

**JSC "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

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DIRECTORS AND AUDITORS

Names and positions of the Council members	<p>Kiril Seleznov (Кирил Селезнев) – Chairman of the Council Juris Savickis – Deputy Chairman of the Council Aleksandr Krasnenkov (Александр Красненков) – Member of the Council Fritz Gautier – Deputy Chairman of the Council (up to 09.07.2004) Stephan Kamphues – Deputy Chairman of the Council (since 09.07.2004) Eike Benke – Member of the Council Reiner Lehmann – Member of the Council Matthias Keuchel – Member of the Council Stefan F. Seipl – Member of the Council (up to 09.07.2004) Uwe Fip – Member of the Council (since 09.07.2004) Jelena Karpel (Елена Карпель) – Member of the Council Igor Nazarov (Игорь Назаров) – Member of the Council Vlada Rusakova (Влада Русакова) – Member of the Council</p>
Names and positions of the Board members	<p>Adrians Dāvis – Chairman of the Board Aleksandrs Mihejevs (Александр Михеев) – Deputy Chairman of the Board (up to 15.12.2004.), Member of the Board (since 15.12.2004) Frank Siebert – Deputy Chairman of the Board (up to 15.12.2004.), Member of the Board (since 15.12.2004) Anda Ulpe – Member of the Board Gints Freibergs – Member of the Board Uldis Auniņš – Member of the Board (up to 15.12.2004.)</p>
Financial Year	1 January – 31 December 2004
Name and address of the auditor and responsible certified auditor	<p>PricewaterhouseCoopers SIA Audit company licence No. 5 Kr. Valdemāra Street 19 Riga, LV-1010 Latvia</p> <p>Responsible certified auditor: Juris Lapshe Personal ID 250670-10408 Certified auditor Certificate No. 116</p>

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Report of the Board

1. Description of activities

In 2004 the Joint Stock Company "Latvijas Gāze" (further the Company) retained its position in the fuel market. In the reporting year the Company devoted major attention to the fulfilment of the Investment program and expansion of natural gas supply network. In the reporting period 1 620,5 mio nm³ of natural gas were delivered to the consumers. More than 3,6 thousand new users have been connected to the natural gas supply system, however, relatively high air temperature in October and December considerably influenced demand for natural gas, and total gas sales volume remained at the 2003 level. 43,2% of the gas sold in year 2004 was used for centralized heat production.

In 2004 gas to the consumers was sold applying natural gas end-user tariffs approved by the Public Utilities Commission for a three years tariff cycle in April 2003. According to this resolution the tariffs in average were increased by 1,5% as of 01.07.2004.

Total revenue from natural gas sales and other core business services amounted to LVL 121,1 mio in 2004, costs (excl. administration) - to 94,0 mio, while gross profit was LVL 27,2 mio.

In comparison with 2003, the net profit of JSC "Latvijas Gāze" grew by 45% or LVL 5,9 mio and reached LVL 18,87 mio. In 2004 the net profitability reached 15,6%. The increase of the profit was ensured by the increase of gas sales volumes to residential customers, revenue from interest on deposits and the decrease of USD exchange rate.

In 2004 the Company paid major attention to further expansion of natural gas distribution system and connection of new users to the existing gas supply system. As of January 1, 2004, the total natural gas pipeline length was 5 255,4 km, including 1 244,2 km of transmission lines and 4 011,2 km of distribution lines. 175,6 km of the distribution lines were constructed during the year, including 29,76 km of house connections and almost 36 km of gas transmission line Preiļi-Rēzekne.

The number of individual users using gas for heating grew by 4,1 thousand users during 2004 reaching 30,9 thousand by the end of the year. This figure has grown by 16,3 thousand (62,5%) in five years time. The total number of gas users is approaching 430,4 thousand.

In 2003 Inčukalns UGS achieved the highest ever operation indicators in the facility's history. In the reporting period 2 056 billion nm³ of natural gas was injected into the storage and the total gas volume in the storage reached 4,44 billion nm³, incl. active gas volume – 2,3 billion nm³.

In accordance with the resolution of the Board passed on February 13, 2004 notice has been taken on information prepared by SIA BDO "Invest Riga" about replacement value of buildings, constructions and technological equipment, and decision was adopted to reflect the results of the revaluation of the fixed assets in the balance sheet as at February 1, 2004. As the result of revaluation the value of the assets increased by LVL 128,3 mio. (107%) and reached LVL 248,1 mio. as at 01.02.2004. Revaluation of fixed assets as at 31.12.2004 received for gratis in the reporting year also increased the value of assets (LVL ~ 1 mio).

2. Legal proceedings

- In June 2003 the ruling of the UNCITRAL Court of Arbitration was announced in the arbitration case concerning the claim submitted by JSC "Latvijas Gāze" against the State of Latvia for non-performance of the share purchase – sale agreement. According to the ruling of the Arbitration Tribunal, the Republic of Latvia shall pay JSC "Latvijas Gāze" damages to the amount of LVL 6,9 mio plus interest. On the day of drawing the report interests reached LVL 1,03 mio. On September 19, 2003 the Government of the Republic of Latvia appealed to the Swedish Court of Appeals demanding to revoke the ruling of the Stockholm Court of Arbitration dated June 19, 2003. The state requests to cancel the aforementioned ruling and demands to remunerate all the costs related to the legal proceedings. In accordance with the 04.05.2005. decision announced by the Court of Appeals in Sweden the ruling of the Arbitration Court concerning UNCITRAL arbitration case of natural gas price regulation in the Republic of Latvia remains in effect, is final and without appeal. The effect of this decision on annual accounts for 2005 results in LVL 8,1 mil. profit minus corporate income tax of 15%.

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Report of the Board (continued)

2. Legal proceedings (continued)

- On February 26, 2004 the Riga Ziemeļu District Court decision became effective stating that JSC "Latvijas Gāze" does not require the licence for utilization of earth entrails for storing of natural gas in IUGS.
- On February 27, 2004 the State Geology Service modified the administrative act and cancelled the request to JSC "Latvijas Gāze" to submit the necessary documents for receipt of licence for utilization of earth entrails, accordingly.

Riga Ziemeļu District Court ended the legal proceedings regarding the claim of JSC "Latvijas Gāze" against the State Geology Service for unlawful legal act.

- On December 15, 2004 "E.ON Ruhrgas International AG" submitted the claim to the Register of Enterprises of Republic of Latvia requesting to refuse entering of JSC "Latvijas Gāze" into Commercial Register. The Register of Enterprises found the above-mentioned request unjustified, and on December 20, 2004 Joint Stock Company "Latvijas Gāze" was entered into Commercial Register. On December 21, 2004 "E.ON Ruhrgas International AG" submitted a letter to the Minister of Justice about allegedly unlawful re-registration and on January 19, 2005 to the Chief State Notary – claim on decision of the State Notary. On March 8, 2005 the Chief State Notary declared entering of the Company into Commercial Register lawful. On April 8, 2005 "E.ON Ruhrgas International AG" submitted the claim to Administrative Regional Court demanding cancellation of the March 8, 2005 decision passed by the Chief State Notary of Register of Enterprises of the Republic of Latvia.
- On January 14, 2005 "E.ON Ruhrgas International AG" submitted a claim to Riga city Vidzeme Suburb Court against Joint Stock Company "Latvijas Gāze" regarding the resolution of Meeting of Shareholders of the Joint Stock Company requesting to declare the amendments to the Articles of Association, whereas the quorum of Meeting of Shareholders necessary for decision making is increased from 75% to 85% is invalid.

3. Most important activities in 2004

International cooperation:

- Cooperation with the Russian Institutes "VNIIGAS", "Giprospecgas" and the German company "Pipeline Engineering GmbH" on issues of modernization and further development of Inčukalns Underground Gas Storage.
- Cooperation with the Russian gas company "Lentransgas" on issues of diagnostics of gas transmission pipelines.
- Cooperation with the Russian company "Gazobezopasnost" and the German company "Untergrundspeiher und Goetechnologie-Systeme GmbH" on Inčukalns Underground Storage safety issues.
- Participation at the GTE (Gas Transmission Europe) meetings on issues of gas storage, transmission and market liberalization.
- Cooperation with German Gas and Water Supply Union, DVGW (Deutscher Verein des Gas und Wasserfaches) on implementation of European Standards and technical norms in JSC "Latvijas Gāze".
- Cooperation with specialists of "E.ON Engineering GmbH" and "E.ON Ruhrgas International AG" on issues of technical policy and optimization of the process of new connections.
- Participation in "Baltic Gas" events.

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Report of the Board (continued)

3. Most important activities in 2004 (continued)

On national scale:

- Preparation of proposals concerning amendments to the Energy Law in connection with the implementation of EU Directives in the Republic of Latvia and their submission to the Ministry of Economy.
- Submission of proposals to the Ministry of Economy for amendments to the Law of Safety Zones regarding the establishment of the size of operation and safety zones, determination of a single payment for the safety zones of newly built gas pipelines, and the rights of JSC "Latvijas Gāze" to register the safety zones with the Land Register without the landowners' approval.
- Long-term gas supply contract signing regarding Rēzekne gas supply with the total gas volume up to 466 mio nm³.

On JSC "Latvijas Gāze" scale:

- Work on the modernization of Inčukalns UGS and provision of spare compressor capacity.
- Signing of the Collective Labour Agreement for 2005
- Cooperation with state and municipal institutions on safeguarding the execution of the effective legal acts and connection to gas supply.
- Elaboration of normative documents in compliance with the European standards.
- Work on the performance of the activities envisaged in the budget, reduction of production costs and improvement of the Company's efficiency.

During the reporting year the Company has invested LVL 23,7 mio in the modernization of existing gas supply system and new fixed assets formation. 35,9% of the total investment amount has been used for the modernization of Inčukalns Underground Gas Storage facility (IUGS), 14% for the development of the gas transmission grid, but 50,1% for the distribution system development and attraction of new clients. The most significant projects were:

- implementation of the project to ensure the spare compressor capacity at IUGS;
- setting-up of technological processes management center and its equipment with large-format screen at IUGS;
- start of implementation of the program of bore-wells refurbishment at IUGS;
- implementation of automated operation and control system for fire-fighting pumps and reconstruction of the CS-2 oil equipment and diethylene glycol equipment in line with the EU standards;
- launch of the project for reconstruction of power supply and installation of over-voltage protection system;
- development of the projects for reconstruction of gas collection stations at IUGS;
- inspection of gas transmission pipelines Pskov – Rīga and Rīga – Daugavpils;
- construction of gas transmission like Preiļi – Rēzekne;
- modernization of gas regulation stations (GRS). In 2004 modernization of technological equipment of four stations was completed and modernization of four more stations started. At present, modernization is completed at 26 stations (55,3%) for a total of LVL 3,56 mio. The whole program will be completed in 2007;
- commencement of reconstruction of gas fueling station for motor-transport AGUS-1 in Riga;
- completion of modernization program for gas regulation installations for gas distribution system. Over five years, 563 regulation units have been modernized for LVL 2,1 mio.;
- development of geographic information system;
- establishment of contact center;
- In 2004 the Company purchased the land where the technological equipment of the natural gas supply system is located with the total area of 91,8 ha for LVL 194,4 thousand.

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Report of the Board (continued)

4. Financial risk management

Credit risks

Cash and receivables are the main financial assets exposed to the credit risk. The Company's cash and equivalents are deposited with the largest financial institutions of Latvia. Receivables are shown at their original value except of provisions for bad and doubtful debts. The Group is exposed to concentration of the credit risk because a considerable share of net revenue refers to a limited number of customers. Four of the Company's consumers account for up to 45% of the sales (49% in 2003), the debt of one of these debtors on December 31, 2004 was 18% (21% in 2003) of the total receivables, the debt of the second and third largest debtors constituting 7% each (9% and 6% in 2003) of the total receivables. The total amount due from the rest of the debtors at the end of the reporting year did not exceed 5% (4% in 2003).

Foreign currency exchange rate fluctuations risks

The Group is exposed to the foreign currency exchange rate fluctuation risk because gas purchase price is set in USD, while sales are fixed in Lats. The foreign currency exchange rate fluctuation risk associated with amounts payable the suppliers is managed by keeping considerable cash funds in deposits of respective currencies.

5. Further development of the Company

For several years the Company has set as its target preservation of the acquired market share, attraction of new consumers and improvement of customer service. Expansion and modernisation of the gas supply system, construction of new gas pipelines as well as development of information technologies and systems will be the Company's priorities also in the future. Major attention will be paid to ensure the safety of gas supply system operation.

Topical projects within the next few years will be:

- participation in international organisations and working groups elaborating energy strategies;
- provision of spare gas injection capacity at Inčukalns Underground Gas Storage facility;
- further inspection of the gas transmission pipelines system, assessment of the technical condition of the gas transmission pipelines and elimination of faults;
- further modernisation and safety improvement of gas transmission mains and city gas supply systems implementing the JSC "Latvijas Gāze" Investment Program 2005-2010;
- cooperation with state governing institutions in the discussions and application of European Union directives in Latvia.

6. Pre-requisites for the improvement of financial and economic performance

In order to improve the business and financial performance of JSC "Latvijas Gāze", to ensure reliability of gas supplies and to form a fuel market pursuant to the European Community courts' judicature it is necessary to:

- ensure further liberalisation of gas prices;
- amend the Energy Law and other legal acts defining exactly the responsibility of legal entities and individuals for the technical condition and operation safety of gas supply systems, equipment and appliances owned by them;
- amend the currently effective legal acts, including the Law on Protective Zones, in order to facilitate registration of encumbrances with land books regarding the land on which gas pipelines and equipment are located;
- Develop a project for the perspective gas supply of the Baltic Countries and Finland providing for expansion of IUGS;

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Report of the Board (continued)

6. Pre-requisites for the improvement of financial and economic performance (continued)

- ensure collaboration with the Regulator to achieve the increase of natural gas sales end-user tariff from 01.07.2005. to 01.01.2008.;
- reconsider normative legal acts related to design, construction and commissioning of gas pipelines;
- improve technical aids and the learning process at the Training Center.

7. Evaluation of economic activities

There were no significant or extraordinary circumstances, which would affect the financial results of the Company since the last day of the reporting year till the date of signing of the Report of Board.

On the basis of the oil market trends and rapid price increase of oil products, amendments to the natural gas supply contract became effective as of 01.01.2005 providing for setting of gas purchase price according to a formula which takes into the consideration heavy fuel oil quotation.

The formula provides for a price increase in three years by up to 60% at heavy fuel oil quotation 200 USD/t, which will lead to the natural gas price approaching oil products price in Rotterdam market. The Company will take all possible steps to increase natural gas end-user tariffs respectively in order to cover increase of gas purchase costs and ensure sufficient liquidity.

In May 2005 Court of Appeals in Sweden has announced its decision in regard to ruling of the arbitration court concerning UNCITRAL Arbitration Case of natural gas price regulation in the Republic of Latvia. The previous ruling remains in effect, is final and without appeal. The effect of this decision on annual accounts for 2005 results in LVL 8,1 mil. profit minus corporate income tax of 15%.

On the basis of investments made during the previous and the reporting year, work on elaboration and implementation of a flexible pricing policy, debt collection and attraction of new clients, the Board of JSC "Latvijas Gāze" believe that the Company will have a stable place in the fuel supply market also in the future.

As JSC "Latvijas Gāze" has ensured safe operation of the gas supply systems and uninterrupted gas supplies in 2004, as well as performed the budget indices approved by the Meeting of Shareholders, the opinion of the Board of JSC "Latvijas Gāze" is that the Company has worked satisfactorily in 2004.

Proposal for distribution of the profit of JSC "Latvijas Gāze" for 2004, (LVL)

	2004 LVL
Current year's profit according to statutory financial statements prepared under Latvian accounting regulations	18 873 884
Profit share not available for distribution (unrealized deferred tax income in connection with property, plant and equipment revaluation)	(1 079 127)
Profit available for distribution	17 794 757
Profit distribution proposed:	
Calculated shareholders' dividends (67,3%)	11 970 000
Dividend per share (LVL/1 share)	0,30
Transfer to reserves provided for in the Company's Articles of Association	5 824 757

Several members of the JSC "Latvijas Gāze" Council and Board own shares and hold managerial positions in several companies registered in the Register of Enterprises of the Republic of Latvia. Except as disclosed in the financial statements, JSC "Latvijas Gāze" did not have material transactions with those companies during the reporting year.

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Report of the Board (continued)

7. Evaluation of economic activities (continued)

Information on the shareholdings and managerial positions held by the members of the JSC "Latvijas Gāze" Council and Board in other companies registered with the register of Enterprises of the Republic of Latvia is available from the Board of JSC "Latvijas Gāze".

Chairman of Board

A. Dāvis

Board meeting minutes No. __ (2005)
Riga, May 20, 2005

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STATEMENT OF DIRECTORS' RESPONSIBILITY

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

The financial statements on pages 12 to 35 are prepared in accordance with the underlying accounting records and source documents and present fairly the financial position of the Company as of 31 December 2004 and the results of its operations and cash flows for the year ended 31 December 2004.

The financial statements are prepared in accordance with International Financial Reporting Standards 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,

Adriāns Dāvis
Chairman of the Board

June 10, 2005

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AUDITORS' REPORT



PricewaterhouseCoopers SIA
Kr. Valdemāra iela 19
Rīga LV 1010
Latvija
Telephone +371 709 4400
Facsimile +371 783 0055

AUDITORS' REPORT

To the shareholders of JSC "Latvijas Gāze"

We have audited the financial statements of JSC "Latvijas Gāze" for the year ended 31 December 2004 set out on pages 12 to 35. The audited financial statements include the balance sheet as of 31 December 2004, related income statement, statement of changes in equity and cash flow statement for the year then ended and note disclosure. These financial statements are the responsibility of JSC "Latvijas Gāze" management, as referred to on page 10. 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 issued by International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We read the report of the Board of Directors set out on pages 4 to 9 and did not identify material inconsistencies with the audited financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of JSC "Latvijas Gāze" as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SIA
Audit company licence No. 5

A handwritten signature in blue ink, appearing to read 'Juris Lapshe', with a stylized flourish at the end.

Juris Lapshe
Certified auditor
Certificate No. 116

Member of the Board

10 June 2005

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INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	Company 2004 LVL'000	Group 2003 LVL'000	Company 2003 LVL'000
Sales		121 119	119 435	112 945
Cost of sales	4	<u>(93 963)</u>	<u>(99 941)</u>	<u>(93 657)</u>
Gross profit		27 156	19 494	19 288
Administrative expenses	5	(6 977)	(4 989)	(4 605)
Other operating income	6	891	563	551
Other operating expense	7	(1 169)	(1 051)	(1 003)
Gain on disposal of discontinuing operation	3	<u>-</u>	<u>319</u>	<u>319</u>
Operating profit		19 901	14 336	14 550
Loss from investment in subsidiary	3	-	-	(172)
Gain on available for sale investments	14	-	1	1
Finance income, net	8	<u>1 752</u>	<u>1 362</u>	<u>1 320</u>
Profit before tax		21 653	15 699	15 699
Income tax expense	9	<u>(2 892)</u>	<u>(2 710)</u>	<u>(2 710)</u>
Net profit		<u>18 761</u>	<u>12 989</u>	<u>12 989</u>
Earnings per share in LVL	10	0.470	0.326	0.326

The notes on pages 16 to 35 form an integral part of these financial statements.

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BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	Company 31.12.2004 LVL'000	Company 31.12.2003 LVL'000
Assets			
<u>Non-current assets</u>			
Intangible assets	12	1 275	1 153
Property, plant and equipment	13	200 718	58 487
Available-for-sale investments	14	9	9
Trade accounts receivable	16	202	133
Total non-current assets		202 204	59 782
<u>Current assets</u>			
Inventories	15	27 394	6 390
Trade accounts receivable	16	9 831	9 751
Other current assets	17	1 368	669
Corporate income tax	9	-	992
Cash and cash equivalents	18	20 202	35 762
Total current assets		58 795	53 564
Total assets		260 999	113 346
Equity and liabilities			
<u>Equity</u>			
Share capital	19	39 900	39 900
Share premium		14 320	14 320
Revaluation reserve		117 816	8 020
Other reserves		33 237	30 190
Retained earnings		10 898	5 046
Total equity		216 171	97 476
<u>Liabilities</u>			
<u>Non-current liabilities</u>			
Deferred tax liabilities	9	20 034	1 157
Borrowings	20	46	81
Deferred income	23	4 500	2 745
Total non-current liabilities		24 580	3 983
<u>Current liabilities</u>			
Trade accounts payable		11 181	5 840
Other current liabilities	21	6 596	5 247
Corporate income tax liability	9	891	-
Provisions	22	1 386	670
Borrowings	20	31	32
Deferred income	23	163	98
Total current liabilities		20 248	11 887
Total liabilities		44 828	15 870
Total equity and liabilities		260 999	113 346

The notes on pages 16 to 35 form an integral part of these financial statements.

The financial statements on pages 12 to 35 were approved by the Board of Directors and were signed on its behalf by:

Adrians Dāvis
Chairman of the Board

Anda Ulpe
Board Member

June 10, 2005

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital LVL'000	Share premium LVL'000	Revaluation reserve LVL'000	Other reserves LVL'000	Retained earnings LVL'000	Total LVL'000
As at 31 December 2002	39 900	14 320	8 780	25 985	4 216	93 201
Dividends for 2002	-	-	-	-	(7 980)	(7 980)
Transfers to reserves	-	-	-	4 205	(4 205)	-
Disposal of revalued property, plant and equipment	-	-	(26)	-	26	-
Impairment charge for revalued property, plant and equipment	-	-	(734)	-	-	(734)
Profit for the year	-	-	-	-	12 989	12 989
As at 31 December 2003	39 900	14 320	8 020	30 190	5 046	97 476
Dividends for 2003	-	-	-	-	(9 975)	(9 975)
Transfers to reserves	-	-	-	3 047	(3 047)	-
Revaluation of property, plant and equipment	-	-	129 305	-	-	129 305
Deferred tax liability arising on the revaluation of property, plant and equipment	-	-	(19 396)	-	-	(19 396)
Disposal of revalued property, plant and equipment	-	-	(133)	-	133	-
Deferred tax on disposal of revalued property, plant and equipment	-	-	20	-	(20)	-
Profit for the year	-	-	-	-	18 761	18 761
As at 31 December 2004	39 900	14 320	117 816	33 237	10 898	216 171

Dividends are distributed and transfers to 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 16 to 35 form an integral part of these financial statements.

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	Company 2004 LVL'000	Group 2003 LVL'000	Company 2003 LVL'000
Cash flow from operating activities				
Cash generated from operations	24	18 445	25 031	25 165
Interest received		1 163	888	883
Corporate income tax paid	9	(1 508)	(2 923)	(2 911)
Net cash from operating activities		18 100	22 996	23 137
Cash flow from investing activities				
Purchase of property, plant and equipment		(23 191)	(15 745)	(15 537)
Purchase of intangible assets		(472)	(343)	(330)
Proceeds from sales of securities		-	4 813	5 020
Proceeds from sale of property, plant and equipment		15	139	70
Net cash used in investing activities		(23 648)	(11 136)	(10 777)
Cash flow from financing activities				
Payments on long term borrowings		(35)	(47)	(47)
Service charge on borrowings		(2)	(3)	(3)
Dividends paid		(9 975)	(7 980)	(7 980)
Net cash used in financing activities		(10 012)	(8 030)	(8 030)
(Decrease) / increase in cash and cash equivalents		(15 560)	3 830	4 330
Movement in cash and cash equivalents				
At the beginning of the year		35 762	31 932	31 432
(Decrease) / increase		(15 560)	3 830	4 330
At the end of the year	18	20 202	35 762	35 762

The notes on pages 16 to 35 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

1 INCORPORATION AND ACTIVITIES

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 Riga Stock Exchange. The registered office of the Company is 6 A. Briāna 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.

During 2004 the average number of persons employed by the Company was 1 267 (2003: 1 260). The subsidiary LLC "Latvijas Propāna Gāze" was sold on December 7, 2003.

2 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS"), using the historical cost convention as modified by the revaluation of property, plant and equipment and available for sale investments as disclosed in the Accounting policies Note (h) and (i) below.

As the sole subsidiary was sold on December 7, 2003, the term "Company" used in the accounting policies also relates to the Group's comparative figures for the year 2003.

As the Group does not exist since December 7, 2003, the Group's and Company's balance sheets as at December 31, 2003 and as at December 31, 2004 are identical, and they are not presented separately in the notes to the financial statements.

The preparation of financial statements in conformity with generally accepted accounting principles 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 event and actions, actual results ultimately may differ from those estimates.

The accounting policies used by the Company are consistent with those used in the previous accounting period except for the accounting of certain classes of property, plant and equipment which are recorded in the revalued amount net of accumulated depreciation (see Accounting policies section (h) and Note 13).

(b) Consolidation

Subsidiary undertakings, which were those companies in which the Group had an interest of more than one half of the voting rights, had been consolidated. Subsidiary financial statements were consolidated using acquisition method. Subsidiaries were consolidated from the date on which control was transferred to the Group and were no longer consolidated from the date that control ceased.

Subsidiary financial statements were consolidated into the Group's financial statements combining respective assets, liabilities, income and expense items. All intercompany transactions and balances between group companies as well as unrealised profit or loss from mutual transactions had been eliminated.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

(c) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to this Company ("the measurement currency"). All amounts shown in these financial statements are presented in Latvian Lats (LVL), which is the measurement currency of the Company.

All transactions denominated in foreign currencies are translated to Lats at the exchange rate set by the Bank of Latvia prevailing on the day on which the transactions took place.

Monetary assets and liabilities denominated in foreign currencies are translated into Lats at the official rate of exchange ruling at the balance sheet date. Resulting exchange gains and losses are reflected in the income statement for the period.

	31.12.2004	31.12.2003
	LVL	LVL
1 USD	0,516	0,541
1 EUR	0,703	0,674
1 LTL	0,203	0,195
1 DKK	0,0944	0,0905
1 SEK	0,0782	0,074

(d) Revenue recognition

Sales are recognised upon delivery of gas or performance of services, net of value added tax and discounts. Interest income and penalties income is recognised as it accrues unless its collectability is in doubt.

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 useful life of the constructed assets of 30 to 40 years.

(e) Receivables

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

(f) Inventories

Natural gas cost is determined by the FIFO (first-in first-out) method. Materials, spare parts, gas meters and other inventories cost is determined by the weighted average method. The cost of natural gas comprises cost of gas purchased. Direct labour, other direct costs and related production overheads are recognised on an accruals basis and charged to the income statement in the period when incurred.

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

JSC "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
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NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

(g) Intangible assets

Intangible assets are stated at historical cost, less accumulated amortisation. Amortisation is charged based on estimated useful economic lives of the intangible assets on a straight line basis. Generally intangible assets are amortised over a period of 5 years.

(h) Property, plant and equipment

Building, gas transmission system and equipment are stated at fair value, based on periodic valuation less subsequent depreciation or impairment charge. Other property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment charge.

Any accumulated depreciation at the date of revaluation is restated proportionately with the charge in gross carrying amount of the asset. Increase in value arising on revaluation is shown in equity under "Revaluation reserve". Decrease that offsets a previous increase of the same asset's value recognised in the said reserve is charged against that reserve; any further decrease is charged to the current year's income statement. The revaluation surplus is transferred retained earnings on the retirement or disposal of the asset.

Depreciation is charged on a straight line basis using the following rates based on estimated useful economic lives of the assets:

	% per annum
Buildings:	0,7 – 1,2
Gas transmission system:	2 – 2,5
Machinery and equipment:	14 - 20
Furniture and fittings:	10 - 20
Computers and equipment:	30

Company's policy is to capitalise tangible assets with cost exceeding LVL 50 and useful life exceeding 1 year.

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

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.

(i) Investment securities

The Company has classified its investment securities as available-for-sale investments. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale investments; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. Investment securities are initially recognised at cost, which includes transaction costs. Available-for-sale assets are subsequently carried at fair value which is estimated with reference to the current market value of similar instruments or to the discounted cash flows of the underlying assets. Realised and unrealised gains and losses arising from changes in the fair value of available-for-sale investments are included in the income statement in the period in which they arise.

**JSC "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES (continued)

(j) Taxation

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

Deferred tax is provided for using liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different property, plant and equipment depreciation rates, provisions for unused annual leave and bonuses and accruals 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". Where an overall deferred taxation asset arises, it is only recognised in the financial statements where its recoverability is considered as probable.

Increase in deferred tax liability that results from revaluation of property, plant and equipment is charged to in equity as deduction from respective increase in the Revaluation reserve.

Decrease in deferred tax liability that results from depreciation of revalued property, plant and equipment is charged to the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances of current accounts with banks and other short-term highly liquid investments, which can be easily converted to cash and are not subject of significant change in value.

(l) Share capital

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issues of new shares, other than in connection with business combination, are shown in equity as a deduction, net of tax, from the proceeds. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(m) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave based on actual number of outstanding days of paid leave as at the end of the reporting period multiplied by the average daily salary of each employee.

(n) Related parties

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

(o) Segment reporting

Business segments provide products or services of the Group or the Company that are subject to risk and returns that are different from those of other business segments. Geographical segments provide products or services of the Group or the Company within a particular economic environment that is subject to risk and returns that are different from those of components operating in other economic environment.

(p) 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 do 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.

JSC "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
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NOTES TO THE FINANCIAL STATEMENTS (continued)

3 SEGMENT INFORMATION AND DISCONTINUED OPERATIONS

On November 22, 2002 JSC "Latvijas Gāze" Council obliged to the Board arranging the sale of all "Latvijas propāna gāze" LLC shares in a closed auction. On December 7, 2003 "Latvijas propāna gāze" LLC shares were sold. As of that date Company has operated in the single business segment – natural gas. Accordingly, the information on segments is presented for 2003 only.

Primary reporting segment – business segments
Group

For the year ended December 31, 2003:

	Continuing operations	Discontinued operations	Total
	Natural gas	Liquefied petroleum gas	
	LVL'000	LVL'000	LVL'000
Sales	112 906	6 529	119 435
Operating expense	(98 680)	(6 737)	(105 417)
Segment result (operating profit)	14 226	(208)	14 018
Profit from discontinued operations	-	319	319
Finance income and expense – net	1 320	42	1 362
Profit before tax	15 546	153	15 699
Tax	(2 710)	-	(2 710)
Net profit	12 836	153	12 989
Segment assets	113 346	-	113 346
Total assets	113 346	-	113 346
Segment liabilities	15 870	-	15 870
Total liabilities	15 870	-	15 870
Capital expenditure	15 880	221	16 101
Depreciation and impairment charge	7 298	304	7 602
Amortisation of intangibles	279	5	284
Cash flow from operations		(125)	
Cash flow from investing activities		4 438	
Net cash flow		4 313	
The profit on sales of investment in subsidiary is as follow:			
Proceeds from sale of investment in subsidiary undertaking		5 020	
Carrying value as at selling date		(4 678)	
Expenses relating to sale of investment in subsidiary undertaking		(23)	
Profit from discontinued operations		319	
"Latvijas Propāna gāze" LLC losses for period from 1.1.2003 to 7.12.2003		(166)	
Profit from liquefied petroleum gas segment		153	

JSC "LATVIJAS GĀZE"
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NOTES TO THE FINANCIAL STATEMENTS (continued)

3 SEGMENT INFORMATION AND DISCONTINUED OPERATIONS (continued)

Primary reporting segment – business segments (continued)

	Discontinued operations LVL'000
Net cash inflow from sale of investment in subsidiary:	
Proceeds from sale of investment in subsidiary undertaking	5 020
Cash in and cash equivalents in subsidiary sold	(207)
Net cash inflow from sale of investment in subsidiary	4 813

Company

For the year ended December 31, 2003:

	Continuing operations	Discontinued operations	Total
	Natural gas LVL'000	Liquefied petroleum gas LVL'000	LVL'000
Sales	112 945	-	112 945
Operating expense	(98 713)	-	(98 713)
Segment result (operating profit)	14 232	-	14 232
Profit from discontinued operations	-	147	147
Finance income and expense – net	1 320	-	1 320
Profit before tax	15 552	147	15 699
Tax	(2 710)	-	(2 710)
Net profit	12 842	147	12 989
Segment assets	113 346	-	113 346
Total assets	113 346	-	113 346
Segment liabilities	15 870	-	15 870
Total liabilities	15 870	-	15 870
Capital expenditure	15 880	-	15 880
Depreciation and impairment charge	7 298	-	7 298
Amortisation of intangibles	279	-	279
Cash flow from investing activities		5 020	
Net cash flow		5 020	
Proceeds from sale of investment in subsidiary undertaking		5 020	
Carrying value as at selling date		(4 678)	
Expenses relating to sale of investment in subsidiary undertaking		(23)	
Profit from discontinued operations		319	
"Latvijas Propāna gāze" LLC losses for period from 1.1.2003 to 7.12.2003		(172)	
Net profit from sale of investment in subsidiary undertaking		147	

JSC "LATVIJAS GĀZE"
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NOTES TO THE FINANCIAL STATEMENTS (continued)

3 SEGMENT INFORMATION AND DISCONTINUING OPERATIONS (continued)

Up to December 7, 2003 the Group had two main business segments:

- supply of natural gas to industrial customers and residential customers;
- supply of liquefied petroleum gas to industrial customers and residential customers.

	Group 2003 LVL'000	Company 2003 LVL'000
Sales by categories		
Sales of natural gas and liquefied petroleum gas	114 057	107 716
Revenue from services	5 378	5 229
	119 435	112 945

There were no material sales or other transactions between the business segments. Segment assets consisted primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash. Segment liabilities comprised operating liabilities. Capital expenditure comprised additions to property, plant and equipment, and intangible assets.

There are no geographical segments of the Company or the Group as all principal operations are carried out in Latvia.

JSC "LATVIJAS GĀZE"
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NOTES TO THE FINANCIAL STATEMENTS (continued)

4 COST OF SALES	Company 2004 LVL'000	Group 2003 LVL'000	Company 2003 LVL'000
Purchase of natural gas	70 264	78 898	74 966
Salaries	6 563	6 285	5 213
Social insurance contributions	1 528	1 483	1 228
Life, health and pension insurance	503	420	420
Materials and spare parts	2 505	2 653	2 323
Depreciation and amortisation and impairment charge of property, plant and equipment	9 885	7 490	7 181
Other	2 715	2 712	2 326
	93 963	99 941	93 657

5 ADMINISTRATIVE EXPENSES

Salaries	2 082	1 540	1 467
Social insurance contributions	334	269	253
Life, health and pension insurance	116	152	152
Maintenance and utilities	590	592	553
Real estate tax	1 163	270	234
Depreciation and amortisation and impairment charge of property, plant and equipment	457	369	365
Bank charges	164	321	279
Provisions for impairment of bad and doubtful debts, net	189	(80)	(156)
Other expenses	1 882	1 556	1 458
	6 977	4 989	4 605

6 OTHER OPERATING INCOME

Penalties from customers	442	242	242
Income from contribution to financing of construction works	154	97	97
Other income	295	224	212
	891	563	551

JSC "LATVIJAS GĀZE"
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NOTES TO THE FINANCIAL STATEMENTS (continued)

7 OTHER OPERATING EXPENSE

	Company 2004 LVL'000	Group 2003 LVL'000	Company 2003 LVL'000
Materials expenses	9	7	7
Salaries	114	105	105
Social insurance contributions	10	18	18
Depreciation, amortisation and impairment charge for property, plant and equipment	23	24	24
Sponsorship	730	506	506
Loss on disposal of property, plant and equipment	17	42	60
Provisions for slow moving and obsolete inventories impairment	37	196	145
Other expense	229	153	138
	1 169	1 051	1 003

8 FINANCE INCOME, NET

Finance income

- Interest income	1 176	954	949
- Net foreign exchange gains	578	411	374
	1 754	1 365	1 323

Finance expenses

- Service charge for borrowings	(2)	(3)	(3)
	(2)	(3)	(3)

Finance income, net

	1 752	1 362	1 320
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9 INCOME TAX EXPENSE

Current tax	3 391	2 209	2 209
Unrealised deferred tax gain related to revalued property, plant and equipment	(1 079)	-	-
Deferred tax	580	501	501
	2 892	2 710	2 710

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

9 INCOME TAX EXPENSE (continued)

	Company 2004 LVL'000	Group 2003 LVL'000	Company 2003 LVL'000
Profit before tax	21 653	15 699	15 699
Theoretically calculated tax at tax rate of 15% (2003 – 19%)	3 248	2 983	2 983
<i>Tax effect of:</i>			
Tax non-deductible expenses	1 380	200	200
Tax relief on donations	(657)	(453)	(453)
Unrealised deferred tax gain related to revalued property, plant and equipment	(1 079)	-	-
Effect of different tax rates on expected reversals	-	(20)	(20)
Tax charge	2 892	2 710	2 710

Deferred 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:

Asset as at 1 January	(992)	(353)	(290)
Paid during the year	(1 508)	(2 923)	(2 911)
Transferred to other taxes	-	40	-
Sale of subsidiary	-	35	-
Charge for the year	3 391	2 209	2 209
Liabilities / (asset) as at 31 December	891	(992)	(992)

Calculation of deferred tax

	2004 LVL'000	2003 LVL'000
Deferred tax liability at the beginning of the reporting year	1 157	657
Increase of deferred tax liability (charged to income statement)	580	500
Increase in deferred tax liability that results from revaluation of property, plant and equipment (charged to equity)	19 396	-
Decrease in deferred tax liability related to revalued property, plant and equipment (charged to income statement)	(1 079)	-
Deferred tax that results from disposal of revalued property, plant and equipment (charged to equity)	(20)	-
Deferred tax liability at the end of the reporting year	20 034	1 157

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

	31.12.2004 LVL'000	31.12.2003 LVL'000
Temporary difference on depreciation of property, plant and equipment (to be recovered within 12 months)	1 381	308
Temporary difference on depreciation of property, plant and equipment (to be recovered after more than 12 months)	19 655	1 777
Temporary difference on provisions for impairment of bad and doubtful debts (to be recovered within 12 months)*	(634)	(642)
Temporary difference on accruals for unused annual leave and bonuses (to be recovered within 12 months)	(313)	(229)
Temporary difference on provisions for impairment of inventories (to be recovered within 12 months)	(55)	(57)
Deferred tax liability, net	20 034	1 157

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

10 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.

	2004	2003
Net profit attributable to shareholders (a)	18 760 677	12 989 244
Ordinary shares as at 1 January	39 900 000	39 900 000
Ordinary shares as at 31 December	39 900 000	39 900 000
Weighted average number of ordinary shares outstanding during the year (b)	39 900 000	39 900 000
Basic earnings per share during the year (a/b) in Lats	0.470	0.326

11 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 of 2004 of LVL 0.30 per share (2003 actual dividend LVL 0.25 per share) amounting to LVL 11 970 thousand (2003 actual LVL 9 975 thousand) is to be proposed. These financial statements do not reflect these dividends payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings in the year ending December 31, 2005.

12 INTANGIBLE ASSETS	LVL'000
<u>Cost</u>	
As at December 31, 2003	1 899
Additions	472
As at December 31, 2004	2 371
<u>Amortisation</u>	
As at December 31, 2003	746
Charge for the year	350
As at December 31, 2004	1 096
Net Book Value as at December 31, 2004	1 275
Net Book Value as at December 31, 2003	1 153

Intangible assets mainly consist of computer programs. The major single intangible asset is finance software Oracle at carrying amount of LVL 512 thousand as at December 31, 2004.

Intangible assets include fully amortised intangible assets with a total cost value of LVL 367 thousand (2003: LVL 124 thousand).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

13 PROPERTY PLANT AND EQUIPMENT

	Land, buildings and gas transmission system LVL'000	Equipment and machinery LVL'000	Other assets LVL'000	Assets under installation LVL'000	Assets under construction LVL'000	Total LVL'000
<u>Cost or revaluation</u>						
At December 31, 2003	62 683	23 715	3 155	102	7 813	97 468
Additions	-	-	-	2 656	20 532	23 188
Reclassified	6 439	4 009	990	(2 353)	(9 085)	-
Revaluation	241 326	12 899	-	-	-	254 225
Disposals	(212)	(260)	(241)	-	(75)	(788)
At December 31, 2004	310 236	40 363	3 904	405	19 185	374 093
<u>Depreciation</u>						
At December 31, 2003	20 895	15 700	2 386	-	-	38 981
Charged for 2004	6 670	2 968	384	-	-	10 022
Reclassified	(121)	221	(100)	-	-	-
Revaluation	123 457	1 463	-	-	-	124 920
Disposals	(141)	(170)	(237)	-	-	(548)
At December 31, 2004	150 760	20 182	2 433	-	-	173 375
Net book value at December 31, 2004	159 476	20 181	1 471	405	19 185	200 718
Net book value at December 31, 2003	41 788	8 015	769	102	7 813	58 487

During 2003 and 2004 buildings, gas transmission system and equipment were revalued using amortised replacement cost method. The amortised replacement cost was determined by a certified assessor LLC BDO "Invest Riga". Where the amortised cost of the asset replacement amount was lower than their carrying amount the decrease in value was charged to 2003 and 2004 income statements. Increase in value resulting from the revaluation is recognised in disclosed in 2004 as increase in the Revaluation reserve, according to Board decisions on February 13, 2004 and February 15, 2005.

Property, plant and equipment include fully depreciated assets with a total gross value of LVL 2 629 thousand (2003: LVL 12 228 thousand).

Cadastral (registered) value of land plots owned by the Company as at 31 December 2004 is LVL 1 425 thousand (2003: LVL 1 211 thousand).

Cadastral value of the buildings owned by the Company is not yet determined.

14 AVAILABLE-FOR-SALE INVESTMENTS

	2004 LVL'000	2003 LVL'000
At the beginning of the year	9	8
Revaluation gain	-	1
At the end of the year	9	9

Available-for-sale investments comprise unlisted equity securities.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

15 INVENTORIES

	31.12.2004	31.12.2003
	LVL'000	LVL'000
Materials and spare parts (at net realisable value)	1 288	1 122
Gas and fuel (at cost value)	26 032	5 131
Other (at cost value)	74	137
	<u>27 394</u>	<u>6 390</u>

Provisions for impairment of obsolete and slow moving inventories:

	2004	2003
	LVL'000	LVL'000
Provisions at the beginning of the year	377	267
Charged to income statement	78	157
Released to income statement	(41)	(12)
Written off	(49)	(35)
Provisions at the year end	<u>365</u>	<u>377</u>

Provisions of 100% have been created for slow moving materials and spare parts. During 2004 the Company sold inventories of LVL 17 thousand (2003: LVL 1 thousand) and used in operations inventories of LVL 22 thousand (2003: LVL 6 thousand) that had been written off in previous years.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

16 TRADE ACCOUNTS RECEIVABLE

	31.12.2004 LVL'000	31.12.2003 LVL'000
<i>Non-current trade accounts receivable</i>		
Gross value	752	453
Provisions for impairment of bad and doubtful accounts receivable	(550)	(320)
	<u>202</u>	<u>133</u>
<i>Current trade accounts receivable</i>		
Gross value	11 376	11 412
Provisions for impairment bad and doubtful accounts receivable	(1 545)	(1 661)
	<u>9 831</u>	<u>9 751</u>
Total trade accounts receivable	<u><u>10 033</u></u>	<u><u>9 884</u></u>
Provisions for impairment of bad and doubtful debts:		
	2004 LVL'000	2003 LVL'000
Provisions at the beginning of the year	2 974	3 449
Charged to income statement	252	267
Released to income statement	(63)	(347)
Net charge to income statement	<u>189</u>	<u>(80)</u>
Written off	(52)	(160)
"Latvijas Propāna gāze" LLC provisions at selling date	-	(235)
Provisions at the year end	<u><u>3 111</u></u>	<u><u>2 974</u></u>

Of the provisions shown above LVL 550 thousand (2003: LVL 320 thousand) are attributable to non-current debtors, LVL 1 545 thousand (2003: LVL 1 661 thousand) to current debtors and LVL 1 016 thousand (2003: LVL 993 thousand) to other debtors.

Provisions were created based on evaluation of the financial position and operations of separate groups of customers. The eventual losses may differ from the current calculations, as the specific amounts required are regularly reviewed and changes are reflected in the income statement.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

17 OTHER CURRENT ASSETS

	31.12.2004 LVL'000	31.12.2003 LVL'000
Prepayments and deferred expense	339	343
Interest accrued on bank deposits	79	66
Claims according to court decisions	133	133
Receivable for services supplied	95	28
Other debtors	1 738	1 092
	2 384	1 662
Provisions for impairment of bad and doubtful debts	(1 016)	(993)
	1 368	669

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

18 CASH AND CASH EQUIVALENTS

Cash on hand	2	6
Current accounts with banks	2 794	5 927
Term deposits	17 406	29 829
	20 202	35 762

Term deposits fixed interest rate is from 1.10% to 4.75% per annum (2003: from 1.15% to 4.65% per annum).

The original term of term deposits does not exceed 1 year and these deposits are readily convertible to cash at no significant expense.

19 SHARE CAPITAL

- (a) Authorised, subscribed and paid-up share capital as at December 31, 2004 consists of 39 900 000 ordinary shares of LVL 1 each.

	31.12.2004		31.12.2003	
	% from total share capital	Number of shares	% from total share capital	Number of shares
Registered (closed issues) shares	36.52	14 571 480	36.52	14 571 480
Bearer (public issues) shares	63.47	25 326 020	63.47	25 326 020
Bearer (the Board's) shares	0.01	2 500	0.01	2 500
	100.00	39 900 000	100.00	39 900 000

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NOTES TO THE FINANCIAL STATEMENTS (continued)

19 SHARE CAPITAL (continued)

(b) Shareholders

	31.12.2004		31.12.2003	
	% from total share capital	Number of shares	% from total share capital	Number of shares
Ruhrgas Energie Beteiligungs AG (including registered shares of closed issues 7 285 740)	47.23	18 846 385	47.15	18 813 078
Itera Latvija LLC	25.00	9 975 701	25.00	9 975 701
JSC Gazprom (including registered shares of closed issues 7 285 740)	25.00	9 975 001	25.00	9 975 001
Shares owned by the State	0.00	117	0.00	117
Bearer's shares sold through public offer	2.76	1 100 296	2.84	1 133 603
Bearer's shares of the Board	0.01	2 500	0.01	2 500
	100.00	39 900 000	100.00	39 900 000

State owned shares are held by the Latvian Privatisation Agency.

Extraordinary shareholders meeting held on 15 December 2004 approved the new edition of Articles of Association. Closed issue shares were converted into registered shares, while public issue shares were transformed into bearer's shares. Board member reserve shares were converted into bearer's shares. All shares have the same voting rights and rights to receive dividend.

On January 28, 2005 JSC Gazprom purchased 3 591 700 Company shares from Itera Latvija LLC. After this transaction JSC Gazprom owns 13 566 701 shares or 34% of total Company share capital. Itera Latvija LLC holds 6 384 001 shares or 16% of total share capital.

20 BORROWINGS

	31.12.2004 LVL'000	31.12.2003 LVL'000
Ministry of Finance, 2007	<u>77</u>	<u>113</u>

On November 7, 1995 an agreement was concluded between the Company and the Ministry of Finance of the Republic of Latvia. The agreement provided for assignment of a Danish Government interest free loan of DKK 3 493 thousand that should be used to finance the project stipulated in an agreement between Lyngso Energi & Miljo and JSC "Latvijas Gāze" branch "Rīgas gāze" of May 4, 1995. In 1999 the total amount of the agreement was specified and fixed as USD 508 thousand. The repayment of the loan should be made in 17 semi-annual equal payments commencing June 1999.

Maturity of the borrowings:

	31.12.2004 LVL'000	31.12.2003 LVL'000
Current portion of borrowings	31	32
Non-current portion of borrowings	46	81
	<u>77</u>	<u>113</u>

Maturity of non-current borrowings:

between 1 and 2 years	31	32
between 2 and 5 years	15	49
	<u>46</u>	<u>81</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 OTHER CURRENT LIABILITIES

	31.12.2004 LVL'000	31.12.2003 LVL'000
Prepayments received	1 791	1 075
Social insurance contributions	446	260
Personal income tax	331	194
Value added tax	775	1 903
Real estate tax	925	3
Salaries	224	211
Accruals for unused annual leave	523	321
Accruals for bonuses	1 565	1 209
Other current liabilities	16	71
	<u>6 596</u>	<u>5 247</u>

22 PROVISIONS

	2004 LVL'000	2003 LVL'000
Provisions at the beginning of the year	670	670
Increase of provisions	716	-
Provisions at the end of the year	<u>1 386</u>	<u>670</u>

Provisions have been made to cover potential legal expenses.

23 DEFERRED INCOME

	31.12.2004 LVL'000	31.12.2003 LVL'000
Income from residents and enterprises contribution to financing of construction works of gas pipelines:		
Non-current portion	4 500	2 745
Current portion	163	98
	<u>4 663</u>	<u>2 843</u>
Movement of deferred income:		
	2004 LVL'000	2003 LVL'000
At the beginning of the year	2 843	1 748
Received from residents and enterprises during the reporting year	1 974	1 192
Recognized as income in the reporting year	(154)	(97)
Deferred to the following periods	<u>4 663</u>	<u>2 843</u>

See also Accounting policies Note (d).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

24 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Company 2004 LVL'000	Group 2003 LVL'000	Company 2003 LVL'000
Profit before tax	21 653	15 699	15 699
<i>Adjustments for:</i>			
Depreciation	10 015	7 595	7 290
Amortisation	350	284	279
Gains on available-for-sale-investments (Note 14)	-	(1)	(1)
Provision for impairment of slow moving inventories (Note 15)	37	195	145
Accrual for bonuses	(351)	(7)	(7)
Accrual for unused annual leave	(202)	(3)	(3)
Provision charge	716	-	-
Interest income (Note 8)	(1 176)	(954)	(949)
Service charge for borrowings (Note 8)	2	3	3
Gains from sale of subsidiary (Note 3)	-	(319)	(147)
Loss on disposal of property plant and equipment (Note 7)	17	42	60
<i>Changes in working capital</i>			
- trade and other receivables	(835)	1 713	1 667
- inventories	(20 979)	(3 535)	(3 303)
- trade and other payables	9 198	4 319	4 432
	<u>18 445</u>	<u>25 031</u>	<u>25 165</u>

25 RELATED PARTY TRANSACTIONS

(a) Sale of services

JSC "Gazprom"	<u>3 288</u>	<u>4 187</u>	<u>4 187</u>
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(b) Purchase of natural gas

JSC "Gazprom" and "Itera Latvija" LLC	<u>92 314</u>	<u>79 338</u>	<u>79 338</u>
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(c) Accounts payable for natural gas as at 31 December

	31.12.2004 LVL'000	31.12.2003 LVL'000
JSC "Gazprom"	4 410	1 346
"Itera Latvija" LLC	4 631	3 231
	<u>9 041</u>	<u>4 577</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

25 RELATED PARTY TRANSACTIONS (continued)

(d) Remuneration to Board of Directors and Council

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

	2004	2003
	LVL'000	LVL'000
Salaries *	794	626
Social insurance contributions *	72	86
Health and life insurance	5	69
Contributions to pension funds	33	29
	904	810

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

26 STAFF COSTS

	Company	Group	Company
	2004	2003	2003
	LVL'000	LVL'000	LVL'000
Wages and salaries	8 759	7 930	6 785
Social insurance contributions	1 872	1 753	1 481
	10 631	9 683	8 266

27 FINANCIAL INSTRUMENTS

(a) Credit risk

Cash and receivables are the main financial assets exposed to the credit risk. The Company's cash and equivalents are deposited with the largest financial institutions of Latvia. Receivables are shown at their original value except of provisions for bad and doubtful debts. The Group is exposed to concentration of the credit risk because a considerable share of net revenue refers to a limited number of customers. Four of the Company's consumers account for up to 45% of the sales (49% in 2003), the debt of one of these debtors on December 31, 2004 was 18% (21% in 2003) of the total receivables, the debt of the second and third largest debtors constituting 7% each (9% and 6% in 2003) of the total receivables. The total amount due from the rest of the debtors at the end of the reporting year did not exceed 5% (4% in 2003).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

27 FINANCIAL INSTRUMENTS (continued)

(b) Currency exchange risk

The Company is exposed to currency exchange risk as its gas purchases are denominated in USD, whereas most of the sales are in lats. Trade payables currency exchange risk is hedged by holding a significant part of cash in respective currency deposits.

	2004				2003		
	USD' 000	EUR' 000	DKK' 000	SEK' 000	USD' 000	EUR' 000	LTL 000
Financial assets	142	2 842	40	-	18 603	54	384
Financial liabilities	(17 700)	(41)	-	(135)	(13 459)	(114)	-
Balance sheet position in original currency	(17 558)	2 801	40	(135)	5 144	(60)	384
Balance sheet position in LVL	(9 060)	1 969	4	(11)	2 783	(40)	75

(c) Fair value

The carrying value of financial assets and liabilities which are not accounted for at fair value as at December 31, 2004 and December 31, 2003 approximates their fair value.

28 CAPITAL COMMITMENTS

The Company has planned to spend the following amounts for capital expenditures in the subsequent year:

	31.12.2004 LVL'000	31.12.2003 LVL'000
Contracted for but not delivered	11 364	4 799
Authorised but not yet contracted for	13 516	20 608
Total	24 880	25 407

29 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, 2004.

In May 2005 Court of Appeals in Sweden has announced its decision in regard to ruling of the Arbitration Court concerning UNCITRAL arbitration case of natural gas price regulation in the Republic of Latvia. The previous ruling remains in effect, is final and without appeal. The effect of this decision on annual accounts for 2005 results in LVL 8,1 mil. profit minus corporate income tax of 15%.

On December 15, 2004 "E.ON Ruhrgas International AG" submitted the claim to the Register of Enterprises of Republic of Latvia requesting to refuse entering of JSC "Latvijas Gāze" into Commercial Register. The Register of Enterprises found the above-mentioned request unjustified, and on December 20, 2004 Joint Stock Company "Latvijas Gāze" was entered into Commercial Register. On December 21, 2004 "E.ON Ruhrgas International AG" submitted a letter to the Minister of Justice about allegedly unlawful re-registration and on January 19, 2005 to the Chief State Notary – claim on decision of the State Notary. On March 8, 2005 the Chief State Notary declared entering of the Company into Commercial Register lawful. On April 8, 2005 "E.ON Ruhrgas International AG" submitted the claim to Administrative Regional Court demanding cancellation of the March 8, 2005 decision passed by the Chief State Notary of Register of Enterprises of the Republic of Latvia.

On January 14, 2005 "E.ON Ruhrgas International AG" submitted a claim to Riga city Vidzeme Suburb Court against Joint Stock Company "Latvijas Gāze" regarding the resolution of Meeting of Shareholders of the Joint Stock Company requesting to declare the amendments to the Articles of Association, whereas the quorum of Meeting of Shareholders necessary for decision making is increased from 75% to 85% is invalid.