



Joint stock company "Latvijas Gāze"

Annual accounts for the year ended 31 December 2010

Prepared in accordance with the International Financial Reporting Standards

Translation from Latvian original*

Riga, 2011

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

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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JOINT STOCK COMPANY "LATVIJAS GĀZE"
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INFORMATION ON THE COMPANY

Name of the Company	JSC Latvijas Gāze
Legal status of the Company	Joint Stock Company
Registration number, place and date of registration	000300064 Riga, March 25, 1991 Reregistered in Commercial Register December 20, 2004 with common registration No 40003000642
Address	Vagonu street 20 Riga, LV – 1009 Latvia
Names of major shareholders	E.ON Ruhrgas International AG (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	<u>After July 2, 2010</u> Kiril Seleznov (Кирилл Селезнев) – Chairman of the Council Juris Savickis – Deputy Chairman of the Council Joachim Hockertz – Member of the Council Peter Frankenberg – Deputy Chairman of the Council Mario Nullmeier – Member of the Council Uwe Fip – Member of the Council Heinz Watzka – Member of the Council 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 <u>Until July 2, 2010</u> Kiril Seleznov (Кирилл Селезнев) – Chairman of the Council Juris Savickis – Deputy Chairman of the Council Achim Saul – Deputy Chairman of the Council Joachim Hockertz – Member of the Council Uwe Fip – Member of the Council Heinz Watzka – Member of the Council Mario Nullmeier – Mmber of the Council 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 2010

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INFORMATION ON THE COMPANY (CONTINUED)

Name and address of the auditor and responsible certified auditor	PricewaterhouseCoopers SIA Audit company licence No. 5 Kr. Valdemara Street 19 Riga, LV-1010 Latvia
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Responsible certified auditor:
Olga Bobrova
Certified auditor
Certificate No. 170

Translation from Latvian Original

**JOINT STOCK COMPANY “LATVIJAS GĀZE”
ANNUAL ACCOUNTS
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Report of the Board of Directors

1. Operation 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 Public Utility Commission (hereinafter – the PUC) issued to the Company a licence for natural gas sale till February 10, 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 1 787.6 million m³ of natural gas. In comparison to 2009, natural gas sales in m³ grew by 19.7%. The rapid increase of natural gas sales stemmed more from emergency situations than long-term changes in the users' demand. The rise of natural gas consumption was mainly facilitated by the record-low air temperature in the first quarter of 2010 and the use of natural gas for electricity generation in the summer of 2010 when due to repairs of power transmission lines in the territory of Russia electricity supplies to the Baltic region were interrupted.

Already in 2009, the natural gas purchase prices set for Latvia reached the level of the natural gas market of European countries, so in 2010 they were only influenced by changes in oil product quotations at the stock exchange, currency rates and gas supply flows.

In 2010, natural gas was sold to customers for the natural gas sale end-user tariffs set in the resolution No. 247 “On natural gas supply tariffs of the Joint Stock Company “Latvijas Gāze”” of the PUC dated July 24, 2008. Under the resolution No. 258 “On the procedure of application of resolution No. 247” of the PUC dated June 2, 2010, these tariffs are exclusive of excise tax.

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/thousand nm³ depending on the actual natural gas purchase costs. For users with the annual natural gas consumption over 25 thousand nm³, the applicable natural gas sale end-user tariff changes monthly, whereas for users with the annual natural gas consumption up to 25 thousand nm³ – once in six months, i. e., on January 1 and July 1.

During 2010, the natural gas sale end-user tariffs for natural gas users with the annual consumption up to 25 thousand nm³ also changed on September 1, 2010 because in July and August 2010 natural gas used as fuel was subjected to the excise tax of 15.6 LVL/thousand nm³ (22.2 EUR/thousand nm³).

In 2010, the Company sold natural gas and provided services to customers for LVL 353.4 million (EUR 502.8 million), which is by 7.2 % more than in the respective period of 2009; the expenditures (excluding administrative costs) were LVL 314.7 million (EUR 447.7 million) and the gross profit – LVL 38.7 million (EUR 55 million). The increase of the net turnover stemmed from changes in the natural gas sales volume and natural gas sale price, as well as the improved efficiency of use of the Inčukalns Underground Gas Storage Facility (hereinafter – the Inčukalns UGS).

Over the season of 2010, 2.03 billion m³ of natural gas were injected into the Inčukalns UGS and 2.14 billion m³ were withdrawn. Compared to the season of 2009, the volume of natural gas injected rose by 67.5%, while that of natural gas withdrawn – by 35.8 %. During the reporting period there was increased usage of the Inčukalns UGS for the needs of other countries due to weather conditions in the neighbouring states.

The Company completed the year 2010 with a net profit of LVL 26.47 million (EUR 37.66 million), which is by LVL 6.5 million more than that of 2009 – LVL 19.97 million (EUR 28.41 million). The net profitability of business activity was 7.5% in 2010 and 6.1% in 2009.

In 2010, the Company invested LVL 23.3 million (EUR 33.2 million) in the modernization of the gas supply system and the creation of new fixed assets. 30 % of the total investment was spent on the modernization of the gas transmission pipeline system, 46 % – on the improvement of the operation safety and the modernization of equipment at the Inčukalns UGS, and 21% – 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 442.4 thousand.

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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 below the River Daugava and a pig receiver was granted LVL 7 million (EUR 10 million).

During the reporting period, the reconstruction of four wells at the Inčukalns UGS was completed and equipment was received for modernization of 11 wells in 2011. The total costs amount to LVL 4.3 million (EUR 6.1 million). The reconstruction of the gas drying unit at CS-1 is in progress, with LVL 4.9 million (EUR 7 million) invested in the reporting year and LVL 7.6 million (EUR 10.8 million) since the beginning of the project. The object is to be commissioned in late 2011.

The elimination of defects found during the diagnostics of gas transmission pipelines continues. LVL 2.4 million (EUR 3.4 million) have been spent on renovation of gas pipelines. The construction of an underwater gas pipeline under the River Daugava has begun, with LVL 3.7 million (EUR 5.3 million) taken up during the reporting year. The total costs of the object are estimated at LVL 5.3 million (EUR 7.5 million).

LVL 1.4 million (EUR 2 million) were spent on the construction of gas distribution pipelines in 2010. The year 2010 saw completion of the project of gas supply stabilization in the city of Riga and its vicinity, started in 2006. Within the framework of the project, a gas pipeline of 9.5 km in length was renovated and a high-pressure gas distribution pipeline of Riga bypass line in the length of 30.4 km was built. The total costs of the project reached LVL 5.8 million (EUR 8.3 million), incl. LVL 0.9 million (EUR 1.3 million) in 2010. The replacement of the gas pipeline in Liepāja, at Brīvības Street, was also commenced in 2010 and is expected to be completed in 2011, with the total costs estimated at around LVL 0.5 million (EUR 0.7 million).

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Report of the Board of Directors (continued)

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

Company's main ratios:

	2010	2009	2008	2010	2009	2008
	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
Revenue	353 345	329 705	351 005	502 765	469 128	499 435
EBITDA	49 433	42 228	40 814	70 337	60 085	58 073
EBITDA %	13.99%	12.81%	11.63%	13.99%	12.81%	11.63%
Profit from operating activities	28 406	21 193	21 502	40 418	30 155	30 595
Profitability of operating activities (%)	8.04%	6.43%	6.13%	8.04%	6.43%	6.13%
Profit for the year	25 792	19 165	19 046	36 699	27 269	27 100
Commercial profitability (%)	7.30%	5.81%	5.43%	7.30%	5.81%	5.43%
Total liquidity	2.51	1.70	1.44	2.51	1.70	1.44
Total assets	429 851	461 494	488 848	611 623	656 648	695 568
Equity	338 960	329 060	324 955	482 297	468 210	462 369
Return on assets (ROA)	5.79%	4.03%	3.97%	5.79%	4.03%	3.97%
Return on equity (ROE)	7.72%	5.86%	5.86%	7.72%	5.86%	5.86%
Number of shares	39 900	39 900	39 900	39 900	39 900	39 900
	LVL	LVL	LVL	EUR	EUR	EUR
Profit per share	0.646	0.480	0.477	0.920	0.683	0.679
P/E	7.58	8.54	9.53	7.58	8.54	9.53
BV	8.50	8.25	8.14	12.09	11.73	11.59
P/BV	0.58	0.50	0.56	0.58	0.50	0.56
Dividends per share*	0.50	0.40	0.38	0.71	0.57	0.54
Share price at the end of the period	4.90	4.10	4.55	6.97	5.83	6.47

* 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 2010.

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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 findings 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 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). This basically includes projects aimed at the improvement of system safety, the gasification of new objects and the enhancement of gas supply stability in the whole region.

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 seeks to minimize the negative impact of potential financial risks on the financial state of the Company.

The Company is not directly subjected 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 subjected to credit risk.

The financial assets subjected 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 54.5% (in 2009 – 45.5%) of sales, one of these debtors as of December 31, 2010 was 22.1% (in 2009 – 25.5 %), the second and third debtors were 7.5% and 6.4% respectively (in 2009 – 8% and 9.3%) of the total amount of customer debts. 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 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

During the period between the last day of the reporting year and the date of signing of this report there have been no significant events that would have a material effect on the year end results.

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Report of the Board of Directors (continued)

5. Distribution of profit 2010 suggested by the Board

	2010 LVL	2010 EUR
Profit of the reporting year according to statutory financial statements prepared under Latvian accounting regulation	26 466 382	37 658 269
Share of profit not available for distribution (credit of deferred tax not distributed due to revaluation of fixed assets)	(1 544 136)	(2 197 108)
Share of profit available for distribution	24 922 246	35 461 161
Suggested distribution of profit:		
dividends to shareholders (75.4%)	19 950 000	28 386 293
dividends per one share (LVL per 1 share)	0.50	0.711
Statutory reserve	4 972 246	7 047 868

Certain members of the Council and the Board of the Company hold shares and interests at numerous companies registered in the Register 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.

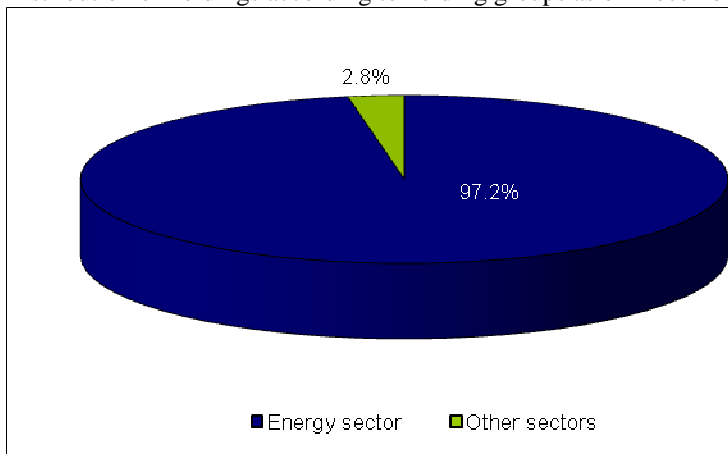
Information on the shares of the Company held by members of the Board and the Council of the Company is available at the Board of the Company.

6. Shares and shareholders

Composition of shareholders¹ of the Company as on December 31, 2010:

Aktionārs	31.12.2010.	31.12.2009.	31.12.2008.
"E.ON Ruhrgas International" GmbH	47.2%	47.2%	47.2%
"Gazprom" AAS	34.0%	34.0%	34.0%
"Itera Latvija" SIA	16.0%	16.0%	16.0%
Other	2.8%	2.8%	2.8%
TOTAL	100.0%	100.0%	100.0%

Distribution of holdings according to holding groups as on December 31, 2010:



¹ Shareholders owning not less than 5% of capital

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Report of the Board of Directors (continued)

6. Shares and shareholders (continued)

List of shareholders with special control rights as on December 31, 2010:

Members of the Board		Number of shares
Chairman of the Board	Adrians Dāvis	417
Vice-Chairman of the Board	Jörg Tumat M.A.	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	Peter Frankenberg	0
Vice-chairman of the Council	Juris Savickis	0
Members of the Council:	Joachim Hockertz	0
	Uwe Fip	0
	Mario Nullmeier	0
	Heinz Watzka	0
	Yelena Karpel	0
	Alexander Krasnenkov	0
	Vlada Rusakova	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

Shares price of the Company as on December 31, 2010 and previous periods

	2010	2009	2008	2008	2006
Shares price (LVL):					
First	4.57	4.55	7.25	10.35	9.95
Highest	6.00	6.00	8.20	11.25	11.13
Lowest	4.57	3.32	3.62	7.05	9.27
Average	5.15	4.31	6.77	10.34	10.22
Last	4.90	4.10	4.55	7.12	10.32
Change	7.22%	-9.89%	-37.24%	-31.21%	3.72%
Share turnover, number	85 493	64 319	46 565	154 825	128 844
Share turnover, million LVL	0.440	0.277	0.315	1.600	1.316
Number of deals	988	1 267	1 711	1 074	1 066
Capitalisation (million LVL)	195.510	163.590	181.545	284.088	411.768

Source: NASDAQ OMX Riga

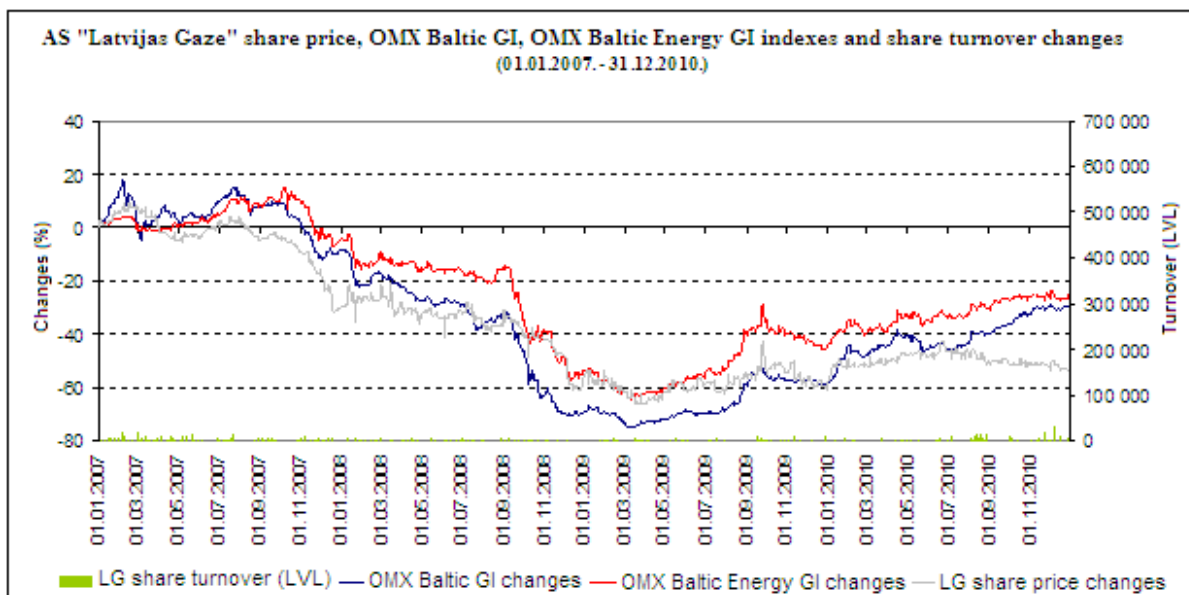
Translation from Latvian Original

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Report of the Board of Directors (continued)

6. Shares and shareholders (continued)

The capitalization value of the Company during 12 month of 2010 reached LVL 195.51 million – by 31.92 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 8th place among companies quoted at the NASDAQ OMX Baltic Stock Exchange (2009: 2nd and 9th place respectively).



Source: NASDAQ OMX Riga

Indexes/shares	01.01.2007.	31.12.2010.	Change
OMX Baltic GI	749.13	533.99	-28.72%
OMX Baltic Energy GI	602.43	450.54	-25.21%
LG share price (LVL)	10.32	4.90	-52.52%
Turnover of the Company shares (at a certain date), LVL	455.40	467.00	222.13%

7. Future prospect

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 2011 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. 16 (2011)
 Riga, April 29, 2011

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STATEMENT OF DIRECTORS' RESPONSIBILITY

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

The financial statements on pages 15 to 62 are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Company as of 31 December 2010 and the results of its operations and cash flows for the year ended 31 December 2010.

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

Board meeting minutes No.16 (2011)
Riga, April 29, 2010

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AUDITORS' REPORT



Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC "Latvijas Gāze"

Report on the Financial Statements

We have audited the accompanying financial statements on pages 15 to 62 of JSC "Latvijas Gāze" which comprise the balance sheet as of 31 December 2010 and the income statement, the statement of comprehensive income, statement of changes in equity and statement of 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.

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AUDITORS' REPORT



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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Report of the Board of Directors set out on pages 5 to 11 and did not identify material inconsistencies between the financial information contained in the Report of the Board of Directors and that contained in the financial statements for 2010.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

A handwritten signature in blue ink, appearing to read "Ahmed Abu Sharkh".

Ahmed Abu Sharkh
Chairman of the Board

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

Olga Bobrova
Certified auditor in charge
Certificate No. 170

Riga, Latvia
29 April 2011

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JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

BALANCE SHEET AS AT 31 DECEMBER 2010

	Note	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
Assets					
<u>Non-current assets</u>					
Property, plant and equipment	3	316 990	315 109	451 036	448 360
Intangible assets	4	2 229	2 430	3 172	3 458
Trade receivables	5	3	4	4	6
		<u>319 222</u>	<u>317 543</u>	<u>454 212</u>	<u>451 824</u>
<u>Current assets</u>					
Inventories	6	10 975	83 533	15 616	118 857
Trade receivables	5	37 035	22 203	52 696	31 592
Current income tax receivable	21	-	1 357	-	1 931
Other receivables	7	25 046	1 048	35 637	1 491
Cash and cash equivalents	8	37 573	35 810	53 462	50 953
		<u>110 629</u>	<u>143 951</u>	<u>157 411</u>	<u>204 824</u>
Total assets		429 851	461 494	611 623	656 648
Equity and liabilities					
<u>Equity</u>					
Share capital	9	39 900	39 900	56 773	56 773
Share premium		14 320	14 320	20 376	20 376
Revaluation reserve		185 754	186 360	264 303	265 167
Other reserves		71 910	69 540	102 319	98 947
Retained earnings		27 076	18 940	38 525	26 948
Total equity		338 960	329 060	482 296	468 211
<u>Liabilities</u>					
<u>Non-current liabilities</u>					
Deferred income tax liabilities	21	27 822	29 700	39 587	42 259
Accruals for post employment benefits and other employee benefits	22	4 896	4 169	6 966	5 932
Deferred income	11	13 855	13 824	19 714	19 670
		<u>46 573</u>	<u>47 693</u>	<u>66 267</u>	<u>67 861</u>
<u>Current liabilities</u>					
Trade payables		11 735	60 590	16 698	86 213
Corporate income tax liability	21	1 230	-	1 750	-
Deferred income	11	7 565	824	10 764	1 172
Other payables	12	23 788	23 327	33 848	33 191
		<u>44 318</u>	<u>84 741</u>	<u>63 060</u>	<u>120 576</u>
Total liabilities		90 891	132 434	129 327	188 437
Total equity and liabilities		429 851	461 494	611 623	656 648

The notes on pages 20 to 62 are an integral part of these financial statements.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 LVL'000	2009 LVL'000	2010 EUR'000	2009 EUR'000
Revenue	13	353 345	329 705	502 765	469 128
Cost of sales	14	(314 673)	(293 890)	(447 740)	(418 167)
Gross profit		38 672	35 815	55 025	50 961
Administrative expenses	15	(7 073)	(12 968)	(10 064)	(18 453)
Other income	16	2 777	2 542	3 952	3 618
Other expenses	17	(5 970)	(4 196)	(8 495)	(5 971)
Operating profit		28 406	21 193	40 418	30 155
Finance income	19	1 493	1 831	2 124	2 605
Finance expenses	19	-	(9)	-	(13)
Finance income, net	19	1 493	1 822	2 124	2 592
Profit before income tax		29 899	23 015	42 542	32 747
Income tax expense	21	(4 107)	(3 850)	(5 844)	(5 478)
Profit for the year		25 792	19 165	36 698	27 269
Earnings per share		LVL	LVL	EUR	EUR
Basic	23a	0.646	0.480	0.920	0.683
Diluted	23a	0.646	0.480	0.920	0.683

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

OTHER COMPREHENSIVE INCOME

Tax sections, net

Disposal of revalued property, plant and equipment

794 943 1130 1 342

Deferred income tax on disposal of revalued property, plant and equipment

21 (119) (141) (169) (201)

Other comprehensive income for the year, net of tax

675 802 961 1 141

Profit for the year

25 792 19 165 36 698 27 269

Total comprehensive income for the year

26 467 19 967 37 659 28 410

The notes on pages 20 to 62 are an integral part of these financial statements.

The financial statements on pages 15 to 62 were approved by the Board of Directors and were signed on its behalf by:

Adrians Dāvis
Chairman of the Board

Anda Ulpe
Board Member

April 29, 2011

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	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 2008	39 900	14 320	187 060	66 544	17 131	324 955
<i>Other comprehensive income</i>						
Revaluation of property, plant and equipment - gross	-	-	120	-	-	120
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(18)	-	-	(18)
Disposal of revalued property, plant and equipment	-	-	(943)	-	943	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	141	-	(141)	-
<i>Total other comprehensive income</i>	-	-	(700)	-	802	102
Profit for the year	-	-	-	-	19 165	19 165
Total comprehensive income for 2009	-	-	(700)	-	19 967	19 267
<i>Transactions with owners</i>						
Transfers to reserves	-	-	-	2 996	(2 996)	-
Dividends for 2008	-	-	-	-	(15 162)	(15 162)
Balance as at 31 December 2009	39 900	14 320	186 360	69 540	18 940	329 060
<i>Other comprehensive income</i>						
Revaluation of property, plant and equipment - gross	-	-	81	-	-	81
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(12)	-	-	(12)
Disposal of revalued property, plant and equipment	-	-	(794)	-	794	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	119	-	(119)	-
<i>Total other comprehensive income</i>	-	-	(606)	-	675	69
Profit for the year	-	-	-	-	25 792	25 792
Total comprehensive income for 2010	-	-	(606)	-	26 467	25 861
<i>Transactions with owners</i>						
Transfers to reserves	-	-	-	2 370	(2 370)	-
Dividends for 2009	-	-	-	-	(15 960)	(15 960)
Rounding difference	-	-	-	-	(1)	(1)
Balance as at 31 December 2010	39 900	14 320	185 754	71 910	27 076	338 960

The notes on pages 20 to 62 are an integral part of these financial statements.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 (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 2008	56 773	20 376	266 163	94 684	24 375	462 371
<i>Other comprehensive income</i>						
Revaluation of property, plant and equipment - gross	-	-	171	-	-	171
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(26)	-	-	(26)
Disposal of revalued property, plant and equipment	-	-	(1 342)	-	1 342	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	201	-	(201)	-
<i>Total other comprehensive income</i>	-	-	(996)	-	1 141	145
Profit for the year	-	-	-	-	27 269	27 269
Total comprehensive income for 2009	-	-	(996)	-	28 410	27 414
<i>Transactions with owners</i>						
Transfers to reserves	-	-	-	4 263	(4 263)	-
Dividends for 2008	-	-	-	-	(21 574)	(21 574)
Balance as at 31 December 2009	56 773	20 376	265 167	98 947	26 948	468 211
<i>Other comprehensive income</i>						
Revaluation of property, plant and equipment - gross	-	-	115	-	-	115
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(17)	-	-	(17)
Disposal of revalued property, plant and equipment	-	-	(1 130)	-	1 130	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	169	-	(169)	-
<i>Total other comprehensive income</i>	-	-	(863)	-	961	98
Profit for the year	-	-	-	-	36 699	36 699
Total comprehensive income for 2010	-	-	(863)	-	37 659	36 796
<i>Transactions with owners</i>						
Transfers to reserves	-	-	-	3 372	(3 372)	-
Dividends for 2009	-	-	-	-	(22 709)	(22 709)
Rounding difference	-	-	(1)	-	(1)	(2)
Balance as at 31 December 2010	56 773	20 376	264 303	102 319	38 525	482 296

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

The notes on pages 20 to 62 are an integral part of these financial statements.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 LVL'000	2009 LVL'000	2010 EUR'000	2009 EUR'000
Cash flows from operating activities					
Cash generated from operations	24	41 518	62 223	59 075	88 535
Interest received		2 671	2 695	3 800	3 835
Income tax paid	21	(3 291)	(1 445)	(4 683)	(2 056)
Net cash generated from operating activities		40 898	63 473	58 192	90 314
Cash flows used in investing activities					
Purchases of property, plant and equipment		(22 690)	(16 321)	(32 284)	(23 222)
Proceeds from sale of property, plant and equipment		128	48	182	68
Purchases of intangible assets		(613)	(867)	(872)	(1 234)
Dividends received		-	2	-	3
Net cash used in investing activities		(23 175)	(17 138)	(32 974)	(24 385)
Cash flows used in financing activities					
Repayment of long term borrowings		-	(1 788)	-	(2 544)
Interest paid		-	(21)	-	(30)
Dividends paid		(15 960)	(15 162)	(22 709)	(21 574)
Net cash used in from financing activities		(15 960)	(16 971)	(22 709)	(24 148)
Net increase in cash and cash equivalents during the year		1 763	29 364	2 509	41 781
Cash and cash equivalents at the beginning of the year		35 810	6 446	50 953	9 172
Cash and cash equivalents at the end of the year	8	37 573	35 810	53 462	50 953

The notes on pages 20 to 62 are an integral part of these financial statements.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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 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 2.2 million.

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

During 2010 the average number of persons employed by the Company was 1 264 (2009: 1 336).

These financial statements have been approved by the Board of Directors on April 29, 2011.

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.

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

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Following standards, amendments and interpretations have been published that are mandatory for the accounting periods beginning on or after 1 January 2010 and which are relevant to the Company's operations and have an impact on the present financial statements

IFRIC 18 Transfers of Assets from Customers (effective prospectively for annual reports beginning on or after 1 July 2009, as issued by IASB, but effective prospectively for annual periods beginning on or after 1 November 2009, as adopted by EU). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

Following standards, amendments and interpretations have been published that are mandatory for the accounting periods beginning on or after 1 January 2010, but which are not relevant to the Company's operations and have no impact on the present financial statements

IFRIC 12 Service Concession Agreements (effective for annual financial statements for periods beginning on or after 1 January 2008, as issued by IASB; but effective for periods on or after 1 April 2009, as adopted by EU). The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession arrangements.

IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009, as issued by IASB, but effective for annual periods beginning on or after 1 January 2010, as adopted by EU). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 9 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008, as issued by IASB, but effective for annual periods beginning on or after 1 July 2009, as adopted by EU). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 1 July 2009, as issued by IASB, but effective prospectively for annual periods beginning on or after 1 November 2009, as adopted by EU). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets is recognised in profit or loss for the year when the entity settles the dividend payable.

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**JOINT STOCK COMPANY “LATVIJAS GĀZE”
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

IAS 27, Consolidated and Separate Financial Statements, revised in January 2008 (*effective prospectively for annual periods beginning on or after 1 July 2009*). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

IFRS 3, Business Combinations, revised in January 2008 (*effective prospectively for annual periods beginning on or after 1 July 2009*). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) (*effective for annual periods beginning on or after 1 July 2009*). The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary’s assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5.

Eligible Hedged Items—Amendment to IAS 39 (*effective with retrospective application for annual periods beginning on or after 1 July 2009*). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008 (*effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009*). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2 (*effective for annual periods beginning on or after 1 January 2010*). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1 (*effective for annual periods beginning on or after 1 January 2010*). The amendments provide an additional exemption for measurement of oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result.

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JOINT STOCK COMPANY "LATVIJAS GĀZE"
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FOR THE YEAR ENDED 31 DECEMBER 2010

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Improvements to International Financial Reporting Standards, issued in April 2009 (*amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010*). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged.

Following standards, amendments and interpretations have been published that are mandatory for the accounting periods beginning on or after 1 January 2011, but which the Company has not adopted earlier and which have no impact on the present financial statements.

Classification of Rights Issues - Amendment to IAS 32 (*effective for annual periods beginning on or after 1 February 2010*). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

Amendment to IAS 24, Related Party Disclosures, issued in November 2009 (*effective for annual periods beginning on or after 1 January 2011*). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

IFRS 9, Financial Instruments Part 1: Classification and Measurement (*effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU*). IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (*effective for annual periods beginning on or after 1 July 2010*). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (*effective for annual periods beginning on or after 1 January 2011*). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (*effective for annual periods beginning on or after 1 July 2011*). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7.

Improvements to International Financial Reporting Standards, issued in May 2010 (*effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU*). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (*effective for annual periods beginning on or after 1 July 2011*). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (*effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU*). The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1 (*effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU*). The amendments will provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs, and guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

(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 2010 to 31 December 2010 – EUR/LVL (1 EUR = LVL 0.702804).

Translation from Latvian Original

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

2 ACCOUNTING POLICIES (CONTINUED)

(c) Foreign currency translation (continued)

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 using depreciated replacement cost method. All other property, plant and equipment (including land and buffer gas) are stated at historical cost, less accumulated depreciation and impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

Land, buffer gas, advances for property, plant and equipment 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)).

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FINANCIAL STATEMENTS
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

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)).

(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.

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(i) Trade receivables

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

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

(j) Cash and cash equivalents

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

(k) Share capital and dividend authorised

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

(l) Borrowings

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

(m) Deferred income tax

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(m) Deferred income tax (continued)

The principal temporary differences arise from different intangible asset amortization and property, plant and equipment depreciation rates, 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 equity as deduction from respective increase in the Revaluation reserve. Decrease in deferred income tax liability that results from depreciation of revalued property, plant and equipment is charged to the income statement.

(n) Income tax

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

(o) Accrued unused annual leave expenses

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

(p) Employee benefits

Bonus plans

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

Social security and pension contribution

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

Post employment and other employee benefits

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(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. 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.

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT

	Land	Buffer gas	Buildings and gas transmission system	Equipment and machinery	Other assets	Advances	Assets under construction	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Cost or revaluation								
At December 31, 2008	1 658	6 590	589 743	80 730	10 054	218	5 751	694 744
Additions	-	-	-	-	-	2 208	14 264	16 472
Reclassified	127	-	12 952	2 771	1 438	(2 410)	(14 878)	-
Revaluation	-	-	(45)	30	-	-	-	(15)
Disposals	-	-	(2 373)	(1 299)	(538)	(2)	(2)	(4 214)
Transferred to intangible assets	-	-	-	-	-	-	(24)	(24)
At December 31, 2009	1 785	6 590	600 277	82 232	10 954	14	5 111	706 963
Depreciation								
At December 31, 2008	-	-	333 011	36 321	5 360	-	-	374 692
Charged for 2009	-	-	13 646	4 961	1 124	-	-	19 731
Revaluation	-	-	140	324	7	-	-	471
Disposals	-	-	(1 502)	(1 035)	(503)	-	-	(3 040)
At December 31, 2009	-	-	345 295	40 571	5 988	-	-	391 854
Net book value at December 31, 2009	1 785	6 590	254 982	41 661	4 966	14	5 111	315 109
Net book value at December 31, 2008	1 658	6 590	256 732	44 409	4 694	218	5 751	320 052
	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, 2009	1 785	6 590	600 277	82 232	10 954	14	5 111	706 963
Additions	-	-	-	-	-	1 985	20 504	22 489
Reclassified	-	-	9 885	1 653	1 146	(1 974)	(10 710)	-
Revaluation	-	-	81	-	-	-	-	81
Disposals	-	-	(1 925)	(1 353)	(405)	-	(12)	(3 695)
Transferred from intangible assets	-	-	-	(2)	2	-	14	14
At December 31, 2010	1 785	6 590	608 318	82 530	11 697	25	14 907	725 852
Depreciation								
At December 31, 2009	-	-	345 295	40 571	5 988	-	-	391 854
Charged for 2010	-	-	14 467	4 686	1 098	-	-	20 251
Disposals	-	-	(1 383)	(1 246)	(350)	-	-	(2 979)
Corrections	-	-	(242)	(22)	-	-	-	(264)
At December 31, 2010	-	-	358 137	43 989	6 736	-	-	408 862
Net book value at December 31, 2010	1 785	6 590	250 181	38 541	4 961	25	14 907	316 990
Net book value at December 31, 2009	1 785	6 590	254 982	41 661	4 966	14	5 111	315 109

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buffer gas	Buildings and gas transmission system	Equipment and machinery	Other assets	Advances	Assets under construction	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revaluation								
At December 31, 2008	2 359	9 377	839 129	114 871	14 306	310	8 184	988 535
Additions	-	-	-	-	-	3 142	20 295	23 437
Reclassified	181	-	18 429	3 941	2 046	(3 429)	(21 169)	-
Revaluation	-	-	(64)	43	-	-	-	(21)
Disposals	-	-	(3 376)	(1 848)	(766)	(3)	(3)	(5 996)
Transferred to intangible assets	-	-	-	-	-	-	(34)	(34)
At December 31, 2009	2 540	9 377	854 118	117 007	15 586	20	7 273	1 005 921
Depreciation								
At December 31, 2008	-	-	473 832	51 682	7 628	-	-	533 142
Charged for 2009	-	-	19 417	7 059	1 599	-	-	28 075
Revaluation	-	-	199	461	10	-	-	670
Disposals	-	-	(2 137)	(1 473)	(716)	-	-	(4 326)
At December 31, 2009	-	-	491 311	57 729	8 521	-	-	557 561
Net book value at December 31, 2009	2 540	9 377	362 807	59 278	7 065	20	7 273	448 360
Net book value at December 31, 2008	2 359	9 377	365 297	63 189	6 678	310	8 184	455 393
	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, 2009	2 540	9 377	854 118	117 007	15 586	20	7 273	1 005 921
Additions	-	-	-	-	-	2 824	29 175	31 999
Reclassified	-	-	14 065	2 352	1 631	(2 809)	(15 239)	-
Revaluation	-	-	115	-	-	-	-	115
Disposals	-	-	(2 739)	(1 925)	(576)	-	(17)	(5 257)
Transferred from intangible assets	-	-	-	(3)	3	-	20	20
At December 31, 2010	2 540	9 377	865 559	117 431	16 644	35	21 212	1 032 798
Depreciation								
At December 31, 2009	-	-	491 311	57 729	8 521	-	-	557 561
Charged for 2010	-	-	20 585	6 668	1 562	-	-	28 815
Disposals	-	-	(1 968)	(1 773)	(498)	-	-	(4 239)
Corrections	-	-	(344)	(31)	-	-	-	(375)
At December 31, 2010	-	-	509 584	62 593	9 585	-	-	581 762
Net book value at December 31, 2010	2 540	9 377	355 975	54 838	7 059	35	21 212	451 036
Net book value at December 31, 2009	2 540	9 377	362 807	59 278	7 065	20	7 273	448 360

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During 2003 and 2004 buildings, gas transmission and distribution system and equipment were revalued using the amortised replacement cost method. The amortised replacement cost was determined by a certified assessor JSC BDO "Invest Rīga". During 2007 the Company had 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 "Invest Rīga". During 2010 assets which were received for gratis or in exchange during the reporting year were revaluated.

Property, plant and equipment include fully depreciated assets with a total cost of LVL 24 669 thousand or EUR 35 101 thousand (2009: LVL 4 560 thousand or EUR 6 488 thousand).

As at December 31, 2010 the carrying amount in case the revaluated property, plant and equipment would be carried under the cost model is LVL 145 636 thousand or EUR 207 221 thousand including buildings LVL 111 081 thousand (EUR 158 054 thousand) and equipment and machinery LVL 34 555 thousand (EUR 49 167 thousand) (2009: LVL 150 194 thousand or EUR 213 707 thousand including buildings LVL 113 809 thousand (EUR 161 936 thousand) and equipment and machinery LVL 36 385 thousand (EUR 51 771 thousand).

During the reporting year the Company has capitalized depreciation in amount of LVL 23 thousand or EUR 33 thousand (2009: LVL 31 thousand or EUR 44 thousand).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 INTANGIBLE ASSETS

	LVL'000	EUR'000
<u>Cost</u>		
As at December 31, 2008	5 352	7 615
Additions	867	1 233
Reclassified from property, plant and equipment	24	34
Disposals	(98)	(139)
As at December 31, 2009	6 145	8 743
<u>Depreciation</u>		
As at December 31, 2008	3 081	4 384
Charge for the year	728	1 036
On disposals	(94)	(135)
As at December 31, 2009	3 715	5 285
Net Book Value as at December 31, 2009	2 430	3 458
Net Book Value as at December 31, 2008	2 271	3 231
	LVL'000	EUR'000
<u>Cost</u>		
As at December 31, 2009	6 145	8 743
Additions	613	872
Disposals	(81)	(115)
Transferred to property, plant and equipment	(14)	(20)
As at December 31, 2010	6 663	9 480
<u>Depreciation</u>		
As at December 31, 2009	3 715	5 285
Charge for the year	800	1 138
On disposals	(81)	(115)
As at December 31, 2010	4 434	6 308
Net Book Value as at December 31, 2010	2 229	3 172
Net Book Value as at December 31, 2009	2 430	3 458

Intangible assets include fully amortised intangible assets with a total cost value of LVL 1 387 thousand or EUR 1 974 thousand (2009: LVL 1 184 thousand or EUR 1 684 thousand).

The major intangible assets are geographic-informative system GIS and software for long-distance pipelines SCADA IT at carrying amount of LVL 227 thousand (EUR 323 thousand) and LVL 221 thousand (EUR 314 thousand) respectively as at December 31, 2010 (2009: LVL 270 thousand (EUR 384 thousand) and LVL 331 thousand (EUR 471 thousand)).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 TRADE RECEIVABLES

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
<i>Fair value of financial assets with revaluation in profit or loss</i>				
At the beginning of the reporting year	4	6	6	9
Revalued	(1)	(2)	(2)	(3)
At the end of the reporting year	3	4	4	6
<i>Non-current trade receivables</i>				
Gross value	3	4	4	6
	3	4	4	6
<i>Current trade receivables</i>				
Gross value	44 220	30 523	62 919	43 430
Provisions for impairment of receivables	(7 185)	(8 320)	(10 223)	(11 838)
	37 035	22 203	52 696	31 592
Total trade receivables	37 038	22 207	52 700	31 598

Provisions for impairment of bad and doubtful debts:

	2010 LVL'000	2009 LVL'000	2010 EUR'000	2009 EUR'000
Provisions at the beginning of the year	8 389	3 349	11 935	4 764
Charged to income statement	1 135	6 628	1 615	9 431
Released to income statement	(2 087)	(1 444)	(2 970)	(2 055)
Net charge to income statement (see Note 15)	(952)	5 184	(1 355)	7 376
Written off	(184)	(144)	(262)	(204)
Provisions at the year end	7 253	8 389	10 318	11 936

Of the provisions as at 31 December 2010 LVL 7 185 thousand (EUR 10 234 thousand) relate to current trade receivables (2009: LVL 8 320 thousand (EUR 11 838 thousand)). Of the provisions as at 31 December 2010 LVL 63 thousand (EUR 90 thousand) relate to other trade receivables (2009: LVL 65 thousand (EUR 92 thousand)) (see Note 7). Provisions were created based on evaluation of the financial position and operations of separate groups of customers. The eventual losses may differ from the current calculations, as the specific amounts required are regularly reviewed and changes are reflected in the income statement.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 INVENTORIES

	31.12.2010.	31.12.2009.	31.12.2010.	31.12.2009.
	LVL'000	LVL'000	EUR'000	EUR'000
Materials and spare parts (at net realisable value)	2 959	2 889	4 210	4 111
Gas and fuel (at cost)	8 016	80 644	11 406	114 746
	10 975	83 533	15 616	118 857

The cost of inventories recognized as expense and included in "Cost of sales" amounted to LVL 270 242 thousand or EUR 384 520 thousand (2009: LVL 251 796 thousand or EUR 358 273 thousand).

Provisions for impairment of obsolete and slow moving inventories:

	2010	2009	2010	2009
	LVL'000	LVL'000	EUR'000	EUR'000
Provisions at the beginning of the year	443	427	629	607
Charged to income statement	420	74	598	105
Released to income statement	(59)	(37)	(84)	(53)
Written off	(131)	(21)	(186)	(30)
Provisions at the year end	673	443	957	629

Provisions have been created for slow moving materials and spare parts. During 2010 the Company sold inventories amounting to LVL 37 thousand or EUR 53 thousand (2009: LVL 1 thousand or EUR 1 thousand) and used in operations inventories amounting to LVL 13 thousand or EUR 18 thousand (2009: LVL 34 thousand or EUR 48 thousand) that had been written off in previous years.

7 OTHER RECEIVABLES

	31.12.2010.	31.12.2009.	31.12.2010.	31.12.2009.
	LVL'000	LVL'000	EUR'000	EUR'000
Prepayments and deferred expense	431	494	613	703
Value added tax overpaid	110	125	157	178
Interest accrued on bank deposits	29	172	41	245
Receivable for services supplied	12	21	17	30
Prepayment for natural gas	24 216	-	34 456	-
Other debtors	311	301	443	427
	25 109	1 113	35 727	1 583
Provisions for impairment of bad and doubtful debts*	(63)	(65)	(90)	(92)
	25 046	1 048	35 637	1 491

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 CASH AND CASH EQUIVALENTS

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
Cash on hand	2	3	3	4
Current accounts with banks	6 273	6 329	8 926	9 006
Term deposits*	31 298	29 478	44 533	41 943
	37 573	35 810	53 462	50 953

* Term deposits fixed interest rate during 2010 is from 0.37% to 12.7% per annum (2009: from 0.47% to 33% per annum).

As at December 31, 2010 and December 31, 2009 there are no deposits with original term over 90 days.

9 SHARE CAPITAL

- (a) Authorised, subscribed and paid-up share capital as at December 31, 2010 consists of 39 900 000 ordinary shares of LVL 1 each. All shares have equal voting rights and rights to dividend.

	31.12.2010.		31.12.2009.	
	% 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

	31.12.2010.		31.12.2009.	
	% from total share capital	Number of shares	% from total share capital	Number of shares
E.ON Ruhrgas International AG (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 Economy of the Republic of Latvia.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 BORROWINGS

On 17 September, 2010 overdraft agreement concluded between the Company and SEB Banka which granted for Company an overdraft facility of EUR 50 000 thousand (LVL 35 140 thousand) has expired. The agreement was concluded on 18 September 2008 for one year with variable interest rate with the purpose of providing financial resources for settlements with the suppliers of the natural gas in cases when customers' payments are delayed. On 17 September, 2009 the overdraft agreement has been prolonged for a year. The effective interest rate in 2009 was 3.6%.

11 DEFERRED INCOME

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

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
Non-current portion of borrowings	13 855	13 824	19 714	19 670
Current portion of borrowings	569	549	810	781
	14 424	14 373	20 524	20 451

Deferred income movement:

	2010 LVL'000	2009 LVL'000	2010 EUR'000	2009 EUR'000
At the beginning of the year	14 373	13 979	20 451	19 890
Received from residents and enterprises during the reporting year	605	925	861	1 317
Recognized as income in the reporting year (see Note 16)	(554)	(531)	(788)	(756)
Deferred to the following periods	14 424	14 373	20 524	20 451

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

- current portion	6 996	275	9 954	391
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Deferred income movement:

	2010 LVL'000	2009 LVL'000	2010 EUR'000	2009 EUR'000
At the beginning of the year	275	3 155	391	4 489
Difference between the actual and forecasted purchase cost of natural gas invoiced to customers in the reporting year (Note 13)	6 721	(2 880)	9 563	(4 098)
Deferred to the following periods	6 996	275	9 954	391
Total deferred to the following periods	21 420	14 648	30 478	20 842

See also Accounting policies Note (r).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 OTHER PAYABLES

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. LVL'000	31.12.2009. LVL'000
Prepayments received	5 385	6 640	7 662	9 448
Social insurance contributions	620	667	882	949
Personal income tax	446	422	635	601
Value added tax	10 250	8 351	14 585	11 882
Salaries	493	557	701	793
Accrued expenses for unused annual leave	920	824	1 309	1 172
Accrued expenses for bonuses	4 920	5 198	7 001	7 396
Accrued other expenses	306	270	435	384
Accrued post-employment benefit liabilities and other obligations to employees *	311	247	443	351
Other current liabilities	137	151	195	215
	23 788	23 327	33 848	33 191

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

13 REVENUE

Sales per customers` groups are as follows:

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
Income from natural gas sales to industrial customers	299 678	279 525	426 403	397 729
Income from natural gas sales to residential customers	40 722	40 098	57 942	57 054
Income from transmission and storage of natural gas	12 290	9 327	17 488	13 271
Income from natural gas sales to vehicles	9	62	13	88
Other services	646	693	919	986
	353 345	329 705	502 765	469 128

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%.

14 COST OF SALES

	2010 LVL'000	2009 LVL'000	2010 EUR'000	2009 EUR'000
Purchase of natural gas	265 622	248 198	377 946	353 154
Salaries	13 186	12 414	18 762	17 664
Social insurance contributions	3 015	2 914	4 290	4 146
Life, health and pension insurance	866	867	1 232	1 234
Materials and spare parts	6 086	4 109	8 660	5 846
Depreciation and amortisation	20 396	20 339	29 021	28 939
Other	5 502	5 049	7 829	7 184
	314 673	293 890	447 740	418 167

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 ADMINISTRATIVE EXPENSES

Salaries	3 553	3 310	5 055	4 710
Social insurance contributions	774	771	1 101	1 097
Life, health and pension insurance	183	156	261	222
Maintenance and utilities	957	1 073	1 362	1 527
Real estate tax	755	162	1 074	231
Depreciation and amortisation	528	595	751	847
Bank charges	76	369	108	525
Provisions for impairment of bad and doubtful debts, net (see Note 5)	(952)	5 184	(1 355)	7 376
Other expenses	1 199	1 348	1 707	1 918
	7 073	12 968	10 064	18 453

16 OTHER INCOME

Penalties from customers	698	791	994	1 126
Income from contribution to financing of construction works (see Note 11)	554	531	788	756
Other income	595	470	847	669
Interest income	930	750	1 323	1 067
	2 777	2 542	3 952	3 618

17 OTHER EXPENSES

Materials	37	27	53	38
Salaries	175	157	249	223
Social insurance contributions	24	21	34	30
Depreciation and amortisation	104	101	148	144
Sponsorship	2 332	1 503	3 318	2 138
Loss from sale of fixed assets	121	950	172	1 352
Provisions for slow moving and obsolete inventories impairment	361	37	514	53
Loss from increase in exchange rates, net	2 573	1 165	3 661	1 658
Other expense	243	235	346	335
	5 970	4 196	8 495	5 971

18 EXPENSES BY NATURE

	2010	2009	2010	2009
	LVL'000	LVL'000	EUR'000	EUR'000
Purchase of natural gas	265 622	248 198	377 946	353 154
Depreciation and amortisation	21 028	21 035	29 920	29 930
Employee benefit expense (see Note 26)	21 776	20 612	30 984	29 328
Material and spare parts	6 123	4 136	8 713	5 885
Net provisions for impaired receivables	(952)	5 184	(1 355)	7 376
Other expenses	14 119	11 892	20 091	16 921
	327 716	311 057	466 299	442 594

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 FINANCE INCOME, NET

Finance income				
- Interest income	1 493	1 831	2 124	2 605
	1 493	1 831	2 124	2 605
Finance expenses				
- Interest expenses	-	(9)	-	(13)
	-	(9)	-	(13)
Finance income, net	1 493	1 822	2 124	2 592

20 NET FOREIGN EXCHANGE GAINS 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)	930	750	1 323	1 067
Finance income, net (see Note 19)	1 493	1 831	2 124	2 605
	2 423	2 581	3 447	3 672

21 INCOME TAX EXPENSE

Current income tax	5 878	3 942	8 364	5 609
Deferred income tax	(1 771)	(92)	(2 520)	(131)
	4 107	3 850	5 844	5 478

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

Profit before income tax	29 899	23 015	42 542	32 747
Theoretically calculated tax at tax rate of 15%	4 485	3 452	6 381	4 912
<i>Tax effect of:</i>				
Tax non-deductible expenses, net	754	1 391	1 074	1 979
Tax relief on donations	(1 132)	(993)	(1 611)	(1 413)
Tax charge	4 107	3 850	5 844	5 478

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:

	2010	2009	2010	2009
	LVL'000	LVL'000	EUR'000	EUR'000
Receivable as at 1 January	(1 357)	(3 854)	(1 931)	(5 484)
Charge for the year	5 878	3 942	8 364	5 609
Paid during the year	(3 291)	(1 445)	(4 683)	(2 056)
Liability / (receivable) as at 31 December	1 230	(1 357)	1 750	(1 931)

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 INCOME TAX EXPENSE (CONTINUED)

Calculation of deferred income tax:

Deferred income tax liabilities at the beginning of the reporting year	29 700	29 915	42 259	42 566
Increase in deferred income tax liabilities that results from revaluation of property, plant and equipment (charged to other comprehensive income)	12	18	17	26
Decrease in deferred income tax liabilities (charged to income statement)	(1 771)	(92)	(2 520)	(131)
Deferred income tax that results from disposal of revalued property, plant and equipment (credited to equity)	(119)	(141)	(169)	(201)
Rounding	-	-	-	(1)
Deferred income tax liabilities at the end of the reporting year	27 822	29 700	39 587	42 259

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

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
Difference on depreciation of property, plant and equipment (to be settled within 12 months)	1 248	1 120	1 776	1 594
Difference on depreciation of property, plant and equipment (to be settled after more than 12 months)	29 694	30 593	42 251	43 530
Impairment of bad and doubtful debts (to be settled within 12 months) *	(269)	(298)	(383)	(424)
Accrued expenses for unused annual leave and bonuses (to be settled within 12 months)	(874)	(905)	(1 244)	(1 288)
Accruals for post employment benefits and other employee benefits (to be settled after more than 12 month)	(781)	(662)	(1 111)	(942)
Accruals for other liabilities (to be settled within 12 months)	(1 095)	(82)	(1 558)	(117)
Impairment of inventories (to be settled within 12 months)	(101)	(66)	(144)	(94)
Deferred income tax liability, net	27 822	29 700	39 587	42 259

* 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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 ACCRUALS FOR EMPLOYMENT AND POST EMPLOYMENT BENEFITS

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
At the beginning of reporting year	4 416	4 672	6 283	6 648
Current service costs	(209)	209	(297)	297
Interest expenses	955	(281)	1 359	(400)
Post employment benefits paid	(175)	(626)	(249)	(891)
Losses as a result of changes in assumptions of actuary	220	442	313	629
Provisions at the end of the reporting year	5 207	4 416	7 409	6 283
Non-current portion of provisions	4 896	4 169	6 966	5 932
Current portion of provisions (see Note 12)	311	247	443	351
Provisions at the end of the reporting year	5 207	4 416	7 409	6 283

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

For calculation of provisions following assumptions have been used:

	2010	2009
Discount rate (considering profitability of government bonds at the balance sheet date), %	4.35	6.75
Employee rotation ratio	1.32	1.63
Pension age of employees, years	62	62
Mortality, years	***	***
Change in payroll, %:		
2009	-	0.00
2010	-	2.00
2011	5.00	3.00
2012	5.00	4.00
2013	6.00	5.00
2014	7.00	7.00
2015	8.00	7.00
2016	9.00	-
Contributions in private pension funds, % of total gross income of employees	5.00	5.00
SSC	*	**
PIT	*	**

* according to Cabinet of Ministers rules in force during 2010.

** according to Cabinet of Ministers rules in force during 2009.

*** according to provision calculation methodology.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 ACCRUALS FOR EMPLOYMENT AND POST EMPLOYMENT BENEFITS (CONTINUED)

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

	Change in assumptions	Impact on the total liabilities
Discount rate	Increase/decrease of 0.5%	Decrease of 4.51% / increase of 4.98%
Employee rotation ratio	Increase/decrease of 0.5	Decrease of 1.49% / increase of 1.41%
Pension age	Increase/decrease of 1 year	Decrease of 0.28% / increase of 0.54%
Life period	Increase/decrease of 1 year	Increase of 2.55% / decrease of 2.44%
Payroll growth ratio	Increase/decrease of 0.5%	Increase of 3.93% / decrease of 3.61%
Contribution to the private pension funds	Increase/decrease of 0.5%	Increase of 0.35% / decrease of 0.35%
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.

	2010	2009	2010	2009
	LVL'000	LVL'000	EUR'000	EUR'000
Net profit attributable to shareholders (a)	25 792	19 165	36 698	27 269
	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	0.646	0.480	0.920	0.683

(b) DIVIDENDS PER SHARE

Dividends payable are not accounted for until they are declared at the Annual General Meeting. At the meeting, a dividend in respect to 2010 of LVL 0.50 (EUR 0.711) 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 2010.

The dividends paid in 2010 for 2009 were LVL 15 160 thousand (LVL 0.40 per share) or EUR 22 709 thousand (EUR 0.569 per share). The dividends paid in 2009 for 2008 were LVL 15 162 thousand (LVL 0.38 per share) or EUR 21 574 thousand (EUR 0.541 per share).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	2010	2009	2010	2009
	LVL'000	LVL'000	EUR'000	EUR'000
Profit before income tax	29 899	23 015	42 542	32 747
<i>Adjustments for:</i>				
Depreciation (Note 3)	20 251	20 306	28 815	28 893
Amortisation (Note 4)	800	728	1 138	1 036
Deviations of actual and predictable purchases of natural gas and income from participation fees (see Note 11)	6 167	(3 411)	8 776	(4 853)
Provision for impairment of slow moving inventories (Note 6)	361	37	514	53
Change in accrued expenses for bonuses	(278)	298	(395)	424
Change in accrued expenses for unused annual leave	96	(180)	137	(256)
Change in accruals for other liabilities	36	149	51	212
Change in accrued expenses for post employment benefits and other employee benefits (Note 22)	791	(256)	1 126	(365)
Interest income (Note 20)	(2 423)	(2 581)	(3 447)	(3 672)
Interest expense (Note 19)	-	9	-	13
Loss on sale of property plant and equipment (Notes 17)	121	950	172	1 352
<i>Changes in working capital</i>				
- trade and other receivables	(38 456)	14 987	(54 719)	21 325
- inventories	72 558	32 540	103 240	46 300
- trade and other payables	(48 405)	(24 368)	(68 875)	(34 674)
	41 518	62 223	59 075	88 535

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 services

JSC "Gazprom"	9 877	8 709	14 053	12 391
Companies controlled JSC "Gazprom"	8	23	11	33
	9 885	8 732	14 064	12 424

(b) Purchase of natural gas

JSC "Gazprom"	131 324	152 492	186 858	216 977
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(c) Purchase of services

E.ON Ruhrgas International GmbH	-	7	-	11
E.ON Ruhrgas AG	-	52	-	73
	-	59	-	84

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25 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Accounts payable for natural gas and services

	31.12.2010.	31.12.2009.	31.12.2010.	31.12.2009.
	LVL'000	LVL'000	EUR'000	EUR'000
JSC "Gazprom"	515	1 470	733	2 091

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

(e) Accounts receivable for natural gas in transit

JSC "Gazprom"	1 483	1 572	2 110	2 236
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Receivables are receivable in cash and are not secured by a pledge or otherwise.

(f) Advance payment for natural gas to related company

JSC "Gazprom" for natural gas	24 216	-	34 456	-
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Advance payments for natural gas injected into the Inčukalns UGS for the needs of Latvia.

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

	2010	2009	2010	2009
	LVL'000	LVL'000	EUR'000	EUR'000
Companies controlled by E.ON Ruhrgas International GmbH	29	-	41	-
Companies controlled by JSC "Gazprom"	3 280	-	4 667	-
	3 309	-	4 708	-

(h) Accounts payable for services from companies controlled by related party

	31.12.2010.	31.12.2009.	31.12.2010.	31.12.2009.
	LVL'000	LVL'000	EUR'000	EUR'000
Accounts payable to companies controlled by E.ON Ruhrgas International GmbH	29	-	41	-
Accounts payable to companies controlled by JSC "Gazprom"	602	2 554	857	3 634
	631	2 554	898	3 634

(i) Remuneration to Board of Directors and Council

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

	2010	2009	2010	2009
	LVL'000	LVL'000	EUR'000	EUR'000
Salaries	1 332	1 320	1 895	1 878
Social insurance contributions	274	308	390	438
Expenses for accruals for post employment benefits and other employee benefits	-	(6)	-	(9)
Health and life insurance	2	9	3	13
Contributions to pension funds	43	41	61	58
	1 651	1 672	2 349	2 378

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

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26 EMPLOYEE BENEFIT COSTS

	2010	2009	2010	2009
	LVL'000	LVL'000	EUR'000	EUR'000
Wages and salaries	15 641	15 423	22 255	21 945
Expenses for accruals for post employment benefits and other employee benefits	1 273	458	1 811	652
Social insurance contributions	3 589	3 796	5 106	5 400
Social insurance contributions for accruals for post employment benefits and other employee benefits	224	(89)	319	(127)
Life, health and pension insurance	1 049	1 024	1 493	1 457
	21 776	20 612	30 984	29 327

In accordance with the Rules of the Cabinet of Ministers of Latvia 65.46 % (2009: 69.08%) of the social insurance contributions are used to fund the state defined contribution pension system.

27 SEGMENT REPORTING

31.12.2010.

	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	2 753	9 501	-	340 445	646	353 345
Inter-segment revenue	20 295	14 010	40 574	8 356	137	83 372
Inter-segment costs	(1 200)	(5 925)	(1 881)	(74 366)	-	(83 372)
Interest income	-	-	-	-	1 493	1 493
Profit before tax	7 793	3 320	11 001	6 343	1 442	29 899
Corporate income tax	1 065	357	1 615	649	421	4 107
Assets	99 347	86 371	161 633	72 056	10 444	429 851
Liabilities	11 933	7 813	38 894	31 808	443	90 891
Other information on segment						
<i>Depreciation and amortisation</i>	7 529	4 124	8 979	273	123	21 028
<i>Additions of non-current assets</i>	7 172	10 863	4 991	275	2	23 303

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 SEGMENT REPORTING (CONTINUED)

31.12.2010.

	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	3 917	13 519	-	484 410	919	502 765
Inter-segment revenue	28 877	19 935	57 732	11 890	194	118 628
Inter-segment costs	(1 708)	(8 431)	(2 676)	(105 813)	-	(118 628)
Interest income	-	-	-	-	2 124	2 124
Profit before tax	11 088	4 724	15 653	9 025	2 052	42 542
Corporate income tax	1 515	507	2 298	924	600	5 844
Assets	141 358	122 895	229 983	102 526	14 861	611 623
Liabilities	16 979	11 117	55 341	45 259	631	129 327
Other information on segment						
<i>Depreciation and amortisation</i>	10 713	5 868	12 776	388	175	29 920
<i>Additions of non-current assets</i>	10 204	15 457	7 101	391	3	33 156

31.12.2009.

	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	1 042	8 254	-	319 717	692	329 705
Inter-segment revenue	17 144	11 704	35 277	254	68	64 447
Inter-segment costs	(39)	(231)	(684)	(63 493)	-	(64 447)
Interest income	-	-	-	-	1 831	1 831
Interest expense	-	-	-	9	-	9
Profit before tax	4 868	7 901	7 724	219	2 303	23 015
Corporate income tax	985	1 221	442	797	405	3 850
Assets	99 763	81 930	163 350	111 553	4 898	461 494
Liabilities	11 580	7 172	38 017	75 311	354	132 434
Other information on segment						
<i>Depreciation and amortisation</i>	6 851	4 432	8 851	862	38	21 034
<i>Additions of non-current assets</i>	5 922	5 576	5 464	224	2	17 188

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27 SEGMENT REPORTING (CONTINUED)

31.12.2009.

	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	1 483	11 744	-	454 917	984	469 128
Inter-segment revenue	24 394	16 653	50 195	361	97	91 700
Inter-segment costs	(56)	(329)	(973)	(90 342)	-	(91 700)
Interest income	-	-	-	-	2 605	2 605
Interest expense	-	-	-	13	-	13
Profit before tax	6 927	11 242	10 990	312	3 273	32 744
Corporate income tax	1 402	1 737	629	1 134	576	5 478
Assets	141 950	116 576	232 426	158 725	6 971	656 648
Liabilities	16 477	10 205	54 093	107 158	504	188 437
Other information on segment						
<i>Depreciation and amortisation</i>	9 748	6 306	12 594	1 227	54	29 929
<i>Additions of non-current assets</i>	8 426	7 934	7 775	319	2	24 456

The largest customers:

Five of the Company's customers comprise up to 51.2% (in 2009 – 48.3%) of income. Income generated by the largest customer as of December 31, 2010 was 32.2% (in 2009 – 28.6%), the second and the third largest customers constituted 7.7% and 6.2% respectively (in 2009 – 8.8% and 5.6%) of the total income amount. This income is related to the natural gas realization segment.

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

28 CRITICAL ESTIMATES AND JUDGEMENTS

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 CRITICAL ESTIMATES AND JUDGEMENTS (CONTINUED)

Revaluation of fixed assets

The management determines fair value and the remaining useful life of buildings, gas transmission and distribution system and equipment based on valuations performed by independent certified valuers in accordance with real estate valuation standards and based on the average construction costs relevant for the reporting year. The Company's internal policy is to perform the revaluations when there are indications that average construction costs and/or purchase prices related to the buildings, gas transmission and distribution system and equipment have changed significantly. As at 1 February 2007 the Company performed revaluation of the buildings, gas transmission and distribution system and equipment that increased the carrying amount of these assets by LVL 80.2 million (EUR 114.1 million). The amortised replacement cost was determined by independent certified valuator JSC BDO 'Invest Rīga'. The management performed an assessment in 2010 and concluded that the said average replacement costs had not changed significantly.

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.

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.

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 Projected Unit Credit method. Both actuary defined and publicly available assumptions are used in calculations regarding changes in demographic and financial variables.

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 meter twice a year and determine the leveraged consumption for the winter season (November to April) and summer season. Customers are invoiced on the monthly bases.

Customers who are residents (household customers) settle accounts using the leveraged consumption payment scheme in self-service order. Customers performs the readings of meter (depending on consumption) once a year or when tariffs are changed. All customers of the households are invoiced on monthly bases by summing the leveraged consumption, for which 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.

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors(continued)

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

- financial assets: current debtors, long term debtors, cash in bank accounts, cash in bank deposits;
- financial liabilities: creditors.

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 arising of material losses, in case counterparty will not be able to fulfill its contractual obligations to the Company. Credit risk is critical to the operations of the Company, so it is important to manage this risk effectively.

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 56.7% (2009: 53.9%) of trade receivables natural gas comprises of debts of 5 largest customers of the Company, one of these customers debt comprised 22.1% (2009: 25.4%), second and third largest customer debt comprised 6.3% and 7.5% respectively (2009: 9.2% and 7.9%) of total trade receivables as at December 31, 2010. 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 5 largest customers are not impaired as at December 31, 2010.

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 (hereinafter – FAD) of the Company.

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

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 settlement period, is reached (according to leveraged consumption payment scheme), Individual CTD arranges dispatching of reminder about overdue to Debtors.
2. If the debt is not repaid within a time limit set in the reminder, warning of natural gas supply's termination is sent to the household.
3. If the payment is not repaid within a specified date, debtor for heating is included in natural gas supply's termination list and the supply of natural gas is terminated.
4. After receiving of natural gas supply's termination deed Individual CTD or appropriate Department performs 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 appropriate 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 appropriate 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 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 settlement period, is reached (according to leveraged consumption payment scheme), Individual CTD arranges dispatching of reminder about overdue to Debtors.
2. If the debt is not repaid within a time limit set in the reminder, 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 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 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 natural gas supply's termination list and the supply of natural gas is terminated.
5. After receiving of natural gas supply's termination deed Individual CTD or appropriate Department performs 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 appropriate 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 appropriate 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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued) Debt monitoring process of companies with gas consumption less than 25 thousand m³ a year:

1. When the payment due date, specified in the settlement procedures, for the natural gas received during settlement period, is reached (according to leveraged consumption payment scheme), Individual CTD arranges dispatching of reminder to Debtors about overdue.
2. If the payment for the natural gas received during 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 termination of the natural gas supply or reading the Counter data is not possible at the gasified object of the Debtor, Individual CTD or appropriate Department sends to the Debtor, as well as to the gasified object owner (if the Debtor is not an owner of the gasified object) repeated warning letter about gas supply's termination, at the same time informing about administrative responsibility.
5. After receiving of natural gas supply's termination deed Individual CTD or appropriate Department performs 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 appropriate 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 appropriate Department organises termination of natural gas supply for the gasified object of the Debtor at the earliest possible time, as well as prepares required documentation and transfers the documents to Legal department for submission of creditors' claim.

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

1. When the payment due date, specified in the settlement procedures, for the natural gas received during settlement period, is reached, Industrial CTD, as well as Departments (agreed in advance with Individual CTD) arranges dispatching of 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 appropriate Department contacts debtors included in the list via phone and reminds about payment deadline due date. If a debt due from a debtor is accumulated for natural gas supplied to an apartment type house' heating, Industrial CTD or appropriate Department may inform residents of the apartment type house by means of placing corresponding announcement about the termination of gas supply.
4. If a payment is not received after the actions mentioned above, the Company shall decide before the expiration of the term indicated in the warning letter on either the termination of gas supply or the delay of gas supply termination.
6. 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.
7. 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
8. If a client has been declared insolvent or is subject to legal protection process, if possible Industrial CTD may organize to continue gas supply with prepayment.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

December 31, 2010 (LVL'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	35 508	33 924	1 584	-
<i>incl. renegotiated receivables</i>	471	471	-	-
Other services	1 527	1 527	-	-
Total current trade receivables	37 035	35 451	1 584	-

December 31, 2010 (EUR'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	50 523	48 269	2 254	-
<i>incl. renegotiated receivables</i>	670	670	-	-
Other services	2 173	2 173	-	-
Total current trade receivables	52 696	50 442	2 254	-

December 31, 2009 (LVL'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	20 608	20 368	240	-
<i>incl. renegotiated receivables</i>	140	140	-	-
Other services	1 595	1 595	-	-
Total current trade receivables	22 203	21 963	240	-

December 31, 2009 (EUR'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	29 323	28 981	342	-
<i>incl. renegotiated receivables</i>	199	199	-	-
Other services	2 269	2 269	-	-
Total current trade receivables	31 592	31 250	342	-

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

December 31, 2010 (LVL'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Advance payments for materials	11	11	-	-
Advance payments to employees	7	3	4	-
Tax receivables	1	1	-	-
Other receivables	228	133	95	-
Total other receivables	247	148	99	-

December 31, 2010 (EUR'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Advance payments for materials	17	17	-	-
Advance payments to employees	10	4	6	-
Tax receivables	1	1	-	-
Other receivables	324	189	135	-
Total other receivables	352	211	141	-

December 31, 2009 (LVL'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Advance payments for materials	2	2	-	-
Advance payments to employees	6	1	5	-
Tax receivables	1	1	-	-
Other receivables	227	78	149	-
Total other receivables	236	82	154	-

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

December 31, 2009 (EUR'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Advance payments for materials	3	3	-	-
Advance payments to employees	8	2	6	-
Tax receivables	1	1	-	-
Other receivables	323	111	212	-
Total other receivables	335	117	218	-

* 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. 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:

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
Up to 3 months	1 537	240	2 187	342
	1 537	240	2 187	342

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

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
Up to 3 months	31	44	16	23
3 to 6 months	12	17	32	45
More than 6 months	56	80	106	150
	99	141	154	218

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

Term deposits and cash at bank

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

Moody's Investors Services credit ratings of banks (or its owners) are used by the Company (as at 30 March 2011):

Bank	Long term rating	Short term rating	Rating of financial security	Rating forecast
Nordea Bank Finland	Aa2	P-1	_*	_*
GE Money Bank (General Electric Co)	Aa2	P-1	_*	Stable
DnB NOR ASA	Aa3	P-1	C	Stable
SEB group	A1	P-1	_*	Stable
Swedbank AB	A2	P-1	D+	Stable
Latvijas Hipotēku un Zemes banka	Baa3	P-3	E+	_*
Citadele banka	Ba3	Not prime	E+	Stable
SMP bank (Russia) local currency	B3	NP	E+	Stable
SMP bank (Russia) foreign currency	B3	NP	_*	_*
Latvijas Krājbanka	_*	_*	_*	_*

* Data on credit rating is not available

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
Citadele bank	16 977	12 201	24 156	17 360
Swedbank	2 884	8 954	4 104	12 740
Latvijas Krājbanka	6 576	6 184	9 357	8 799
SEB banka	1 746	4 837	2 484	6 882
DnB NORD	6 151	2 371	8 752	3 374
GE Money Bank	81	733	115	1 043
Nordea Bank Finland	31	518	44	737
SMP Bank	80	9	114	13
Latvijas Hipotēku un Zemes banka	3 045	-	4 333	-
Total accounts with banks	37 571	35 807	53 459	50 948

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Credit risk (continued)

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

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
Aa2	112	518	159	737
Aa3	6 151	2 371	8 752	3 374
A1	1 746	4 837	2 484	6 882
A2	2 884	-	4 104	-
Baa3	3 045	8 954	4 333	12 740
Ba3	16 977	-	24 156	-
B2	-	12 201	-	17 360
B3	80	-	114	-
Data on credit rating is not available	6 576	6 926	9 357	9 855
Total accounts with banks	37 571	35 807	53 459	50 948

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, credit line is used.

Operating cash flow plan is prepared to manage liquidity risk on a monthly bases 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, 2010 (LVL'000):

	< 1 month	1-3 months	3 months- 1 year	Total
Trade payables	5 548	121	6 065	11 734
Other liabilities, incl.	89	-	306	395
<i>Accrued expenses for other expenses</i>	-	-	306	306
<i>Other short term liabilities</i>	89	-	-	89
	5 637	121	6 371	12 129

Contractual maturity of liabilities as at 31 December, 2010 (EUR'000):

	< 1 month	1-3 months	3 months- 1 year	Total
Trade payables	7 894	172	8 629	16 695
Other liabilities, incl.	127	-	435	562
<i>Accrued expenses for other expenses</i>	-	-	435	435
<i>Other short term liabilities</i>	127	-	-	127
	8 021	172	9 064	17 257

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Liquidity risk (continued)

Contractual maturity of liabilities as at 31 December, 2009 (LVL'000):

	< 1 month	1-3 months	3 months- 1 year	Total
Trade payables	2 707	57 802	81	60 590
Other liabilities, incl.	98	-	270	368
<i>Accrued expenses for other expenses</i>	-	-	270	270
<i>Other short term liabilities</i>	98	-	-	98
	2 805	57 802	351	60 958

Contractual maturity of liabilities as at 31 December, 2009 (EUR'000):

	< 1 month	1-3 months	3 months- 1 year	Total
Trade payables	3 851	82 246	116	86 213
Other liabilities, incl.	140	-	384	524
<i>Accrued expenses for other expenses</i>	-	-	384	384
<i>Other short term liabilities</i>	140	-	-	140
	3 991	82 246	500	86 737

Market risk

Interest rate risk

The Company is exposed to cash flow interest rate risk, as its borrowing is at variable interest rate (Note 10). The loan was repaid on 14 January 2009 therefore it has no impact on profit after tax. 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 probability, that foreign currency exchange fluctuations will affect 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 lat 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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Market risk (continued)

Open foreign currencies positions:

	31.12.2010.			
	USD'000	EUR'000	GBP'000	Other'000
Financial assets	20	87 561	-	3 587
Financial liabilities	-	(14 829)	-	-
Balance sheet position in original currency	20	72 732	-	3 587
Balance sheet position in LVL'000	11	51 116	-	66
Balance sheet position in EUR'000	15	72 732	-	94

Open foreign currencies positions:

	31.12.2009.			
	USD'000	EUR'000	GBP'000	Other'000
Financial assets	116	29 304	1	5 494
Financial liabilities	-	(84 047)	-	(1 879)
Balance sheet position in original currency	116	(54 742)	1	3 615
Balance sheet position in LVL'000	57	(38 473)	1	62
Balance sheet position in EUR'000	81	(54 742)	1	88

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 11% (2009: 10%), and for other currencies in range of 1% (2009: 1%) (net of tax effect).

December 31, 2010

	Currency	Book value	Impact to current year profit +11% (USD) +1% (other currencies) LVL'000	Impact to current year profit -11% (USD) -1% (other currencies) LVL'000	Book value	Impact to current year profit +11% (USD) +1% (other currencies) EUR'000	Impact to current year profit -11% (USD) -1% (other currencies) EUR'000
Assets							
Cash	EUR	31 680	269	(269)	45 077	383	(383)
	USD	11	1	(1)	16	1	(1)
	Other	4	-	-	6	-	-
Accounts receivable	EUR	29 858	254	(254)	42 484	361	(361)
	RUB	62	6	(6)	88	9	(9)
		61 615	530	(530)	87 671	754	(754)
Liabilities							
Accounts payable	EUR	10 422	89	(89)	14 829	127	(127)
		10 422	89	(89)	14 829	127	(127)
Net impact		51 193	441	(441)	72 842	627	(627)

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial risk factors (continued)

Market risk (continued)

December 31, 2009

	Currency	Book value	Impact to current year profit +10% (USD) +1% (other currencies) LVL'000	Impact to current year profit -10% (USD) -1% (other currencies) LVL'000	Book value	Impact to current year profit +10% (USD) +1% (other currencies) EUR'000	Impact to current year profit -10% (USD) -1% (other currencies) EUR'000
		LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
Assets							
Cash	EUR	18 415	157	(157)	26 202	223	(223)
	USD	26	2	(2)	37	3	(3)
	Other	4	-	-	6	-	-
Accounts receivable	EUR	2 180	19	(19)	3 102	27	(27)
	USD	32	3	(3)	46	4	(4)
	RUB	89	8	(8)	127	11	(11)
		20 746	189	(189)	29 520	268	(268)
Liabilities							
Accounts payable	EUR	59 068	502	(502)	84 047	714	(714)
	RUB	31	3	(3)	44	4	(4)
		59 099	505	(505)	84 091	718	(718)
Net impact		(38 353)	(316)	316	(54 571)	(450)	450

29.2. Capital risk 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 performs management of the capital, based on proportion of borrowed capital against total capital. This ratio is calculated as proportion of total liabilities, except cash and cash equivalents, to the total capital of the Company. 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 structure of the capital of the Company, as well as its solvency. Strategy of the Company is to ensure the ratio is not lower than 8 % and not higher than 50 %.

In 2010 and 2009 proportion of borrowed capital to total capital was as follows:

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
Total liabilities	90 891	132 434	129 327	188 437
(Cash and cash equivalents)	(37 573)	(35 810)	(53 462)	(50 953)
Net total liabilities	53 318	96 624	75 865	137 484
Total liabilities and equity	429 851	461 494	611 623	656 648
Borrowed capital proportion to total capital	12.40%	20.94%	12.40%	20.94%

Decrease of borrowed capital proportion to total capital in 2010 is mainly related to changes in volume of natural gas in Inčukalns UGS, as a result payable to natural gas suppliers in December 31, 2010 are significantly lower.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 for capital expenditures for property, plant and equipment and intangible assets in the subsequent year:

	31.12.2010. LVL'000	31.12.2009. LVL'000	31.12.2010. EUR'000	31.12.2009. EUR'000
Contracted for, but not delivered	5 819	1 442	8 280	2 052
Authorised, but not yet contracted for	14 023	17 325	19 953	24 651
	19 842	18 767	28 233	26 703

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 SUBSEQUENT EVENTS

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at December 31, 2010.

On 10 February, 2011 the Company together with OJSC “Lietuvos Dujos” has sent technical report to EC on accomplishment of subprogram to Action No. EEPR-2009-INTg-RF-LV-LT SI2.566527 “Modernization of 15 wells at the Inčukalns UGS” and SI2.566531 “Construction of a gas passage below the River Daugava and a pig receiver” and financial statements on attributable costs over the period from August 1, 2009 till January 15, 2011. On April 2011 in bank account of the Company LVL 3 552 thousand (EUR 5 055 thousand) were received.