



# **Joint stock company "Latvijas Gāze"**

Annual accounts for the year ended 31 December

2009

Prepared in accordance with the International Financial Reporting Standards

Translation from Latvian original\*

Riga, 2010

\* 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 2009**

CONTENTS	Page
<b>Information on the Company.....</b>	<b>3</b>
<b>Management report.....</b>	<b>5</b>
<b>Statement of Directors' responsibility.....</b>	<b>11</b>
<b>Auditors' report.....</b>	<b>12</b>
<b>Financial statements for the year ended 31 December 2009.....</b>	<b>14</b>
Balance sheet.....	14
Income statement.....	15
Statement of comprehensive income.....	15
Statement of changes in equity.....	16
Statement of cash flows.....	18
Notes to the financial statements.....	19

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**ANNUAL ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**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 3, 2009</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 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 3, 2009</u> Kiril Seleznov (Кирилл Селезнев) – Chairman of the Council Juris Savickis – Deputy Chairman of the Council Achim Saul – Deputy Chairman of the Council Eike Benke – Member of the Council Uwe Fip – Member of the Council Heinz Watzka – Member of the Council Marcus Anton Söhrich – 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
Financial year	1 January – 31 December 2009

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**ANNUAL ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**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

Responsible certified auditor:  
Lolita Čapkeviča  
Certified auditor  
Certificate No. 120

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**ANNUAL ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

## **Management Report**

### **1. Operation of the Company in the reporting year**

The Joint Stock Company Latvijas Gāze (hereinafter – the Company) is an energy supply company, which deals with natural gas transmission, storage, distribution and sale. In 1997, the Energy Supply Regulation Council of the Republic of Latvia granted to the Company exclusive licences for the provision of regulated public services until February 10, 2017. On January 31, 2007, the Council of the Public Utility Commission (hereinafter – PUC) issued to the Company a licence for natural gas sale until February 10, 2012. Pursuant to the Energy Law, the Company is the natural gas supply system operator, which, avoiding overloads of system capacity, ensures uninterrupted and secure natural gas supply to consumers in Latvia.

Over the reporting year, users were supplied with 1 492.9 million m<sup>3</sup> of natural gas. In comparison to 2008, natural gas sales in m<sup>3</sup> have decreased by 8.5%. During the reporting period, customers of the Company were influenced by the financial crisis and economic recession in Latvia, which had an impact on the Company's economic performance and natural gas consumption. Due to the relatively high natural gas prices, the first half of 2009 resulted in reduced demand for natural gas and users switching to alternative types of fuel. At the end of the year an opposite trend was witnessed as the low air temperature and the cheap natural gas reserves at the Inčukalns Underground Gas Storage Facility (hereinafter – Inčukalns UGS) raised the demand for natural gas above that of the 1st half and the European market. The average consumption by households also decreased during the reporting year. This was due to the changes in the average temperature, which was higher than in previous years throughout the year, except for December, and optimisation of use of resources.

In late 2008, natural gas suppliers finalised the gradual increase of purchase prices reaching the price level of the European natural gas markets, and in 2009 the natural gas purchase prices were only influenced by the changes in oil product quotations at the stock exchange, currency value fluctuations and gas supply flows.

During the reporting period, natural gas was sold for the differential natural gas sale end tariffs, approved by the PUC Council on July 24, 2008, with the resolution No. 247 "On natural gas supply tariffs of the Joint Stock Company Latvijas Gāze".

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.nm<sup>3</sup> depending on the actual natural gas purchase costs. The natural gas sale end tariff applied to users with the annual consumption volume over 25 thousand nm<sup>3</sup> changes monthly, whereas to users with the annual consumption up to 25 thousand m<sup>3</sup> – once in half year, on January 1 and July 1.

Over the reporting year from January to December, the tariffs for households for heating decreased by 27%, while for industrial customers – by 36% on average.

In 2009, the Company sold natural gas and provided services to consumers for LVL 329.7 million (EUR 469.1 million), which is by 6% less than in the respective period of 2008; the expenses of the reporting year (excluding administrative costs) are LVL 293.9 million (EUR 418.2 million) and the gross profit – LVL 35.8 million (EUR 51 million). The decrease of net turnover relates to changes in the natural gas sale price and the natural gas sales volume.

Also in 2009, the Company incorporated a number of measures in order to keep its profit at the level of 2008. The Company introduced new standards for operation of the gas supply system and re-organized the organizational structure, reducing the number of employees by 9.2%. Working under conditions of crisis, additional financial and material resources were shifted for the control of natural gas sales and billing, reducing the financing for the provision of new connections, advertising and marketing activities. Like in previous years, the funding of measures related to the system safety was set as a priority. Additional saving of funds was facilitated by the decreased prices and the increased competition of outsourced services used when organizing purchase tenders.

The Company closed the year 2009 with a net profit of LVL 19.97 million (EUR 28.4 million), which did not considerably differ from that of 2008 (LVL 19.93 million or EUR 28.4 million), still being LVL 12.9 million (EUR 18.3 million) below the figure of 2007. The net profitability of business activity was 6.1% in 2009 and 5.7% in 2008.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**ANNUAL ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**Management Report** (continued)

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

In 2009, 1.21 billion m<sup>3</sup> of natural gas was injected into the Inčukalns UGS, while 1.97 billion m<sup>3</sup> was withdrawn. In comparison to the 2008, these volumes have fallen by 36.8% and 19.8% respectively. During the reporting period a considerable decrease of usage of the Inčukalns UGS for the needs of other countries was noted, which was due to the mild winter and the increase of the tariffs of gas storage services.

In 2009, the Company invested LVL 17.2 million (EUR 24.5 million) in the modernization of the gas supply system and acquisition of new fixed assets. 33% of the total investment was spent on the modernization of the gas transmission pipeline system, 31% – on the improvement of the operational safety and the modernization of equipment at the Inčukalns UGS, while 30% - on the expansion of the distribution networks and the renewal of fixed assets. 1.1 thousand new users were connected to the gas supply system. The total number of gas-enabled objects at the end of year reached 442.1 thousand.

In the reporting period, the reconstruction of seven wells at the Inčukalns UGS in the gas-carrying zone was completed with the total costs reaching LVL 1.96 million (EUR 2.8 million). In cooperation with the LLC Gazpromenergodagnostika, an investigation of technical condition was carried out, and the reconstruction of further wells began under the plan of measures for the improvement of safety of gas supply system 2010-2015. The reconstruction of the gas drying unit CS-1 is in progress. Over the reporting year, LVL 2.9 million (EUR 4.1 million) were invested, whereas the total costs of the Project are planned in the amount of LVL 5.2 million (EUR 7.2 million). The object is due for commissioning in late 2011. The elimination of damages found in diagnostics of gas transmission pipelines, as well as construction of a pig launcher and receiver for the gas pipelines Riga – Inčukalns UGS, Iecava – Liepāja and Riga – Panevežys is in progress. LVL 2.9 million (EUR 4.1 million) were spent on the construction of gas pipelines in 2009. The major project was the construction of a gas pipeline along the Riga bypass road. The total length of the bypass line will reach 40 km and after the commissioning of a cross-connection in 2011, a looping will be completed, allowing for stabilization of gas supply of Riga and its suburbs. The total costs of the project are LVL 3 million (EUR 4.3 million); LVL 2 million (EUR 2.8 million) were utilised in 2009.

Company's main ratios:

	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>LVL'000</b>	<b>LVL'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
Revenue	329 705	351 005	469 128	499 435
EBITDA	42 228	40 814	60 085	58 073
EBITDA %	12.81%	11.63%	12.81%	11.63%
Profit from operating activities	21 193	21 502	30 155	30 594
Ratability of operating activities (%)	6.43%	6.13%	6.43%	6.13%
Profit for the year	19 165	19 046	27 269	27 100
Commercial ratability (%)	5.81%	5.43%	5.81%	5.43%
Total assets	461 494	488 848	656 648	695 569
Equity	329 060	324 955	468 211	462 371
Return of assets (ROA)	4.03%	3.97%	4.03%	3.97%
Return of equity (ROE)	5.86%	5.86%	5.86%	5.86%
Shares	39 900	39 900	39 900	39 900
Profit per share	0.480	0.477	0.683	0.679
P/E	8.54	9.53	8.54	9.53
BV	8.25	8.14	11.73	11.59
P/BV	0.50	0.56	0.50	0.56
Dividends per share	0.40*	0.38	0.57*	0.54
Share price at the end of the period	4.10	4.55	5.83	6.47

\* Board of the Company will propose to the Council to pay dividends in amount of LVL 0,40 (EUR 0,57) for each share in year 2009.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**ANNUAL ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**Management Report** (continued)

**2. Research and development measures**

In order to ensure uninterrupted gas supply to users and secure operation of the gas supply system, the Company has developed a „Plan of measures for the improvement of operation safety of the gas supply system 2010-2015” which is based on the conclusions made by the Russian companies *Gazobezopasnostj* and *Lentransgaz*, the institutes *VNIIGAZ* and *Giprospecgaz*, as well as the German companies *Pipeline Engineering GmbH*, *Untergrundspeicher und Geotechnologie – Systeme GmbH*, *E.ON Engineering GmbH*, *E.ON Ruhrgas International AG* and other partners regarding the technical condition of equipment and modernization options.

The plan of measures envisages investment in the improvement of safety for the total amount of LVL 50.6 million (EUR 72 million). This basically includes projects that are required to be implemented for the improvement of the system operation safety, the gasification of new objects and the improvement of gas supply stability throughout the region.

**3. 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.

**4. Distribution of profit 2009 suggested by the Board**

	2009 LVL	2009 EUR
Profit of the reporting year	19 966 697	28 410 050
Share of profit not available for distribution (credit of deferred tax not distributed due to revaluation of fixed assets)	(1 636 688)	(2 328 798)
Distributable share of profit	18 330 009	26 081 252
Suggested distribution of profit:		
dividends to shareholders (79.9 %)	15 960 000	22 709 034
dividends per one share (LVL per 1 share)	0,40	0,569
Statutory reserve	2 370 009	3 372 218

Certain members of the Council and the Board of the Company own shares and interests in numerous companies registered in the Registry of Enterprises of the Republic of Latvia, and they have managerial functions there. Within the reporting year the Company has not made transactions of considerable amount with these companies, except for those mentioned in the financial statements).

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

**5. Shares and shareholders**

Composition of shareholders<sup>1</sup> of LG as on December 31, 2009:

Shareholder	31.12.2009.	31.12.2008.
“E.ON Ruhrgas International” GmbH	47.2%	47.2%
“Gazprom” AAS	34.0%	34.0%
“Itera Latvija” SIA	16.0%	16.0%
Citi	2.8%	2.8%
KOPĀ	100,0 %	100,0 %

**Management Report** (continued)

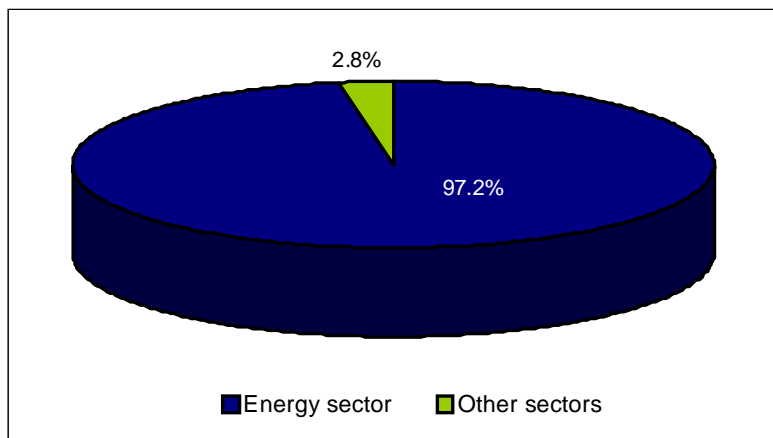
<sup>1</sup> Shareholders owning not less than 5% of capital

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**ANNUAL ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**5. Shares and shareholders** (continued)

Distribution of holdings according to holding groups as on December 31, 2009:



List of shareholders with special control rights as on December 31, 2009:

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	Achim Saul	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 LG are quoted at the NASDAQ OMX Riga Stock Exchange, and its share trade code since August 1, 2004 is GZE1R. The shares of LG were quoted in the Official list of the NASDAQ OMX Riga Stock Exchange and the General list of the NASDAQ OMX Baltic Stock Exchange till July 31, 2008. Pursuant to the resolution passed on June 25, 2008 by the Board of the JSC "NASDAQ OMX Riga Stock Exchange", due to the insufficient number of quotable LG shares available in free public trading, the shares of LG were shifted to the Second list of the NASDAQ OMX Baltic Stock Exchange and the NASDAQ OMX Riga Stock Exchange as from August 1, 2008.

The capitalization value of LG at the end of 2009 reached LVL 163.6 million – by 17.9 million less than at the end of the previous reporting period. By share market capitalization LG took the 2nd place among companies quoted in Latvia and the 9th place at the NASDAQ OMX Baltic Stock Exchange.



Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**ANNUAL ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

Management Report (continued)

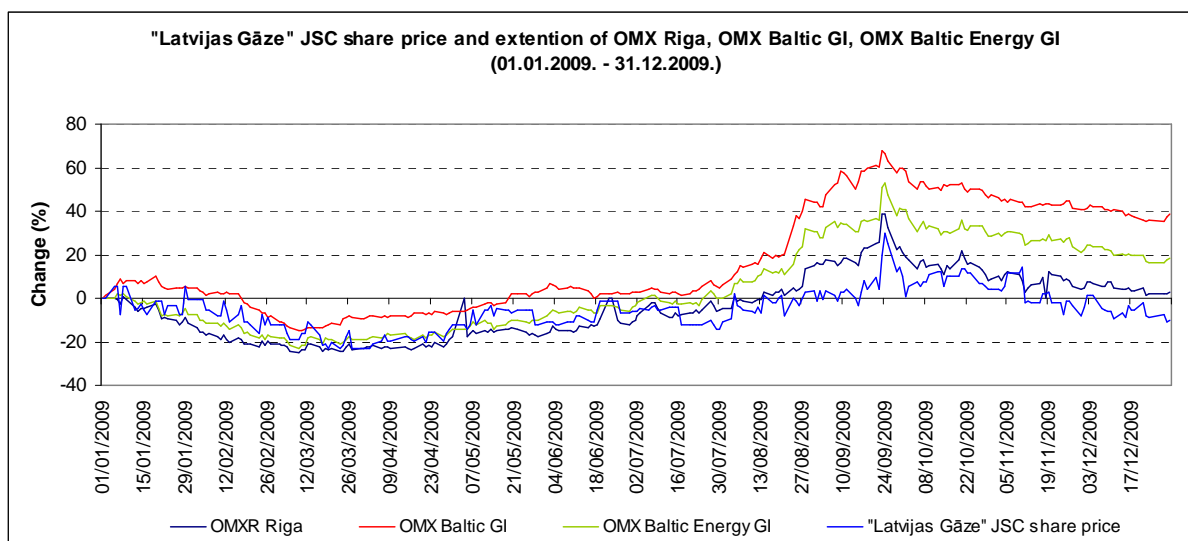
5. Shares and shareholders (continued)

Shares price of LG as on December 31, 2009 and previous periods

	2005	2006	2007	2008	2009
<b>Shares price (LVL):</b>					
First	6.20	9.95	10.35	7.25	4.55
Highest	9.90	11.13	11.25	8.20	6.00
Lowest	6.15	9.27	7.05	3.62	3.32
Avarage	7.67	10.22	10.34	6.77	4.31
Last	9.61	10.32	7.12	4.55	4.10
Number of shares	63 360	128 844	154 825	46 565	64 319
Turnover (mio LVL)	0.486	1.316	1.600	0.315	0.277
Number of deals	864	1 066	1 074	1 711	1 267
Capitalization (mio LVL)	383.439	411.768	284.088	181.545	163.590

Source: NASDAQ OMX Riga Stock Exchange

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
Index	B10GI, B10PI, OMXBBCAPGI, OMXBBCAPPI, OMXBBGI, OMXBBPI, OMXBGI, OMXBPI, OMXRG



Source: NASDAQ OMX Riga Stock Exchange

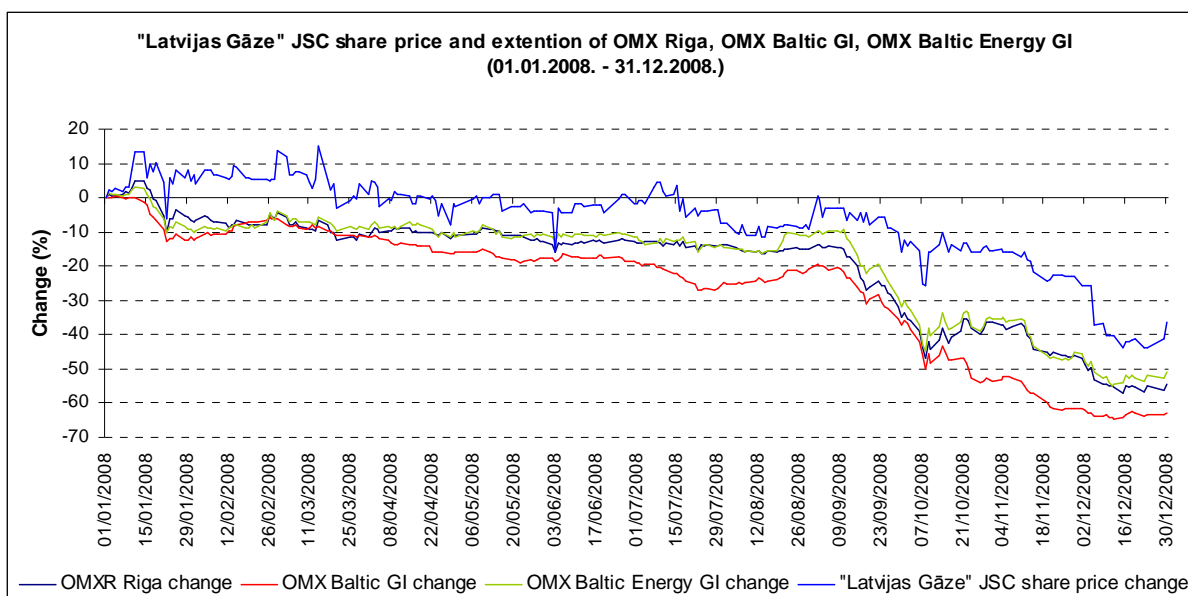
Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"  
ANNUAL ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

Management Report (continued)

**5. Shares and shareholders (continued)**

Indexes/shares	01.01.2009.	31.12.2009.	Change
OMX Riga	271.29	278.94	2.82%
OMX Baltic GI	190.76	264.23	38.51%
OMX Baltic Energy GI	280.55	332.46	18.50%
LG share price	4.55	4.10	-9.89%



Source: NASDAQ OMX Riga Stock Exchange

Indeksi/Akcijas	01.01.2008.	31.12.2008.	Change
OMX Riga	595.30	271.29	-54.43%
OMX Baltic GI	515.40	190.76	-62.99%
OMX Baltic Energy GI	569.41	280.55	-50.73%
LG akciju cena	7.12	4.55	-36.10%

**6. Future prospect**

In the light of the investments made in the improvement of the system operational safety, the expansion of the gas pipeline network and the attraction of new customers, as well as taking into account the situation in the fuel market in Latvia, the Board of the Company believes that in 2010 the Company will continue its successful development and will take a stable place in the fuel supply market.

Chairman of the Board

A. Dāvis

Board meeting minutes No. 15 (2010)  
Riga, April 29, 2010

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**ANNUAL ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**STATEMENT OF DIRECTORS' RESPONSIBILITY**

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

The financial statements on pages 14 to 59 are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Company as of 31 December 2009 and the results of its operations and cash flows for the year ended 31 December 2009.

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

On behalf of the Board of Directors,

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Adrians Dāvis  
Chairman of the Board

Board meeting minutes No. 15 (2010)  
Riga, April 29, 2010

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**ANNUAL ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**AUDITORS' REPORT**



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Translation from Latvian original\*

**INDEPENDENT AUDITORS' REPORT**

**To the Shareholders of JSC "Latvijas Gāze"**

**Report on the Financial Statements**

We have audited the accompanying financial statements on pages 14 to 59 of JSC "Latvijas Gāze" which comprise the balance sheet as of 31 December 2009 and the income statement, 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 notes.

*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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

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

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

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

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**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**ANNUAL ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**AUDITORS' REPORT**



*Opinion*

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

**Report on Other Legal and Regulatory Requirements**

We have read the Management Report set out on pages 5 to 10 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2009.

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 'Lolita Čapkeviča'.

Lolita Čapkeviča  
Certified auditor in charge  
Certificate No. 120

Riga, Latvia  
29 April 2010

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

(2)

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**BALANCE SHEET AS AT 31 DECEMBER 2009**

	Note	31.12.2009. LVL'000	31.12.2008. LVL'000	31.12.2009. EUR'000	31.12.2008. EUR'000
<b>Assets</b>					
<u>Non-current assets</u>					
Property, plant and equipment	3	315 109	320 052	448 360	455 393
Intangible assets	4	2 430	2 271	3 458	3 231
Trade receivables	5	4	11	6	16
		317 543	322 334	451 824	458 640
<u>Current assets</u>					
Inventories	6	83 533	115 681	118 857	164 599
Trade receivables	5	22 203	39 542	31 592	56 263
Current income tax receivable	21	1 357	3 854	1 931	5 485
Other receivables	7	1 048	991	1 491	1 410
Cash and cash equivalents	8	35 810	6 446	50 953	9 172
		143 951	166 514	204 824	236 929
<b>Total assets</b>		<b>461 494</b>	<b>488 848</b>	<b>656 648</b>	<b>695 569</b>
<b>Equity and liabilities</b>					
<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		186 360	187 060	265 167	266 163
Other reserves		69 540	66 544	98 947	94 684
Retained earnings		18 940	17 131	26 948	24 375
<b>Total equity</b>		<b>329 060</b>	<b>324 955</b>	<b>468 211</b>	<b>462 371</b>
<u>Liabilities</u>					
<u>Non-current liabilities</u>					
Deferred income tax liabilities	21	29 700	29 915	42 259	42 566
Accruals for post employment benefits and other employee benefits	22	4 416	4 672	6 283	6 648
Deferred income	11	13 824	13 460	19 670	19 152
		47 940	48 047	68 212	68 366
<u>Current liabilities</u>					
Trade payables		60 590	86 060	86 213	122 451
Borrowings	10	-	1 788	-	2 544
Deferred income	11	824	3 674	1 172	5 227
Other payables	12	23 080	24 324	32 840	34 610
		84 494	115 846	120 225	164 832
<b>Total liabilities</b>		<b>132 434</b>	<b>163 893</b>	<b>188 437</b>	<b>233 198</b>
<b>Total equity and liabilities</b>		<b>461 494</b>	<b>488 848</b>	<b>656 648</b>	<b>695 569</b>

The notes on pages 19 to 59 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 2009**

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	2009 LVL'000	2008 LVL'000	2009 EUR'000	2008 EUR'000
Revenue	13	329 705	351 005	469 128	499 435
Cost of sales	14	(293 890)	(320 028)	(418 167)	(455 359)
<b>Gross profit</b>		<b>35 815</b>	<b>30 977</b>	<b>50 961</b>	<b>44 076</b>
Administrative expenses	15	(12 968)	(9 824)	(18 453)	(13 978)
Other income	16	2 542	2 605	3 618	3 706
Other expenses	17	(4 196)	(2 256)	(5 971)	(3 210)
<b>Operating profit</b>		<b>21 193</b>	<b>21 502</b>	<b>30 155</b>	<b>30 594</b>
Finance income	19	1 831	1 083	2 605	1 541
Finance expenses	19	(9)	(119)	(13)	(169)
Finance income, net	19	1 822	964	2 592	1 372
<b>Profit before income tax</b>		<b>23 015</b>	<b>22 466</b>	<b>32 747</b>	<b>31 966</b>
Income tax expense	21	(3 850)	(3 420)	(5 478)	(4 866)
<b>Profit for the year</b>		<b>19 165</b>	<b>19 046</b>	<b>27 269</b>	<b>27 100</b>
<b>Earnings per share</b>		<b>LVL</b>	<b>LVL</b>	<b>EUR</b>	<b>EUR</b>
Basic	23a	0.480	0.477	0.683	0.679
Diluted	23a	0.480	0.477	0.683	0.679

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009**

**OTHER COMPREHENSIVE INCOME**

<b>Profit for the year</b>	<b>19 165</b>	<b>19 046</b>	<b>27 269</b>	<b>27 100</b>
Revaluation of property, plant and equipment – net of tax	102	359	145	511
<b>Other comprehensive income for the year, net of tax</b>	<b>102</b>	<b>359</b>	<b>145</b>	<b>511</b>
<b>Total comprehensive income for the year</b>	<b>19 267</b>	<b>19 405</b>	<b>27 414</b>	<b>27 611</b>

The notes on pages 19 to 59 are an integral part of these financial statements.

The financial statements on pages 14 to 59 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, 2010

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009**

	Share capital LVL'000	Share premium LVL'000	Revaluation reserve LVL'000	Other reserves LVL'000	Retained earnings LVL'000	Total LVL'000
<b>Balance as at 31 December 2007</b>	<b>39 900</b>	<b>14 320</b>	<b>187 584</b>	<b>55 416</b>	<b>28 280</b>	<b>325 500</b>
<i>Other comprehensive income</i>						
Revaluation of property, plant and equipment - gross	-	-	584	-	-	584
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(225)	-	-	(225)
Disposal of revalued property, plant and equipment	-	-	(973)	-	973	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	90	-	(90)	-
<i>Total other comprehensive income</i>	-	-	(524)	-	883	359
Profit for the year	-	-	-	-	19 046	19 046
<b>Total comprehensive income for 2008</b>	<b>-</b>	<b>-</b>	<b>(524)</b>	<b>-</b>	<b>19 929</b>	<b>19 405</b>
<i>Transactions with owners</i>						
Transfers to reserves	-	-	-	11 128	(11 128)	-
Dividends for 2007	-	-	-	-	(19 950)	(19 950)
<b>Balance as at 31 December 2008</b>	<b>39 900</b>	<b>14 320</b>	<b>187 060</b>	<b>66 544</b>	<b>17 131</b>	<b>324 955</b>
<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
<b>Total comprehensive income for 2009</b>	<b>-</b>	<b>-</b>	<b>(700)</b>	<b>-</b>	<b>19 967</b>	<b>19 267</b>
<i>Transactions with owners</i>						
Transfers to reserves	-	-	-	2 996	(2 996)	-
Dividends for 2008	-	-	-	-	(15 162)	(15 162)
<b>Balance as at 31 December 2009</b>	<b>39 900</b>	<b>14 320</b>	<b>186 360</b>	<b>69 540</b>	<b>18 940</b>	<b>329 060</b>

The notes on pages 19 to 59 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 2009**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009**  
(CONTINUED)

	Share capital EUR'000	Share premium EUR'000	Revaluation reserve EUR'000	Other reserves EUR'000	Retained earnings EUR'000	Total EUR'000
<b>Balance as at 31 December 2007</b>	<b>56 773</b>	<b>20 376</b>	<b>266 907</b>	<b>78 850</b>	<b>40 240</b>	<b>463 146</b>
<i>Other comprehensive income</i>						
Revaluation of property, plant and equipment - gross	-	-	831	-	-	831
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(320)	-	-	(320)
Disposal of revalued property, plant and equipment	-	-	(1 384)	-	1 384	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	129	-	(129)	-
<i>Total other comprehensive income</i>	-	-	(744)	-	1 255	511
Profit for the year	-	-	-	-	27 100	27 100
<b>Total comprehensive income for 2008</b>	<b>-</b>	<b>-</b>	<b>(744)</b>	<b>-</b>	<b>28 355</b>	<b>27 611</b>
<i>Transactions with owners</i>						
Transfers to reserves	-	-	-	15 834	(15 834)	-
Dividends for 2007	-	-	-	-	(28 386)	(28 386)
<b>Balance as at 31 December 2008</b>	<b>56 773</b>	<b>20 376</b>	<b>266 163</b>	<b>94 684</b>	<b>24 375</b>	<b>462 371</b>
<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
<b>Total comprehensive income for 2009</b>	<b>-</b>	<b>-</b>	<b>(996)</b>	<b>-</b>	<b>28 410</b>	<b>27 414</b>
<i>Transactions with owners</i>						
Transfers to reserves	-	-	-	4 263	(4 263)	-
Dividends for 2008	-	-	-	-	(21 574)	(21 574)
<b>Balance as at 31 December 2009</b>	<b>56 773</b>	<b>20 376</b>	<b>265 167</b>	<b>98 947</b>	<b>26 948</b>	<b>468 211</b>

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

The notes on pages 19 to 59 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 2009**

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	2009 LVL'000	2008 LVL'000	2009 EUR'000	2008 EUR'000
<b>Cash flows from operating activities</b>					
Cash generated from operations	24	62 223	30 214	88 535	42 991
Interest received		2 695	2 366	3 835	3 367
Income tax paid	21	(1 445)	(9 444)	(2 056)	(13 438)
<b>Net cash generated from operating activities</b>		<b>63 473</b>	<b>23 136</b>	<b>90 314</b>	<b>32 920</b>
<b>Cash flows from investing activities</b>					
Purchases of property, plant and equipment		(16 321)	(21 773)	(23 222)	(30 980)
Proceeds from sale of property, plant and equipment		48	120	68	171
Purchases of intangible assets		(867)	(1 000)	(1 234)	(1 423)
Dividends received		2	-	3	-
<b>Net cash used in investing activities</b>		<b>(17 138)</b>	<b>(22 653)</b>	<b>(24 385)</b>	<b>(32 232)</b>
<b>Cash flows from financing activities</b>					
Repayment of long term borrowings		(1 788)	(20 030)	(2 544)	(28 500)
Borrowings received		-	1 788	-	2 544
Interest paid		(21)	(150)	(30)	(214)
Dividends paid		(15 162)	(19 950)	(21 574)	(28 386)
<b>Net cash used in from financing activities</b>		<b>(16 971)</b>	<b>(38 342)</b>	<b>(24 148)</b>	<b>(54 556)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>29 364</b>	<b>(37 859)</b>	<b>41 781</b>	<b>(53 868)</b>
Cash and cash equivalents at the beginning of the year		6 446	44 305	9 172	63 040
<b>Cash and cash equivalents at the end of the year</b>	8	<b>35 810</b>	<b>6 446</b>	<b>50 953</b>	<b>9 172</b>

The notes on pages 19 to 59 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 2009**

**NOTES TO THE FINANCIAL STATEMENTS**

**1 INCORPORATION AND ACTIVITIES**

JSC Latvijas Gāze 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 2.3 million.

The applied differential natural gas sale end tariffs consist of two parts: fixed tariffs for regulated services and the natural gas sale price, which changes with a step of 5 LVL/thous.m<sup>3</sup> depending on the actual natural gas purchase costs. The tariffs of gas sold to corporate and retail customers are set by the Public Utilities Commission (PUC) of the Republic of Latvia. Changes to tariffs are considered by PUC based on applications of the Company and in accordance with the methodology approved by PUC. The natural gas sale end tariff applied to users with the annual consumption volume over 25 thousand nm<sup>3</sup> changes monthly, whereas to users with the annual consumption up to 25 thousand nm<sup>3</sup> – once in half year, on January 1 and July 1.

During 2009 the average number of persons employed by the Company was 1 336 (2008: 1 379).

These financial statements have been approved by the Board of Directors on April XX, 2010.

**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 (u).

*Certain IFRSs became effective for the Company from 1 January 2009. Listed below are those or amended standards or interpretations which are relevant to the Company's operations and the nature of their impact on the Company's accounting policies.*

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 ACCOUNTING POLICIES (CONTINUED)**

**(a) Basis of preparation (continued)**

***IAS 1, Presentation of Financial Statements, revised in September 2007.***

The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Company has elected to present a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Company's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

***IAS 23, Borrowing Costs, revised in March 2007.***

The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. The amendment did not have an impact on these financial statements.

***IFRS 8, Operating Segments.***

The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The adoption of IFRS 8 has resulted in change of the number of reportable segments presented.

*The following new and amended IFRSs and interpretations became effective in 2009, but are not relevant for the Company's operations and did not have an impact on these financial statements*

***Puttable Financial Instruments and Obligations Arising on Liquidation, IAS 32 and IAS 1 Amendment***

The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities.

***Vesting Conditions and Cancellations - Amendment to IFRS 2, Share-based Payment.***

The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 ACCOUNTING POLICIES (CONTINUED)**

**(a) Basis of preparation (continued)**

***Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009.***

The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

***Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 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 13, Customer Loyalty Programmes*** (effective July 2008, but EU endorsed for use 1 January 2009)

IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.

***IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'*** (effective for annual periods beginning on or after 1 January 2008, but EU endorsed for use 1 January 2009).

This interpretation provides guidance on assessing the limit in IAS 19, 'Employee benefits', on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

***Improvements to International Financial Reporting Standards*** (issued in May 2008).

In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting.

*Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning in or after 1 July 2009 or later periods and which the Company has not early adopted.*

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 ACCOUNTING POLICIES (CONTINUED)**

**(a) Basis of preparation (continued)**

*IFRIC 18, Transfers of Assets from Customers* (effective for annual periods beginning on or after 1 July 2009, EU endorsed from annual periods beginning on or after 31 October 2009).

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. The Company is currently assessing what impact this interpretation will have on the financial statements.

*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, EU endorsed from annual periods beginning on or after March 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.

*Certain new standards and interpretations have been published that become effective for this accounting periods beginning on or after 1 July 2009 or later periods which are not relevant to the Company or are not yet endorsed by EU.*

*IAS 27, Consolidated and Separate Financial Statements* (revised January 2008; effective for annual periods beginning on or after 1 July 2009).

The revised IAS 27 will require 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 current standard requires 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 will have to be measured at its fair value.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 ACCOUNTING POLICIES (CONTINUED)**

**(a) Basis of preparation (continued)**

***Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, issued in May 2008*** (issued in May 2008, effective from periods beginning on or after 1 July 2009).

The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss for the year rather than as a recovery of the investment.

***Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment*** (effective for annual periods beginning on or after 1 January 2010, EU endorsed from annual periods beginning on or after March 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.

***Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement*** (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*** (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 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.

***IFRS 3, Business Combinations*** (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

The revised IFRS 3 will allow 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 will have 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 will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be 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 IAS 24, Related Party Disclosures*** (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).

IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Company is currently assessing what impact this interpretation will have on the financial statements.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 ACCOUNTING POLICIES (CONTINUED)**

**(a) Basis of preparation (continued)**

***Classification of Rights Issues - Amendment to IAS 32*** (issued 8 October 2009; 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. The Company is currently assessing what impact this interpretation will have on the financial statements.

***IFRS 9, Financial Instruments Part 1: Classification and Measurement*** IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets.

The standard requires that financial assets are classified into two measurement categories: those to be measured at fair value, and those to be measured at amortised cost. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Company is currently assessing what impact this interpretation will have on the financial statements.

***IFRIC 12, 'Service concession arrangements'*** (effective for annual periods beginning on or after 1 January 2008. Effective for annual periods beginning on or after 30 March 2009 for companies that prepare financial statements based on the IFRS as adopted by the EU).

This interpretation applies to contractual arrangements whereby a private sector operator participates in the development financing, operation and maintenance of infrastructure for public sector services, for example, under private finance initiative contracts (PFI) contracts. Under these arrangements, assets are assessed as either intangible assets or finance receivables.

***IFRIC 15, Agreements for the Construction of Real Estate*** (effective 1 January 2009, but EU endorsed for use 1 January 2010).

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.

***IFRIC 16, Hedges of a Net Investment in a Foreign Operation*** (effective 1 October 2008, but EU endorsed for use periods beginning on or after 1 July 2010).

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 for annual periods beginning on or after 1 July 2009).

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 will be recognised in profit or loss for the year when the entity settles the dividend payable.



Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 ACCOUNTING POLICIES (CONTINUED)**

**(a) Basis of preparation** (continued)

*Amendment to IFRIC 14, 'Payments of a minimum funding requirement'* (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.

*IFRIC 19, Extinguishing financial liabilities with equity instruments* (effective for annual periods beginning on or after 1 July 2010).

This interpretation 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.

*Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS* (not yet endorsed by EU). The amendments exempt entities using the full cost method from retrospective application of IFRSs for 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.

*The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses.*

Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced.

**(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 Inčukalna 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 2009 to 31 December 2009 – EUR/LVL (1 EUR = LVL 0.702804).

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 ACCOUNTING POLICIES (CONTINUED)**

**(d) Property, plant and equipment (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:

	<b>years</b>
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)).

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**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.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**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.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 ACCOUNTING POLICIES (CONTINUED)**

**(m) Deferred income tax**

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 independent actuary evaluates these liabilities. Expected benefit expenses are accrued during the employment period.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**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 it's 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.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

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
<b>Cost or revaluation</b>								
<b>At December 31, 2007</b>	<b>1 100</b>	<b>6 590</b>	<b>568 458</b>	<b>68 518</b>	<b>9 109</b>	<b>80</b>	<b>21 540</b>	<b>675 395</b>
Additions	-	-	-	-	-	3 553	18 279	21 832
Reclassified	558	-	22 261	12 633	1 339	(3 414)	(33 490)	(113)
Revaluation	-	-	561	35	-	-	-	596
Disposals	-	-	(1 537)	(456)	(394)	(1)	(333)	(2 721)
Transferred to stock	-	-	-	-	-	-	(245)	(245)
<b>At December 31, 2008</b>	<b>1 658</b>	<b>6 590</b>	<b>589 743</b>	<b>80 730</b>	<b>10 054</b>	<b>218</b>	<b>5 751</b>	<b>694 744</b>
<b>Depreciation</b>								
<b>At December 31, 2007</b>	-	-	<b>320 890</b>	<b>32 105</b>	<b>4 637</b>	-	-	<b>357 632</b>
Charged for 2008	-	-	12 993	4 609	1 113	-	-	18 715
Revaluation	-	-	12	-	-	-	-	12
Disposals	-	-	(884)	(393)	(390)	-	-	(1 667)
<b>At December 31, 2008</b>	-	-	<b>333 011</b>	<b>36 321</b>	<b>5 360</b>	-	-	<b>374 692</b>
<b>Net book value at December 31, 2008</b>	<b>1 658</b>	<b>6 590</b>	<b>256 732</b>	<b>44 409</b>	<b>4 694</b>	<b>218</b>	<b>5 751</b>	<b>320 052</b>
<b>Net book value at December 31, 2007</b>	<b>1 100</b>	<b>6 590</b>	<b>247 568</b>	<b>36 413</b>	<b>4 472</b>	<b>80</b>	<b>21 540</b>	<b>317 763</b>
	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
<b>Cost or revaluation</b>								
<b>At December 31, 2008</b>	<b>1 658</b>	<b>6 590</b>	<b>589 743</b>	<b>80 730</b>	<b>10 054</b>	<b>218</b>	<b>5 751</b>	<b>694 744</b>
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)
<b>At December 31, 2009</b>	<b>1 785</b>	<b>6 590</b>	<b>600 277</b>	<b>82 232</b>	<b>10 954</b>	<b>14</b>	<b>5 111</b>	<b>706 963</b>
<b>Depreciation</b>								
<b>At December 31, 2008</b>	-	-	<b>333 011</b>	<b>36 321</b>	<b>5 360</b>	-	-	<b>374 692</b>
Charged for 2009	-	-	13 646	4 961	1 124	-	-	19 731
Revaluation	-	-	140	324	7	-	-	471
Disposals	-	-	(1 502)	(1 035)	(503)	-	-	(3 040)
<b>At December 31, 2009</b>	-	-	<b>345 295</b>	<b>40 571</b>	<b>5 988</b>	-	-	<b>391 854</b>
<b>Net book value at December 31, 2009</b>	<b>1 785</b>	<b>6 590</b>	<b>254 982</b>	<b>41 661</b>	<b>4 966</b>	<b>14</b>	<b>5 111</b>	<b>315 109</b>
<b>Net book value at December 31, 2008</b>	<b>1 658</b>	<b>6 590</b>	<b>256 732</b>	<b>44 409</b>	<b>4 694</b>	<b>218</b>	<b>5 751</b>	<b>320 052</b>





Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**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 Riga". 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 2009 assets which were received for gratis or in exchange during the reporting year were revaluated. In addition, the value of fixed assets used in the motor vehicles gas filling compressor stations were impaired and the related impairment charge of LVL 605 thousand was recognised in the Income Statement.

Property, plant and equipment include fully depreciated assets with a total cost of LVL 4 560 thousand or EUR 6 488 thousand (2008: LVL 4 118 thousand or EUR 5 860 thousand).

As at December 31, 2009 the carrying amount in case the revaluated property, plant and equipment would be carried under the cost model is LVL 150 194 thousand or EUR 213 707 thousand including buildings 113 809 thousand LVL (161 936 thousand EUR) and equipment and machinery 36 385 thousand LVL (51 771 thousand EUR) (2008: LVL 154 318 thousand or EUR 219 574 thousand including buildings 106 170 thousand LVL (151 066 thousand EUR) and equipment and machinery 37 485 thousand LVL (53 336 thousand EUR)).

During the reporting year the Company has capitalized depreciation in amount of LVL 31 thousand or EUR 44 thousand (2008: LVL 29 thousand or EUR 41 thousand).

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**4 INTANGIBLE ASSETS**

	LVL'000	EUR'000
<b><u>Cost</u></b>		
<b>As at December 31, 2007</b>	<b>4 402</b>	<b>6 263</b>
Additions	1 000	1 423
Reclassified from property, plant and equipment	113	161
Disposals	(163)	(232)
<b>As at December 31, 2008</b>	<b>5 352</b>	<b>7 615</b>
<b><u>Depreciation</u></b>		
<b>As at December 31, 2007</b>	<b>2 578</b>	<b>3 668</b>
Charge for the year	625	889
On disposals	(122)	(173)
<b>As at December 31, 2008</b>	<b>3 081</b>	<b>4 384</b>
<b>Net Book Value as at December 31, 2008</b>	<b>2 271</b>	<b>3 231</b>
<b>Net Book Value as at December 31, 2007</b>	<b>1 824</b>	<b>2 595</b>
	LVL'000	EUR'000
<b><u>Cost</u></b>		
<b>As at December 31, 2008</b>	<b>5 352</b>	<b>7 615</b>
Additions	867	1 233
Reclassified from property, plant and equipment	24	34
Disposals	(98)	(139)
<b>As at December 31, 2009</b>	<b>6 145</b>	<b>8 743</b>
<b><u>Depreciation</u></b>		
<b>As at December 31, 2008</b>	<b>3 081</b>	<b>4 384</b>
Charge for the year	728	1 036
On disposals	(94)	(135)
<b>As at December 31, 2009</b>	<b>3 715</b>	<b>5 285</b>
<b>Net Book Value as at December 31, 2009</b>	<b>2 430</b>	<b>3 458</b>
<b>Net Book Value as at December 31, 2008</b>	<b>2 271</b>	<b>3 231</b>

Intangible assets include fully amortised intangible assets with a total cost value of LVL 1 184 thousand or EUR 1 684 thousand (2008: LVL 759 thousand or EUR 1 079 thousand). The major intangible assets are geographic-informative system GIS, software for long-distance pipelines SCADA IT and informative database for protective zone for long-distance pipelines at carrying amount of LVL 270 thousand (EUR 384 thousand), LVL 331 thousand (EUR 471 thousand) and LVL 259 thousand (EUR 369 thousand) respectively as at December 31, 2009 (2008: LVL 289 thousand (EUR 411 thousand), LVL 259 thousand (EUR 368 thousand) and LVL 250 thousand (EUR 356 thousand)).

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5 TRADE RECEIVABLES**

	31.12.2009. LVL'000	31.12.2008. LVL'000	31.12.2009. EUR'000	31.12.2008. EUR'000
<b>Fair value of financial assets with revaluation in profit or loss</b>				
At the beginning of the reporting year	6	6	9	9
Disposed	-	-	-	-
Provisions made	-	-	-	-
Revalued	(2)	-	(3)	-
<b>At the end of the reporting year</b>	<b>4</b>	<b>6</b>	<b>6</b>	<b>9</b>
<i>Non-current trade receivables</i>				
Gross value	4	11	6	16
	<b>4</b>	<b>11</b>	<b>6</b>	<b>16</b>
<i>Current trade receivables</i>				
Gross value	30 523	42 833	43 430	60 946
Provisions for impairment of receivables	(8 320)	(3 291)	(11 838)	(4 683)
	<b>22 203</b>	<b>39 542</b>	<b>31 592</b>	<b>56 263</b>
<b>Total trade receivables</b>	<b>22 207</b>	<b>39 553</b>	<b>31 598</b>	<b>56 279</b>

Provisions for impairment of bad and doubtful debts:

	2009 LVL'000	2008 LVL'000	2009 EUR'000	2008 EUR'000
<b>Provisions at the beginning of the year</b>	<b>3 349</b>	<b>1 624</b>	<b>4 764</b>	<b>2 311</b>
Charged to income statement	6 628	2 127	9 431	3 026
Released to income statement	(1 444)	(20)	(2 055)	(28)
<b>Net charge to income statement (see Note 15)</b>	<b>5 184</b>	<b>2 107</b>	<b>7 376</b>	<b>2 998</b>
Written off	(144)	(383)	(204)	(545)
<b>Provisions at the year end</b>	<b>8 389</b>	<b>3 348</b>	<b>11 936</b>	<b>4 764</b>

Of the provisions as at 31 December 2009 LVL 8 320 thousand (EUR 11 838 thousand) relate to current trade receivables (2008: LVL 3 291 thousand (EUR 4 683 thousand)). Of the provisions as at 31 December 2009 LVL 64 thousand (EUR 92 thousand) relate to other trade receivables (2008: LVL 58 thousand (EUR 81 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.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6 INVENTORIES**

	<b>31.12.2009.</b> <b>LVL'000</b>	<b>31.12.2008.</b> <b>LVL'000</b>	<b>31.12.2009.</b> <b>EUR'000</b>	<b>31.12.2008.</b> <b>EUR'000</b>
Materials and spare parts (at net realisable value)	2 889	3 031	4 111	4 313
Gas and fuel (at cost)	80 644	112 650	114 746	160 286
	<b>83 533</b>	<b>115 681</b>	<b>118 857</b>	<b>164 599</b>

The cost of inventories recognized as expense and included in "Cost of sales" amounted to LVL 251 796 thousand or EUR 358 273 thousand (2008: LVL 275 060 thousand or EUR 391 375 thousand).

Provisions for impairment of obsolete and slow moving inventories:

	<b>2009</b> <b>LVL'000</b>	<b>2008</b> <b>LVL'000</b>	<b>2009</b> <b>EUR'000</b>	<b>2008</b> <b>EUR'000</b>
Provisions at the beginning of the year	427	360	607	512
Charged to income statement	74	133	105	189
Released to income statement	(37)	(40)	(53)	(57)
Written off	(21)	(26)	(30)	(37)
<b>Provisions at the year end</b>	<b>443</b>	<b>427</b>	<b>629</b>	<b>607</b>

Provisions have been created for slow moving materials and spare parts. During 2009 the Company sold inventories amounting to LVL 1 thousand or EUR 1 thousand (2008: LVL 6 thousand or EUR 9 thousand) and used in operations inventories amounting to LVL 34 thousand or EUR 48 thousand (2008: LVL 30 thousand or EUR 43 thousand) that had been written off in previous years.

**7 OTHER RECEIVABLES**

	<b>31.12.2009.</b> <b>LVL'000</b>	<b>31.12.2008.</b> <b>LVL'000</b>	<b>31.12.2009.</b> <b>EUR'000</b>	<b>31.12.2008.</b> <b>EUR'000</b>
Prepayments and deferred expense	494	383	703	545
Value added tax overpaid	125	187	178	266
Natural resource tax overpaid	-	4	-	6
Interest accrued on bank deposits	172	1	245	1
Receivable for services supplied	21	33	30	47
Other debtors	301	441	427	626
	<b>1 113</b>	<b>1 049</b>	<b>1 583</b>	<b>1 491</b>
Provisions for impairment of bad and doubtful debts*	(65)	(58)	(92)	(81)
	<b>1 048</b>	<b>991</b>	<b>1 491</b>	<b>1 410</b>

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

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**8 CASH AND CASH EQUIVALENTS**

	<b>31.12.2009.</b> <b>LVL'000</b>	<b>31.12.2008.</b> <b>LVL'000</b>	<b>31.12.2009.</b> <b>EUR'000</b>	<b>31.12.2008.</b> <b>EUR'000</b>
Cash on hand	3	2	4	3
Current accounts with banks	6 329	6 246	9 006	8 887
Term deposits*	29 478	198	41 943	282
	<b>35 810</b>	<b>6 446</b>	<b>50 953</b>	<b>9 172</b>

\* Term deposits fixed interest rate is from 0.47% to 33% per annum (2008: from 2.65% to 10.15% per annum).

As at December 31, 2009 and December 31, 2008 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, 2009 consists of 39 900 000 ordinary shares of LVL 1 each. All shares have equal voting rights and rights to dividend.

	<b>31.12.2009.</b>		<b>31.12.2008.</b>	
	<b>% from total share capital</b>	<b>Number of shares</b>	<b>% from total share capital</b>	<b>Number of shares</b>
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
	<b>100.00</b>	<b>39 900 000</b>	<b>100.00</b>	<b>39 900 000</b>

(b) Shareholders

	<b>31.12.2009.</b>		<b>31.12.2008.</b>	
	<b>% from total share capital</b>	<b>Number of shares</b>	<b>% from total share capital</b>	<b>Number of shares</b>
E.ON Ruhrgas International AG <i>(including registered shares of closed issues 7 285 740)</i>	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 <i>(including registered shares of closed issues 7 285 740)</i>	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
	<b>100.00</b>	<b>39 900 000</b>	<b>100.00</b>	<b>39 900 000</b>

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

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**10 BORROWINGS**

	<b>31.12.2009.</b> <b>LVL'000</b>	<b>31.12.2008.</b> <b>LVL'000</b>	<b>31.12.2009.</b> <b>EUR'000</b>	<b>31.12.2008.</b> <b>EUR'000</b>
SEB Banka	-	<b>1 788</b>	-	<b>2 544</b>

On September 18, 2008 an Overdraft agreement was concluded between the Company and *SEB Banka* which granted for Company an overdraft facility of EUR 50 000 000 (LVL 35 140 thousand) for one year with variable interest rate. Inventories of natural gas were pledged as a collateral. The loan received in 2008 was repaid in January 2009 and was not used later. Inventories of natural gas were pledged as a collateral according to contract. At the moment of signing financial statements overdraft limit is not utilized. Effective interest rate was 3.6 % (2008: 3.6%).

**11 DEFERRED INCOME**

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

	<b>31.12.2009.</b> <b>LVL'000</b>	<b>31.12.2008.</b> <b>LVL'000</b>	<b>31.12.2009.</b> <b>EUR'000</b>	<b>31.12.2008.</b> <b>EUR'000</b>
Non-current portion of borrowings	13 824	13 460	19 670	19 152
Current portion of borrowings	549	519	781	738
	<b>14 373</b>	<b>13 979</b>	<b>20 451</b>	<b>19 890</b>

Deferred income movement:

	<b>2009</b> <b>LVL'000</b>	<b>2008</b> <b>LVL'000</b>	<b>2009</b> <b>EUR'000</b>	<b>2008</b> <b>EUR'000</b>
At the beginning of the year	13 979	11 863	19 890	16 879
Received from residents and enterprises during the reporting year	925	2 613	1 317	3 719
Recognized as income in the reporting year (see Note 16)	(531)	(497)	(756)	(708)
<b>Deferred to the following periods</b>	<b>14 373</b>	<b>13 979</b>	<b>20 451</b>	<b>19 890</b>

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

- current portion	<b>275</b>	<b>3 155</b>	<b>391</b>	<b>4 489</b>
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Deferred income movement:

	<b>2009</b> <b>LVL'000</b>	<b>2008</b> <b>LVL'000</b>	<b>2009</b> <b>EUR'000</b>	<b>2008</b> <b>EUR'000</b>
At the beginning of the year	3 155	-	4 489	-
Difference between the actual and forecasted purchase cost of natural gas invoiced to customers in the reporting year (Note 13)	(2 880)	3 155	(4 098)	4 489
<b>Deferred to the following periods</b>	<b>275</b>	<b>3 155</b>	<b>391</b>	<b>4 489</b>
<b>Total deferred to the following periods</b>	<b>14 648</b>	<b>17 134</b>	<b>20 842</b>	<b>24 379</b>

See also Accounting policies Note (r).

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**12 OTHER PAYABLES**

	<b>31.12.2009.</b>	<b>31.12.2008.</b>	<b>31.12.2009.</b>	<b>31.12.2008.</b>
	<b>LVL'000</b>	<b>LVL'000</b>	<b>LVL'000</b>	<b>LVL'000</b>
Prepayments received	6 640	5 377	9 448	7 651
Social insurance contributions	667	593	949	844
Personal income tax	422	433	601	616
Value added tax	8 351	7 520	11 882	10 700
Salaries	557	611	793	869
Accrued expenses for unused annual leave	824	1 004	1 172	1 429
Accrued expenses for bonuses	5 198	4 900	7 396	6 972
Accrued other expenses	270	121	384	172
Other current liabilities	151	3 765	215	5 357
	<b>23 080</b>	<b>24 324</b>	<b>32 840</b>	<b>34 610</b>

**13 REVENUE**

Sales per customers` groups are as follows:

	<b>31.12.2009.</b>	<b>31.12.2008.</b>	<b>31.12.2009.</b>	<b>31.12.2008.</b>
	<b>LVL'000</b>	<b>LVL'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
Income from natural gas sales to industrial customers	279 525**	300 900*	397 729**	428 142*
Income from natural gas sales to residential customers	40 098	37 534	57 054	53 406
Income from transmission and storage of natural gas	9 327	10 168	13 271	14 468
Income from natural gas sales to vehicles	62	232	88	330
Other services	693	2 171	986	3 089
	<b>329 705</b>	<b>351 005</b>	<b>469 128</b>	<b>499 435</b>

\* Sales were decreased by LVL 3 155 thousand (EUR – 4 489 thousand) representing difference between actual and forecasted purchase cost of natural gas in December 2008 that will be taken into account when setting tariff for the following month (see Note 11).

\*\* Sales were increased by LVL 2 880 thousand (EUR – 4 098 thousand) representing difference between actual and forecasted purchase cost of natural gas in December 2009 that will be taken into account when setting tariff for the following month (see Note 11).

**14 COST OF SALES**

	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>LVL'000</b>	<b>LVL'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
Purchase of natural gas	248 198	267 707	353 154	380 913
Salaries	12 414	15 165	17 664	21 578
Social insurance contributions	2 914	3 471	4 146	4 938
Life, health and pension insurance	867	880	1 234	1 252
Materials and spare parts	4 109	7 785	5 846	11 078
Depreciation and amortisation	20 339	18 749	28 939	26 677
Other	5 049	6 271	7 184	8 923
	<b>293 890</b>	<b>320 028</b>	<b>418 167</b>	<b>455 359</b>

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**15 ADMINISTRATIVE EXPENSES**

	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>LVL'000</b>	<b>LVL'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
Salaries	3 310	3 663	4 709	5 213
Social insurance contributions	771	618	1 097	879
Life, health and pension insurance	156	155	222	221
Maintenance and utilities	1 073	921	1 527	1 310
Real estate tax	162	150	231	213
Depreciation and amortisation	595	469	847	667
Bank charges	369	253	525	360
Provisions for impairment of bad and doubtful debts, net (see Note 5)	5 184	2 107	7 377	2 998
Other expenses	1 348	1 488	1 918	2 117
	<b>12 968</b>	<b>9 824</b>	<b>18 453</b>	<b>13 978</b>

**16 OTHER INCOME**

Penalties from customers	791	458	1 126	652
Income from contribution to financing of construction works (see Note 11)	531	497	756	708
Profit on sale of fixed assets	-	26	-	37
Other income	470	450	669	639
Interest income	750	1 174	1 067	1 670
	<b>2 542</b>	<b>2 605</b>	<b>3 618</b>	<b>3 706</b>

**17 OTHER EXPENSES**

Materials	27	13	38	18
Salaries	157	182	223	259
Social insurance contributions	21	24	30	34
Depreciation and amortisation	101	94	144	134
Sponsorship	1 503	731	2 138	1 040
Loss from sale of fixed assets	950	-	1 352	-
Provisions for slow moving and obsolete inventories impairment	37	93	53	132
Loss from increase in exchange rates, net	1 165	267	1 658	380
Other expense	235	852	335	1 213
	<b>4 196</b>	<b>2 256</b>	<b>5 971</b>	<b>3 210</b>

**18 EXPENSES BY NATURE**

Purchase of natural gas	248 198	267 707	353 154	380 913
Depreciation and amortisation	21 035	19 312	29 930	27 478
Employee benefit expense (see Note 26)	20 612	24 159	29 328	34 375
Material and spare parts	4 136	7 798	5 885	11 096
Net provisions for impaired receivables	5 184	2 107	7 376	2 998
Other expenses	11 889	11 026	16 9218	15 688
	<b>311 057</b>	<b>332 109</b>	<b>442 594</b>	<b>472 549</b>



Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**19 FINANCE INCOME, NET**

	2009 LVL'000	2008 LVL'000	2009 EUR'000	2008 EUR'000
<b>Finance income</b>				
- Interest income	1 831	1 083	2 605	1 541
	<b>1 831</b>	<b>1 083</b>	<b>2 605</b>	<b>1 541</b>
<b>Finance expenses</b>				
- Interest expenses	(9)	(119)	(13)	(169)
	<b>(9)</b>	<b>(119)</b>	<b>(13)</b>	<b>(169)</b>
<b>Finance income, net</b>	<b>1 822</b>	<b>964</b>	<b>2 592</b>	<b>1 372</b>

**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)	750	1 174	1 067	1 670
Finance income, net (see Note 19)	1 831	1 083	2 605	1 541
	<b>2 581</b>	<b>2 257</b>	<b>3 672</b>	<b>3 211</b>

**21 INCOME TAX EXPENSE**

Current income tax	3 942	4 178	5 609	5 944
Deferred income tax	(92)	(758)	(131)	(1 078)
	<b>3 850</b>	<b>3 420</b>	<b>5 478</b>	<b>4 866</b>

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:

<b>Profit before income tax</b>	<b>23 015</b>	<b>22 466</b>	<b>32 747</b>	<b>31 966</b>
<b>Theoretically calculated tax at tax rate of 15%</b>	<b>3 452</b>	<b>3 370</b>	<b>4 912</b>	<b>4 795</b>
<i>Tax effect of:</i>				
Tax non-deductible expenses, net	1 391	672	1 979	956
Tax relief on donations	(993)	(622)	(1 413)	(885)
<b>Tax charge</b>	<b>3 850</b>	<b>3 420</b>	<b>5 478</b>	<b>4 866</b>

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:

	2009 LVL'000	2008 LVL'000	2009 EUR'000	2008 EUR'000
(Receivable) / liabilities as at 1 January	(3 854)	1 412	(5 484)	2 009
Charge for the year	3 942	4 178	5 609	5 944
Paid during the year	(1 445)	(9 444)	(2 056)	(13 438)
<b>Receivable as at 31 December</b>	<b>(1 357)</b>	<b>(3 854)</b>	<b>(1 931)</b>	<b>(5 485)</b>

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GAZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**21 INCOME TAX EXPENSE (CONTINUED)**

**Calculation of deferred income tax:**

<b>Deferred income tax liabilities at the beginning of the reporting year</b>	<b>29 915</b>	<b>30 538</b>	<b>42 566</b>	<b>43 453</b>
Increase in deferred income tax liabilities that results from revaluation of property, plant and equipment (charged to other comprehensive income)	18	225	26	320
Decrease in deferred income tax liabilities (charged to income statement)	(92)	(758)	(131)	(1 078)
Deferred income tax that results from disposal of revalued property, plant and equipment (credited to equity)	(141)	(90)	(201)	(129)
Rounding	-		(1)	-
<b>Deferred income tax liabilities at the end of the reporting year</b>	<b>29 700</b>	<b>29 915</b>	<b>42 259</b>	<b>42 566</b>

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

	<b>31.12.2009.</b>	<b>31.12.2008.</b>	<b>31.12.2009.</b>	<b>31.12.2008.</b>
	<b>LVL'000</b>	<b>LVL'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
Difference on depreciation of property, plant and equipment (to be settled within 12 months)	1 120	988	1 594	1 406
Difference on depreciation of property, plant and equipment (to be settled after more than 12 months)	30 593	31 393	43 530	44 669
Impairment of bad and doubtful debts (to be settled within 12 months) *	(298)	(320)	(424)	(455)
Accrued expenses for unused annual leave and bonuses (to be settled within 12 months)	(905)	(890)	(1 288)	(1 267)
Accruals for post employment benefits and other employee benefits (to be settled after more than 12 month)	(662)	(701)	(942)	(997)
Accruals for other liabilities (to be settled within 12 months)	(82)	(491)	(117)	(699)
Impairment of inventories (to be settled within 12 months)	(66)	(64)	(94)	(91)
<b>Deferred income tax liability, net</b>	<b>29 700</b>	<b>29 915</b>	<b>42 259</b>	<b>42 566</b>

\* 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.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**22 ACCRUALS FOR EMPLOYMENT AND POST EMPLOYMENT BENEFITS**

	31.12.2009. LVL'000	31.12.2008. LVL'000	31.12.2009. EUR'000	31.12.2008. EUR'000
At the beginning of reporting year	4 672	2 500	6 648	3 557
Current service costs	209	652	297	928
Interest expenses	(281)	398	(400)	566
Post employment benefits paid	(626)	(8)	(891)	(11)
Losses as a result of changes in assumptions of actuary	442	1 130	629	1 608
<b>Provisions at the end of the reporting year</b>	<b>4 416</b>	<b>4 672</b>	<b>6 283</b>	<b>6 648</b>

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.

Discount factor applied to discount post employment benefit income is set at a level of 6.75 % (2008: 6.75 %) based on government bond market yields at the balance date. In calculations of these accruals a staff rotation coefficient of 1.63, retirement age of 62 years, changes in reward by years (2009: 0%, 2010: 2%, 2011: 3%, 2012: 4%, 2013: 5%, 2014: 7%, 2015: 7%, 2016: 7%), contribution to defined pension plan ( in amount of 5% from annual reward), State compulsory social insurance contributions and personal income tax changes from 1 January 2010, are taken into consideration.

**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.

	2009 LVL'000	2008 LVL'000	2009 EUR'000	2008 EUR'000
Net profit attributable to shareholders (a)	19 165	19 046	27 269	27 100
	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
<b>Basic earnings per share during the year (a/b) in LVL or EUR</b>	<b>0.480</b>	<b>0.477</b>	<b>0.683</b>	<b>0.679</b>

**(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 2009 of LVL 0.40 (EUR 0.569) 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 2009.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**23 EARNINGS AND DIVIDENDS PER SHARE (CONTINUED)**

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). The dividends paid in 2008 for 2007 were LVL 19 950 thousand (LVL 0.50 per share) or EUR 28 386 thousand (EUR 0.711 per share).

**24 CASH GENERATED FROM OPERATIONS**

Reconciliation of profit before tax to cash generated from operations:

	2009 LVL'000	2008 LVL'000	2009 EUR'000	2008 EUR'000
Profit before income tax	23 015	22 466	32 747	31 966
<i>Adjustments for:</i>				
Depreciation (Note 3)	20 306	18 686	28 893	26 588
Amortisation (Note 4)	728	625	1 036	889
Deviations of actual and predictable purchases of natural gas and income from participation fees (see Note 11)	(3 411)	2 658	(4 853)	3 781
Provision for impairment of slow moving inventories (Note 6)	37	93	53	132
Accrued expenses for bonuses	298	(96)	424	(137)
Accrued expenses for unused annual leave	(180)	206	(256)	293
Difference on accruals for other liabilities	149	121	212	172
Accrued expenses for post employment benefits and other employee benefits (Note 22)	(256)	2 172	(365)	3 092
Interest income (Note 20)	(2 581)	(2 257)	(3 672)	(3 211)
Interest expense (Note 19)	9	119	13	169
Loss / (profit) on sale of property plant and equipment (Notes 16, 17)	950	(26)	1 352	(37)
<i>Changes in working capital</i>				
- trade and other receivables	14 987	(12 619)	21 325	(17 954)
- inventories	32 540	(29 332)	46 300	(41 736)
- trade and other payables	(24 368)	27 398	(34 674)	38 984
	<b>62 223</b>	<b>30 214</b>	<b>88 535</b>	<b>42 991</b>

**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"	8 709	7 218	12 391	10 271
Companies controlled JSC "Gazprom"	23	-	33	-
	<b>8 732</b>	<b>7 218</b>	<b>12 424</b>	<b>10 271</b>

**(b) Purchase of natural gas**

JSC "Gazprom"	<b>152 492</b>	<b>173 920</b>	<b>216 977</b>	<b>247 465</b>
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**(c) Purchase of services**

E.ON Ruhrgas International GmbH	7	14	11	20
E.ON Ruhrgas AG	52	-	73	-
	<b>59</b>	<b>14</b>	<b>84</b>	<b>20</b>

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GAZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**25 RELATED PARTY TRANSACTIONS (CONTINUED)**

**(d) Accounts payable for natural gas and services**

	31.12.2009. LVL'000	31.12.2008. LVL'000	31.12.2009. EUR'000	31.12.2008. EUR'000
JSC "Gazprom"	<u>1 470</u>	<u>7 744</u>	<u>2 091</u>	<u>11 019</u>

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

**(e) Accounts receivable for natural gas in transit**

JSC "Gazprom"	<u>1 572</u>	<u>244</u>	<u>2 236</u>	<u>347</u>
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Receivables are receivable in cash and are not secured by a pledge or otherwise.

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

Accounts payable to companies controlled by JSC "Gazprom"	<u>2 554</u>	<u>958</u>	<u>1 362</u>	<u>1 363</u>
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Payables are payable in cash and are not secured by a pledge or otherwise.

**(g) Remuneration to Board of Directors and Council**

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

	2009 LVL'000	2008 LVL'000	2009 EUR'000	2008 EUR'000
Salaries	1 320	1 378	1 878	1 961
Social insurance contributions	308	123	438	175
Expenses for accruals for post employment benefits and other employee benefits	(6)	-	(9)	-
Health and life insurance	9	10	13	14
Contributions to pension funds	41	35	58	50
	<u>1 672</u>	<u>1 546</u>	<u>2 378</u>	<u>2 200</u>

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

**26 EMPLOYEE BENEFIT COSTS**

Wages and salaries	15 423	17 211	21 945	24 489
Expenses for accruals for post employment benefits and other employee benefits	458	1 800	652	2 561
Social insurance contributions	3 796	3 732	5 400	5 310
Social insurance contributions for accruals for post employment benefits and other employee benefits	(89)	381	(127)	542
Life, health and pension insurance	1 024	1 035	1 457	1 473
	<u>20 612</u>	<u>24 159</u>	<u>29 327</u>	<u>34 375</u>

In accordance with the Rules of the Cabinet of Ministers of Latvia 69,08 % (2008: 71.47%) of the social insurance contributions are used to fund the state defined contribution pension system.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**27 SEGMENT REPORTING**

**31.12.2009.**

	<b>Gas transmission LVL'000</b>	<b>Gas storage LVL'000</b>	<b>Gas distribution LVL'000</b>	<b>Gas realization LVL'000</b>	<b>Other services LVL'000</b>	<b>TOTAL LVL'000</b>
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

**31.12.2009.**

	<b>Gas transmission EUR'000</b>	<b>Gas storage EUR'000</b>	<b>Gas distribution EUR'000</b>	<b>Gas realization EUR'000</b>	<b>Other services EUR'000</b>	<b>TOTAL EUR'000</b>
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

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**27 SEGMENT REPORTING (CONTINUED)**

**31.12.2008.**

	<b>Gas transmission LVL'000</b>	<b>Gas storage LVL'000</b>	<b>Gas distribution LVL'000</b>	<b>Gas realization LVL'000</b>	<b>Other services LVL'000</b>	<b>TOTAL LVL'000</b>
Segment revenue from external customers	1 431	8 708	-	338 694	2 172	351 005
Inter-segment revenue	16 609	10 987	31 687	25	134	59 442
Inter-segment costs	(36)	(224)	(294)	(58 888)	-	(59 442)
Interest income	1	7	1	258	816	1 083
Interest expense	-	-	-	119	-	119
Profit before tax	5 060	5 189	3 503	6 417	2 295	22 464
Corporate income tax	318	670	870	1 154	408	3 420
Assets	95 610	74 653	160 310	155 850	2 425	488 848
Liabilities	11 893	6 964	39 236	105 196	604	163 893
Other information on segment						
<i>Depreciation and amortisation</i>	6 225	4 052	8 640	366	29	19 312
<i>Additions of non-current assets</i>	9 896	2 938	9 747	187	5	22 773

**31.12.2008.**

	<b>Gas transmission EUR'000</b>	<b>Gas storage EUR'000</b>	<b>Gas distribution EUR'000</b>	<b>Gas realization EUR'000</b>	<b>Other services EUR'000</b>	<b>TOTAL EUR'000</b>
Segment revenue from external customers	2 036	12 391	-	481 918	3 090	499 434
Inter-segment revenue	23 632	15 633	45 087	36	190	84 578
Inter-segment costs	(51)	(319)	(418)	(83 790)	-	(84 578)
Interest income	1	10	1	369	1 160	1 541
Interest expense	-	-	-	169	-	169
Profit before tax	7 200	7 383	4 984	9 131	3 268	31 966
Corporate income tax	452	953	1 238	1 643	580	4 866
Assets	136 041	106 222	228 101	221 755	3 450	695 569
Liabilities	16 922	9 909	55 828	149 680	859	233 198
Other information on segment						
<i>Depreciation and amortisation</i>	8 857	5 765	12 294	521	41	27 478
<i>Additions of non-current assets</i>	14 081	4 180	13 869	266	7	32 403

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**27 SEGMENT REPORTING (CONTINUED)**

*The largest customers:*

Five of the Company's customers comprise up to 48.3 % (in 2008 – 50.9 %) of income. Income generated by the largest customer as of December 31, 2009 was 28.6 % (in 2008 – 29.3 %), the second and the third largest customers constituted 8.8 % and 5.6 % respectively (in 2008 – 9.0 % and 6.3 %) 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.

*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 2009 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.



Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**28 CRITICAL ESTIMATES AND JUDGEMENTS**

*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. Recent instability in the global and Latvian financial markets and economies**

Along with changes caused by the economic and financial crisis since 2008, among other things, financial markets have experienced material changes in the form of diminishing financial assets and increasing financing costs, and uncertainty in the business and investment environment has increased. Changes in the global financial markets have caused banks and other financial institutions to go bankrupt, with bank rescues being undertaken in many countries including Latvia. Although the recovery trend is strengthening in the global economy, it is currently not possible to predict reliably when Latvia's economy will begin to grow again.

Management is unable to estimate reliably the possible effects on the Company's financial position of any further instability in the economies and financial markets of Latvia and other countries in the region as well as the economic downturn in Latvia. Management believes it is taking all the necessary measures to support sustainable growth of the Company's business in the present circumstances.

*Impact on liquidity:*

The volume of wholesale financing has significantly diminished since 2008. Such conditions may affect the Company's ability to obtain new borrowings and to refinance its existing borrowings on terms similar to those applied to earlier transactions. The credit line facility available to the Company are disclosed in Note 10.

*Impact on asset valuation:*

Solvency of the Company's customers may be affected by their reduced liquidity and ability to continue business operations during a prolonged economic downturn. Customers' deteriorating operating conditions may affect management's cash-flow forecasts and assessment of the impairment of financial and non-financial assets. Management's assumptions about recoverable amounts of the assets are based on the information available, however it is not possible to determine reliably the full impact of the economic downturn.

**29.2. 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.

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;

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

- financial liabilities: short term borrowings, creditors.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**29.2. Financial risk factors (continued)**

**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 53,9 % (2008: 48.6%) of trade receivables natural gas comprises of debts of 5 largest customers of the Company, one of these customers debt comprised 25,4% (2008: 17.2%), second and third largest customer debt comprised 9,2% and 7,9 % respectfully (2008: 7.2% and 6.3%) of total trade receivables as at December 31, 2009. 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, 2009.

*Credit risk management*

Control over debtors is performed by Gas Accounting and Payment Department (GAPD) and Financial accounting department of the Company.

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

- residential customers;
- companies with gas consumption less than 25 thousand m<sup>3</sup> a year;
- companies with gas consumption more than 25 thousand m<sup>3</sup> a year.

**Debt monitoring process of households:**

Monitoring of debts differs for natural gas users who use natural gas for heating and users who use natural gas for household purposes only (cooking, water heating).

1. Household users, which are using natural gas for heating:

- If payment (according to leveraged payment scheme) is overdue for 30 days and the late payment amount exceeds 40 Ls, the reminder of the debt is sent out.

Household users, which are using natural gas for domestic purposes only:

- If the payment (according to leveraged payment scheme) is overdue for 60 days and the late payment amount exceeds LVL 8, the reminder of the debt is sent out.

2. If the debt according to the time mentioned in the reminder is not paid on time, the warning of the natural gas supply's disruption is sent out to the user.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**29.2. Financial risk factors (continued)**

**Credit risk (continued)**

Debt monitoring process of households (continued):

3. If the debt in the time mentioned in the warning is not paid in due, the debtor is included in the lists of the natural gas supply's disruption and the natural gas supply is terminated.

4. If during the six months period the debt is not paid and the natural gas supply is not terminated (usually for users, which are using the natural gas for household purposes only), repeated warning of natural gas termination is sent out.

5. At the end of the heating season GAPD is selecting debtors, whose debt sum is not less than LVL 100 and overdue for more than two months. GAPD sends out a warning letter with the amount of the debt and the payment due date. At the same time the Company's Contact Centre is calling to selected debtors provided by GAPD to inform them on the amount overdue and the date of the payment. If the customer fails to pay the debt in the time specified, the natural gas supply is terminated by the Company's responsible department.

6. After the gas is terminated, GAPD prepares and sends a letter (claim) with the debt amount and the payment due date. If it is not paid, GAPD transfers the debtor to the Company's legal department for the debt recovery process of initiating legal proceedings. On the other hand, if the payment is received the invoice on connection to gas supply is issued and after the payment is received, the gas supply is renewed.

7. At the end of the reporting year, GAPD and the responsible member of the Board evaluate the amount of debts of household users and constitute the provisions requested.

Industrial clients with consumption less than 25 thousand m<sup>3</sup> in year control procedure

If the due date is overdue for 1 day, the list of overdue debtors is prepared and the Contact centre is calling the debtors, reminding about the debt. If the debt is not paid until 20th date of the month, the warning on termination of the natural gas supply is sent out. In case no payment is received, legal department is involved in order to initiate debt collection through court.

Industrial clients with consumption over 25 thousand m<sup>3</sup> in year control procedure

If a payment for received gas according to issued invoice is not settled in agreed term, client is contacted via phone and warning letter is sent out.

If a payment is not received during the term indicated in the warning letter gas supply is terminated until debt is fully repaid.

At the same time, the Company acknowledge overall economical situation and implements socially responsible policy for the clients who have overdue payments and ask to continue gas supply, by offering to repay outstanding debt according to agreed repayment schedule. Board of the Company has approved interest rates applicable to deferred payments, which are adequate to the crediting market of Latvia.

In certain situations, the Company may request a prepayment in amount of one month invoice to decrease the risk of doubtful debts. Such principles are mainly applied to insolvent clients and clients who are regularly late with their payments.

To make provisions for doubtful debtors, GAPD is analysing information from the Commercial insolvency register for insolvencies which are initiated, or for the legal protection processes started, etc. The previous experience with the debtor payments and the agreements signed (repayment schedule) are also assessed. The termination of natural gas supply's serves as sound bases for creation of provisions.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**29.2. Financial risk factors (continued)**

**Credit risk (continued)**

*Industrial clients with consumption over 25 thousand m3 in year control procedure (continued)*

The following customer groups of natural gas users are included in provisions for bad debtors:

- Customers, for whom the supply of natural gas is terminated due to overdue debt;
- Insolvent enterprises or companies with initiated insolvency process;
- Customer with the started process of legal protection;
- Concluded agreements and terms of debt settlement schedules are not complied with;
- Debts overdue for more than 2 months;
- Other bad debtors who regularly overdue payments.

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>	<i>140</i>	<i>140</i>	-	-
Other services	1 595	1 595	-	-
<b>Total current trade receivables</b>	<b>22 203</b>	<b>21 963</b>	<b>240</b>	<b>-</b>

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>	<i>199</i>	<i>199</i>	-	-
Other services	2 269	2 269	-	-
<b>Total current trade receivables</b>	<b>31 592</b>	<b>31 250</b>	<b>342</b>	<b>-</b>

December 31, 2008 (LVL'000):

	TOTAL	Neither <i>past due</i> nor impaired (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	39 244	31 440	7 804	-
<i>incl. renegotiated receivables</i>	<i>64</i>	<i>64</i>	-	-
Other services	298	298	-	-
<b>Total current trade receivables</b>	<b>39 542</b>	<b>31 738</b>	<b>7 804</b>	<b>-</b>

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**29.2. Financial risk factors (continued)**

**Credit risk (continued)**

December 31, 2008 (EUR'000):

	<b>TOTAL</b>	<b>Neither <i>past due</i> nor impaired (incl. renegotiated receivables)</b>	<b>Past due, not impaired</b>	<b>Impaired, net*</b>
Natural gas	55 838	44 734	11 104	-
<i>incl. renegotiated receivables</i>	91	91	-	-
Other services	425	425	-	-
<b>Total current trade receivables</b>	<b>56 263</b>	<b>45 159</b>	<b>11 104</b>	<b>-</b>

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

*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:

	<b>31.12.2009.</b>	<b>31.12.2008.</b>	<b>31.12.2009.</b>	<b>31.12.2008.</b>
	<b>LVL'000</b>	<b>LVL'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
Up to 3 months	240	6 784	342	9 653
3 to 6 months	-	1 020	-	1 451
	<b>240</b>	<b>7 804</b>	<b>342</b>	<b>11 104</b>

***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 10 February 2010):

<b>Bank</b>		<b>Long term rating</b>	<b>Short term rating</b>	<b>Rating of financial security</b>	<b>Rating forecast</b>
Nordea Bank Finland		Aa2	P-1	-*	-*
DnB NOR ASA		Aa3	P-1	C	Stable
SEB group		A1	P-1	-*	Negative
Swedbank	local currency	Baa3	P-3		
	foreign currency	Baa3	P-3	D-	-*
Parex bank		B2	Not prime	E	Stable
GE Money (General Electric Co)		-*	-*	-*	-*
Latvijas Krājbanka		-*	-*	-*	-*
SMP Bank		-*	-*	-*	-*

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

\* Data on credit rating is not available

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**29.2. Financial risk factors (continued)**

**Credit risk (continued)**

	<b>31.12.2009.</b> <b>LVL'000</b>	<b>31.12.2008.</b> <b>LVL'000</b>	<b>31.12.2009.</b> <b>EUR'000</b>	<b>31.12.2008.</b> <b>EUR'000</b>
Parex bank	12 201	2 179	17 360	3 100
Swedbank	8 954	1 334	12 740	1 898
Latvijas Krājbanka	6 184	-	8 799	-
SEB banka	4 837	1 790	6 882	2 547
DnB NORD	2 371	897	3 374	1 276
GE Money Bank	733	244	1 043	347
Nordea Bank Finland	518	-	737	-
SMP Bank	9	-	13	-
<b>Total accounts with banks</b>	<b>35 807</b>	<b>6 444</b>	<b>50 948</b>	<b>9 168</b>

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

Aa1	-	897	-	1 276
Aa2	518	2 034	737	2 894
Aa3	2 371	-	3 374	-
A1	4 837	1 334	6 882	1 898
Baa3	8 954	-	12 740	-
B2	12 201	-	17 360	-
Data on credit rating is not available	6 926	2 179	9 855	3 100
<b>Total accounts with banks</b>	<b>35 807</b>	<b>6 444</b>	<b>50 948</b>	<b>9 168</b>

**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.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**29.2. Financial risk factors (continued)**

**Liquidity risk (continued)**

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

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

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

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

Contractual maturity of liabilities as at 31 December, 2008 (LVL'000):

	<b>&lt; 1 month</b>	<b>1-3 months</b>	<b>3 months- 1 year</b>	<b>Total</b>
Trade payables	10 803	75 199	58	86 060
Borrowings	1 788	-	-	1 788
Other liabilities, incl.	106	42	79	227
<i>Accrued expenses for other expenses</i>	-	42	79	121
<i>Other short term liabilities</i>	106	-	-	106
	<b>12 697</b>	<b>75 241</b>	<b>137</b>	<b>88 075</b>

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**29.2. Financial risk factors (continued)**

**Liquidity risk (continued)**

Contractual maturity of liabilities as at 31 December, 2008 (EUR'000):

	<b>&lt; 1 month</b>	<b>1-3 months</b>	<b>3 months- 1 year</b>	<b>Total</b>
Trade payables	15 371	106 998	83	122 452
Borrowings	2 544	-	-	2 544
Other liabilities, incl.	151	60	112	323
<i>Accrued expenses for other expenses</i>	-	60	112	172
<i>Other short term liabilities</i>	151	-	-	151
	<b>18 066</b>	<b>107 058</b>	<b>195</b>	<b>125 319</b>

**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.



Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**29.2. Financial risk factors (continued)**

**Market risk (continued)**

Open foreign currencies positions:

	<b>31.12.2009.</b>			
	<b>USD'000</b>	<b>EUR'000</b>	<b>GBP'000</b>	<b>Other'000</b>
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

Open foreign currencies positions:

	<b>31.12.2008.</b>			
	<b>USD'000</b>	<b>EUR'000</b>	<b>GBP'000</b>	<b>Other'000</b>
Financial assets	476	1 224	25	55
Financial liabilities	-	(121 545)	-	-
Balance sheet position in original currency	476	(120 321)	25	55
Balance sheet position in LVL'000	236	(84 562)	18	4
Balance sheet position in EUR'000	335	(120 321)	25	6

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 10 % (2008: 14%), and for other currencies in range of 1 % (2008: 1%) (net of tax effect).

**December 31, 2009**

	Currency	Book value	Impact to	Impact to	Book value	Impact to	Impact to
			current year profit	current year profit		current year profit	current year profit
		LVL'000	+10% (USD) +1% (other currencies) LVL'000	-10% (USD) -1% (other currencies) LVL'000	EUR'000	+10% (USD) +1% (other currencies) EUR'000	-10% (USD) -1% (other currencies) EUR'000
<b>Assets</b>							
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	-	-
	RUB	89	8	(8)	127	11	(11)
<b>Liabilities</b>		20 746	189	(189)	29 520	264	(264)
Accounts payable	EUR	59 068	502	(502)	84 047	714	(714)
	RUB	31	3	(3)	44	4	(4)
<b>Net impact</b>		59 099	505	(505)	84 091	718	(718)
		<b>(38 353)</b>	<b>(316)</b>	<b>316</b>	<b>(54 571)</b>	<b>(454)</b>	<b>454</b>

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**29.2. Financial risk factors (continued)**

**Market risk (continued)**

**December 31, 2008**

	Currency	Book value	Impact to current year profit +14% (USD) +1% (other currencies)	Impact to current year profit -14% (USD) -1% (other currencies)	Book value	Impact to current year profit +14% (USD) +1% (other currencies)	Impact to current year profit -14% (USD) -1% (other currencies)
		LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
<b>Assets</b>							
Cash	EUR	537	4	(4)	764	6	(6)
	USD	234	28	(28)	333	40	(40)
	Other	4	1	(1)	6	-	-
Accounts receivable	EUR	324	3	(3)	461	3	(3)
	USD	1	-	-	1	-	-
	GBP	18	3	(3)	26	3	(3)
		<b>1 118</b>	<b>39</b>	<b>(39)</b>	<b>1 591</b>	<b>52</b>	<b>(52)</b>
<b>Liabilities</b>							
Accounts payable	EUR	83 634	711	(711)	119 001	1 012	(1 012)
Borrowings	EUR	1 788	15	(15)	2 544	22	(22)
		<b>85 422</b>	<b>726</b>	<b>(726)</b>	<b>121 545</b>	<b>1 034</b>	<b>(1 034)</b>
<b>Net impact</b>		<b>(84 304)</b>	<b>(687)</b>	<b>687</b>	<b>(119 954)</b>	<b>(982)</b>	<b>982</b>

**29.3. 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 2009 and 2008 proportion of borrowed capital to total capital was as follows:

	31.12.2009. LVL'000	31.12.2008. LVL'000	31.12.2009. EUR'000	31.12.2008. EUR'000
Total liabilities	132 434	163 893	188 437	233 199
(Cash and cash equivalents)	(35 810)	(6 446)	(50 953)	(9 172)
Net total liabilities	96 624	157 447	137 484	224 027
Total liabilities and equity	461 494	488 848	656 648	695 568
<b>Borrowed capital proportion to total capital</b>	<b>20.94%</b>	<b>32.21%</b>	<b>20.94%</b>	<b>32.21%</b>

Decrease of borrowed capital proportion to total capital in 2009 is mainly related to significant decrease of purchase price of natural gas, as a result payable to natural gas suppliers in December 31, 2009 are significantly lower.

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**29.4. 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:

	<b>31.12.2009.</b>	<b>31.12.2008.</b>	<b>31.12.2009.</b>	<b>31.12.2008.</b>
	<b>LVL'000</b>	<b>LVL'000</b>	<b>EUR'000</b>	<b>EUR'000</b>
Contracted for, but not delivered	1 442	2 911	2 052	4 142
Authorised, but not yet contracted for	17 325	21 109	24 651	30 035
	<b>18 767</b>	<b>24 020</b>	<b>26 703</b>	<b>34 177</b>

**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, 2009.