Joint stock company "Latvijas Gāze"

Annual accounts for the year ended 31 December 2012

Prepared in accordance with the International Financial Reporting Standards

Translation from Latvian original*

Riga, 2013

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

JOINT STOCK COMPANY “LATVIJAS GĀZE”
ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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JOINT STOCK COMPANY "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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%) JSC Gazprom (34.0%) LLC Itera Latvija (16.0%)
Names and positions of the Board members	Adrians Dāvis – Chairman of the Board Aleksandrs Mihejevs (Александр Михеев) – Member of the Board, Deputy Chairman of the Board Jörg Tumat – Member of the Board, Deputy Chairman of the Board 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 Peter Frankenberg – Deputy Chairman of the Council, till July 6, 2012 Matthias Kohlenbach – Deputy Chairman of the Council, from July 6, 2012 Mario Nullmeier – Member of the Council Uwe Fip – Member of the Council Joachim Hockertz – Member of the Council, till July 6, 2012 Heinz Watzka – Member of the Council, till July 6, 2012 Andreas Rau – Member of the Council, from July 6, 2012 Peter Klingenberger – Member of the Council, from July 6, 2012 Jelena Karpel (Елена Карпель) – Member of the Council Igor Nazarov (Игорь Назаров) – Member of the Council Vlada Rusakova (Влада Русакова) – Member of the Council Aleksandr Krasnenkov (Александр Красненков) – Member of the Council
Financial year	1 January – 31 December 2012
Name and address of the auditor and responsible certified auditor	PricewaterhouseCoopers SIA Audit company licence No.5 Kr. Valdemara Street 21-21 Riga, LV-1010 Latvia Certified auditor in charge: Lolita Čapkeviča Certified auditor Certificate No.120

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Report of the Board of Directors

1. Activity of the Company in the reporting year

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

Over the reporting year, the users were supplied with 1 464.1 million m^3 of natural gas. In comparison with 2011, natural gas sales in m^3 fell by 6.2%. The decrease of natural gas sales stemmed from the deviations in air temperatures, as well as the investments of heat supply companies in the use of renewable energy sources and partial replacement of fossil fuels with woodchip. The changes in natural gas retail prices in 2012, comparing with 2011, were influenced by oil product quotations at the stock exchange, currency rates and gas supply flows.

In 2012, natural gas was sold to the customers for the natural gas sale end-user tariffs set in the resolution No.247 "On natural gas supply tariffs of the Joint Stock Company "Latvijas Gāze" of the PUC Council dated July 24, 2008, which under the resolution No.258 "On the procedure of application of resolution No.247" of the PUC Council dated June 2, 2010 are exclusive of excise tax. As from July 1, 2011, the natural gas which is used as firewood is applied with excise tax of LVL 12/thousands m^3 (EUR 17.07/ thousands m^3), but if used as fuel – LVL 70/thousands m^3 (EUR 99.60/thousands 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 5 LVL/thsd.nm^3 depending on the actual natural gas purchase costs. For users with annual natural gas consumption over 25 thousand nm^3, the applicable natural gas sale end-user tariff changes monthly, whereas for users with the annual natural gas consumption up to 25 thousand nm^3 – once in six months, i. e., on January 1 and July 1.

During 2012, the natural gas sale tariffs for the end-users changed also due to tax changes, because VAT rate was reduced to all consumers as of July 1, 2012 – from 22% to 21%. Natural gas supplied to households had been sold with the reduced VAT rate at 12% until July 1, 2011; after July 1 - with the VAT rate at 22%, set for all consumers.

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

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

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

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

Report of the Board of Directors (continued)

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

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

The modernisation of eight wells was finished and had begun for another two wels of Inčukalns UGS during the reporting year, acquiring LVL 4.9 million (EUR 7.0 million). The gas drying unit KC-1was put into exploitation in January 2012, the reconstruction of which continued for two years long period and total expenses reached LVL 8.8 million (EUR 12.5 million). The usefulness of these investments could be seen at the beginning of the reporting year when the air temperature in Europe dropped to minus (-30) ^{o}C degrees and the volume of daily gas supply from Inčukalns UGS had reached its historical maximum – 26.4 million m^3, including consumers in other countries – 14.4 million m^3.

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

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

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

Report of the Board of Directors (continued)

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

Company's main ratios:

	2012 LVL'000	2011 LVL'000	2010 LVL'000	2012 EUR'000	2011 EUR'000	2010 EUR'000
Revenue	427 413	353 338	353 345	608 154	502 755	502 765
EBITDA	53 584	50 102	49 433	76 244	71 290	70 337
EBITDA %	12.54%	14.18%	13.99%	12.54%	14.18%	13.99%
Profit from operating activities	24 448	28 888	28 406	34 787	41 105	40 418
Profitability of operating activities (%)	5.72%	8.18%	8.04%	5.72%	8.18%	8.04%
Profit for the year	21 201	25 729	25 792	30 167	36 610	36 698
Net profitability (%)	4.96%	7.28%	7.30%	4.96%	7.28%	7.30%
Total liquidity	1.94	2.15	2.51	1.94	2.15	2.51
Total assets	582 793	463 777	429 851	829 240	659 895	611 623
Equity	426 795	345 537	338 960	607 275	491 655	482 296
Return on assets (ROA)	4.05%	5.76%	5.79%	4.05%	5.76%	5.79%
Return on equity (ROE)	5.49%	7.52%	7.72%	5.49%	7.52%	7.72%
Number of shares	39 900	39 900	39 900	39 900	39 900	39 900

	LVL	LVL	LVL	EUR	EUR	EUR
Profit per share	0.531	0.645	0.646	0.756	0.918	0.920
P/E	11.31	8.76	7.58	11.31	8.76	7.58
BV	10.70	8.66	8.50	15.22	12.32	12.09
P/BV	0.56	0.65	0.58	0.56	0.65	0.58
Dividends per share*	0.50	0.60	0.50	0.71	0.85	0.71
Return on dividends (dividends per share/ profit per share)	0.94	0.93	0.77	0.94	0.93	0.77
Share price at the end of the period	6.01	5.65	4.90	8.55	8.04	6.97

* The Board of the Company will propose to the Council to pay dividends in amount of LVL 0.50 (EUR 0.71) for each share in year 2012.

Report of the Board of Directors (continued)

2. Research and development measures

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

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

3. Financial Risk Management

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

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

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

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

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

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

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

4. Post balance sheet events

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

Report of the Board of Directors (continued)

5. Distribution of the Profit of 2012 as Recommended by the Board

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

Difference with the net profit shown in those financial statements is LVL 1.7 million (EUR 2.5 million) and it arouse as a result of different accounting treatment for disposed revalued property, plant and equipment and related deferred income tax adjustment.

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

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

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

6. Shares and shareholders

Composition of shareholders[1] of the Company as on December 31, 2012 and previous periods:

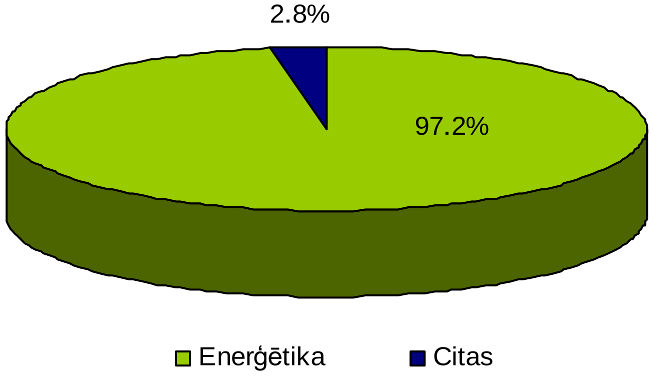
Shareholder	31.12.2012.	31.12.2011.	31.12.2010.
"E.ON Ruhrgas International" GmbH	47.2%	47.2%	47.2%
"Gazprom" AAS	34.0%	34.0%	34.0%
"Itera Latvija" SIA	16.0%	16.0%	16.0%
Other	2.8%	2.8%	2.8%
TOTAL	100.0%	100.0%	100.0%

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

Report of the Board of Directors (continued)

6. Shares and shareholders (continued)

Distribution of holdings according to holding groups as on December 31, 2012:



List of shareholders with special control rights as on December 31, 2012:

Members of the Board		Number of shares
Chairman of the Board	Adrians Dāvis	**417**
Vice-Chairman of the Board	Jörg Tumat	**900**
Vice-Chairman of the Board	Alexander Mihejev	**417**
Member of the Board	Anda Ulpe	**729**
Member of the Board	Gints Freibergs	**416**

Members of the Council		Number of shares
Chairman of the Council	Kirill Seleznev	**0**
Vice-chairman of the Council	Juris Savickis	**0**
Vice-chairman of the Council	Matthias Kohlenbach	**0**
Members of the Council:	Andreas Rau	**0**
	Mario Nullmeier	**0**
	Uwe Fip	**0**
	Peter Klingenberger	**0**
	Vlada Rusakova	**0**
	Alexander Krasnenkov	**0**
	Jelena Karpel	**0**
	Igor Nazarov	**0**

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

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

Report of the Board of Directors (continued)

6. Shares and shareholders (continued)

Shares price of the Company as on December 31, 2012 and previous periods:

	2012	2011	2010	2009	2008
Shares price (LVL):					
First	5.895	4.8000	4.57	4.55	7.25
Highest	6.350	7.000	6.00	6.00	8.20
Lowest	5.380	4.601	4.57	3.32	3.62
Average	5.863	5.320	5.15	4.31	6.77
Last	6.010	5.651	4.90	4.10	4.55
Change	1.95%	17.73%	7.22%	-9.89%	-37.24%
Number of deals	1 767	1 284	988	1 267	1 711
Share turnover, number	168 115	218 132	85 493	64 319	46 565
Share turnover, million LVL	0.986	1.160	0.440	0.277	0.315
Capitalisation (million LVL)	239.799	225.475	195.510	163.590	181.545

Source: NASDAQ OMX Riga

The capitalization value of the Company during 12 month of 2012 reached LVL 239.8 million – by 14.3 million more than during 12 months of previous reporting period. By share market capitalization of the Company took the 1st place among companies quoted at the NASDAQ OMX RIGA and the 4th place among companies quoted at the NASDAQ OMX Baltic Stock Exchange (2011: 1st and 4th place respectively).

LG share prices OMX Riga GI un OMX Baltic GI index changes (01.01.2010. - 31.12.2012.):

Source: NASDAQ OMX Riga

Indexes/shares	01.01.2010.	31.12.2012.	Change
OMX Riga GI	278.94	395.91	41.93%
OMX Baltic GI	264.23	401.82	52.07%
LG share price (LVL)	4.10	6.01	46.59%

7. Future prospects

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

Chairman of the Board A. Dāvis

Board meeting minutes No. __ (2013)
Riga, April 25, 2013

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 14 to 60 are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Company as of 31 December 2012 and the results of its operations and cash flows for the year ended 31 December 2012.

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

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

On behalf of the Board of Directors,

____

Adrians Dāvis
Chairman of the Board

Riga, April 25, 2013

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 14 to 60 of the accompanying annual report, which comprise the balance sheet as of 31 December 2012 and the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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AUDITORS' REPORT

pwc

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012, 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 Management Report for 2012 set out on pages 4 to 10 of the accompanying annual report for 2012 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2012.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ahmed Abu Sharkh
Chairman of the Board

Lolita Čapkeviča
Certified auditor in charge
Certificate No. 120

Riga, Latvia
25 April 2013

* 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.

BALANCE SHEET AS AT 31 DECEMBER 2012

	Note	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Assets					
Non-current assets					
Property, plant and equipment	3	402 397	315 130	572 559	448 390
Intangible assets	4	2 119	2 076	3 015	2 954
Trade receivables	5	2 113	1 898	3 007	2 701
		406 629	319 104	578 581	454 045
Current assets					
Inventories	6	93 276	38 591	132 719	54 910
Trade receivables	5	57 253	28 881	81 464	41 094
Current income tax receivable	21	1 734	2 432	2 467	3 460
Other receivables	7	1 317	49 712	1 875	70 733
Cash and cash equivalents	8	22 584	25 057	32 134	35 653
		176 164	144 673	250 659	205 850
Total assets		**582 793**	**463 777**	**829 240**	**659 895**
Equity and liabilities					
Equity					
Share capital	9	39 900	39 900	56 773	56 773
Share premium		14 320	14 320	20 376	20 376
Revaluation reserve		267 362	185 105	380 422	263 381
Other reserves		78 639	76 883	111 893	109 395
Retained earnings		26 574	29 329	37 811	41 730
Total equity		**426 795**	**345 537**	**607 275**	**491 655**
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	21	40 237	26 444	57 252	37 626
Accruals for post employment benefits and other employee benefits	22	4 348	4 082	6 187	5 809
Deferred income	11	20 363	20 341	28 974	28 942
		64 948	50 867	92 413	72 377
Current liabilities					
Trade payables		61 440	35 660	87 421	50 740
Deferred income	11	794	5 438	1130	7 738
Other payables	12	28 816	26 275	41 001	37 385
		91 050	67 373	129 552	95 863
Total liabilities		**155 998**	**118 240**	**221 965**	**168 240**
Total equity and liabilities		**582 793**	**463 777**	**829 240**	**659 895**

The notes on pages 19 to 60 are an integral part of these financial statements.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Revenue	13	427 413	353 338	608 154	502 755
Cost of sales	14	(394 693)	(311 576)	(561 597)	(443 333)
Gross profit		**32 720**	**41 762**	**46 557**	**59 422**
Administrative expenses	15	(9 084)	(10 775)	(12 926)	(15 329)
Other income	16	5 383	2 781	7 660	3 957
Other expenses	17	(4 571)	(4 880)	(6 504)	(6 945)
Operating profit		**24 448**	**28 888**	**34 787**	**41 105**
Finance income	19	286	331	407	471
Profit before income tax		**24 734**	**29 219**	**35 194**	**41 576**
Income tax expense	21	(3 533)	(3 490)	(5 027)	(4 966)
Profit for the year		**21 201**	**25 729**	**30 167**	**36 610**
Earnings per share		**LVL**	**LVL**	**EUR**	**EUR**
Basic	23a	0.531	0.645	0.756	0.918
Diluted	23a	0.531	0.645	0.756	0.918

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
OTHER COMPREHENSIVE INCOME					
Tax sections, net					
Revaluation of property, plant and equipment - gross		98 820	938	140 608	1 335
Deferred income tax liability arising on the revaluation of property, plant and equipment	21	(14 823)	(141)	(21 091)	(200)
Other comprehensive income for the year, net of tax		**83 997**	**797**	**119 517**	**1 135**
Profit for the year		21 201	25 729	30 167	36 610
Total comprehensive income for the year		**105 198**	**26 526**	**149 684**	**37 745**

The notes on pages 19 to 60 are an integral part of these financial statements.

The financial statements on pages 14 to 60 were approved by the Board of Directors and were signed on its behalf by:

Adrians Dāvis	Anda Ulpe
Chairman of the Board	Board Member

April 25, 2013

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

	Share capital LVL'000	Share premium LVL’000	Revaluation reserve LVL'000	Other reserves LVL’000	Retained earnings LVL'000	Total LVL'000
Balance as at 31 December 2010	**39 900**	**14 320**	**185 754**	**71 910**	**27 076**	**338 960**
Other comprehensive income						
Revaluation of property, plant and equipment - gross	-	-	938	-	-	938
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(141)	-	-	(141)
Disposal of revalued property, plant and equipment	-	-	(1 701)	-	1 701	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	255	-	(255)	-
Total other comprehensive income	-	-	*(649)*	-	*1446*	*797*
Profit for the year	-	-	-	-	25 729	25 729
Total comprehensive income for 2011	**-**	**-**	**(649)**	**-**	**21 175**	**26 526**
Transactions with owners						
Transfers to reserves	-	-	-	4 972	(4 972)	-
Dividends for 2010	-	-	-	-	(19 950)	(19 950)
Rounding difference	-	-	-	1	-	1
Balance as at 31 December 2011	**39 900**	**14 320**	**185 105**	**76 883**	**29 329**	**345 537**
Other comprehensive income						
Revaluation of property, plant and equipment - gross	-	-	98 820	-	-	98 820
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(14 823)	-	-	(14 823)
Disposal of revalued property, plant and equipment	-	-	(2 048)	-	2 048	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	307	-	(307)	-
Total other comprehensive income	-	-	*82 256*	-	*1 741*	*83 997*
Profit for the year	-	-	-	-	21 201	21 201
Total comprehensive income for 2012	**-**	**-**	**82 256**	**-**	**22 942**	**105 198**
Transactions with owners						
Transfers to reserves	-	-	-	1 756	(1 756)	-
Dividends for 2011	-	-	-	-	(23 940)	(23 940)
Rounding difference	-	-	1	-	(1)	-
Balance as at 31 December 2012	**39 900**	**14 320**	**267 362**	**78 639**	**26 574**	**426 795**

The notes on pages 19 to 60 are an integral part of these financial statements,

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

	Share capital EUR'000	Share premium EUR'000	Revaluation reserve EUR'000	Other reserves EUR'000	Retained earnings EUR'000	Total EUR'000
Balance as at 31 December 2010	**56 773**	**20 376**	**264 303**	**102 319**	**38 525**	**482 296**
Other comprehensive income						
Revaluation of property, plant and equipment - gross	-	-	1 335	-	-	1 335
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(200)	-	-	(200)
Disposal of revalued property, plant and equipment	-	-	(2 420)	-	2 420	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	363	-	(363)	-
Total other comprehensive income	-	-	*(922)*	-	*2 057*	*1 135*
Profit for the year	-	-	-	-	36 610	36 610
Total comprehensive income for 2011	**-**	**-**	**(922)**	**-**	**38 667**	**37 745**
Transactions with owners						
Transfers to reserves	-	-	-	7 075	(7 075)	-
Dividends for 2010	-	-	-	-	(28 386)	(28 386)
Rounding difference	-	-	-	1	(1)	-
Balance as at 31 December 2011	**56 773**	**20 376**	**263 381**	**109 395**	**41 730**	**491 655**
Other comprehensive income						
Revaluation of property, plant and equipment - gross	-	-	140 608	-	-	140 608
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(21 091)	-	-	(21 091)
Disposal of revalued property, plant and equipment	-	-	(2 914)	-	2 914	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	437	-	(437)	-
Total other comprehensive income	-	-	*117 040*	-	*2 477*	*119 517*
Profit for the year	-	-	-	-	30 167	30 167
Total comprehensive income for 2012	**-**	**-**	**117 040**	**-**	**32 644**	**149 684**
Transactions with owners						
Transfers to reserves	-	-	-	2 499	(2 499)	-
Dividends for 2011	-	-	-	-	(34 064)	(34 064)
Rounding difference	-	-	1	(1)	-	-
Balance as at 31 December 2012	**56 773**	**20 376**	**380 422**	**111 893**	**37 811**	**607 275**

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 19 to 60 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Cash flows from operating activities					
Cash generated from operations	24	32 843	39 993	46 731	56 902
Interest received		713	1 184	1 015	1 685
Income tax paid	21	(3 557)	(8 416)	(5 061)	(11 974)
Net cash generated from operating activities		**29 999**	**32 761**	**42 685**	**46 613**
Cash flows used in investing activities					
Purchases of property, plant and equipment		(18 337)	(19 075)	(26 091)	(27 141)
Proceeds from sale of property, plant and equipment		69	37	98	53
Purchases of intangible assets		(851)	(634)	(1 211)	(902)
EC funding received		1 380	3 552	1 964	5 054
Received term deposits		9 207	-	13 100	-
Deposited on term		-	(9 207)	-	(13 100)
Net cash used in investing activities		**(8 532)**	**(25 327)**	**(12 140)**	**(36 036)**
Cash flows used in financing activities					
Dividends paid		(23 940)	(19 950)	(34 064)	(28 386)
Net cash used in from financing activities		**(23 940)**	**(19 950)**	**(34 064)**	**(28 286)**
Net decrease in cash and cash equivalents during the year		**(2 473)**	**(12 516)**	**(3 519)**	**(17 809)**
Cash and cash equivalents at the beginning of the year		25 057	37 573	35 653	53 462
Cash and cash equivalents at the end of the year	8	**22 584**	**25 057**	**32 134**	**35 653**

The notes on pages 19 to 60 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 wholly owned by the Government of the Republic of Latvia. The Company was formerly a state enterprise, which had its assets transferred to and obligations assumed by the joint stock company in accordance with the law. Since 15 February, 1999 the shares of the Company are quoted on NASDAQ OMX Riga Stock Exchange. The registered office of the Company is 20 Vagonu Street, Riga, Latvia.

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

The applied differential natural gas sale end tariffs consist of two parts: fixed tariffs for regulated services and the natural gas sale price, which changes with a step of 5 LVL/thous.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 2012 the average number of persons employed by the Company was 1 275 (2011: 1 270).

These financial statements have been approved by the Board of Directors on April 25, 2013.

2 ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

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

The following new and amended IFRSs and interpretations became effective in 2012, but are not relevant for the Company's operations and did not have an impact on these financial statements.

Amendments to IFRS 7 "Financial instruments: Disclosures" on transfers of assets (effective for annual periods beginning on or after 1 July 2011).
Amendments to IFRS 1 "First time adoption" on fixed dates and hyperinflation (effective for annual periods beginning on or after 1 July 2011).
Amendments to IAS 12 "Income taxes" on deferred tax (effective for annual periods beginning on or after 1 January 2012).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2013 or later periods and which is relevant to the Company or are not yet endorsed by the EU.

Amendments to IAS 19 "Employee benefits" (effective for annual periods beginning on or after 1 January 2013).
IFRS 13 "Fair value measurement" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2013 or later periods and which are not relevant to the Company or are not yet endorsed by the EU.

Amendments to IAS 1 "Financial statement presentation" regarding other comprehensive income (effective for annual periods beginning on or after 1 January 2012, endorsed by the EU on June 2012).
IFRS 9 "Financial Instruments Part 1: Classification and Measurement" (effective for annual periods beginning on or after 1 January 2015; not yet endorsed by the EU).
IFRS 10 "Consolidated financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
IFRS 11 "Joint arrangements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
IFRS 12 "Disclosures of interests in other entities" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
Amendments to IFRS 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2013).
IAS 27 (revised 2011) "Separate financial statements" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
IAS 28 (revised 2011) "Associates and joint ventures" (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).
Amendments to IFRS 7 "Financial instruments: Disclosures" on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).
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, endorsed by the EU on December 2012).
Amendments to IFRS 1 "First time adoption" on government loans (effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU).
Improvements to IFRS (issued in May 2012; most of the amendments are effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU):

- IFRS 1 "First time adoption";
- IAS 1 "Financial statement presentation";
- IAS 16 "Property, plant and equipment";
- IAS 32 "Financial instruments: Presentation";
- IAS 34 "Interim financial reporting".

Amendments to IFRS 10, IFRS 12 and IAS 27 on investment entities (effective for annual periods beginning on or after 1 January 2014, not yet endorsed by the EU).
IFRIC 20, `Stripping costs in the production phase of a surface mine` (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).

2 ACCOUNTING POLICIES (CONTINUED)

(b) Segment reporting

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

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

(c) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Latvian Lats (LVL), which is the Company's functional and presentation currency. In accordance with the requirements of the NASDAQ OMX RIGA all balances are also presented in Euro (EUR). For disclosure purposes the translation into EUR is based on the official exchange rate as set by the Bank of Latvia (determined by Bank of Latvia as of December 30, 2004 reposing to resolution of the Council of Bank of Latvia) during period from 1 January 2012 to 31 December 2012 – EUR/LVL (1 EUR = LVL 0.702804).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(d) Property, plant and equipment

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

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

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

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

2 ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note (f)).

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(h) Inventories

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

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

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently caried 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(m) Deferred income tax (continued)

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

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

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

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

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

(n) Income tax

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

(o) Accrued unused annual leave expenses

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

(p) Employee benefits

Bonus plans

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

Social security and pension contribution

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (continued)

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition (continued)

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

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

(t) Related parties
Related parties are defined as the Company’s major shareholders that have a significant influence, members of the Council and the Board, their close relatives and companies in which they have a significant influence or control.

(u) Grants

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT

	Land	Buffer gas	Buildings and gas transmission system	Equipment and machinery	Other assets	Advances	Assets under construction	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Cost or revaluation								
At December 31, 2010	**1 785**	**6 590**	**608 318**	**82 530**	**11 697**	**25**	**14 907**	**725 852**
Additions	-	-	-	-	-	1 843	17 421	19 264
Reclassified		-	19 306	2 912	1 144	(1 783)	(21 579)	-
Revaluation	-	-	66	2	(15)	-	-	53
Correction*	-	-	4 657	28	-	-	-	4 685
Disposals	-	-	(5 935)	(879)	(254)	-	(4)	(7 072)
Transferred to inventories	-	-	-	-	-	-	(12)	(12)
Rounding	-	-	-	-	-	-	(1)	(1)
At December 31, 2011	**1 785**	**6 590**	**626 412**	**84 593**	**12 572**	**85**	**10 732**	**742 769**
Depreciation								
At December 31, 2010	**-**	**-**	**358 137**	**43 989**	**6 736**	**-**	**-**	**408 862**
Charged for 2011	-	-	14 904	4 323	1 194	-	-	20 420
Correction*	-	-	3 795	17	-	-	-	3 812
Revaluation	-	-	2	(45)	43	-	-	-
Disposals	-	-	(4 419)	(790)	(247)	-	-	(5 456)
At December 31, 2011	**-**	**-**	**372 419**	**47 494**	**7 726**	**-**	**-**	**427 639**
Net book value at December 31, 2011	**1 785**	**6 590**	**253 993**	**37 099**	**4 846**	**85**	**10 732**	**315 130**
Net book value at December 31, 2010	**1 785**	**6 590**	**250 181**	**38 541**	**4 961**	**25**	**14 907**	**316 990**

* During 2011 the management has identified assets which had no carrying value, proper correction of book values and depreciation are made in the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buffer gas	Buildings and gas transmission system	Equipment and machinery	Other assets	Advances	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revaluation								
At December 31, 2010	**2 540**	**9 377**	**865 559**	**117 431**	**16 644**	**35**	**21 212**	**1 032 798**
Additions	-	-	-	-	-	2 622	24 788	27 410
Reclassified	-	-	27 470	4 143	1 628	(2 537)	(30 704)	-
Revaluation	-	-	94	3	(21)	-	-	76
Correction*	-	-	6 626	40	-	-	-	6 666
Disposals	-	-	(8 445)	(1 251)	(361)	-	(6)	(10 063)
Transferred to inventories	-	-	-	-	-	-	(17)	(17)
Rounding	-	-	-	-	-	-	(1)	(1)
At December 31, 2011	**2 540**	**9 377**	**891 304**	**120 366**	**17 890**	**120**	**15 272**	**1 056 869**
Depreciation								
At December 31, 2010	**-**	**-**	**509 584**	**62 593**	**9 585**	**-**	**-**	**581 762**
Charged for 2011	-	-	21 206	6 151	1 699	-	-	29 056
Correction*	-	-	5 400	24	-	-	-	5 424
Reclassified	-	-	3	(64)	61	-	-	-
Disposals	-	-	(6 288)	(1 124)	(351)	-	-	(7 763)
At December 31, 2011	**-**	**-**	**529 905**	**67 580**	**10 994**	**-**	**-**	**608 479**
Net book value at December 31, 2011	**2 540**	**9 377**	**361 399**	**52 786**	**6 896**	**120**	**15 272**	**448 390**
Net book value at December 31, 2010	**2 540**	**9 377**	**355 975**	**54 838**	**7 059**	**35**	**21 212**	**451 036**

* 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.

	Land	Buffer gas	Buildings and gas transmissio n system	Equipment and machinery	Other assets	Advances	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revaluation								
At December 31, 2011	**2 540**	**9 377**	**891 304**	**120 366**	**17 890**	**120**	**15 272**	**1 056 869**
Additions	-	-	-	-	68	3 662	22 238	25 968
Reclassified	44	-	19 004	13 890	2 722	(3 735)	(31 925)	-
Revaluation	-	-	126 291	(3 406)	-	-	-	122 885
Disposals	-	-	(7 894)	(1 213)	(525)	(3)	-	(9 635)
Rounding	-	-	-	-	-	-	-	-
At December 31, 2012	**2 584**	**9 377**	**1 028 705**	**129 637**	**20 155**	**44**	**5 586**	**1 196 087**
Depreciation								
At December 31, 2011	**-**	**-**	**529 905**	**67 580**	**10 994**	**-**	**-**	**608 479**
Charged for 2012	-	-	24 273	(4 405)	1 850	-	-	21 718
Disposals	-	-	(5 053)	(1 117)	(499)	-	-	(6 669)
At December 31, 2012	**-**	**-**	**549 125**	**62 058**	**12 345**	**-**	**-**	**623 528**
Net book value at December 31, 2012	**2 584**	**9 377**	**479 580**	**67 579**	**7 810**	**44**	**5 585**	**572 559**
Net book value at December 31, 2011	**2 540**	**9 377**	**361 399**	**52 786**	**6 896**	**120**	**15 272**	**448 390**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Fixed assets include fully depreciated assets with a total cost of LVL 4 906 thousand or EUR 6 981 thousand (31.12.2011: 7 306 thousand or EUR 10 395 thousand).

As at December 31, 2012 the carrying amount in case the revaluated property, plant and equipment would be carried under the cost model is LVL 165 914 thousand or EUR 236 074 thousand including buildings LVL 126 950 thousand (EUR 180 633 thousand) and equipment and machinery LVL 38 964 thousand (EUR 55 441 thousand) (31.12.2011: LVL 158 619 thousand or EUR 225 695 thousand including buildings LVL 124 773 thousand (EUR 177 536 thousand) and equipment and machinery LVL 33 846 thousand (EUR 48 159 thousand)).

During the reporting year the Company has capitalized depreciation in amount of LVL 13 thousand or EUR 18 thousand (2011: LVL 7 thousand or EUR 10 thousand).

The major part of construction in progress is related to the project "Modernization of wells at the Inčukalns UGS" in amount of LVL 2 455 or EUR 3 493.

According to local legislation the Company discloses a cadastral value of the land plots and buildings. Determination of a precise cadastral value of the land plots and buildings owned by the Company is in process. Assessed cadastral value on December 31, 2012 of the buildings is LVL 6 370 thousand or EUR 9 064 thousand (2011: LVL 6 419 thousand or EUR 9 133 thousand), cadastral value on December 31, 2012 of the land plots is LVL 3 158 thousand or EUR 4 493 thousand (31.12.2011: LVL 3 361 thousand or EUR 4 782 thousand), LVL 31 thousand (EUR 45 thousand) for container equipment (31.12.2011: LVL 50 thousand (EUR 72 thousand)). Engineering buildings (distribution pipelines, drillings un reservoirs) cadastral value on December 31, 2012 is LVL 41 682 thousand or EUR 59 308 thousand (31.12.2011: LVL 41 387 thousand or EUR 58 889 thousand)).

Cadastral value is not determined for 1 building and for 20 drillings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 INTANGIBLE ASSETS

	LVL’000	EUR’000
Cost		
As at December 31, 2010	**6 663**	**9 480**
Additions	634	902
Disposals	(1)	(1)
As at December 31, 2011	**7 296**	**10 381**
Amortisation		
As at December 31, 2010	**4 434**	**6 308**
Charge for the year	787	1 120
On disposals	(1)	(1)
As at December 31, 2011	**5 220**	**7 427**
Net Book Value as at December 31, 2011	**2 076**	**2 954**
Net Book Value as at December 31, 2010	**2 229**	**3 172**

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

Intangible assets include fully amortised intangible assets with a total cost value of LVL 2 198 thousand or EUR 3 127 thousand (31.12.2011: LVL 1 655 thousand or EUR 2 356 thousand). The average remaining useful life of others intangible assets as at December 31, 2012 is 2.7 years.

The major intangible assets are an Individual customer billing system PUNS-2, a geographic-informative system (GIS) of Inchukalns (Inčukalns) 3D data base and distribution GIS at a carrying amount of LVL 204 thousand (EUR 290 thousand) and LVL 202 thousand (EUR 287 thousand) and LVL 176 thousand (EUR 250 thousand) respectively as at December 31, 2012 (31.12.2011: LVL 137 thousand (EUR 195 thousand) and LVL 105 thousand (EUR 149 thousand) and LVL 193 thousand (EUR 274 thousand)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 TRADE RECEIVABLES

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Non-current trade receivables				
Gross value	7 949	7 731	11 310	11 001
Reclassified	-	4	-	6
Other receivables	4	4	6	5
Provisions for impairment of receivables	(5 840)	(5 837)	(8 309)	(8 305)
Reclassified provisions	-	(4)	-	(6)
	2 113	**1 898**	**3 007**	**2 701**
Current trade receivables				
Gross value	62 477	32 872	88 897	46 773
Provisions for impairment of receivables	(5 224)	(3 991)	(7 433)	(5 679)
	57 253	**28 881**	**81 464**	**41 094**
Total trade receivables	**59 366**	**30 779**	**84 471**	**43 795**

Provisions for impairment of bad and doubtful debts:

	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Provisions at the beginning of the year	**9 922**	**7 253**	**14 116**	**10 318**
Charged to income statement	1 705	6 247	2 426	8 889
Released to income statement	(441)	(3 445)	(627)	(4 902)
Net charge to income statement (see Note 15)	**1 264**	**2 802**	**1 799**	**3 987**
Written off	(35)	(133)	(50)	(189)
Provisions at the year end	**11 151**	**9 922**	**15 865**	**14 116**

Provisions as at December 31, 2012 of LVL 5 310 thousand (EUR 7 555 thousand) relate to to current trade receivables, whereas as at 31 December 2011 they amounted to 4 076 thousand (EUR 5 800 thousand). Provisions as at December 31, 2012 of LVL 5 841 thousand (EUR 8 310 thousand) relate to other trade receivables (2011: LVL 5 931 thousand (EUR 8 439 thousand) (see Note 7). Provisions were created based on evaluation of the financial position and operations of separate groups of customers. The actual losses may differ from the current calculations, as the specific amounts required are regularly reviewed and changes are reflected in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 INVENTORIES

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Materials and spare parts (at net realisable value)	3 217	2 766	4 577	3 936
Gas and fuel (at cost)	90 059	35 825	128 142	50 974
	93 276	**38 591**	**132 719**	**54 910**

The cost of inventories recognized as expense and included in "Cost of sales" amounted to LVL 329 726 thousand or EUR 469 158 thousand (2011: LVL 262 710 thousand or EUR 373 802 thousand).

Provisions for impairment of obsolete and slow moving inventories:

	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Provisions at the beginning of the year	615	673	874	957
Charged to income statement	34	67	48	95
Released to income statement	(242)	(107)	(344)	(152)
Written off	(3)	(18)	(4)	(26)
Provisions at the year end	**404**	**615**	**574**	**874**

Provisions have been created for slow moving materials and spare parts. During 2012 the Company sold inventories amounting to LVL 0 thousand or EUR 0 thousand (2011: LVL 10 thousand or EUR 14 thousand) and used in operations inventories amounting to LVL 162 thousand or EUR 231 thousand (2011: LVL 50 thousand or EUR 71 thousand) that had been written off in previous years.

7 OTHER RECEIVALBES

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Term deposits	-	9 207	-	13 100
Prepayments and deferred expense	375	415	534	589
Value added tax overpaid	-	40	-	57
Interest accrued on bank deposits	1	59	1	84
Receivable for services supplied	14	25	21	36
Prepayment for natural gas	665	37 950	946	53 998
Other debtors	348	2 106	495	2 997
	1 403	**49 802**	**1 997**	**70 861**
Provisions for impairment of bad and doubtful debts*	(86)	(90)	(122)	(128)
	1 317	**49 712**	**1 875**	**70 733**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 CASH AND CASH EQUIVALENTS

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Cash on hand	1	2	2	3
Current accounts with banks	12 364	2 808	17 592	3 995
Term deposits*	10 219	22 247	14 540	31 655
	22 584	**25 057**	**32 134**	**35 653**

* As at December 31, 2012 there are no deposits with initial maturity term over 90 days. As at December 31, 2011 deposits with initial maturity term over 90 days were LVL 9 207 thousand (EUR 13 100 thousand) and they are shown in Note 7, position "Term deposits". Term deposits fixed interest rate during 2012 is from 0.1% to 3.3% per annum (2011: from 0.1% to 3.3% per annum).

9 SHARE CAPITAL

(a) Authorised, subscribed and paid-up share capital as at December 31, 2012 consists of 39 900 000 ordinary shares of LVL 1 each. All shares have equal voting rights and rights to dividend.

	31.12.2012.		31.12.2011.	
	% 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

	31.12.2012.		31.12.2011.	
	% 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
JSC 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 Economies of the Republic of Latvia.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 BORROWINGS

During 2012 the Company did not have borrowings.

11 DEFERRED INCOME

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

	31.12.2012. LVL’000	**31.12.2011. LVL’000**	**31.12.2012. EUR’000**	**31.12.2011. EUR’000**
Non-current portion	13 752	13 754	19 568	19 570
Current portion	606	586	862	834
	14 358	**14 340**	**20 430**	**20 404**

Deferred income movement:

	2012 LVL’000	**2011 LVL’000**	**2012 EUR’000**	**2011 EUR’000**
At the beginning of the year	14 340	14 424	20 404	20 524
Received from residents and enterprises during the reporting year	610	489	869	695
Written down to income statement in the reporting year (see Note 16)	(592)	(573)	(843)	(815)
Deferred to the following periods	**14 358**	**14 340**	**20 430**	**20 404**

(b) difference between the actual and forecasted purchase cost of natural gas:

Current portion	**-**	**4 669**	**-**	**6 644**

Deferred income movement:

	2012 LVL’000	**2011 LVL’000**	**2012 EUR’000**	**2011 EUR’000**
At the beginning of the year	4 669	6 996	6 644	9 954
Difference between the actual and forecasted purchase cost of natural gas invoiced to customers in the reporting year	-	1 461	-	2 080
Written down to income statement in the reporting year	(4 669)	(3 788)	(6 644)	(5 390)
Deferred to the following periods	**-**	**4 669**	**-**	**6 644**

(c) EC funding recognised

Non-current portion	6 611	6 587	9 406	9 372
Current portion	188	183	268	260
	6 799	**6 770**	**9 674**	**9 632**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 DEFERRED INCOME (CONTINUED)

Deferred income movement:

	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
At the beginning of the year	**6 770**	-	**9 632**	-
Recognised deferred income from EC grants in the reporting year	226	6 814	323	9 695
Written down to income statement in the reporting year	(197)	(44)	(281)	(63)
Deferred to the following periods	**6 799**	**6 770**	**9 674**	**9 632**
Total deferred to the following periods	**21 157**	**25 779**	**30 104**	**36 680**

In accordance with the European Commission resolution No.C(2011) 5554 dated August 13, 2008 on the award of a financial grant under the EC Regulation (EC) No.663/2009 on gas and electricity interconnections, the Company has received funding of 50%, but not more than LVL 7 million (EUR 10 million) for realization of Actions No.EEPR-2010-INTg-RF-LV-LT-I2.566527 "Modernization of 15 wells at the Inčukalns UGS" and SI2.566531 "Construction of a gas passage below the River Daugava and a pig receiver". The objects were put into operation in 2012. The unused portion of funds is granted for reconstruction of two other wells. The final payment from EC will be received in 2014.

See also Accounting policies Note (u).

12 OTHER PAYABLES

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. LVL'000	31.12.2011. LVL'000
Prepayments received	6 404	7 795	9 112	11 091
Social insurance contributions	797	631	1 134	897
Personal income tax	499	394	710	560
Value added tax	12 381	8 503	17 617	12 098
Excise tax	2 375	1 919	3 379	2 730
Real estate tax	-	1	-	1
Salaries	527	486	750	692
Accrued expenses for unused annual leave	934	893	1 329	1 271
Accrued expenses for bonuses	4 190	4 904	5 962	6 978
Accrued other expenses	335	415	476	591
Accrued post-employment benefit liabilities and other obligations to employees *	233	192	331	273
Other current liabilities	141	142	201	203
	28 816	**26 275**	**41 001**	**37 385**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 REVENUE

Sales per customers` groups are as follows:

	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Income from natural gas sales to industrial customers	363 270	298 733	516 886	425 059
Income from natural gas sales to residential customers	46 841	38 839	66 649	55 263
Income from transmission and storage of natural gas	16 548	15 165	23 546	21 578
Other services	754	601	1 073	855
	427 413	**353 338**	**608 154**	**502 755**

If income from natural gas as per leveraged payment (residential customers) increased or decreased by 5%, then income from natural gas sales to residential customers would increase or decrease by 5%. Income from rendering of services is recognised upon performance of services, net of value added tax and discounts, but including excise tax in amount of LVL 14 895 thousand or EUR 21 193 thousand in 2012 (2011: LVL 6 371 thousand or EUR 9 065 thousand).

14 COST OF SALES

Purchase of natural gas	335 949	262 348	478 012	373 288
Salaries	12 102	11 623	17 220	16 538
Social insurance contributions	2 865	2 843	4 077	4 045
Life, health and pension insurance	852	853	1 212	1 214
Materials and spare parts	9 013	7 542	12 824	10 731
Depreciation and amortisation	28 425	20 598	40 445	29 308
Other expenses	5 487	5 769	7 807	8 209
	394 693	**311 576**	**561 597**	**443 333**

15 ADMINISTRATIVE EXPENSES

Salaries	3 393	3 307	4 828	4 705
Social insurance contributions	765	746	1 088	1 061
Life, health and pension insurance	153	176	218	250
Maintenance and utilities	744	765	1 059	1 088
Real estate tax	769	767	1 094	1 091
Depreciation and amortisation	573	502	815	714
Bank charges	88	82	125	117
Provisions for impairment of bad and doubtful debts, net (see Note 5)	1 264	2 802	1 799	3 987
Other expenses	1 335	1 628	1 900	2 316
	9 084	**10 775**	**12 926**	**15 329**

16 OTHER INCOME

Penalties from customers	953	952	1 356	1 355
Income from contribution to financing of construction works (see Note 11)	592	573	843	815
Income from change in provisions of slow moving and obsolete inventories	208	40	296	57
Other income	1 207	398	1 718	566
Gain from change in exchange rates, net	2 093	-	2 978	-
Interest income	330	818	469	1 164
	5 383	**2 781**	**7 660**	**3 957**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 OTHER EXPENSES

	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Materials	28	26	40	37
Salaries	215	193	306	275
Social insurance contributions	28	25	40	36
Depreciation and amortisation	138	114	196	162
Sponsorship	2 183	2 194	3 106	3 122
Loss from sale of fixed assets*	1 683	981	2 395	1 396
Loss from change in exchange rates, net	-	1 108	-	1 577
Other expenses	296	239	421	340
	4 571	**4 880**	**6 504**	**6 945**

* NBV of sold and/ or disposed fixed assets amounting to LVL 4 131 thousand (EUR 5 878).

18 EXPENSES BY NATURE

Purchase of natural gas	335 949	262 348	478 012	373 288
Depreciation and amortisation	29 136	21 214	41 456	30 184
Employee benefit expenses (see Note 26)	20 373	19 766	28 989	28 124
Material and spare parts	9 041	7 568	12 864	10 768
Net provisions for impaired receivables	1 264	2 802	1 799	3 987
Other expenses	12 585	13 533	17 907	19 256
	408 348	**327 231**	**581 027**	**465 607**

19 FINANCE INCOME

Finance income				
- Interest income	286	331	407	471
	286	**331**	**407**	**471**

20 NET FOREIGN EXCHANGE GAIN AND INTEREST INCOME

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

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

Other income (see Note 16)	330	818	469	1 164
Finance income (see Note 19)	286	331	407	471
	616	**1 149**	**876**	**1 635**

21 INCOME TAX EXPENSE

Current income tax	4 256	4 754	6 055	6 764
Deferred income tax	(723)	(1 264)	(1 028)	(1 798)
	3 533	**3 490**	**5 027**	**4 966**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 INCOME TAX EXPENSE (CONTINUED)

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:

	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Profit before income tax	**24 734**	**29 219**	**35 194**	**41 576**
Theoretically calculated tax at tax rate of 15%	**3 710**	**4 383**	**5 279**	**6 236**
Tax effect of:				
Tax non-deductible expenses, net	826	113	1 175	161
Tax relief on donations	(1 003)	(1 006)	(1 427)	(1 431)
Tax charge	**3 533**	**3 490**	**5 027**	**4 966**

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:

(Receivables) / liability as at 1 January	(2 432)	1 230	(3 460)	1 750
Charge for the year	4 255	4 754	6 054	6 764
Paid during the year	(3 557)	(8 416)	(5 061)	(11 974)
Receivable as at 31 December	**(1 734)**	**(2 432)**	**(2 467)**	**(3 460)**

Calculation of deferred income tax:

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Deferred income tax liabilities at the beginning of the reporting year	**26 444**	**27 822**	**37 626**	**39 587**
Increase in deferred income tax liabilities that results from revaluation of property, plant and equipment (charged to other comprehensive income)	14 823	141	21 091	200
Decrease in deferred income tax liabilities (charged to income statement)	(723)	(1 264)	(1 028)	(1 798)
Deferred income tax that results from disposal of revalued property, plant and equipment (credited to equity)	(307)	(255)	(437)	(363)
Deferred income tax liabilities at the end of the reporting year	**40 237**	**26 444**	**57 252**	**37 626**

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Deferred tax liabilities:				
- Deferred tax liabilities to be recovered after more than 12 months	40 237	26 444	57 252	37 626
- Deferred tax liabilities to be recovered within 12 months	-	-	-	-
Deferred tax liabilities, net	**40 237**	**26 444**	**57 252**	**37 626**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 INCOME TAX EXPENSE (CONTINUED)

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

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Difference on depreciation of property, plant and equipment (to be settled within 12 months)	1 381	1 448	1 965	2 060
Difference on depreciation of property, plant and equipment (to be settled after more than 12 months)	41 931	28 692	59 662	40 824
Impairment of bad and doubtful debts (to be settled within 12 months) *	(1 516)	(1 336)	(2 157)	(1 901)
Accrued expenses for unused annual leave and bonuses (to be settled within 12 months)	(761)	(864)	(1 082)	(1 229)
Accruals for post employment benefits and other employee benefits (to be settled after more than 12 month)	(687)	(641)	(978)	(912)
Accruals for other liabilities (to be settled within 12 months)	(50)	(763)	(71)	(1 085)
Impairment of inventories (to be settled within 12 months)	(61)	(92)	(87)	(131)
Deferred income tax liability, net	**40 237**	**26 444**	**57 252**	**37 626**

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

22 ACCRUALS FOR EMPLOYMENT AND POST EMPLOYMENT BENEFITS

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
At the beginning of reporting year	4 274	5 207	6 082	7 409
Current service costs	185	(317)	263	(451)
Interest expenses / (income)	309	(970)	439	(1 380)
Post employment benefits paid	(106)	(183)	(151)	(260)
Losses as a result of changes in assumptions of actuary	(81)	537	(115)	764
Provisions at the end of the reporting year	**4 581**	**4 274**	**6 518**	**6 082**

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Non-current portion of provisions	4 348	4 082	6 187	5 809
Current portion of provisions (see Note 12)	233	192	331	273
Provisions at the end of the reporting year	**4 581**	**4 274**	**6 518**	**6 082**

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 ACCRUALS FOR EMPLOYMENT AND POST EMPLOYMENT BENEFITS (CONTINUED)

For calculation of provisions following assumptions have been used:

	2012	2011
Discount rate (considering profitability of government bonds at the balance sheet date), %	3.2515	4.232
Employee rotation ratio	3.21	5.35
Pension age of employees, years	62	62
Mortality, years	***	***
Change in payroll, %:		
2012	-	3.00
2013	4.00	4.00
2013	4.00	6.00
2014	4.00	6.00
2015	4.00	8.00
2016	4.00	5.00
2017	4.00	6.00
Contributions in private pension funds, % of total gross income of employees	5.00	5.00
SSC*	24.43%	23.82%
PIT**	25%	25%

* average rate according to the Cabinet of Ministers rules in force during 2012 and 2011
** average rate according to the Cabinet of Ministers rules in force during 2012 and 2011.
*** according to provision calculation methodology.

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

	Change in assumptions	Impact on the total liabilities
Discount rate	Increase/decrease of 0.5%	Decrease of 3.98% / increase of 4.03%
Employee rotation ratio	Increase/decrease of 0.5	Decrease of 1.97% / increase of 1.76%
Pension age	Increase/decrease of 1 year	Decrease of 5.19 % / increase of 4.20%
Life period	Increase/decrease of 1 year	Increase of 1.61% / decrease of 1.61%
Payroll growth ratio	Increase/decrease of 0.5%	Increase of 3.28% / decrease of 3.24%
Contribution to the private pension funds	Increase/decrease of 0.5%	Increase of 0.34% / decrease of 0.34%
SSC	Increase/decrease of 0.5%	Increase of 0.34% / decrease of 0.34%
PIT	Increase/decrease of 0.5%	Increase of 0.02% / decrease of 0.02%

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(a) EARNINGS PER SHARE (CONTINUED)

	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Net profit attributable to shareholders (a)	21 201	25 729	30 167	36 610
	number, th.	**number, th.**	**number, th.**	**number, th.**
Ordinary shares as at 1 January	39 900	39 900	39 900	39 900
Ordinary shares as at 31 December	39 900	39 900	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b)	39 900	39 900	39 900	39 900
Basic earnings per share during the year (a/b) in LVL or EUR	**0.531**	**0.645**	**0.756**	**0.918**

(b) DIVIDENDS PER SHARE

Dividends payable are not accounted for until they are declared at the Annual General Meeting. At the meeting in 2013, a dividend in respect to 2012 of LVL 0.50 (EUR 0.71) 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 2012.

The dividends paid in 2012 for 2011 were LVL 23 940 thousand (LVL 0.60 per share) or EUR 34 064 thousand (EUR 0.85 per share). The dividends paid in 2011 for 2010 were LVL 19 950 thousand (LVL 0.50 per share) or EUR 28 386 thousand (EUR 0.71 per share).

24 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
Profit before income tax	24 734	29 219	35 194	41 576
Adjustments for:				
Depreciation (Note 3)	15 263	24 233	21 718	34 480
Amortisation (Note 4)	851	787	1 211	1 120
Deviations of actual and predictable purchases of natural gas and income from participation fees (see Note 11)	(5 458)	(2 944)	(7 767)	(4 189)
Provision for impairment of slow moving inventories (Note 6)	(208)	(40)	(296)	(57)
Change in accrued expenses for bonuses	(714)	(16)	(1 016)	(23)
Change in accrued expenses for unused annual leave	41	(27)	58	(38)
Change in accruals for other liabilities	(80)	110	(114)	157
Change in accrued expenses for post employment benefits and other employee benefits (Note 22)	307	(933)	436	(1 327)
Interest income (Note 20)	(616)	(1 149)	(876)	(1 635)
Loss on sale of property, plant and equipment (Note 17)	1 683	981	2 395	1 396
Changes in working capital				
- trade and other receivables	(26 685)	1 902	(37 969)	2 704
- inventories	(54 685)	(27 615)	(77 810)	(39 293)
- trade and other payables	78 410	15 485	111 567	22 031
	32 843	**39 993**	**46 731**	**56 902**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 RELATED PARTY TRANSACTIONS

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

(a) Sale of transmission services

	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
JSC "Gazprom"	**15 503**	**13 333**	**22 058**	**18 971**

(b) Purchase of natural gas

JSC "Gazprom"	**248 339**	**192 065**	**353 354**	**273 283**

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

(c) Accounts payable for natural gas and services

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
JSC "Gazprom"	1	-	1	-
Companies controlled by JSC Gazprom	426	-	606	-
E.ON Ruhrgas AG	13	17	18	24
	440	**17**	**625**	**24**

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

(d) Accounts receivable for natural gas in transit

JSC "Gazprom"	**2 434**	**1 359**	**3 463**	**1 934**

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

(e) Advance payment for natural gas to related company

JSC "Gazprom" for natural gas	**665**	**37 950**	**946**	**53 998**

Advance payments for natural gas injected into the Inčukalns UGS for the needs of Latvia.

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

	2012 LVL'000	2011 LVL'000	2012 EUR'000	2011 EUR'000
E.ON Ruhrgas AG	13	28	18	40
OPEN GRID EUROPE GmbH	-	150	-	213
Companies controlled by JSC "Gazprom"	4 937	5 577	7 025	7 935
	4 950	**5 755**	**7 043**	**8 188**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 RELATED PARTY TRANSACTIONS (CONTINUED)

(h) Remuneration to Board of Directors and Council

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

	2012 LVL'000	**2011 LVL'000**	**2012 EUR'000**	**2011 EUR'000**
Salaries	1 432	1 363	2 038	1 939
Social insurance contributions	299	278	425	396
Change in accruals for post employment benefits and other employee benefits	-	(17)	-	(24)
Health and life insurance	3	3	4	4
Contributions to pension funds	46	45	65	64
	1 780	**1 672**	**2 532**	**2 379**

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

26 EMPLOYEE BENEFIT EXPENSES

Wages and salaries	14 975	14 932	21 308	21 246
Expenses for accruals for post employment benefits and other employee benefits	735	191	1 046	272
Social insurance contributions	3 522	3 559	5 011	5 064
Social insurance contributions for accruals for post employment benefits and other employee benefits	136	55	194	78
Life, health and pension insurance	1 005	1 029	1 430	1 464
	20 373	**19 766**	**28 989**	**28 124**

In accordance with the Rules of the Cabinet of Ministers of Latvia 76.20% (2011: 72.84%) of the social insurance contributions are used to fund the state defined contribution pension system.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 SEGMENT REPORTING

31.12.2012.

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

31.12.2012.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 SEGMENT REPORTING (CONTINUED)

31.12.2011.

	Gas transmission	Gas storage	Gas distribution	Gas realization	Other services	TOTAL
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Segment revenue from external customers	3 647	11 486	-	337 605	600	353 338
Inter-segment revenue	17 718	12 182	36 520	324	122	66 866
Inter-segment costs	(33)	(243)	(555)	(66 034)	(1)	(66 866)
Interest income	-	-	-	-	331	331
Profit before tax	6 973	6 217	7 507	14 192	(5 670)	29 219
Corporate income tax	918	899	944	458	271	3 490
Assets	100 111	90 180	158 067	110 299	5 120	463 777
Liabilities	13 030	12 282	36 556	56 067	305	118 240
Other information on segment						
Depreciation and amortisation	*7 665*	*3 760*	*9 402*	*252*	*135*	*21 214*
Additions of non-current assets	*5 888*	*7 736*	*5 181*	*901*	*3*	*19 709*

31.12.2011.

	Gas transmission	Gas storage	Gas distribution	Gas realization	Other services	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Segment revenue from external customers	5 189	16 343	-	480 369	854	502 755
Inter-segment revenue	25 211	17 333	51 963	461	174	95 142
Inter-segment costs	(47)	(346)	(790)	(93 958)	(1)	(95 142)
Interest income	-	-	-	-	471	471
Profit before tax	9 922	8 846	10 682	20 193	(8 067)	41 576
Corporate income tax	1 306	1 279	1 343	652	386	4 966
Assets	142 444	128 315	224 909	156 942	7 285	659 895
Liabilities	18 540	17 476	52 014	79 776	434	168 240
Other information on segment						
Depreciation and amortisation	*10 906*	*5 350*	*13 377*	*359*	*192*	*30 184*
Additions of non-current assets	*8 378*	*11 007*	*7 372*	*1 282*	*4*	*28 043*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 SEGMENT REPORTING (CONTINUED)

The largest customers:
Five of the Company's customers comprise up to 44.7% (in 2011 – 50.0%) of income. Income generated by the largest customer as of December 31, 2012 was 29.0% (in 2011 – 35.3%), the second and the third largest customers constituted 8.0% and 3.1% respectively (in 2011 – 7.4% and 2.1%) of the total income amount. This income is related to the natural gas realization segment.

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

28 CRITICAL ESTIMATES AND JUDGEMENTS

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

IFRS requires that in preparing the financial statements, management of the Company make estimates and assumptions that affect the reported amounts of assets and liabilities and required disclosure at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgement and thus having significant risk of 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 LVL 85.04 million (EUR 121 million). The amortised replacement cost was determined by an independent certified valuator JSC BDO.

Recoverable amount of trade receivables
The estimated collectibility 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 actuary defined and publicly available assumptions are used in calculations regarding changes in demographic and financial variables. Refer to Note 22.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 CRITICAL ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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

29 FINANCIAL RISK MANAGEMENT

29.1. Financial risk factors

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

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

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

	31.12.2012 LVL'000		**31.12.2011 LVL'000**	
Financial assets	**Loans and receivables**	**Financial liabilities at amortized cost**	**Loans and receivables**	**Financial liabilities at amortized cost**
Receivables from related companies	2 434	-	1 359	-
Trade receivables	54 819	-	27 522	-
Other receivables	1 317	-	49 712	-
Cash and cash equivalents	22 584	-	25 057	-
Total financial assets:	**81 154**	**-**	**103 650**	**-**
Financial liabilities				
Payables to related companies	-	734	-	17
Trade payables	-	60 706	-	35 643
Other payables	-	28 816	-	26 275
Total financial liabilities:	**-**	**90 256**	**-**	**61 935**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

	31.12.2012 EUR'000		31.12.2011 EUR'000	
Financial assets	**Loans and receivables**	**Financial liabilities at amortized cost**	**Loans and receivables**	**Financial liabilities at amortized cost**
Receivables from related companies	3 463	-	1 934	-
Trade receivables	78 001	-	39 160	-
Other receivables	1 875	-	70 733	-
Cash and cash equivalents	32 134	-	35 653	-
Total financial assets:	**115 473**	**-**	**147 480**	**-**
Financial liabilities				
Payables to related companies	-	1 043	-	24
Trade payables	-	86 378	-	50 716
Other payables	-	41 001	-	37 385
Total financial liabilities:	**-**	**128 422**	**-**	**88 125**

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

Company's activities are exposed to following risks:
- Credit risk
- Liquidity risk
- Market risk, incl.
  - Interest rate risk
  - Currency exchange rate risk

Credit risk

The Company is exposed to credit risk, which is a risk of material losses arising in a case when a counterparty is not able to fulfill 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 48.6% (2011: 52.9%) of trade receivables natural gas comprises of debts of 4 largest customers of the Company, one of these customers debt comprised 34.7% (2011: 21.8%), second and third largest customer debt comprised 9.8% and 5.4% respectfully (2011: 6.9% and 6.7%) of total trade receivables as at December 31, 2012. 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, 2012.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

Credit risk management

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

A debtors aging analysis is prepared on a monthly basis. Debtors are analysed in the following groups:
- households, which use natural gas for heating purposes or for heating purposes and for other purposes simultaneously;
- households, which use natural gas for other purposes than heating;
- companies with gas consumption less than 25 thousand 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 LVL 200 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 LVL 100, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

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

6. If the debt amount exceeds LVL 200 and the payment deadline set in the claim falls due, Individual CTD or a respective Department evaluates possibilities of collecting the debt from the debtor under compulsory, by legal proceedings.

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

Debt monitoring process of companies with gas consumption less than 25 thousand 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 LVL 200 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

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

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

6. If the debt amount exceeds LVL 200 and the payment deadline set in the claim falls due, Industrial CTD evaluates possibilities of collecting the debt from the debtor under compulsory, by legal proceedings.

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

December 31, 2012 (LVL'000):

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

December 31, 2012 (EUR'000):

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

December 31, 2011 (LVL'000):

	TOTAL	Neither *past due* nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	27 275	23 994	3 281	-
incl. renegotiated receivables	*114*	*114*	-	-
Other services	1 606	1 606	-	-
Total current trade receivables	**28 881**	**25 600**	**3 281**	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

December 31, 2011 (EUR'000):

	TOTAL	Neither *past due* nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	38 809	34 140	4 669	-
incl. renegotiated receivables	*162*	*162*	-	-
Other services	2 285	2 285	-	-
Total current trade receivables	**41 094**	**36 425**	**4 669**	**-**

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

December 31, 2012 (LVL'000):

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

December 31, 2012 (EUR'000):

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

December 31, 2011 (LVL'000):

	TOTAL	Neither *past due* nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Advance payments for materials	87	87	-	-
Advance payments to employees	5	2	3	
Tax receivables	421	421	-	-
Other receivables	1 503	1 459	44	-
Total other receivables	**2 016**	**1 969**	**47**	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

December 31, 2011 (EUR'000):

	TOTAL	Neither *past due* nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Advance payments for materials	124	124	-	-
Advance payments to employees	7	3	4	-
Tax receivables	599	599	-	
Other receivables	2 139	2 076	63	-
Total other receivables	**2 869**	**2 802**	**67**	**-**

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

Quality of the debtors
Fully performing debtors having no overdue debts are mainly comprised by heat supply companies as at December 31, 2012 is 68% or LVL 33.4 million (EUR 47.5 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:

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Up to 3 months	5 547	3 281	7 892	4 669
	5 547	**3 281**	**7 892**	**4 669**

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

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Up to 3 months	22	-	31	-
3 to 6 months	25	44	36	63
More than 6 months	-	3	-	4
	47	**47**	**67**	**67**

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

Moody's Investors Services credit ratings of banks (or its owners) are used by the Company (as at December 17, 2012):

Bank	Long term rating	Short term rating	Rating of financial security	Rating forecast
Nordea Bank Finland	Aa3	P-1	C	Stable
GE Money Bank (General Electric Co)	A1	P-1	-*	Stable
DnB ASA	A1	P-1	C-	Stable
SEB group	A1	P-1	C-	Stable
Swedbank AB	A2	P-1	C-	Stable
UniCredit Bank Austria AG	A3	P-2	D+	Negative
Danske Bank AB	Baa1	P-2	C-	Stable
SMP bank (Russia)	B2	Not prime	E+	Stable
Citadele bank	Aa3	P-1	C	Negative

* Data on credit rating is not available

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Citadele bank	4 549	183	6 472	261
Swedbank	1 548	1 669	2 203	2 375
SEB bank	5 720	14 405	8 139	20 496
DnB bank	5 120	8 002	7 285	11 386
GE Money Bank	154	12	219	17
Nordea Bank Finland Latvia branch	1 556	727	2 214	1 034
Danske Bank Latvia branch	3 893	12	5 539	17
SMP Bank	41	44	58	63
UniCredit Bank	2	-	3	-
Latvijas Hipotēku un zemes banka	-	1	-	1
Total accounts with banks	**22 583**	**25 055**	**32 132**	**35 650**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

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

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Aa2	-	739	-	1 051
Aa3	1 556	8 002	2 214	11 386
A1	10 994	14 405	15 643	20 496
A2	1 548	1 681	2 203	2 392
A3	2	-	3	-
Baa1	3 893	-	5 539	-
Baa3	41	45	58	64
B2	4 549	-	6 472	-
Data on credit rating is not available	-	183	-	261
Total accounts with banks	**22 583**	**25 055**	**32 132**	**35 650**

Liquidity risk

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Liquidity risk (continued)

Contractual maturity of liabilities as at 31 December, 2011 (LVL'000):

	< 1 month	1-3 months	3 months-1 year	Total
Trade payables	1 603	33 981	76	35 660
Other liabilities, incl.	62	-	415	477
Accrued expenses for other expenses	-	-	*415*	*415*
Other short term liabilities	*62*	-	-	*62*
	1 665	**33 981**	**491**	**36 137**

Contractual maturity of liabilities as at 31 December, 2011 (EUR'000):

	< 1 month	1-3 months	3 months-1 year	Total
Trade payables	2 281	48 351	108	50 740
Other liabilities, incl,	88	-	590	678
Accrued expenses for other expenses	-	-	*590*	*590*
Other short term liabilities	*88*	-	-	*88*
	2 369	**48 351**	**698**	**51 418**

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, 2012 (see Note 10). Other financial assets and liabilities bear no interest, or interest rate is fixed. As all financial assets and liabilities are accounted for at amortised cost, the Company is not exposed to the fair value interest rate risk.

Foreign currency exchange risk

Foreign currency exchange risk is a probability, that foreign currency exchange fluctuations will affect the financial position and cash flows of the Company. The Company is not directly subject to the risk of fluctuation of foreign currency rates as the gas purchase price is set in USD and afterwards recalculated in EUR, whereas the gas sales tariffs are set in LVL. Settlements for the supplied gas are made in EUR. As since January 1, 2005 the LVL rate is pegged to the euro rate, the fluctuations of the LVL/EUR rate are limited and are not expected to have a significant influence on further financial results. 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 LVL/EUR and 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Market risk (continued)

Open foreign currencies positions:

	31.12.2012.			
	USD'000	**EUR'000**	**RUB'000**	**Other'000**
Financial assets	53	20 503	192	55
Financial liabilities	-	(85 900)	-	-
Balance sheet position in original currency	53	(65 397)	192	55
Balance sheet position in LVL'000	28	(45 961)	3	4
Balance sheet position in EUR'000	40	(65 397)	5	6

Open foreign currencies positions:

	31.12.2011.			
	USD'000	**EUR'000**	**GBP'000**	**Other'000**
Financial assets	93	144 354	1	55
Financial liabilities	-	(48 480)	-	-
Balance sheet position in original currency	93	95 874	1	55
Balance sheet position in LVL'000	50	67 381	1	4
Balance sheet position in EUR'000	72	95 875	1	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 5% (2011: 7%), RUB currency exchange rate fluctuations, which were in the range of 4% (2011: 6%), and for other currencies in range of 1% (2011: 1%) (net of tax effect).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Market risk (continued)

December 31, 2012

	Currency	Book value LVL'000	Impact to current year profit +5% (USD) +4% (RUB) +1% (other currencies) LVL'000	Impact to current year profit -5% (USD) -4% (RUB) -1% (other currencies) LVL'000	Book value EUR'000	Impact to current year profit +5% (USD) +4% (RUB) +1% (other currencies) EUR'000	Impact to current year profit -5% (USD) -4% (RUB) -1% (other currencies) EUR'000
Assets							
Cash	EUR	10 844	92	(92)	15 430	131	(131)
	USD	28	2	(2)	40	3	(3)
	Other	4	0	0	6	0	0
Accounts receivable	EUR	3 566	30	(30)	5 074	43	(43)
	RUB	3	0	0	4	0	0
		14 445	**124**	**(124)**	**20 554**	**177**	**(177)**
Liabilities							
Accounts payable	EUR	60 371	513	(513)	85 900	730	(730)
		60 371	**513**	**(513)**	**85 900**	**730**	**(730)**
Net impact		**(45 926)**	**(389)**	**389**	**(65 346)**	**(553)**	**553**

December 31, 2011

	Currency	Book value LVL'000	Impact to current year profit +7% (USD) +3% (GBP) +1% (other currencies) LVL'000	Impact to current year profit -7% (USD) -3% (GBP) -1% (other currencies) LVL'000	Book value EUR'000	Impact to current year profit +7% (USD) +3% (GBP) +1% (other currencies) EUR'000	Impact to current year profit -7% (USD) -3% (GBP) -1% (other currencies) EUR'000
Assets							
Cash	EUR	20 142	171	(171)	28 659	243	(243)
	USD	6	0	0	9	0	0
	Other	4	0	0	6	0	0
Accounts receivable	EUR	81 311	691	(691)	115 695	983	(983)
	USD	44	3	(3)	63	0	0
	GBP	1	0	0	1	0	0
		101 508	**865**	**(865)**	**144 433**	**1 226**	**(1 226)**
Liabilities							
Accounts payable	EUR	34 072	289	(289)	48 480	411	(411)
		34 072	**289**	**(289)**	**48 480**	**411**	**(411)**
Net impact		**67 436**	**576**	**(576)**	**95 953**	**815**	**(815)**

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 2% and not higher than 50%.

In 2012 and 2011 proportion of borrowed capital to total capital was as follows:

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Total liabilities	155 998	118 240	221 965	168 240
(Cash and cash equivalents)	(22 584)	(25 057)	(32 134)	(35 653)
Net total liabilities	133 414	93 183	189 831	132 587
Total liabilities and equity	582 793	463 777	829 240	659 895
Borrowed capital proportion to total capital	**22.89%**	**20.09%**	**22.89%**	**20.09%**

29.3. Fair value

Carrying amount of financial assets and liabilities of the Company does not significantly differ from their fair value, because almost all financial assets and liabilities are short term, so influence of discounting factor is minor.

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:

	31.12.2012. LVL'000	31.12.2011. LVL'000	31.12.2012. EUR'000	31.12.2011. EUR'000
Contracted for, but not delivered	5 529	2 146	7 867	3 053
Authorised, but not yet contracted for	19 866	23 371	28 267	33 254
	25 395	**25 517**	**36 134**	**36 307**

31 TAX CONTINGENT LIABILITIES

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

32 LITIGATION

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 LITIGATION (CONTINUED)

On December 21, 2012 LG received the letter from the Competition Council with decision No.95 (Prot. No.59) as of 14.12.2012 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, para 3. On December 2012, the Competition Council had take a decision on the case of the LG action law, refusing to conclude supply agreements of natural gas to gasification facilities, if there is a debt for previously received natural gas. According to mentioned decision, the Competition Council has extended the deadline for decision making and on the date of signing Annual Report the Competition Council has not communicated any decisions to the Company.

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

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, 2012.