousand EUR (31.12.2013: 246 899 thousand EUR, including buildings – 192 833 thousand EUR and equipment and machinery – 54 065 thousand EUR).

During the reporting year the Company has capitalized depreciation in amount of 11 thousand EUR (2013: 16 thousand EUR).

According to local legislation the Company discloses a cadastral value of the land plots and buildings. Determination of a precise cadastral value of the land plots and buildings owned by the Company is in process.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 PROPERTY, PLANT AND EQUIPMENT (continued)

Assessed cadastral value at December 31, 2014 of the buildings is 10 038 thousand EUR (31.12.2013: 9 710 thousand EUR), cadastral value at December 31, 2014 of the land plots is 4 616 thousand EUR (31.12.2013: 3 587 thousand EUR), 45 thousand EUR for container equipment (31.12.2013: 54 thousand EUR).

Engineering buildings (distribution pipelines, drillings and reservoirs) cadastral value at December 31, 2014 is 59 083 thousand EUR (31.12.2013: 59 183 thousand EUR).

Cadastral value is not determined for 1 building and for 116 drillings.

4 INTANGIBLE ASSETS

	EUR'000
Cost	
As at December 31, 2012	**11 606**
Additions	1 068
Disposals	(58)
As at December 31, 2013	**12 616**
Amortisation	
As at December 31, 2012	**8 591**
Charge for the year	1 293
On disposals	(58)
As at December 31, 2013	**9 826**
Net Book Value as at December 31, 2013	**2 790**
Net Book Value as at December 31, 2012	**3 015**

	EUR'000
Cost	
As at December 31, 2013	**12 616**
Additions	860
Disposals	(67)
Corrections	(63)
As at December 31, 2014	**13 346**
Amortisation	
As at December 31, 2013	**9 826**
Charge for the year	1 379
On disposals	(25)
Corrections	(63)
As at December 31, 2014	**11 117**
Net Book Value as at December 31, 2014	**2 229**
Net Book Value as at December 31, 2013	**2 790**

Intangible assets include fully amortised intangible assets with a total cost value of 7 407 thousand EUR (31.12.2013: 4 091 thousand EUR).

The major intangible assets are gas transmission SCADA IS-2, a geographic-informative system (GIS) of Inchukalns (Inčukalns) 3D data base and an Individual customer billing system PUNS-2 at a carrying amount of 234 thousand EUR, 191 thousand EUR and 153 thousand respectively (31.12.2013.: EUR 180 thousand, EUR 239 thousand, EUR 0).

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 TRADE RECEIVABLES

	31.12.2014. EUR'000	31.12.2013. EUR'000
Non-current trade receivables		
Gross value	6	7
Other receivables	6	6
Provisions for impairment of receivables	(4)	(4)
	8	**9**
Current trade receivables		
Gross value	62 279	49 869
Provisions for impairment of receivables	(10 620)	(10 407)
	51 659	**39 462**
Total trade receivables	**51 667**	**39 471**

Provisions for impairment of bad and doubtful debts:

	2014 EUR'000	2013 EUR'000
Provisions at the beginning of the year	**10 514**	**15 865**
Charged to income statement	2 175	4 838
Released to income statement	(1 894)	(1 601)
Net charge to income statement (see Note 15)	**281**	**3 237**
Written off	(73)	(8 588)
Provisions at the year end	**10 722**	**10 514**

Provisions as at December 31, 2014 of 10 718 thousand EUR relate to current trade receivables, whereas as at 31 December 2013 they amounted to 10 510 thousand EUR. Provisions as at December 31, 2014 of EUR 98 thousand EUR relate to other trade receivables (31.12.2013: 102 thousand EUR) (see Note 7). Provisions were created based on evaluation of the financial position and operations of separate groups of customers. The actual losses may differ from the current calculations, as the specific amounts required are regularly reviewed and changes are reflected in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 INVENTORIES

	31.12.2014. EUR'000	31.12.2013. EUR'000
Materials and spare parts (at net realisable value)	5 912	7 230
Gas and fuel (at cost)	74 277	177 937
	80 189	**185 167**

The cost of inventories recognized as expense and included in "Cost of sales" amounted EUR 370 657 thousand (2013: EUR 435 844 thousand).

Provisions for impairment of obsolete and slow moving inventories:

	2014 EUR'000	2013 EUR'000
Provisions at the beginning of the year	461	575
Charged to income statement	9	10
Released to income statement	(30)	(115)
Written off	(2)	(9)
Provisions at the year end	**438**	**461**

Provisions have been created for slow moving materials and spare parts. During 2014 the Company used in operations inventories amounting to EUR 13 thousand (2013: EUR 91 thousand) that had been written off in previous years.

7 OTHER RECEIVABLES

	31.12.2014. EUR'000	31.12.2013. EUR'000
Term deposits	-	38 900
Prepayments and deferred expense	405	381
Interest accrued on bank deposits	2	11
Receivable for services supplied	12	17
Other debtors	295	241
	714	**39 550**
Provisions for impairment of bad and doubtful debts*	(98)	(102)
	616	**39 448**

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

8 CASH AND CASH EQUIVALENTS

Current accounts with banks	28 074	26 464
Term deposits*	23 050	7 090
	51 124	**33 554**

* As at December 31, 2014 there were no deposits with initial maturity term over 90 days. As at December 2013 such deposits amounted to EUR 38 900 thousand. Deposits with initial maturity term over 90 days are shown in Note 7, position "Term deposits". Term deposits fixed interest rate during 2014 varied from 0.09% to 2.0% per annum (2013: from 0.05% to 2.0% per annum).

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 SHARE CAPITAL

(a) Authorised, subscribed and paid-up share capital as at December 31, 2014 consists of 39 900 000 ordinary shares of EUR 1.40 each. All shares have equal voting rights and rights to dividend. In 2014 share capital was converted from LVL to EUR. Conversion difference of EUR 913 thousand was transferred to Other reserves. Change in share capital did not affect the number of shares.

	31.12.2014.		**31.12.2013.**	
	% from total share capital	**Number of shares**	**% from total share capital**	**Number of shares**
Registered (closed issues) shares	36,52	14 571 480	36,52	14 571 480
Bearer (public issues) shares	63,48	25 328 520	63,48	25 328 520
	100,00	**39 900 000**	**100,00**	**39 900 000**

(b) Shareholders

	31.12.2014.		**31.12.2013.**	
	% from total share capital	**Number of shares**	**% from total share capital**	**Number of shares**
E.ON Ruhrgas International GmbH *(including registered shares of closed issues 7 285 740)*	47,23	18 846 385	47,23	18 846 385
Itera Latvija LLC	16,00	6 384 001	16,00	6 384 001
OAO Gazprom *(including registered shares of closed issues 7 285 740)*	34,00	13 566 701	34,00	13 566 701
Shares owned by the State	0,00	117	0,00	117
Bearer (public issues) shares	2,77	1 102 796	2,77	1 102 796
	100,00	**39 900 000**	**100,00**	**39 900 000**

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

10 BORROWINGS

During 2014 or 2013 the Company did not have borrowings.

11 DEFERRED INCOME

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

	31.12.2014. EUR’000	**31.12.2013. EUR’000**
Non-current portion	19 468	19 624
Current portion	919	893
	20 387	**20 517**

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 DEFERRED INCOME (continued)

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

Deferred income movement:

	2014 EUR'000	**2013 EUR'000**
At the beginning of the year	**20 517**	**20 430**
Received from residents and enterprises during the reporting year	769	963
Written down to income statement in the reporting year (see Note 16)	(899)	(876)
Deferred to the following periods	**20 387**	**20 517**

(b) EC funding recognised

	31.12.2014. EUR'000	**31.12.2013. EUR'000**
Non-current portion	8 871	9 139
Current portion	268	268
	9 139	**9 407**

Deferred income movement:

	2014 EUR'000	**2013 EUR'000**
At the beginning of the year	**9 407**	**9 674**
Recognised deferred income from EC grants in the reporting year	2	30
Written down to income statement in the reporting year	(270)	(297)
Deferred to the following periods	**9 139**	**9 407**
Total deferred to the following periods	**29 526**	**29 924**

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

See also Accounting policies Note (u).

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 OTHER PAYABLES

	31.12.2014. EUR'000	31.12.2013. EUR'000
Prepayments received	12 111	10 943
Social insurance contributions	849	778
Personal income tax	586	491
Value added tax	12 789	10 118
Excise tax	2 740	2 150
Salaries	752	864
Accrued expenses for unused annual leave	1 318	1 197
Accrued expenses for bonuses	6 850	6 915
Accrued other expenses	403	448
Accrued post-employment benefit liabilities and other obligations to employees *	307	370
Other current liabilities	6 949	3 775
	45 654	**38 049**

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

13 REVENUE

Sales per customers` groups are as follows:

	2014 EUR'000	2013 EUR'000
Income from natural gas sales to industrial customers	419 167	491 041
Income from natural gas sales to residential customers	59 748	62 857
Income from transmission and storage of natural gas	23 250	19 061
Other services	911	1 004
	503 076	**573 963**

If sales of natural gas based on leveraged payment (residential customers) increased or decreased by 5%, then income from natural gas sales to residential customers would increase or decrease by 5%. Income from rendering of services is recognised upon performance of services, net of value added tax and discounts, but including excise tax in amount of EUR 19 931 thousand in 2014 (2013: EUR 21 679 thousand).

14 COST OF SALES

Purchase of natural gas	381 795	447 684
Salaries	16 306	16 670
Social insurance contributions	3 596	3 960
Life, health and pension insurance	1 096	1 135
Materials and spare parts	9 844	10 508
Depreciation and amortisation	32 896	32 181
Other expenses	6 801	7 908
	452 334	**520 046**

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 ADMINISTRATIVE EXPENSES

	2014 EUR'000	2013 EUR'000
Salaries	4 907	5 149
Social insurance contributions	727	1 124
Life, health and pension insurance	201	206
Maintenance and utilities	946	955
Real estate tax	1 106	1 086
Depreciation and amortisation	832	820
Bank charges	100	122
Provisions for impairment of bad and doubtful debts, net (see Note 5)	281	3 237
Other expenses	4 639	5 320
	13 739	**18 019**

16 OTHER INCOME

Penalties from customers	1 241	1 413
Income from contribution to financing of construction works (see Note 11)	899	876
Income from change in provisions of slow moving and obsolete inventories	21	105
Other income	983	986
Net foreign exchange gains	13	948
Interest income	146	196
	3 303	**4 524**

17 OTHER EXPENSES

Materials	42	39
Salaries	267	280
Social insurance contributions	31	36
Depreciation and amortisation	105	104
Sponsorship	2 977	2 994
Loss from sale of fixed assets	1 149	1 693
Other expenses	592	455
	5 163	**5 601**

18 EXPENSE BY NATURE

Purchase of natural gas	381 795	447 684
Depreciation and amortisation	33 833	33 105
Employee benefit expenses (see Note 26)	27 131	28 560
Material and spare parts	9 886	10 547
Net provisions for impaired receivables	281	3 237
Other expenses	18 310	20 533
	471 236	**543 666**

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 FINANCE INCOME

	2014 EUR’000	2013 EUR’000
Finance income		
- Interest income	**179**	**155**

20 NET FOREIGN EXCHANGE GAIN AND INTEREST INCOME

The exchange net differences are credited to the income statement under Other income (see Note 16).

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

Other income (see Note 16)	146	196
Finance income (see Note 19)	179	155
	325	**351**

21 INCOME TAX EXPENSE

	2014 EUR’000	2013 EUR’000
Current income tax	6 746	5 915
Deferred income tax	(1 493)	(396)
	5 253	**5 519**

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

Profit before income tax	**35 322**	**34 976**
Theoretically calculated tax at tax rate of 15%	**5 298**	**5 246**
Tax effect of:		
Tax non-deductible expenses, net	1 210	1 603
Tax relief on donations	(1 255)	(1 330)
Tax charge	**5 253**	**5 519**

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

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

Receivable as at 1 January	**(1 688)**	**(2 467)**
Charge for the year	6 746	5 913
Paid during the year	(5 528)	(5 134)
Receivable as at 31 December	**(470)**	**(1 688)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 INCOME TAX EXPENSE (continued)

Calculation of deferred income tax:

	2014 EUR'000	2013 EUR'000
Deferred income tax liabilities at the beginning of the reporting year	**56 447**	**57 252**
Increase in deferred income tax liabilities that results from revaluation of property, plant and equipment (charged to other comprehensive income)	36	67
Decrease in deferred income tax liabilities (credited to income statement)	(1 493)	(396)
Deferred income tax that results from disposal of revalued property, plant and equipment (credited to equity)	(346)	(476)
Deferred income tax liabilities at the end of the reporting year	**54 644**	**56 447**

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

	31.12.2014. EUR'000	31.12.2013. EUR'000
Difference on depreciation of property, plant and equipment (to be settled within 12 months)	2 318	2 131
Difference on depreciation of property, plant and equipment (to be settled after more than 12 months)	56 145	58 013
Impairment of bad and doubtful debts (to be settled within 12 months) *	(1 128)	(1 256)
Accrued expenses for unused annual leave and bonuses (to be settled within 12 months)	(1 213)	(1 224)
Accruals for post-employment benefits and other employee benefits (to be settled after more than 12 months)	(673)	(872)
Accruals for other liabilities (to be settled within 12 months)	(739)	(276)
Impairment of inventories (to be settled within 12 months)	(66)	(69)
Deferred income tax liability, net	**54 644**	**56 447**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 ACCRUALS FOR EMPLOYMENT AND POST EMPLOYMENT BENEFITS

	2014 EUR'000	2013 EUR'000
At the beginning of reporting year	**5 812**	**6 518**
Current service income	(1 206)	(377)
Post-employment benefits paid	(200)	(203)
Interest expense	(24)	528
Remeasurements of post employment benefit obligations	104	(654)
Accruals at the end of the reporting year	**4 486**	**5 812**

	31.12.2014. EUR'000	31.12.2013. EUR'000
Non-current portion of accruals	4 179	5 442
Current portion of accruals (see Note 12)	307	370
Accruals at the end of the reporting year	**4 486**	**5 812**

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

For calculation of provisions following assumptions have been used:

	2014	2013
Discount rate (considering profitability of government bonds at the balance sheet date), %	1.875	2.1265
Employee rotation ratio	3.17	3.10
Pension age of employees, years	62 and 3 m.	62
Mortality, years	***	***
Change in payroll, %:		
2013	-	4.00
2014	4.00	4.00
2015	4.00	4.00
2016	4.00	4.00
2017	4.00	4.00
2018	4.00	4.00
2019	4.00	-
Contributions in private pension funds, % of total gross income of employees	5.00	5,00
SSC (employees)*	23.59%	24.09%
SSC (employed pensioners)*	20.16%	20.68%
PIT**	24%	24%

* average rate according to the Cabinet of Ministers rules in force during 2014 and 2013.
** average rate according to the Cabinet of Ministers rules in force during 2014 and 2013.
*** according to provision calculation methodology.

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 ACCRUALS FOR EMPLOYMENT AND POST EMPLOYMENT BENEFITS (continued)

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

	Change in assumptions	Impact on the total liabilities
Discount rate	Increase/decrease of 0.5%	Decrease of 4.54% / increase of 4,98%
Employee rotation ratio	Increase/decrease of 0.5	Decrease of 3.91% / increase of 4.25%
Pension age	Increase/decrease of 1 year	Decrease of 2.94% / increase of 1.64%
Life period	Increase/decrease of 1 year	Increase of 0.60% / decrease of 0.25%
Payroll growth ratio	Increase/decrease of 0.5%	Increase of 3.52% / decrease of 3.25%
Contribution to the private pension funds	Increase/decrease of 0.5%	Increase of 0.31% / decrease of 0.31%
SSC	Increase/decrease of 0.5%	Increase of 0.31% / decrease of 0.31%
PIT	Increase/decrease of 0.5%	Increase of 0.08% / decrease of 0.08%

23 EARNINGS AND DIVIDENDS PER SHARE

(a) EARNINGS PER SHARE

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

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

	2014 EUR'000	2013 EUR'000
Net profit attributable to shareholders (a)	30 069	29 457
	Number, th.	**Number, th.**
Ordinary shares as at 1 January	39 900	39 900
Ordinary shares as at 31 December	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b)	39 900	39 900
Basic earnings per share during the year (a/b) in EUR	**0.754**	**0.738**

(b) DIVIDENDS PER SHARE

Dividends payable are not accounted for until they are declared at the Annual General Meeting. At the meeting in 2015, a dividend in respect to 2014 EUR 0.72 per share will be proposed by the management. These financial statements do not reflect these dividends payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings for 2014.

The dividends paid in 2014 for 2013 were EUR 28 728 thousand (EUR 0.72 per share), dividends paid in 2013 for 2012 were EUR 28 386 thousand (EUR 0.711 per share).

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	2014 EUR'000	2013 EUR'000
Profit before income tax	35 322	34 976
Adjustments for:		
Depreciation (Note 3)	32 464	31 915
Amortisation (Note 4)	1 379	1 293
Deviations of actual and predictable purchases of natural gas and income from participation fees (see Note 11)	(1 169)	(1 173)
Provision for impairment of slow moving inventories (Note 6)	(21)	(105)
Change in accrued expenses for bonuses	(65)	953
Change in accrued expenses for unused annual leave	121	(132)
Change in accruals for other liabilities	3 083	3 596
Change in accrued expenses for post-employment benefits and other employee benefits (Note 22)	(1 326)	(706)
Interest income (Note 20)	(325)	(351)
Loss on sale of property, plant and equipment (Note 17)	1 149	1 693
Changes in working capital		
- trade and other receivables	(12 264)	45 380
- inventories	104 978	(52 447)
- trade and other payables	(120 810)	33 635
	42 516	**98 527**

25 RELATED PARTY TRANSACTIONS

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

(a) Sale of transmission services

	2014 EUR'000	2013 EUR'000
OAO "Gazprom"	**21 207**	**17 563**

(b) Purchase of natural gas

OAO "Gazprom"	**265 122**	**318 866**

The entity has long-term agreement with OAO Gazprom based on "take or pay" rules that determine the minimum quantity which should be purchased for respective period. If the entity is not able to consume the agreed volume, legal obligations might arise.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25 RELATED PARTY TRANSACTIONS (continued)

(c) Accounts payable for natural gas and services

	31.12.2014. EUR'000	31.12.2013. EUR'000
OAO “Gazprom”	470	585
Companies controlled by OAO Gazprom	402	-
E.ON Global Commodities SE	-	12
	872	**597**

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

(d) Accounts receivable for natural gas in transit

OAO “Gazprom”	**2 364**	**1 464**

Receivables are receivable in cash and are not secured by a pledge or otherwise.

(e) Advance payment for services to related company

Companies controlled by OAO Gazprom, advance for services	**1 052**	**-**

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

	2014 EUR'000	2013 EUR'000
E.ON Global Commodities SE	25	20
Companies controlled by OAO Gazprom	4 273	4 686
	4 298	**4 706**

(g) Remuneration to Board of Directors and Council

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

	2014 EUR'000	2013 EUR'000
Salaries	2 074	2 359
Social insurance contributions	147	366
Change in accruals for post-employment benefits and other employee benefits	1	(28)
Health and life insurance	4	4
Contributions to pension funds	53	71
	2 279	**2 772**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

26 EMPLOYEE BENEFIT EXPENSE

	2014 EUR'000	2013 EUR'000
Wages and salaries	21 170	21 868
Post-employment benefits and other employee benefits	310	231
Social insurance contributions	4 301	5 074
Social insurance contributions related to post-employment benefits and other employee benefits	53	46
Life, health and pension insurance	1 297	1 341
	27 131	**28 560**

In accordance with the Rules of the Cabinet of Ministers of Latvia 73.80% (2013: 75.80%) of the social insurance contributions are used to fund the state defined contribution pension system.

27 SEGMENT REPORTING

31.12.2014.

	Gas transmission EUR'000	Gas storage EUR'000	Gas distribution EUR'000	Gas realization EUR'000	Other services EUR'000	TOTAL EUR'000
Segment revenue from external customers	5 594	17 610	-	478 961	911	503 076
Inter-segment revenue	20 863	14 377	49 028	249	160	84 677
Inter-segment costs	(38)	(198)	(618)	(83 823)	-	(84 677)
Interest income	-	-	-	-	179	179
Profit before tax	3 274	10 585	13 582	9 270	(1 389)	35 322
Corporate income tax	382	1 503	1 830	1 334	204	5 253
Assets	197 398	139 914	242 425	161 292	6 941	747 970
Liabilities	24 853	21 039	56 230	35 295	371	137 788
Other information on segment						
Depreciation and amortisation	*13 952*	*7 396*	*11 475*	*851*	*159*	*33 833*
Additions of non-current assets	*14 858*	*8 016*	*6 497*	*641*	*2*	*30 014*

NOTES TO THE FINANCIAL STATEMENTS (continued)

27 SEGMENT REPORTING (continued)

31.12.2013.

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

The largest customers:
Five of the Company's customers comprise 51,1% (2013: 47.5%) of income. Income generated by the largest customer as of December 31, 2014 was 33.8% (2013: 35.4%), the second and the third largest customers constituted 5,9% and 2,5% respectively (2013: 6.5% un 2.8%) of the total income amount. This income is related to the natural gas realization segment.
No geographical segment information is provided as all principal operations are carried out in Latvia.

28 CRITICAL ESTIMATES AND JUDGEMENTS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

28 CRITICAL ESTIMATES AND JUDGEMENTS (continued)

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

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

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

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

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

29 FINANCIAL RISK MANAGEMENT

29.1. Financial risk factors

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL RISK MANAGEMENT (continued)

29.1. Financial risk factors (continued)

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

	31.12.2014 EUR'000		31.12.2013 EUR'000	
Financial assets	**Loans and receivables**	**Financial liabilities at amortized cost**	**Loans and receivables**	**Financial liabilities at amortized cost**
Receivables from related companies	2 364	-	1 464	-
Trade receivables	49 295	-	37 998	-
Other receivables	616	-	39 448	-
Cash and cash equivalents	51 124	-	33 554	-
Total financial assets:	**103 399**	**-**	**112 464**	**-**
Financial liabilities				
Payables to related companies	-	470	-	597
Trade payables	-	3 315	-	129 046
Other payables	-	45 654	-	38 049
Total financial liabilities:	**-**	**49 439**	**-**	**167 692**

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

<u>Company's activities are exposed to following risks:</u>

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

Credit risk

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

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

Sources of credit risk

Credit risk mainly relates to few largest customers of the Company. Largest part 49.9% (2013: 51.5%) of trade receivables for natural gas is made up by debts of 4 largest customers of the Company, one of these customers debt comprised 32.7% (31.12.2013: 29.5%), second and third largest customer debt comprised 9.6% and 3.5% respectively (31.12.2013: 6.9% and 3.5%) of total trade receivables as at December 31, 2014. The Company has introduced and observes such a credit policy that envisages selling goods on credit only to customers with a good credit history, controlling the amount of credit set for each customer. Debts of 4 largest customers are not impaired as at December 31, 2014.

Credit risk management

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL RISK MANAGEMENT (continued)

29.1. Financial risk factors (continued)

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

- households, which use natural gas for heating purposes or for heating purposes and for other purposes simultaneously;
- households, which use natural gas for other purposes than heating;
- companies with gas consumption less than 25 thousand m^3 a year;
- companies with gas consumption more than 25 thousand m^3 a year.

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

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

2. If the debt is not repaid within a time limit set in the reminder, a warning of natural gas supply's termination is sent to the household.

3. If the payment is not repaid within a specified date, a debtor for heating is included in a natural gas supply's termination list and the supply of natural gas is terminated.

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

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

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

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

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

2. If the debt is not repaid within a time limit set in the reminder, a warning of natural gas supply's termination is sent to the household.

3. If the debt is not paid during the term indicated in the warning letter, Individual CTD initiates a repeated warning letter of natural gas termination sent out to the Debtor, at the same time informing Debtors about submitting their personal data to the debt collection companies and the possibility that their personal data may be included in the public data bases.

4. If a Debt collection company could not collect the debt of the Debtor, or the debt for natural gas supplied based on leveraged consumption payment scheme exceeds EUR 150, or the Debtor has not paid for supplied natural gas for the last 5 (five) years, the debtor is included in the natural gas supply's termination list and the supply of natural gas is terminated.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL RISK MANAGEMENT (continued)

29.1. Financial risk factors (continued)

Credit risk (continued)

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

Debt monitoring process of companies with gas consumption less than 25 thousand m^3 a year

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

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

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

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

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

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

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

Debt monitoring process of companies with gas consumption more than 25 thousand m^3 a year

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL RISK MANAGEMENT (continued)

29.1. Financial risk factors (continued)

Credit risk (continued)

December 31, 2014 (EUR'000):

	TOTAL	**Neither *past due* nor impaired (incl. renegotiated receivables)**	**Past due, not impaired**	**Impaired, net***
Natural gas	49 268	44 681	4 587	-
incl. renegotiated receivables	*65*	*65*	-	-
Other services	2 391	2 391	-	-
Total current trade receivables	**51 659**	**47 072**	**4 587**	**-**

December 31, 2013 (EUR'000):

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

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

December 31, 2014 (EUR'000):

	TOTAL	**Neither *past due* nor impaired (incl. renegotiated receivables)**	**Past due, not impaired**	**Impaired, net***
Advance payments for materials	64	64	-	-
Advances to employees	1	1	-	-
Tax receivables	3	3	-	-
Other receivables	130	102	28	-
Total other receivables	**198**	**170**	**28**	**-**

December 31, 2013 (EUR'000):

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL RISK MANAGEMENT (continued)

29.1. Financial risk factors (continued)

Credit risk (continued)

Quality of the debtors
Fully performing debtors having no overdue debts are mainly heat supply companies which as at December 31, 2014 account for 61% or EUR 28,7 million (31.12.2013. – 61% or EUR 23,1 million). The shareholders of major part of the heat supply companies are local municipalities, which guarantee timely settlement of the debts or make advance payments for natural gas.

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

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

	31.12.2014. EUR’000	31.12.2013. EUR’000
Up to 3 months	4 587	2 533
	4 587	**2 533**

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

	31.12.2014. EUR’000	31.12.2013. EUR’000
Up to 3 months	17	53
3 to 6 months	11	-
	28	**53**

Term deposits and cash at bank

Before placing a term deposit the Board of the Company evaluates credit ratings, financial performance as well as offered interest rates of the banks.
Moody’s Investors Services credit ratings of banks (or its owners) are used by the Company (as at March 13, 2015):

Bank	Long term rating	Short term rating	Rating of financial security	Rating forecast
Nordea Bank AB	Aa3	P-1	C	Negative
Pohjola Bank Plc	Aa3	P-1	C-	Negative
DnB Bank ASA	A1	P-1	C-	Negative
SEB group	A1	P-1	C-	Negative
Swedbank AB	A1	P-1	C-	Negative
Danske Bank AB	A3	P-2	C-	Stable
Citadele banka AS	B2	Not prime	E+	Stable
Meridian Trade bank AS	-*	-*	-*	-*

* Data on credit rating is not available

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL RISK MANAGEMENT (continued)

29.1. Financial risk factors (continued)

Credit risk (continued)

	31.12.2014. EUR'000	31.12.2013. EUR'000
Citadele bank	12 591	2 104
Swedbank	1 024	1 337
SEB bank	2 039	1 020
DnB bank	10 878	7 187
Nordea Bank AB Latvia branch	7 921	1 036
Danske Bank AS Latvia branch	11 627	20 465
Pohjola Bank Plc Latvia branch	5 028	8
Meridian Trade Bank	16	397
Total accounts with banks	**51 124**	**33 554**

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

Aa3	12 949	1 044
A1	13 941	9 544
A3	11 627	-
Baa1	-	20 465
Baa3	-	397
B2	12 591	2 104
Unknown	16	-
Total accounts with banks	**51 124**	**33 554**

Liquidity risk

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

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

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

Contractual maturity of liabilities 31.12.2014. (EUR'000):

	< 1 month	1-3 months	3 months-1 year	Total
Trade payables	3 689	8	88	3 785
Other liabilities, incl.	197	-	403	600
Accrued expenses for other expenses	-	-	*403*	*403*
Other short term liabilities	*197*	-	-	*197*
	3 886	**8**	**491**	**4 385**

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL RISK MANAGEMENT (continued)

29.1. Financial risk factors (continued)

Credit risk (continued)

Contractual maturity of liabilities as at 31.12.2013. (EUR’000):

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

Market risk

Interest rate risk
The Company is not exposed to cash flow interest rate risk, as it has no borrowings as at December 31, 2014 (see Note 10). Other financial assets and liabilities bear no interest, or interest rate is fixed. As all financial assets and liabilities are accounted for at amortised cost, the Company is not exposed to the fair value interest rate risk.

Foreign currency exchange risk

Foreign currency exchange risk is a probability, that foreign currency exchange fluctuations will affect the financial position and cash flows of the Company. The Company is not directly subject to the risk of fluctuation of foreign currency rates as the gas purchase price is set in USD and afterwards recalculated in EUR, whereas the gas sales tariffs are set in EUR. Settlements for the supplied gas are made in EUR. The changes in gas purchase prices in USD depending on the quotation of oil products are covered by the PUC-approved natural gas sales tariffs, which to a certain extent cover the fluctuations of both the EUR/USD rate. The risk of fluctuations of foreign currency rates related to debts to suppliers is under control by keeping a significant share of financial resources in deposits of the respective currency.

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

Open foreign currencies positions:

	31.12.2014.	
	USD’000	**Other’000**
Financial assets	11	40
Financial liabilities	-	-
Balance sheet position in original currency	11	40
Balance sheet position in EUR’000	9	5

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL RISK MANAGEMENT (continued)

29.1. Financial risk factors (continued)

Market risk (continued)

Open foreign currencies positions:

	31.12.2013.	
	USD'000	**Other'000**
Financial assets	562	55
Financial liabilities	-	(18)
Balance sheet position in original currency	562	37
Balance sheet position in EUR'000	412	5

Exchange rate fluctuations sensitivity analysis

In determination of future fluctuations of exchange rates, assumption is made based on prior year USD currency exchange rate fluctuations, which were in the range of 6% (2013: 3%) and for other currencies in range of 1% (2013: 1%) (net of tax effect).

December 31, 2014

	Currency	**Book value EUR'000**	**Impact to current year profit +6% (USD) +1% (other currencies) EUR'000**	**Impact to current year profit -6% (USD) -1% (other currencies) EUR'000**
Assets				
Cash	USD	9	1	(1)
	Other	5	-	-
		14	**1**	**(1)**
Net impact		**14**	**1**	**(1)**

December 31, 2013

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL RISK MANAGEMENT (continued)

29.2. Capital management

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

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

In 2014 and 2013 proportion of borrowed capital to total capital was as follows:

	31.12.2014. EUR'000	**31.12.2013. EUR'000**
Total liabilities	137 788	259 505
(Cash and cash equivalents)	(51 124)	(33 554)
Net total liabilities	86 664	225 951
Total liabilities and equity	747 970	868 226
Borrowed capital proportion to total capital	**11,59%**	**26,02%**

29.3. Fair value

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions.
This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

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

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

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

The classification of financial instruments in the fair value hierarchy is a two-step process:
1. Classifying each input used to determine the fair value into one of the three levels;
2. Classifying the entire financial instrument based on the lowest level input that is significant to the fair value in its entirety.

Quoted market prices - Level 1

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL RISK MANAGEMENT (continued)

29.3. Fair value (continued)

Valuation techniques using observable inputs - Level 2

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

Valuation technique using significant unobservable inputs - Level 3

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

Assets and liabilities for which fair value is disclosed

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

Assets measured at fair value

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

The management of the Company has evaluated the trend in the construction costs during the period form 2012 till 2014 and has concluded that based on the Company’s financed projects data purchase costs compared to those used in revaluation, have not significantly changed.

30 CAPITAL COMMITMENTS

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

	31.12.2014. EUR’000	31.12.2013. EUR’000
Contracted for, but not delivered	19 776	11 820
Authorised, but not yet contracted for	17 724	19 480
	37 500	**31 300**

31 TAX CONTINGENT LIABILITIES

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

32 LITIGATION

On September 2011 the Company was investigated in accordance with the European Council Regulation No.1/2003 part 4 of Article 20 (Case COMP/39.816) in connection with the alleged abuse by the related company "Gazprom" of a dominant position in the gas sector, which would be contrary to Article 102 of LESD and Article 54 of the Agreement on the European Economic Area and suspected participation of JSC "Latvijas Gāze" in the agreements, which would be directed against competition and would be contrary to Article 101 of LESD and Article 53 of the Agreement on the European Economic area.

The Company has signed an agreement with a law firm that has international experience in the competition proceedings and has prepared an assessment of potential risks as well as defence strategy.
The management of the Company considers it to be impossible at the moment to estimate when the examination will be finished and its results.

On October 1, 2013 Latvian State Competition Council made a decision of December 16, 2011 case No. E02-48 No.95 (Prot. No.59, 2. §) about the case brought by the Competition Council on Article 13 of the competition law (abuse of dominant position) for the violation of the prohibition stated in part 1. With the Competition Council's decision the Company is legally obligated to end the unfair trade rules to new users, stopping to link natural gas supply contracts and gas supply to the user's previous debt payments, and imposed a fine of 2.23 million EUR. As at 31 December 2014 the Company had accrued 6.75 million EUR related to imposed fine and estimated losses resulting from debt repayments. Competition Council's decision was not entered into force because the Company has appealed to the Regional Administrative Court.

33 SUBSEQUENT EVENTS

There are no subsequent events since the last date of the reporting year that would have a significant effect on the financial position of the Company as at December 31, 2014, except signing of the acceptance deed with one of the suppliers of natural gas on "take or pay" volume not fulfilled in 2014 in volume of 172,78 mio m^3 and advance payment of EUR 35,7 mio. According to the agreement the Company has a right to receive this volume during three years after the fulfilment of "take or pay" volume related tothat particular year.