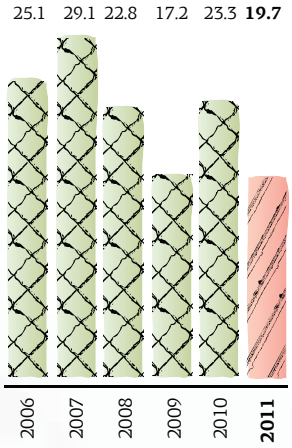
2011

JSC "LATVIJAS GĀZE"

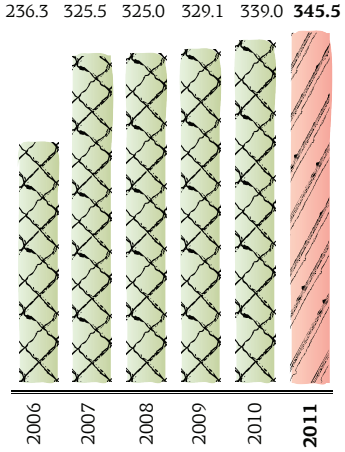
ANNUAL REPORT

150 TO GAS IN LATVIA

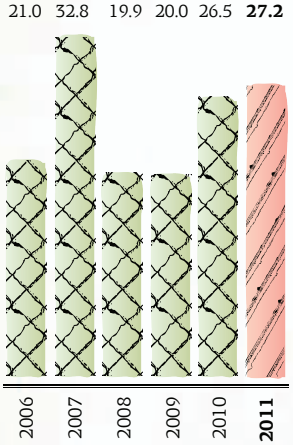
Investment (LVL million)



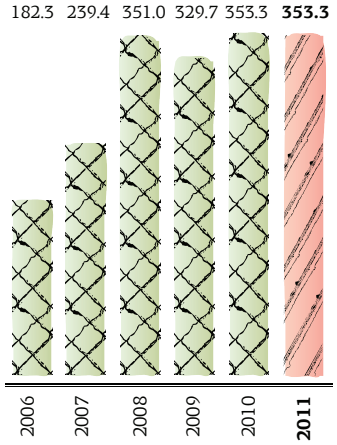
Equity (LVL million)



Net profit (LVL million)

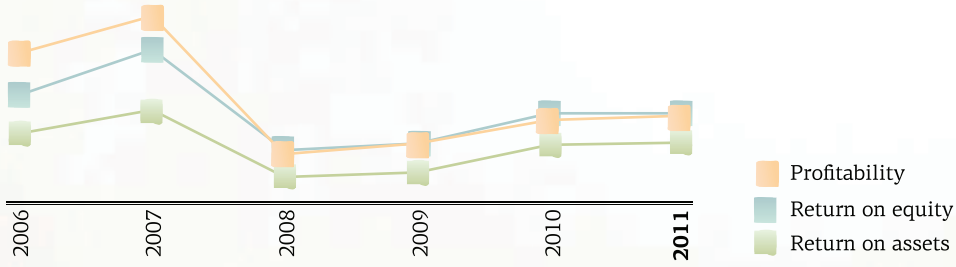


Net turnover (LVL million)



Main financial indices (%)

11.5	13.7	5.7	6.1	7.5	**7.7**
9.0	11.7	6.1	6.1	7.9	**7.9**
6.7	8.1	4.1	4.2	5.9	**6.1**



COMPANY IN 2011

Our objective is to strengthen the position of JSC "Latvijas Gāze" as a leader in the Latvian heating market by increasing the availability of natural gas, promoting various ways to use it, and providing Latvia with one of the most stable natural gas supplies in Europe.

Our vision is to transform Latvia into one of Europe's largest natural gas storage centres, utilizing our country's unique geological formations.

Our mission is to contibute to the Baltic region's economy by ensuring the security of energy supply, the development of the sector, and competitive pricing.

CONTENTS

COUNCIL REPORT

The priority of the Joint Stock Company "Latvijas Gāze" (hereinafter – the Company) in 2011, just as in previous years, was a continuous and safe natural gas supply to customers both in Latvia and the neighbouring countries: Russia, Estonia and Lithuania. Due to the unusually cold winter of 2010/2011, almost all available active gas was withdrawn from the Inčukalns Underground Gas Storage Facility (hereinafter – IUGS) by the spring, leaving as little as 41 million m^3 at the facility. Consequently, the summer of last year saw the historically highest natural gas injection volume – 2261.8 million m^3.

In the priorities of European energy infrastructure till 2020 developed by the European Commission (hereinafter – EC), the Baltic Sea region has been identified as one of four priority corridors, thus new gas infrastructure projects are likely to be implemented in these countries. Due to these projects, the role of the IUGS in the security of gas supply of both Latvia and the neighbouring countries and the formation of a gas market will increase. In order to assess the prospects of further development of the facility and to develop particular technical solutions for the modernization and possible expansion of the IUGS, specialists of the scientific and technical institute VNIIGAZ worked out a concept of modernization of the IUGS till 2025. On the basis of this concept, the IUGS modernization will continue and the usefulness of storage expansion will be evaluated with a view to further improve the security of gas supply to consumers and to provide the necessary gas volumes.

In 2011, the consumers were sold 1 561.4 billion m^3 of natural gas. The Company's net profit reached LVL 27.2 million (EUR 38.7 million), exceeding the figure of 2010 by 2.7%. The Company invested LVL 19.7 million (EUR 28.0 million) in modernization, the attraction of new customers and the improvement of safety. The year 2011 saw a further rise of the total number of gas users, reaching 442,600 at the end of the year.

The key projects completed by the Company in 2011 were the reconstruction of wells and the construction of a drying unit at the IUGS and the construction of a gas pipeline under the Daugava riverbed using the horizontal drilling method, commissioned late in the year. The last year also saw further diagnostics of the technical condition of gas transmission pipelines, and in summer the possible leakages in these pipelines were searched for via laser technologies by a specially equipped ultramodern helicopter of "Open Grid Europe". It should be noted that in recent years the Company has devoted much attention to proper detection and elimination of pipeline damages.

In 2011, during its meetings, the Council heard and discussed the reports to the Council on the operation of the Company prepared by the Board, reviewed and accepted the draft annual report of 2010 and the draft budget of 2012. The Council gave the Board directions and recommendations on improving the Company's operation. The Council reviewed and approved the amendments to the agreements with the natural gas suppliers the OJSC "Gazprom" and the LLC "ITERA Latvija" prepared by the Board. Thus, Latvia is guaranteed stable natural gas supplies till 2030 and the competitiveness of gas in the energy resource market has been ensured.

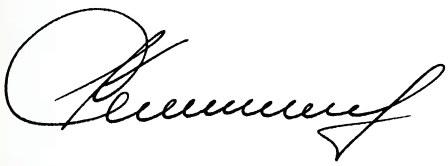
The Council has studied the Corporate Governance Report for the last year prepared by the Board in compliance with the "Principles of Corporate Governance and Recommendations on the Implementation thereof" issued by the JSC "NASDAQ OMX Riga" and holds a view that the Board has done significant work to ensure that the Company complies with the recommended principles of corporate governance. The Council follows the same principles.

Over the reporting period, the Council regularly received reports by the Board regarding the operation, economic and financial standing of the Company. The Council supervised the operation of the Company in all key aspects and made sure the Company works in compliance with the laws, the Company's Articles of Association and the resolutions of the Shareholders' meeting, verified and accepted the budget submitted by the Company and made proposals for improving the Company's work.

The Annual Accounts 2011 of the Company were audited by the International Auditor Company PricewaterhouseCoopers LLC. The Council has received

the auditor's reports attesting that the financial statements provide a fair and clear presentation of the JSC "Latvijas Gāze" and its financial results and cash flows in 2011 in compliance with the Annual Accounts Law of the Republic of Latvia. The Council has reviewed and accepted the Board report on the operation of the Company in the reporting year, research and development measures, financial risk management and suggestions as to the distribution of the profit of 2011.

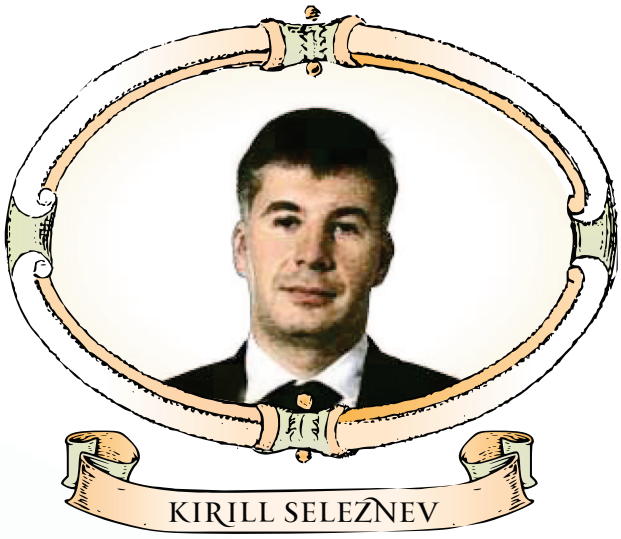
The Council of the Company acknowledges the successful performance of the Board and employees in 2011 and also wishes it future success and progress.



KIRILL SELEZNEV

Chairman of the Council

COUNCIL



KIRILL SELEZNEV

Chairman of the Council

Head of Gas and Liquid Hydrocarbon Marketing and Processing Division of OJSC "Gazprom" since March 20, 2003, Member of the Board of OJSC "Gazprom". 2002 – graduated from St. Petersburg State University in Credit Theory and Finance Management. 1997 – graduated from Baltic State Technical University of St. Petersburg named after D. F. Ustinov in the field of engineering of momentum devices and automated rotation lines.

JURIS SAVICKIS

Vice-chairman of the Council

Since 1996 – President of LLC "ITERA Latvija".
1983-1984 – International Relations Faculty of University for Qualification-Raising of Executives.
1970-1972 – Postgraduate Course at Riga Polytechnical Institute.

PETER FRANKENBERG

Vice-Chairman of the Council (since July 2, 2010)

Since 2010 – Head of "MU PEG Investment Management and International Shareholdings Mid-/Downstream", Senior Vice-president of "E. ON Ruhrgas AG", Managing Director of "E. ON Ruhrgas International". 1992 – Dr. rer. oec. (Dr. Ph.), International Accounting, University of Ruhr, Bochum.

JOACHIM HOCKERTZ

Since 2000 – Head of Baltic States Office (2000-2002 "Ruhrgas AG", since 2002 "E. ON Ruhrgas International AG").
1989-1992 – Max Plank Institute in Muelheim an der Ruhr, Dr. Ph.

UWE FIP

Since 2002 – Senior Vice-president of "E. ON Ruhrgas AG", Head of Eastern Gas Supply Department. Master's Degree in Oil Engineering, Degree in Business Management (Diploma – Merchant).

MARIO NULLMEIER

Since 2005 – Head of Baltic States Office of "E. ON Ruhrgas International AG" in Tallinn, Estonia.
2000 – Master Degree in Global Business Administration.

HEINZ WATZKA

Since 2002 – Senior Vice-president of "E. ON Ruhrgas AG", responsible for maintenance of southern gas pipeline system.
1986 – studies of Machine Manufacturing at Vienna Technical University (Austria), specialized in pump station welding and hydraulic design for oil industry.

ALEXANDER KRASNENKOV

Since 2006 – General Director of LLC "Baltic LNG"
International Institute of Finance and Economics, Speciality of International Economics and International Relations.

YELENA KARPEL

Since 2004 – Member of the Board of Directors of OJSC "Gazprom" following a resolution by shareholders' meeting.
1968 – Korotchenko Kyiv Economic Institute, Speciality of Industry Planning.

VLADA RUSAKOVA

Since 2003 – Member of the Board of OJSC "Gazprom", Head of Strategic Development Division.
1977 – Moscow Oil and Gas Industry Institute named after I. M. Gubkin, Qualification of Engineer in design, planning and operation of oil and gas pipelines, gas storage facilities and oil tanks; postgraduate course at Moscow Oil and Gas Industry Institute named after I. M. Gubkin.

IGOR NAZAROV

Since 2007 – Head of Export Division of "NGK ITERA" (Moscow, Russia). 1982 – Moscow State University of Foreign Affairs (MGIMO) (within the framework of Ministry of Foreign Affairs), Diploma of Commercial Division equivalent to Master of Economics – Economist with proficiency of foreign languages (Italian and English).

BOARD

ADRIANS DĀVIS

Chairman of the Board

JSC "Latvijas Gāze" Chairman of the Board since 1988; working in the gas industry since 1965. 1997 – Physical Energy Institute of Latvian Academy of Sciences, Doctorate in Engineering (Dr. sc. ing.).

GINTS FREIBERGS

Board Member

JSC "Latvijas Gāze" Board member since 1997; working in the gas industry since 1984.
1984 – Riga Polytechnical Institute, Engineer of Industrial Heat Energy.

JOERG TUMAT

Board Member,
Vice-chairman of the Board

Vice-chairman of the Board of JSC "Latvijas Gāze" since 2006. 2001-2006 – Head of Department at Eastern Gas Acquisitions Division of "E.ON Ruhrgas AG/Ruhrgas AG"; agreements concerning OJSC "Gazprom" shares, eastern gas purchases; working in the gas industry since 1998. 2001-2004 – University of Hagen, Diploma in Business Administration (Dipl.-Betriebswirt).

ANDA ULPE

Board Member

JSC "Latvijas Gāze" Board member since 1997; working in the gas industry since 1984. 2002 – University of Latvia, Master's Degree of Social Sciences in Economics.

ALEXANDER MIHEYEV

Board Member, Vice-chairman of the Board

First Deputy of Head of Gas and Liquid Hydrocarbon Marketing and Processing Division of OJSC "Gazprom" since 2003; working in the gas industry since 1968. 1968 – Moscow Oil and Gas Industry Institute named after I. M. Gubkin, Qualification of Engineer in design and operation of oil and gas pipelines, gas storage facilities and oil tanks.

SHARES AND SHAREHOLDERS

More Activity on Securities Market

The shares of the JSC "Latvijas Gāze" have been listed on NASDAQ OMX Riga exchange since February 15, 1999. The shares are traded on the second list, their trading ticker as of August 1, 2004 is GZE1R, and the nominal share value is LVL 1. The total number of shares is 39.9 million, while the number of securities in public trading is 25,328,520. According to the statistics of the Latvian Central Depository, the security market of Latvia in 2011 was more active than the year before – the trading of shares reached LVL 56.8 million, which is by 118% more than in 2010. 9,370 new securities accounts were opened with Latvian banks and broker companies in 2011.

Transactions with shares of JSC "Latvijas Gāze" at JSC "NASDAQ OMX RIGA" stock exchange in 2000-2011

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Share price (LVL):												
Share price (LVL):												
First	0.00	3.65	6.65	5.45	5.51	6.20	9.95	10.35	7.25	4.55	4.57	4.800
Highest	3.70	11.35	6.80	6.25	6.60	9.90	11.13	11.25	8.20	6.00	6.00	7.000
Lowest	1.80	3.50	4.80	5.40	5.40	6.15	9.27	7.05	3.62	3.32	4.57	4.601
Average	2.93	6.16	5.35	5.51	5.85	7.67	10.22	10.34	6.77	4.31	5.15	5.320
Last	3.60	6.65	5.49	5.50	6.50	9.61	10.32	7.12	4.55	4.10	4.90	5.651
Change		82.19%	-17.44%	0.92%	17.97%	55.00%	3.72%	-31.21%	-37.24%	-9.89%	7.22%	17.73%
Share turnover, pcs	8.728.020	8.363.161	3.982.263	4.962.617	181.611	63.360	128.844	154.825	46.565	64.319	85.493	218.132
Share turnover, million LVL	25.565	51.480	21.314	27.340	1.062	0.486	1.316	1.600	0.315	0.277	0.440	1.160
Number of transactions	2.122	2.892	3.606	1.719	863	864	1.066	1.074	1.711	1.267	988	1.284
Profit per share							0.526	0.822	0.477	0.480	0.646	0.645
Capitalization (million LVL)	143.640	265.335	219.051	219.450	259.350	383.439	411.768	284.088	181.545	163.590	195.510	225.475

JSC "Latvijas Gāze" share price 01.01-31.12.2011

No Changes in the Structure of Shareholders and Share Capital

The JSC "Latvijas Gāze" completed the reporting year with an unchanged structure of shareholders. As of the end of 2011, the company had three main shareholders: the German company "E.ON Ruhrgas International GmbH", which holds 47.2% of shares, the Russian OJSC "Gazprom" with 34% of shares and the LLC "ITERA Latvija" with 16% of shares. The remaining 2.8% of shares are owned by minority shareholders, including employees of the company. The share capital of the company at the end of the year had not changed and amounted to LVL 39.9 million (EUR 56.8 million), which breaks down to as many voting shares with a nominal value of LVL 1.00 (EUR 1.42).

Improved Positions at "NASDAQ OMX Baltija"

The capitalisation value of the company at the end of 2011 reached LVL 225.47 million, which is by LVL 29.96

million more than a year before. In terms of the stock market capitalisation, the company ranked number one among companies listed on "NASDAQ OMX RIGA" and number four among those listed on "NASDAQ OMX" in the Baltics. In the previous reporting period, the company ranked number one and number eight respectively.

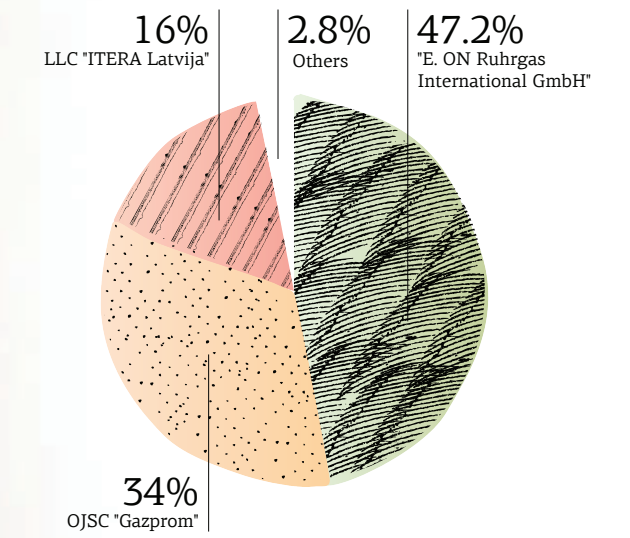
Share Price and Turnover Go Up

The price of one share of the JSC "Latvijas Gāze" at "NASDAQ OMX RIGA" fluctuated from LVL 4.601 to LVL 7.00 (from EUR 6.547 to EUR 9.96) during the reporting year, reaching LVL 5.651 (EUR 8.04) at the end of 2011 and surpassing the figure of the end of 2010 by 17.7%. Meanwhile, the share turnover at "NASDAQ OMX RIGA" amounted to 218,132 shares valued at LVL 1.16 million (EUR 1.65 million), which is by 132,169 shares more than in 2010.

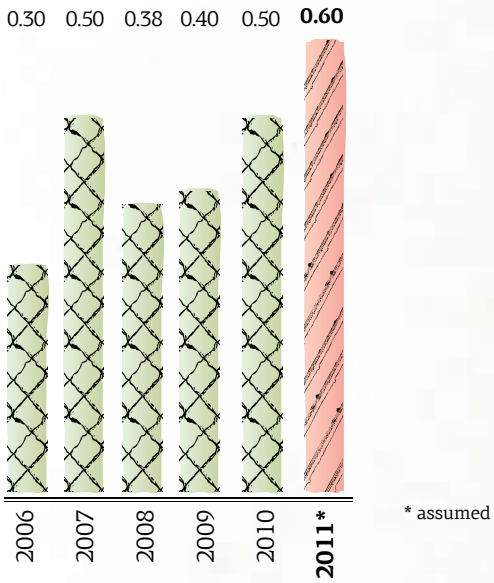
Record in Dividends

The proposal for distribution of the profit of the reporting year, drafted by the Board of the JSC “Latvijas Gāze”, envisages dividend payment in the amount of LVL 0.60 per share or LVL 23.940 million (EUR 34.063 million) in total. This comprises 90% of the company’s profit in 2011. The proposal is pending review at the general meeting of the company's shareholders. The amount to be paid in dividends per share has grown by LVL 0.10 or 20.0% compared with 2010 and will be the highest ever since the JSC “Latvijas Gāze” shares have been traded on the market.

Shareholder structure (%) 31.12.2011.



Dividend per share (LVL/share)



Dynamics of JSC "Latvijas Gāze" share prices and OMX Riga and OMX Baltic GI Indexes (01.01.2008 - 31.12.2011)

NATURAL GAS IN THE ENERGY RESOURCES MARKET

The gross domestic product (GDP) of Latvia grew by 5.5% in 2011, including a rise of 5.7% year-on-year in the fourth quarter, and, although the reporting year saw a reduced consumption of energy and energy resources, such a tendency of economic growth suggests an imminent increase of energy consumption in the future.

According to provisional data of the Central Statistics Bureau (CSB), the total energy consumption of Latvia in 2011 was 7338 gigawatt hours (GWh), falling 2% behind that of 2010. The volume of electricity generation reached 6093 GWh, which is by 8% less than the year before. Net import of electricity in 2011, however, saw an increase by 43%.

Electricity generation was substantially affected by the weather conditions – both the water inflow in the Daugava River and the mild winter. These factors resulted in a lower output at the hydro power plants of the Daugava cascade and at the thermal power plants.

While households consumed 8.6% less electricity, the industry sustained its positive trend with an increase of 5% in the reporting year.

Total natural gas consumption in 2011 reached 1561 million m^3, which is by 12.7% less than the year before. The sharpest drop in sales year-on-year was recorded in the fourth quarter of 2011 when the relatively high outdoor air temperature resulted in a reduced demand for thermal energy, thus the cogeneration plants consumed less natural gas.

The key factors influencing the competitiveness of natural gas in the energy resources market were the agreement of the JSC "Latvijas Gāze" and the OJSC "Gazprom" on the reduction of the natural gas purchase price, as well as the increase of taxes for natural gas during the reporting year.

Price Fluctuations and Tax Changes Result in Tariff Increase

The agreement signed in December 2010 between the JSC "Latvijas Gāze" and the OJSC "Gazprom" envisaged a reduction of the natural gas prices by 15% provided the conditions are the same as when the previous price calculation formula was applied. A key condition was to keep the previous natural gas consumption volumes. A new agreement with terms and conditions similar to those of the previous supply contract was also signed for 2012.

In early 2011, the reduced rate of value added tax (VAT) applied to natural gas was raised from 10% to 12%, but this factor did not prevent the natural gas prices from dropping. In the first half of 2011, the tariffs decreased by 6% for households using natural gas for heating and by 3% for households using it in stoves. The tariffs for households are revised once in 6 months.

As to industrial customers, the tariffs change monthly depending on the purchase price. Due to a favourable situation, in the 1st quarter of 2011 industrial customers enjoyed by an average of 9% lower tariffs than in late 2010. However, by the end of the year, with the rapid rise of the prices of oil and its products, which the natural gas purchase price is pegged to, the tariffs were back to their pre-2011 level.

The natural gas price was substantially influenced by the tax changes as of July 1. From then on, the reduced VAT rate of 12% was cancelled for household customers, thus the tax rose to 22%. Moreover, natural gas used in household stoves and heating, as well as in heat and electricity production was applied an excise tax of LVL 12 per 1,000 cubic metres. Consequently, the tariffs increased by 12% for stove users and by 14% for heating, while the price of excised natural gas for industrial consumption went up by 5-6%.

The resolution to expand the range of users liable to the excise tax with the inclusion of electricity generation and cogeneration – i. e., the sectors accounting for the vast majority of natural gas consumption – was adopted by the Latvian government in February 2011, grounding it on the need for additional budget consolidation measures.

Competitiveness on EU Scale Retained

Against the backdrop of other member states of the European Union, the JSC "Latvijas Gāze" was able to

offer natural gas to its customers for prices that were among the lowest in Europe.
According to the estimates of "Eurostat", the industrial customers in Latvia had the sixth lowest natural gas prices in the EU in the first half of 2011 and the fifth lowest in the second half of 2011.
The data of "Eurostat" show that in the second half of 2011 the industrial customers in Latvia (consumption from 10,000 to 100,000 GJ) paid EUR 0.0316 per kWh of natural gas excluding taxes, while those in Estonia – EUR 0.0297, in the Netherlands - EUR 0.0289, in the UK – EUR 0.0264, and in Romania - EUR 0.0174.
In the household segment, the prices in Latvia in 2011 were the third lowest in the EU excluding taxes. In the second half of 2011, the Latvian households (consumption from 20 GJ to 200 GJ) paid EUR 0.0357 per kWh of natural gas. Only those in Estonia (EUR 0.0342) and Romania (EUR 0.0144) had lower prices.

Dominance in Cogeneration Maintained

According to the data of the CSB, the structure of natural gas consumption is still distinctly dominated by the conversion sector, the share of which has grown by 3% over the year reaching 68%.
In 2011, 84 cogeneration plants with the total electric capacity of 966.2 megawatts (MW) were in operation in Latvia, generating 3122 GWh of electricity and 4175 GWh of heat, which equals to 60.9% of the total volume of thermal energy produced.
Over the reporting year, the number of cogeneration plants grew by 13, while their installed electric capacity – by 18.7 MW or 1.95%. In 2011, 92.3% of cogeneration plants used natural gas to generate electricity and heat.
The year 2011 saw a further reconstruction of the Riga 2nd Thermal Power Central (TEC2), due for completion by July 2013. After the reconstruction, the total electric capacity of both power units of the Riga TEC2 in cogeneration mode will reach 811 MW, thus this power plant will remain the biggest gas consumer in Latvia.

Construction of Liquefied Natural Gas Terminal Still Uncertain

The issue of building a liquefied natural gas (LNG) terminal in Latvia or any of the Baltic States was still topical in the reporting year.
In 2011, a feasibility study of a regional liquefied natural gas terminal was conducted by a consortium of the British companies "GL Noble Denton" un "Energy Contract Company". Having analysed 22 possible locations of a terminal in the Baltics, the experts named Riga as the optimum location for such a project referring to the proximity of the Inčukalns UGS as its main advantage.
During international negotiations, the Latvian government also insisted on the selection of Riga as the place of construction. However, at the meeting of the European Transport, Telecommunications and Energy Council held in Brussels on November 24 Latvia, Lithuania and Estonia failed to agree upon the construction of a regional LNG terminal, therefore the European Commission decided to conduct an independent feasibility study to determine the most advantageous location for implementing the project from economic aspect.

Natural Gas to Keep Role in Future Energy Supply

The key document of the reporting year in the field of energy in Latvia was the "Energy strategy 2030" drafted by the Ministry of Economics due for approval in 2012. The document states that, considering the substantially lower intensity of emissions and the market development in the world, natural gas along with renewable energy resources will have a dominant role in the primary energy balance of Latvia and the EU. At the same time, the authors of the strategy do not expect an increase in total natural gas consumption in Latvia by 2030, whereas its structure is likely to change, with less natural gas consumed in centralized heating and more in transport, industry and decentralized heating systems.
It is emphasized in the document that the natural gas infrastructure of Latvia has been ranked third in the EU in terms of security of supply. The supply of biogas and in the long term also shale gas into the common system, the provision of capacities of a liquefied natural gas import terminal and, depending on the demand, the gasification of new areas of the country are mentioned in the strategy as further directions of development of the infrastructure.
It is planned that natural gas received from the liquefied natural gas terminal will be injected into the Inčukalns UGS, but the prospects of its storage depend on the development of the regional market and interconnections, especially with Finland and Poland.
As pointed out in the "Energy strategy 2030", Latvia is the geographic centre of the Eastern Baltic region where the gas supply system has been historically designed to operate from a single centre, Latvia, where the region's only underground gas storage facility is located. Hence, the functions of the regional transmission system operator would be most efficiently performed by the Latvian gas transmission system operator.

DEVELOPMENT

Maximum Consumption by Energy Sector

According to the data of the JSC "Latvijas Gāze", the volume of natural gas actually sold in 2011 reached 1561 million nm³, which is by 227 million nm³ less than in 2010 when 1788 million nm³ of natural gas was sold in Latvia. However, in terms of natural gas consumption in the energy sector, the reporting year saw the maximum growth of last six years.

In 2011, the energy sector consumed 67% or 1046 million nm³ of natural gas sold in Latvia, while manufacturing consumed 13.7% (213 million nm³), utilities and commercial companies 10.8% (169 million nm³) and households 8.5% (133 million nm³).

Individual Houses and Apartments with Gas Heating Dominate

The reporting year saw a growth of the number of objects gasified by the JSC "Latvijas Gāze" from 442 370 on January 1, 2011 to 442 582 on January 1, 2012.

The total number of new connections in 2011 reached 938, including 706 (or 75%) individual dwelling houses, 114 apartments with heating and 6 apartments with gas stoves. Compared with 2010, the number of new connections grew by 10% or 110 connections.

Out of 241 connections of capacity increase made in 2011, in 205 boilers were installed at apartments already gasified.

The structure of customers indicates that the trend seen in previous years persisted in the reporting year – there was a further decrease in the number of households using gas stoves only, while the number of households using heating appliances along with gas stoves and flow water boilers increased.

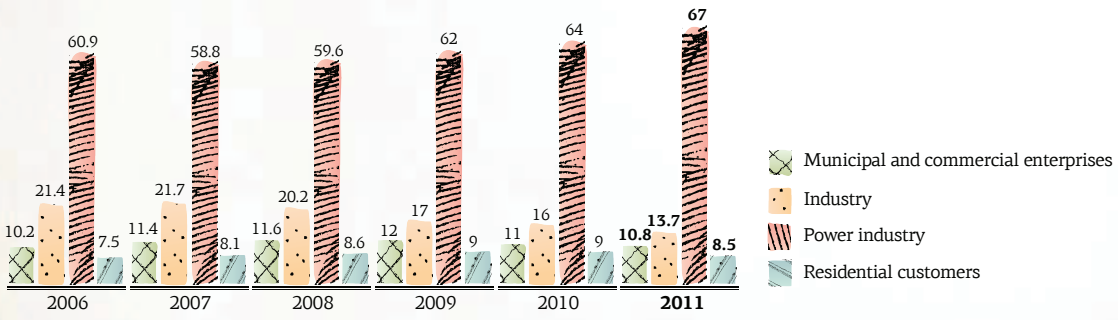
Just as in previous years, the largest number of new connections was recorded in Riga and the family house areas in its vicinity, which accounted for 63% of new connections, including 208 new connections (22%) in Riga and 118 (13%) in the Carnikava municipality.

137 new connections or 14% of total were established in the area of the Jūrmala service unit. Other seven units accounted for less than 5% of the total number of new connections.

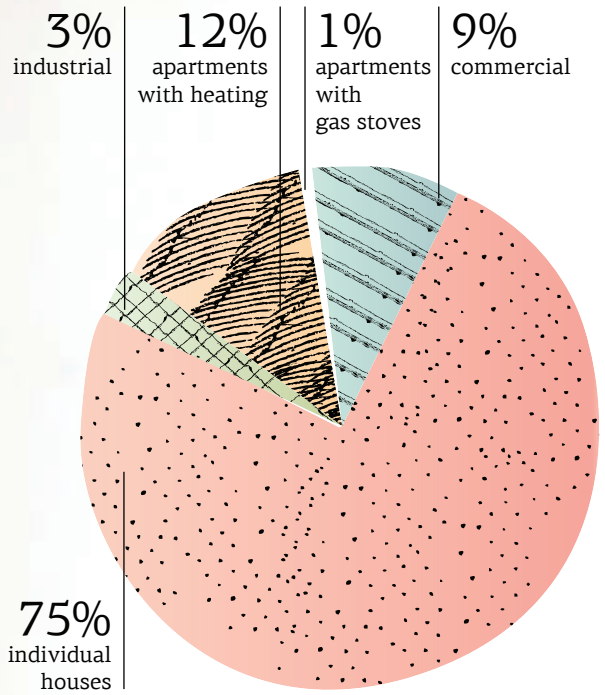
Major Cogeneration Plants in Olaine and Daugavpils

The total consumption by the new connections in 2012 is projected around 15.4 million m³ of natural gas. The households, dominating in terms of number, are expected to consume only about 2.2 million m³ of this volume, while the industrial customers – 13.2 million m³. The major contributor among the latter will be

Natural gas sales in Latvia by sector (%)



Breakdown of new connections since the beginning of 2011 – 938 connections



the new cogeneration plants, which are expected to consume around 12 million m^3 of natural gas in 2012.

In the reporting year, the number of industrial customers grew by 30, while that of commercial customers by 82. Heat generating companies are still interested in using natural gas to produce electricity in cogeneration, thus also reducing their costs of thermal energy.

In 2011, six new cogeneration plants were connected to the natural gas distribution networks in Latvia. The cogeneration plant of the JSC "Olenergo" in Olaine is expected to consume around 5780 thous. m^3 in 2012, while the cogeneration plant of the LLC "DLRR Enerģija" in Daugavpils about 2100 thous. m^3.

In the reporting year, the JSC "Latvijas Gāze" also satisfied the requests of 24 industrial and commercial customers for an increase of capacity.

It should be noted that the actual natural gas consumption of the new industrial customers connected in 2011 in the year of connection was by 1442 thous. m^3 or 195% higher than in 2010 and by 1002 thous. m^3 or 85% higher than anticipated.

More Interest from Industrial Customers

The reporting year saw an increased activity in the segment of industrial customers. In 2011, 266 industrial customers (by 84 more than in 2010) were advised by the employees of the company regarding options of gas supply, technical solutions, appliances and their capacities, as well as the potential costs of gasification.

In the reporting year, 133 detail designs of industrial customers were coordinated and 61 connection contracts were concluded, with the total connection costs amounting to LVL 72,300 (EUR 104,000). At the same time, 485 industrial customers requested the technical regulations for the design of gas distribution pipelines, branch lines and interior lines and for capacity increases.

In the reporting period, the company also processed the formalities for several large-scale construction objects due for implementation in 2012, notably the establishment of connection for seven industrial customers in Riga, Vējzaķsala.

35.8 Kilometres of Gas Distribution Pipelines Built

In 2011, new gas distribution pipelines in the total length of 35.8 km were built in Latvia. The total construction costs amounted to LVL 1.5 million (EUR 2.1 million). The majority of construction was part of the company's investment projects where LVL 0.78 million (EUR 1.1 million) was spent during the year for building 24.6 km of gas pipelines.

Overall, 100 objects were put into operation in 2011, including 30 objects under the company's investment contracts. The biggest project of the distribution system during this time was the replacement of high- (P < 12 bar) and mid-pressure (P < 4 bar) gas distribution pipelines in Liepāja.

In order to ensure the prospective development of the gas supply system, the JSC "Latvijas Gāze" draws up schemes of gasification of construction objects due for investment. 32 schemes were drafted for the construction objects of gas supply systems budgeted for 2011.

More Contracts Signed

In 2011, 1,333 contracts on an object's connection to gas distribution pipelines were concluded. This is by 197 more than in 2009 and by 203 more than in 2010, mostly under contracts envisaging investments by the

JSC "Latvijas Gāze" (718).
Since the beginning of 2011, 508 contracts without the company's investments and 107 reconstruction contracts have been signed as well.
The majority of contracts – 784 – were concluded with individual consumers. The contracting entities also included 27 industrial and 132 commercial customers, while 283 contracts were signed due to a need for an increase of capacity.

New Customers Searched Nearby Riga

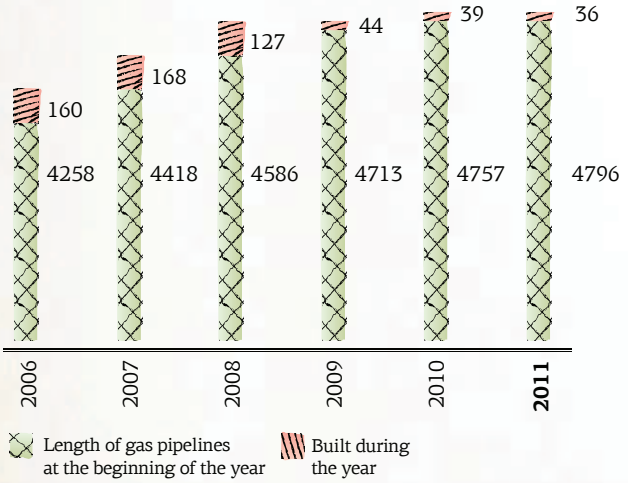
In 2011, the company continued its efforts of fulfilling the investment recoupment plan for construction objects by attracting new natural gas consumers for the gas pipelines already built. The highest activity of customers during this time was recorded in Riga and its vicinity, and more than 2,400 potential customers were addressed by implementing marketing activities in Riga, as well as the Garkalne, Stopiņi municipalities and Baldone, Baloži and Ķekava townships.
The company's Customer Promotion Department also worked on regulations for streamlining the gasification procedure, reviewed the situations as to the application of the connection fee and connection costs for apartment houses, and prepared proposals for draft amendments to the JSC "Latvijas Gāze" methodology with regard to setting the total connection costs for connecting the natural gas users' gas supply systems to the gas distribution pipelines and the increase of permissible load.

In March 2011, the company took part in the fair "Māja I – 2011". This is an efficient way to attract natural gas consumers, as potential and existing customers are made aware of the company's gasification plans and possibilities and also the special offers for customer attraction.

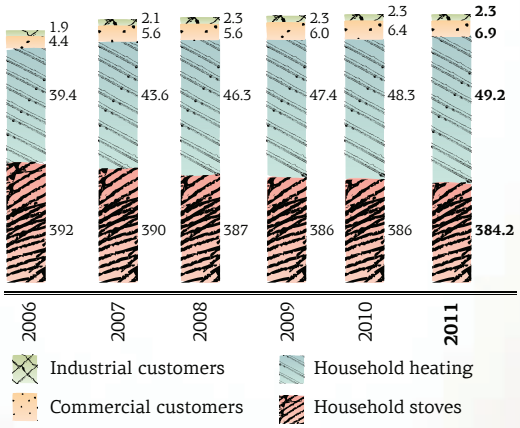
E-services Being Developed

The employees of the company's Customer Service Centre in Riga received 55,049 customers over the reporting year, i. e. 219 customers on average daily.
The company's Contact Centre received 179,526 incoming and made 43,043 outgoing calls to customers over this period. The total number of contacts serviced grew by 3% compared with 2010, while the number of faxes and e-mails sent increased by 92%.
In order to promote the use of e-services, the employees of the Contact Centre notified more than 15,700 users of the possibilities of using the e-portal, while 10,900 persons were aided in the use of the portal. To the same effect, a customer terminal was installed at the Customer Service Centre of the JSC "Latvijas Gāze" in Riga.

Construction of new gas pipelines (km)



Number of customers (thousand)



Natural gas flows in 2011

Supply from Inčukalns UGS - 1,112 million m³ | **Direct supply from Russia - 449 million m³**

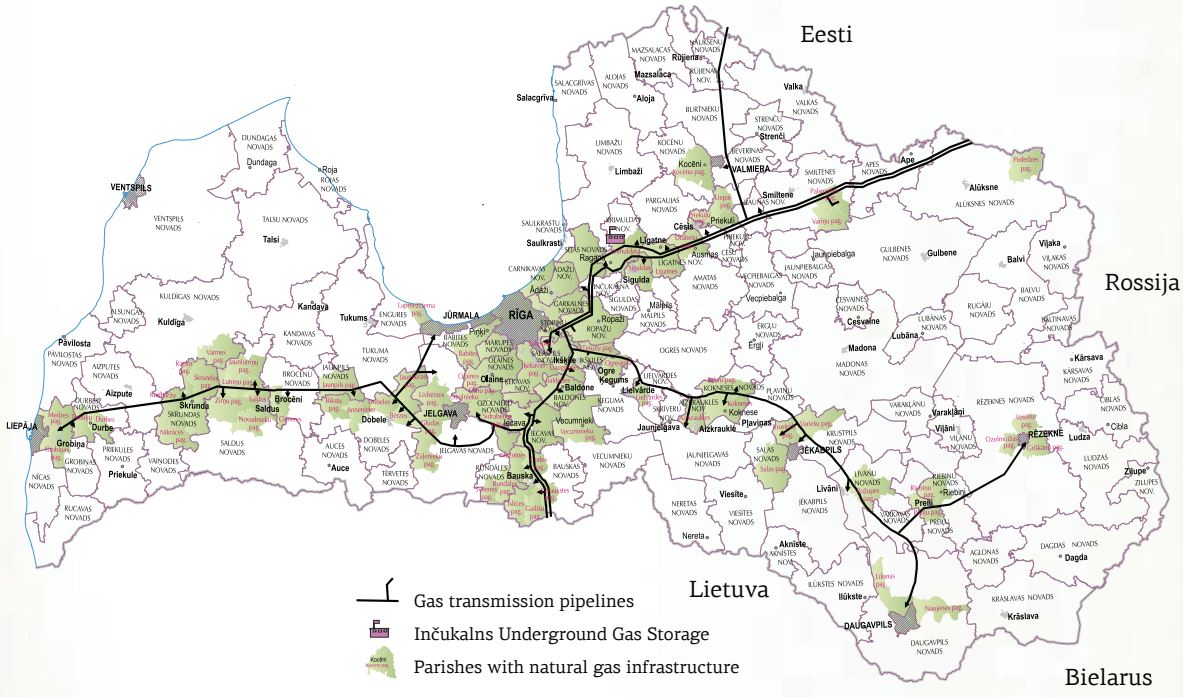
↓ ↓

Natural gas sales in Latvia - 1,561 million m³

↓ ↓ ↓ ↓

Energy	**Industry**	**Utilities and commercial companies**	**Households**
1,046 **million** m³ (67%)	213 **million** m³ (14%)	169 **million** m³ (11%)	133 **million** m³ (8%)

Parishes with natural gas infastructure



INČUKALNS UNDERGROUND GAS STORAGE FACILITY

Inčukalns Underground Gas Storage Facility

The Inčukalns Underground Gas Storage Facility (Inčukalns UGS) is a gas supply object of regional importance ensuring a stable supply of this resource not only to Latvia, but also in Estonia, the Northwestern part of Russia and, if necessary, Lithuania.

More Gas Injected

The natural gas injection season at the Inčukalns UGS began on April 26, 2011 and was completed on October 17, 2011. Over 2011, 2,261.7 million m^3 of natural gas was injected into the facility, surpassing the volume of 2010 by 227.3 million m^3. The total volume of active natural gas after injection reached 2300 million m^3, i. e., by 308.5 million m^3 more than the year before. The injected volumes covered the demand for natural gas in the heating season 2011/2012 both in Latvia and the neighbouring countries.

Modernization of 15 Wells Completed

The reporting year saw completion of the modernization of fifteen wells at the Inčukalns UGS started in 2010. The company implemented this project using the co-funding granted by the European Commission. The costs of well modernization reached LVL 7 million (EUR 10 million), while the whole project cost almost LVL 10 million (EUR 14.3 million).

The Russian company LLC "Georesurs" (*OOO "Георесурс"*) *won an open international tender and was entrusted to perform the modernization*, whereas the LLC "Gazprom Gazobezopastnostj" (OOO "*Газпром газобезопасность*") was in charge of safety supervision.

The technological well equipment required for reconstruction was supplied by the companies OJSC "Zavod Sibņeftegazmaš" (AOA "Завод Сибнефтегазмаш") (Russia), "T-3 Energy, Ltd." (USA) and "Weatherford GmbH" (Germany, USA), while the pump compressor pipes – by "Voestalpine Tubulars GmbH" (Austria).

In order to avoid cross-column gas migration, innovative technologies, such as cross-sectional perforation and filling of migration paths with a special substance known as thermogel, were used in the course of reconstruction.

Geographic Information System Sees Introduction

In 2009, the company concluded a contract on the development of a database of geographical information system (GIS) and its partial filling with technical data. The project was implemented by the Ukrainian company LLC "IT-Tranzit" (OOO "ИТ-Транзит"), and the introduction of GIS, envisaged in the contract, was completed in the reporting year.

By using this information system it is possible to obtain the visual and technical information on any unit within the Inčukalns UGS, as well as its geographical location data. The system also allows for accumulation of graphical information regarding the units.

A full completion of the information system together with the expansion of data range is due in 2012 with an additional investment of around LVL 90,000 (EUR 129,000). Thereby, the total costs of the project will reach almost LVL 300,000 (EUR 430,000).

Gas Drying Unit Gets Higher Capacity

In 2008, the JSC "Latvijas Gāze" concluded a contract with the LLC "Olimps" on the design of a gas drying unit. When the design was completed, the Italian company

"Pietro Fiorentini S.p.a." was selected as the supplier of equipment via tender.
With the equipment received, the construction of a drying unit began in July 2010, and it was performed by the Unlimited Partnership "Baltijas Energo Būve".
The construction was finalized in December 2011, while the adjustment and run was completed on March 30, 2012.
With the launch of the gas drying unit, the daily throughput of the gas preparation system at the Inčukalns UGS increased by 14 million m³. Thus, the facility's initial daily gas extraction capacity also grew from 24 to at least 30 million m³.
The total costs of this project were almost LVL 9 million (EUR 12.8 million).

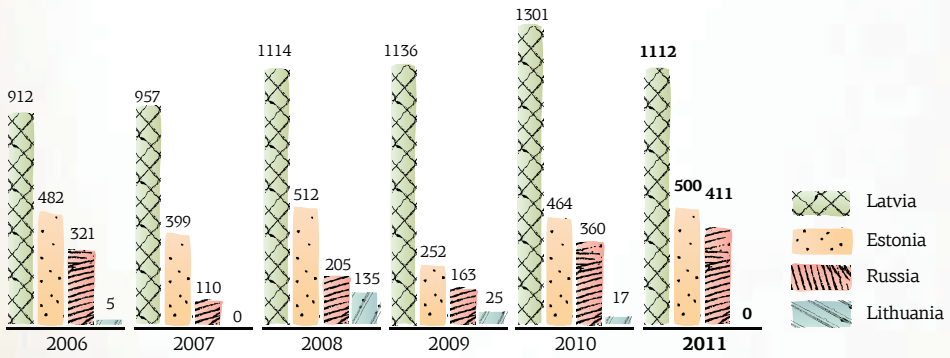
Compressor No.5 Undergoes Capital Repairs

In 2010, the capital repairs to the gas compression unit (GCU) No.5 began with a view to improve its operation safety.
The capital repairs included a full replacement of power section and motor unit, an exchange of pre-launch lubrication pump and pneumo-engine, as well as a replacement of plate-type valves with mushroom-design "CECO" valves. The components were supplied by the USA-based manufacturers "Compression Systems, Inc." and "CECO", while the repairs were carried out by the staff of the Inčukalns UGS.
The capital repairs were completed in May 2011. The GCU No.5 passed a test of 72-hour operation and worked properly without a single unapproved stop in the process of natural gas injection.
The total costs of the project were almost LVL 1.3 million (EUR 1.9 million).

Concept of Development Till 2025 Drawn Up

In the reporting year, in co-operation with the "Gazprom" Scientific Research Institute of Natural Gas and Gas Technologies – "Gazprom VNIIGAZ" (ООО "Газпром ВНИИГАЗ") – a concept of development of the Inčukalns UGS for the period till 2025 was worked out.
The preparation of concept included an analysis of the technical condition of the Inčukalns UGS and the identification of technical measures to be taken in the coming years to ensure a safe operation of the facility.
Within the framework of the concept, a schedule of investment spending was drawn up as well. It reflects an option of expanding the capacity of the Inčukalns UGS to 5.5 billion m³, featuring a calculation of the investments needed for such a scenario of development. The total costs of the concept are almost LVL 280,000 (EUR 400,000).

Natural gas supply from Inčukalns UGS, 2006–2011
million m³



GAS TRANSMISSION

The functions of natural gas transmission system operator at the JSC "Latvijas Gāze" are performed by the operation unit "Gas Transport".

The company's natural gas transmission system consists of gas transmission pipelines (hereinafter – GTP), gas regulation stations (hereinafter – GRS), anticorrosive equipment of electrochemical protection of underground pipelines, communication and remote control lines, the information system *SCADA*, as well as the commercial international gas metering station "Korneti".

"Gas Transport" ensures natural gas reception and supply to the Inčukalns UGS, delivery to the natural gas distribution system in Latvia and abroad. "Gas Transport" is also in charge of gas pressure regulation in the natural gas transmission system, gas purification, as well as its odorisation and commercial metering.

EC-Co-funded Repairs of Gas Pipeline Riga-Panevežys Completed

The reporting year saw a further reconstruction of the underwater passage of the GTP Riga-Panevežys across the Daugava River. This project, commenced in May 2010 and co-funded by the European Commission, was implemented by the LLC "BALTIJAS ENERGO BŪVE" with the involvement of subcontractors.

The key stage of the project was the laying of the pipeline using the horizontal drilling method. The works suspended in the winter of 2010 were resumed in April 2011 when in co-operation with the German company "LMR Drilling" the laying of pipeline was completed, followed by the connection of GTP valves to the newly-laid pipeline on both banks of the Daugava, as well as to the backup inverted siphon on the left bank of the Daugava.

The reconstruction of the underwater passage of the GTP Riga-Panevežys across the Daugava watercourse was finalised in August 2011 when the new section of the pipeline was filled with gas and put into operation. The employees of the Line Maintenance Service of the unit "Gas Transport" took part in all key works at the object.

Activities near the underwater passage of the GTP Riga-Panevežys continued in the autumn of 2011 as well. In August and September, in co-operation with the LLC "RUMBA", a pig receiver was dismantled and a new valve unit was connected to the existing gas pipelines. In October, the LLC "RUMBA" completed the construction of a new pig receiver and the replacement of a line valve, as well as connected the newly-built valve units to the GTP Riga-Panevežys.

Coating Restored on Pipelines

During the reporting year, based on an inspection conducted earlier, "Gas Transport" carried out a large-scale restoration of anticorrosive coating on the first and second line of the gas pipeline Riga-Inčukalns UGS.

The sections due for restoration were selected based on the inspection and advice by the LLC "Gazpromenergodiagnostika" (ООО "Газпромэнергодиагностика"), as well as the data of internal diagnostics and the recommendations by the Physical-Technical Institute of Belarus.

The restoration of the outer anticorrosive coating, performed by the LLC "EURO ENERĢIJAS SERVISS", encompassed pipeline sections in the total length of 7201 metres on the first line of the gas pipeline Riga-Inčukalns UGS and 966 metres on the second line.

In the reporting period, the employees of the Line Maintenance Service of the unit "Gas Transport" took charge of the acceptance of coating restoration and the inspection of its quality using a special inspection device (defectoscope) of the German company "ELMED GmbH, as well as participated in all key works at these objects.

In December 2011, the coating was also repaired on the GTP Riga-Panevežys, together with the dismantling of casing pipe.

Prepared for Internal Diagnostics; Defects Cleared Off

The reporting period saw the construction of numerous launcher and receiver units for cleaning and intelligent pigs and the replacement of outdated line valves of gas transmission pipelines with new ones, the internal throughput of which ensures a free movement of pigs along the pipelines.

With a view to continue the internal diagnostics of the gas transmission system pipelines and to eliminate the defects already found, the company performed these and other repairs in co-operation with the LLC "KATLINIEKS", the LLC "RUMBA" and the LLC "INTRA".

In August 2011, the GTP Iecava-Liepāja underwent the

construction of a reduction unit without interruption of gas flow, while in September a valve was replaced with branch line valves to the Kalnciems GRS and the underwater passage of the said gas pipeline across the Ciecere River was repaired together with a replacement of a section of 65 metres.
Also in August 2011, a branch line from the Aizkraukle GRS gas pipeline was connected to the GTP Riga-Daugavpils.
In order to ensure tightness and a safe gas flow during pigging and to raise the level of safety at the gas pipelines Pskov-Riga and Izborsk-Inčukalns UGS, the rider of valve of the gas pipeline was replaced in November 2011. Several sections of the pipeline, found to be defective after a repeated internal diagnostics, were also replaced. After a repeated analysis of the data of internal diagnostics, a damaged pipeline section of the GTP Pskov-Riga of 108 metres in length, located in a casing pipe beneath railway, was identified and replaced in November 2011.

Gas Reduction Unit Built on Gas Pipeline Iecava-Liepāja

In order to improve the operation safety for the GTP Iecava-Liepāja, a gas reduction unit (GRU) was built on it. The GRU allows reducing the operation pressure in the pipeline for a safe inspection and repair of defects.
The design of the GRU "Iecava-Liepāja" was drawn up in 2010. The Italian company "Pietro Fiorentini S.p.a." was in charge of its implementation and finalised the job in October 2011.

Diagnostics Completed on 85% of Gas Pipelines

The internal diagnostics of gas pipelines and a due elimination of damage found thereby are major preconditions for seamless performance of the gas transmission system. By the end of 2011, internal diagnostics covered already 85% of the total length of gas transmission pipelines, except for branch lines to GRS.
Another reason for implementing the internal diagnostics of pipes is to determine the maximum permissible operation pressure in pipelines and to maintain a higher pressure if required due to increased gas volumes.
During the reporting year, the diagnostics of four pipelines of the gas transmission system was carried out by the company "Weatherford Kopp GmbH".
The year 2011 saw a further internal diagnostics of the GTP Iecava-Liepāja. Due to the high level of contamination of the pipeline during pigging, three cleaning pigs had to be cut.
In co-operation with the LLC "KATLINIEKS", the said works took place without interrupting the gas flow. The company managed to complete the internal diagnostics of this pipeline within the reporting year.
Also in 2011, the GTP Riga-Daugavpils underwent a repeated internal diagnostics, which included the launch of both a cleaning pig and a contour meter. The diagnostics of this pipeline will continue in 2012.
During the reporting period, diagnostics also took place on the gas pipelines connecting Latvia and Lithuania, and Latvia and Estonia. The GTP Riga-Panevežys underwent a full diagnostics, while the GTP Vireši-Tallinn – a partial one, which is due to continue in 2012.

First Use of Infrared Laser in Inspection

In August 2011, the system of natural gas transmission pipelines of the JSC "Latvijas Gāze" was surveyed from a helicopter equipped with infrared lasers and other "CHARM®" technology equipment. The technology belongs to the company "OPEN GRID EUROPE GmbH" and was used in Latvia for the first time. The analysis of the inspection data yielded 67 possible spots of methane leakage. After receiving a report, the company conducted a detailed survey of the spots indicated.

Many Underwater Passages of Gas Pipelines Repaired

In 2011, twenty three GTP passages across rivers were inspected both visually and with measuring devices.
Based on the results of inspections conducted in previous years and in compliance with the programme of maintenance of fixed assets of the JSC "Latvijas Gāze", 17 underwater passages were repaired during the reporting year. These repairs took place based on the data obtained during the walking surveys of GTP and the route inspection with a helicopter.
Moreover, the external anticorrosive coating was also restored on gas pipeline crossings over small rivers, brooks and ditches.

Cathodic Protection Stations Undergo Reconstruction

In 2011, by its own effort, the company painted the technological equipment, levelled the coverings, restored the "ground-air" coating and repaired the fencing at 10 GTP objects. Over the reporting period, eight outdated cathodic protection stations saw reconstruction and are now capable of operating in automatic mode and linked with the *SCADA* system.

See map on p.19

PERSONNEL

Rise of Employment and Workforce Costs

According to the results of a workforce survey by the Latvian Central Statistics Bureau, 862,800 people were employed in Latvia in 2011. The number of job seekers reached 166,100 or 16.1% of the economically active population, i. e., almost one percent less than the year before. The costs of one-hour workforce in the 4th quarter of 2011 were 5.4% higher year-on-year. In the energy sector, which was less affected by salary fluctuations over the recent years, the increase was 0.1%.

More Employees in Gas Distribution and Sales

In its study of 2011, the staff recruitment company "Working Day" ranked the JSC "Latvijas Gāze" the 9th most desirable employer in Latvia.

As at the end of the reporting year, the company employed 1,272 people, which is by 15 more than the year before. 54% of the employees worked at gas distribution, followed by gas sales (13%), gas transmission (12%), administration (10%), gas storage (10%) and the department of paid services (1%). In comparison with the previous year, there was an increase of the number of employees at gas distribution and sales.

Increasing Share of Employees with Higher Education

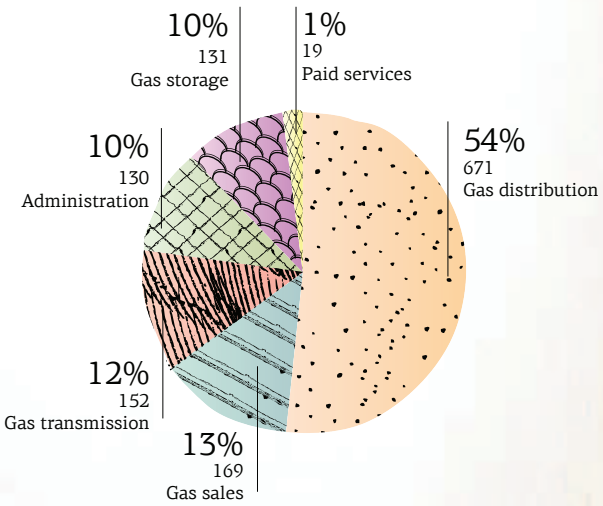
The company keeps supporting its employees in both academic education and qualification-raising at specialised courses, seminars and experience exchange programmes.

The number of employees with a higher education rose by 1% against 2010 and reached 32%. The company predominantly employs people with a secondary special education – 40%, while 4% have an elementary and 24% a secondary education.

In 2011, the costs of the employees' professional education reached LVL 110,800, which is by LVL 26,100 less than the year before. For the academic education at the higher education establishments of Latvia, with studies in the speciality of gas technologies as priority, the company granted material backing to 23 employees in the total amount of LVL 25,578, including LVL 10,154 from the 2nd term of the academic year 2010/2011 and LVL 15,424 for the 1st term of the academic year 2011/2012.

In 2011, two JSC "Latvijas Gāze" scholarship holders attended master courses at the Russian State Oil and Gas University named after I. M. Gubkin, while one employee began 1st year studies. There are currently ten graduates of the said university working at the company, and eight of them have held the JSC "Latvijas Gāze" scholarship.

Breakdown of employees by areas of activity, % avg No. of people



High Proportion of Experienced Employees

47% of the employees have between 11 to 30 years of length of service. There are almost as many employees – 45% - with less than ten years of standing. This indicates both the rejuvenation of staff and a sufficient proportion of experienced employees ensuring the inheritance of experience and knowledge. 7% or 88 employees are specialists with more than 31 years of service at gas supply, while 13 employees have been working at gas supply for more than 41 years. The structure of employees of the company is consistent, and its changes do not pose risks to the company's operation in general.

Proportion of Retirement-Aged Employees Rapidly Falling

The structure of age of the company's employees remained almost unchanged in the reporting year. The average age of the staff in 2011 was 45.8 years.
As at December 31, 2011, there were 72 retirement-aged employees at the company, which is 41% less than in 2010. This group accounted for 5.7% of all employees.
The company still has many employees over 61 years of age. Although the proportion of this age group fell by 1% in the reporting year, at the end of the period they comprised 9% of the people employed by the company.

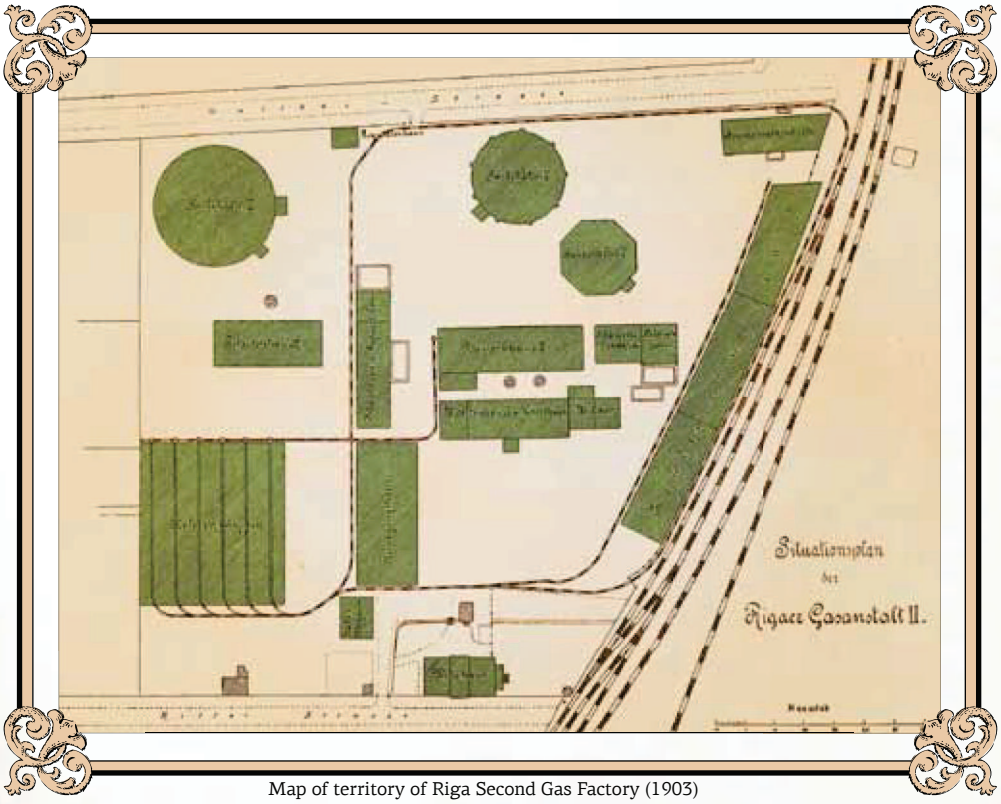
31% of the company's employees are women and 69% are men. This ratio has been constant for a long time, and the predominance of men is inherent to the specific character of work of the company.

Higher Workload for Instructors at Training Centre

In 2011, a new information system was introduced at the Training Centre of the company. The reporting year saw revision, classification and coding of the existing curricula approved by the Latvian Union of Heat, Gas and Water Technology Engineers (LSGŪTIS).

Overall, 1,551 specialists attended the Training Centre in the reporting year, including 727 employees of the company. In comparison with 2010, the number of the company's employees instructed at the Training Centre fell by 657, while that of others – by 55. This stems from the cyclical nature of training process for the employees of the JSC "Latvijas Gāze".

However, the workload of instructors – the company's employees – at lectures, practical assignments, exams grew substantially from 882 hours in 2010 to 1986 hours in 2011, whereas for invited freelance instructors the load decreased.



Map of territory of Riga Second Gas Factory (1903)

INTERNATIONAL CO-OPERATION

International Co-operation

In the reporting year, the company had three main directions of international co-operation. It continued the previously commenced co-operation with the institutions of the European Union, developed the links with the German and Russian shareholder companies of the JSC "Latvijas Gāze", as well as with the international organizations of gas industry.

Regional Risk Assessment Document Prepared

In 2011, based on the Regulation No.994/2010 of the European Parliament and of the Council concerning measures to safeguard security of gas supply and in collaboration of representatives of the Latvian, Lithuanian and Estonian Ministries of Economics and Energy, regulators and gas companies, a document of regional risk assessment was drawn up.

On the basis of an analysis of scenarios of gas supply disruption, this document features particular projects to be implemented with a view to enhance the regional security of gas supply. The analysis of scenarios confirmed once again that the Inčukalns UGS is of utmost importance for a secure gas supply of the region. The Baltic States approved the document in March 2012.

Latvian and Lithuanian Interconnection Capacity Enhanced

Within the framework of the European Energy Program for Recovery (*EEPR*), the company together with colleagues from the Lithuanian company "Lietuvos Dujos" AB continued the implementation of the project designed to increase the capacity of the Latvian-Lithuanian interconnection. The Latvian part of the project included the construction of a gas pipeline beneath the Daugava riverbed and the modernization of 15 wells at the Inčukalns UGS.

With regard to the said project, in September 2011 the company was visited by officials of the European Court of Auditors and the European Commission to carry out the financial audit of the EEPR-funded project "Modernization of gas passage across Daugava and construction of pig receiver". The audit found no infringements in the implementation of the project.

Regional Gas Investment Plan Drawn Up

Jointly with gas transmission system operators from Poland, Sweden, Denmark, Finland, Lithuania and Estonia, the JSC "Latvijas Gāze" was involved in the development of the Gas Regional Investment Plan (*GRIP*) within the framework of the Baltic Energy Market Interconnection Plan *(BEMIP)*.

According to the Regulation of the European Parliament and of the Council on guidelines for trans-European energy infrastructure, the inclusion of the said co-operation project in *GRIP* is one of the preconditions for obtaining the status of a project of common interest (PCI), which in turn may secure eligibility for funding from the European Union.

The European Network of Transmission System Operators for Gas (*ENTSOG*) is responsible for the implementation of this plan.

Modernization of Inčukalns UGS and Safe Operation of Gas Supply System as Pivot of Co-operation

The reporting year saw a further successful co-operation with specialists of the enterprises and subsidiaries of the company's main shareholders – the OJSC "Gazprom" and "E. ON Ruhrgas International GmbH".

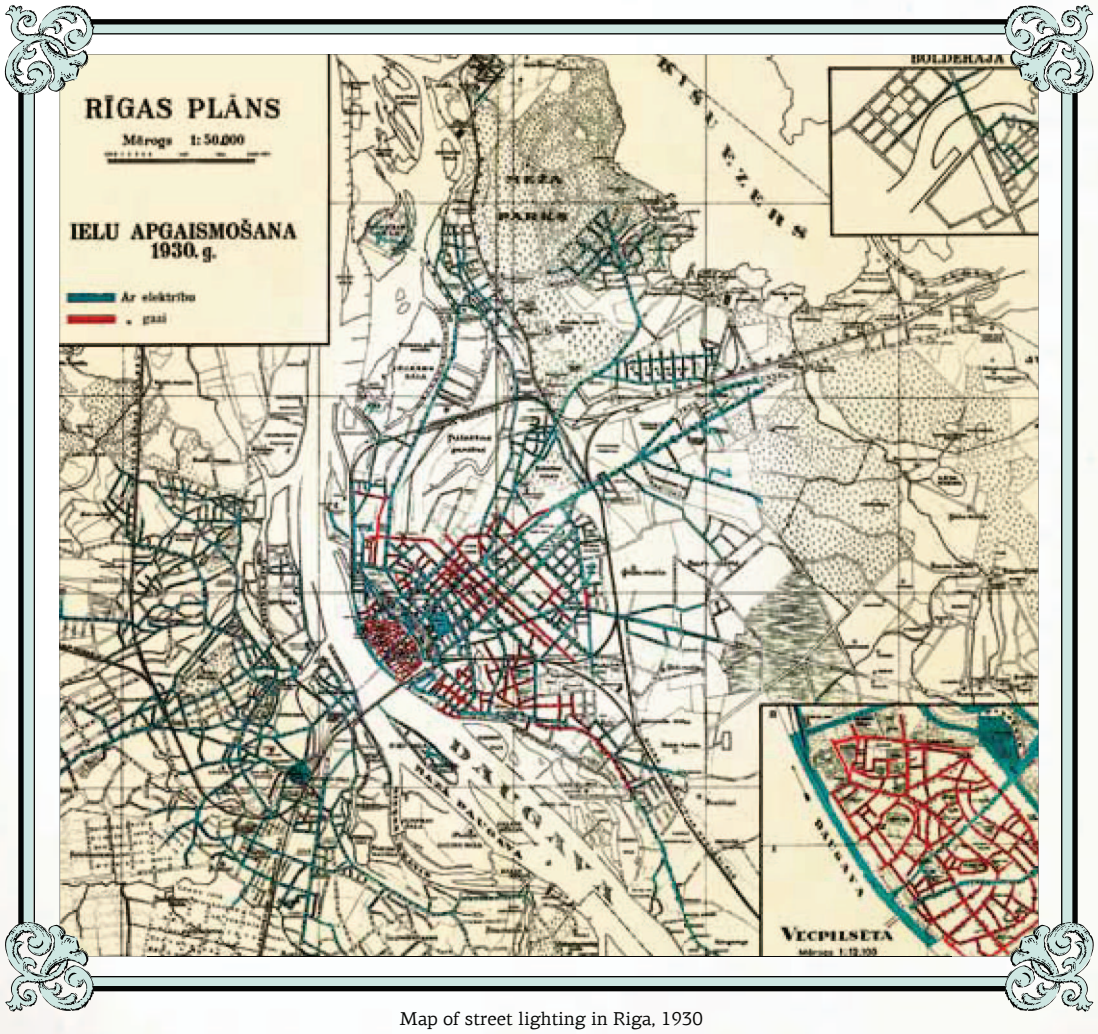
The main directions of co-operation were a further modernization of the Inčukalns UGS, the improvement of operation safety of the gas supply system, issues of operation of gas transmission pipelines, gas pipeline inspections using intelligent pigs and other technologies, as well as work with customers etc.

In September 2011, a delegation of employees of the Dispatcher Service of the JSC "Latvijas Gāze" got acquainted with the work of dispatchers of "Open Grid Europe GmbH" in Germany and visited the Dispatcher Centre and the Etzel salt cavity gas storage facility of "E. ON Gas Storage GmbH".
Also in the reporting year, all gas transmission pipelines of the JSC "Latvijas Gāze" underwent diagnostics using a helicopter equipped with measuring devices of the *CHARM* technology. This job was performed by the specialists of "Open Grid Europe GmbH", a subsidiary of "E. ON Ruhrgas International GmbH". The German specialists introduced not only the employees of the JSC "Latvijas Gāze", but also representatives of the gas companies "Peterburggaz", "Beltopgaz", "Beltransgaz", "EG Vorgutenus" and the Latvian affiliates of the OJSC "Gazprom" to this unique technology.

Membership in ENTSOG

In the reporting year, the company took part in the activities of the International Gas Union, *DVGW (Deutsche Vereinigung des Gas- und Wasserfaches)*, the World Energy Congress, "Eurogas", "Baltic Gas", as well as the Inter-republic Association for Applied and Science-Technical Gas Co-operation.
The JSC "Latvijas Gāze" considered joining the European Network of Transmission System Operators for Gas *(ENTSOG)* and became an associated partner of this operation. *ENTSOG* was founded in 2009 and currently incorporates 39 members and two associated partners from 24 European countries.

The co-operation with DVGW was very rewarding in 2011, especially in terms of training. Specialists of the JSC "Latvijas Gāze" participated in a variety of seminars organized by DVGW in Germany and in courses at the Training Centre of the JSC "Latvijas Gāze".
In 2011, employees and specialists of the JSC "Latvijas Gāze" also took part in various conferences and seminars and exchanged information with foreign colleagues in public organizations.



Map of street lighting in Riga, 1930

CORPORATE SOCIAL RESPONSIBILITY

The JSC "Latvijas Gāze" is a successful and socially responsible company that is well aware of its responsibility towards the society. Every year "Latvijas Gāze" supports the areas and projects that help create a better future – children, education, science, culture, sports and environment protection or projects uniting the society in the name of a better future. The JSC "Latvijas Gāze" substantially invests in the improvement of production technologies and infrastructure and in environment protection, thus facilitating a sustainable economic, environmental and social development.

To Society

Every year, the JSC "Latvijas Gāze" allocates funds for the purposes of culture, art, education, science and charity, supporting both individual organizations in general and particular events and activities.

Education

The company has close links with both the largest technical higher education establishment of Latvia – the Riga Technical University (RTU) – and other academic and scientific institutions.
In the reporting year, the foundation "Riga Technical University Development Fund" was donated funds to be spent on scholarships for students majoring in gas technologies, as well as for the support of outstanding Latvian scientists and prospective scientists. The company supported the publishing of the third part of the book "Gāzes apgāde" ('Gas Supply').
The company also helped organize the events of the 150th anniversary of RTU. Starting the jubilee year, an honorary board of RTU sponsors and patrons was unveiled. It features 118 main supporters of the university, with the JSC "Latvijas Gāze" among them.
The company allocated funds for awarding prizes and diplomas to the surgeons who performed the first liver transplantation in Latvia in early 2011 at the Pauls Stradiņš Clinical University Hospital.
The Latvian Academy of Sport Education, for its part, was funded the preparation and publishing of the book of historical descriptions and photos regarding the Latvian Academy of Sport Education "90 gadi – izglītībai un sportam" ('90 Years – to Education and Sports').

Culture

In order to preserve the national cultural heritage of opera and ballet, to develop the culture of opera, operetta, ballet and music, as well as to popularize it in Latvia and abroad and ensure the accessibility of global achievements in the culture of opera, ballet and music, the company makes an annual donation to the Latvian National Opera (LNO). As is traditional, the new theatre season is inaugurated by the ceremony of the JSC "Latvijas Gāze" award and the concert of the prize winners.
This year, the JSC "Latvijas Gāze" awards – a statue by the artist Aldis Lorencs and a cash prize of one thousand lats – were presented to ten prize-winners.
The company's contribution to the Hermann Braun Foundation in the organization of festivals "Summertime" and "Winterfest" has also become a tradition. In 2011, additional support was rendered to the cycle of concerts dedicated to the 200th anniversary of F. Liszt, organized by the foundation.
Just as in previous years, the company also contributed to the funding of the annual Bach Music Festival.
Non-classical music was not neglected in 2011 either. For the preparation and recording of Raimonds Pauls' project "Nospēlē manu dzīvi..." ('Play My Life...') and his concerts in Vidzeme and Kurzeme, as well as for the organization of the concert series of the festival "Rīgas Ritmi", a contribution was made to the Foundation "Mūsdienu mūzikas centrs".
Imants Skrastiņš, the "guardian" of remembrance of actor Edgars Liepiņš, and the Latvian Association of Local and Regional Governments received funding for organizing a grand concert in Saulkrasti featuring the prize-winners of the Edgars Liepiņš' award and Latvian artists.
In 2011, the company also supported the events dedicated to the 80th anniversaries of the prominent Latvian composer, arranger and violinist Alnis Zaķis and the Latvian jazz master Ivars Mazurs, organized by the Society for Support of Jazz Orchestras.
Moreover, support was rendered to the Mikhail Chekhov Riga Russian Theatre for staging the play "Ne vienmēr runcim krējuma pods" ('Every Day Is Not Sunday') by A. Ostrovsky, new productions of the Latvian National Theatre, as well as for an art exhibition at the Large Hall of the Daile Theatre in relation to the main staging of

the season 2011/2012 "Romeo and Juliet".
The Latvian State Historical Archives, for their part, were financially aided in setting up the exhibition "Kurzemes un Zemgales hercogiste – no hercoga Gotharda līdz hercogam Jēkabam" ('The Duchy of Kurzeme and Zemgale – from Duke Gotthard to Duke Jacob'), while the Riga Monuments' Agency – in the everyday care of Sacred fire of the Brothers' Cemetery of Riga and the maintenance of the ensemble of said cemetery.

Co-operation with Embassies

The JSC "Latvijas Gāze" is an international company, which rendered support to a variety of activities of diplomatic bodies during the reporting year. For instance, the company helped transport the hospital beds furnished by the German Embassy in Riga to the Latgale Region social care centres.
The company also supported the reception organized by the Embassy of the Republic of Latvia in the Russian Federation in honour of the 93rd anniversary of the proclamation of independence of Latvia.

Charity

In 2011, the company continued the tradition of helping the Latvian Children's Fund. The events organized by the fund and supported by the company include the large-scale Christmas charity concert at the Riga Latvian Society House, traditionally a part of the charity campaign "Nepaej garām!" ('Don't Pass By!').
Another event to be noted is the one organized by the fund foundation "Bērnu veselība – mūsu nākotne" ('Children's Health – Our Future') at the Riga Circus for children from orphanages and those from socially disadvantaged families.
In the reporting year, support was also rendered to the Association "Latvijas bērniem ar kustību traucējumiem" ('For Latvian Children with Physical Disabilities') for implementing the project "Vasaras rehabilitācijas programma – 2012 "Solis augšup"", as well as the Bauska Society of Disabled Persons.
Such environment protection organizations as the "Lake Engure Nature Park Foundation" and "Gauja National Park Foundation" were also among the beneficiaries the JSC "Latvijas Gāze" support in 2011.
In the reporting year, the company also collaborated with the Inčukalns municipality where the Inčukalns UGS is located. Funds were contributed for the purchase of prizes and diplomas on the events of the Day for Protection of Children organized by the Vangaži Community Hall, as well as for organizing the concert of Jānis Paukštello in November 2011.

Sports

The JSC "Latvijas Gāze" is one of the major contributors to sports in Latvia, having aided the development of the Latvian Olympic Movement and professional sports for over a decade.
The company has been supporting the Latvian Olympic Committee since 1997. The company's contribution is allocated for co-funding the best athletes who are training for the Olympic Games as the Latvian Olympic Team members, or entering other professional competitions. In 2011, the company was also among the supporters of floorball, tennis, biathlon, bobsleigh and orienteering organizations, as well as the Latvian national teams of basketball and volleyball.
The Latvian Power Athletes Federation received funding for the training and preparation of the Latvian strength athletes and for their participation in the Latvian championships and a variety of international tournaments. The company also supported the participation of Jolanta Logina, a female strength athlete of the Latvian Power Athletes Federation, in the Latvian championships and various international tournaments.
With the support of the JSC "Latvijas Gāze", the Latvian youth, junior and adult national orienteering teams of competed in international orienteering events and in the Latvia Cup rounds.
The Latvian Dance Sport Federation, for its part, received funding for the organization of the Latvian Championships in standard dances and the traditional competition "Dzintarjūra".

Own Basketball Champions

The employees of the company actively participate in public events, for instance, the Riga marathon, the skiing marathon "Apkārt Alaukstam" etc. The company also has ice-hockey and basketball teams. In the reporting year, the basketball team of the JSC "Latvijas Gāze" became the champions of the most prestigious – elite – group of the Double Amateur League.

Science

The support of the JSC "Latvijas Gāze" to science dates back to 1995, which was a very hard time for students and scientists. Since then, almost 170 young people have become holders of the scholarships funded by the "Latvijas Gāze". Since 2002, awards of the Latvian Academy of Sciences and "Latvijas Gāze" in the relevant engineering and medical sciences are also presented. The goal is to promote the development of science and modern technologies in Latvia concerning gas, heat engineering and related branches of chemical technology and to appreciate the contribution of the Latvian scientists, practitioners and would-be scientists (doctoral students). Simultaneously, medical science in heart surgery and cardiology, a field of no less importance, also enjoys the support from the company.

Environmental Policy

In 2011, the company implemented its environmental policy under circumstances of optimization and economy of resources. The environmental policy of the JSC "Latvijas Gāze" in this period of time featured the following objectives:

- to reach sustainable indices of environment protection and economic activity;
- to maintain close links of communication and promote mutual understanding with the state and municipal institutions and the society in general;
- to facilitate the development of staff;
- to ensure a due identification of the key environmental impacts of economic activity, the analysis and assessment of causes thereof;
- to study, analyse and observe the requirements of normative acts;
- to take proper action in emergency situations.

During the reporting year, the company successfully fulfilled the requirements of normative acts in its natural gas storage, transmission and distribution systems.

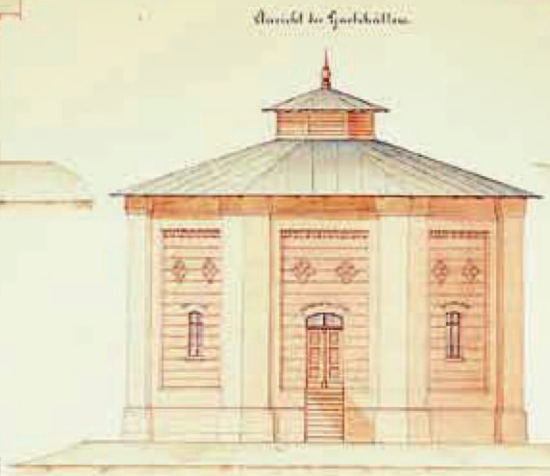
Inčukalns UGS Receives B-Category Permit of Pollutive Activities

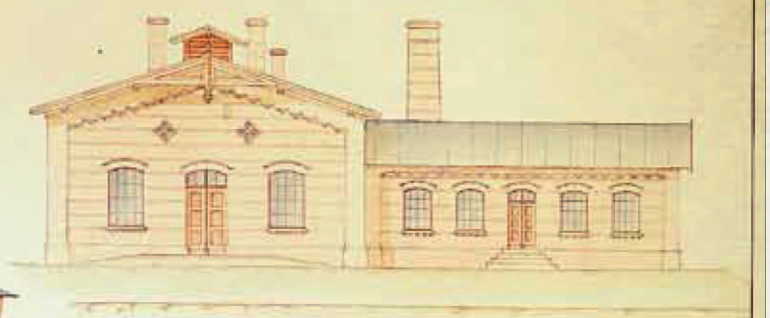
One of the key achievements of the environmental policy implemented was the B-category permit of pollutive activities No.VA11IB00021 granted to the Inčukalns UGS. The permit was issued by the Valmiera Regional Environmental Board.
The previous permit issued for the object expired in the reporting year. In order to obtain a new permit in compliance with the requirements of the effective environmental normative acts, the Operation and Technical Department of the company developed a document identifying and comprehensively describing the sources of emissions from the technological objects at the Inčukalns Underground Gas Storage Facility.
The said sources were calculated and the emission volumes substantiated, on the basis of which the company was able to request and receive appropriate emission limits.

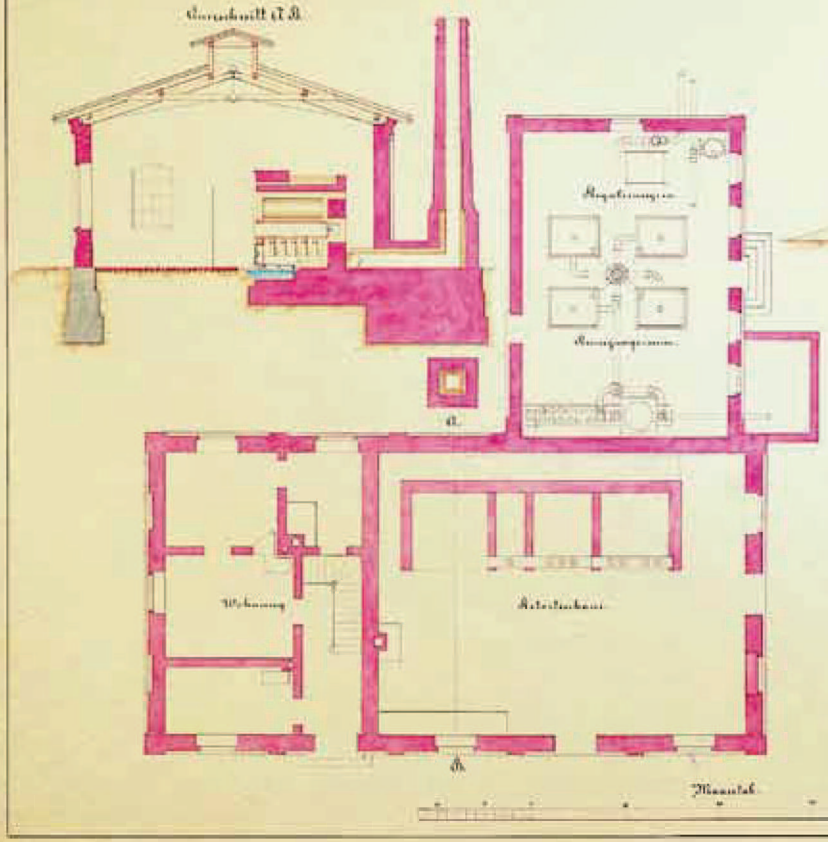
Increased Amount of Free Greenhouse Gas Emission Allowances

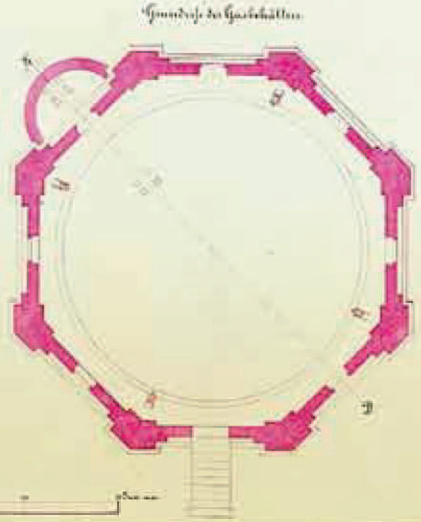
The responsible state authorities passed another resolution pertaining to the operation of the Inčukalns UGS. The resolution No.40 adopted on September 2, 2011 by the Ministry of Environmental Protection and Regional Development of the Republic of Latvia, whereby the combustion equipment at the Inčukalns UGS was granted a higher number of free greenhouse gas emission allowances, was important for the company both in environmental and economic terms.
The Ministry's resolution applies to the period of 2008 to 2012, and the increase of greenhouse gas emission allowances is 20%.
Consequently, the JSC "Latvijas Gāze" has received the full amount of greenhouse gas emission allowances substantiated and requested by the Inčukalns UGS for the period till 2012.

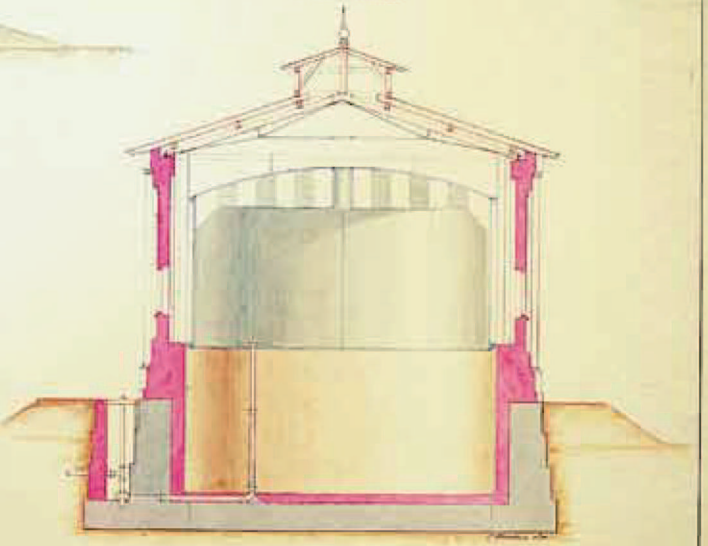
GASWERK
DER
MITAUER VORSTADT zu RIGA.











BOARD REPORT

Activity of the Company in the Reporting Year

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

Over the reporting year, the users were supplied 1,561.4 million m^3 of natural gas. In comparison with 2010, natural gas sales in m^3 fell by 12.7%. The decrease of natural gas sales stemmed from the relatively high air temperatures in the 4th quarter of 2011, as well as the investments of heat supply companies in the use of renewable energy sources and partial replacement of fossil fuels with woodchip. For several years already, the natural gas purchase prices set for Latvia have reached the level of the natural gas market of European countries, and in 2011 they were only influenced by changes in oil product quotations at the stock exchange, currency rates and gas supply flows.

In 2011, natural gas was sold to the customers for the natural gas sale end-user tariffs set in the resolution No.247 "On natural gas supply tariffs of the Joint Stock Company "Latvijas Gāze"" of the PUC Council dated July 24, 2008, which under the resolution No.258 "On the procedure of application of resolution No.247" of the PUC Council dated June 2, 2010 are exclusive of excise tax.

The applied differential natural gas sale end-user tariffs consist of two parts: fixed regulated service tariffs and the natural gas sale price, which changes with a step of 5 LVL/'000.nm^3 depending on the actual natural gas purchase costs. For users with the annual natural gas consumption over 25,000 nm^3, the applicable natural gas sale end-user tariff changes monthly, whereas for users with the annual natural gas consumption up to 25,000 nm^3 – once in six months, i. e., on January 1 and July 1.

During 2011, the natural gas sale end-user tariffs for the natural gas consumers also changed due to tax changes, because as of July 1, 2011 the reduced VAT rate for natural gas supplied to households was revoked, while natural gas used as fuel was applied an excise tax of 12 LVL/thsd. nm^3 (17.1 EUR/thous.nm^3).

In 2011, the Company sold natural gas and provided services to customers for LVL 353.3 million (EUR 502.8 million), which does not significantly differ from the net turnover of 2010, with the expenditures (excluding administrative expenses) amounting to LVL 311.6 million (EUR 443.3 million) and the gross profit – LVL 41.7 million (EUR 59.5 million). The changes in the structure of net turnover resulted from changes in the natural gas sales volume and the natural gas sale price, as well as the increased efficiency of usage of the Inčukalns Underground Gas Storage Facility (hereinafter – Inčukalns UGS).

Over the season of 2011, 2.26 billion m^3 of natural gas was injected into the Inčukalns UGS and 2.02 billion m^3 was withdrawn. Compared with the season of 2011, the volume of natural gas injected grew by 11.3%, whereas that of natural gas withdrawn remained at the level of the previous season.

The Company completed the year 2011 with a net profit of LVL 27.2 million (EUR 38.7 million), which is LVL 0.7 million (EUR 1 million) or 2.6% above that of 2010 – LVL 26.5 million (EUR 37.7 million). The net profitability of business activity was 7.7% in 2011 and 7.5% in 2010.

In 2011, the Company invested LVL 19,7 million (EUR 28 million) in the modernization of the gas supply system and the creation of new fixed assets. 29.4% of the total investment was spent on the modernization of gas transmission pipeline system, 38.8% – on the improvement of operation safety and the modernization of equipment at the Inčukalns UGS, and 25.4% – on the expansion of distribution networks and the renewal of fixed assets. The total number of gas-enabled objects at the end of the year reached 442,600.

On August 17, 2010, the Company received the

resolution No. C(2010) 5554 of the European Commission dated August 13, 2010 on the award of a financial grant to Action No. EEPR-2009-INTg-RF-LV-LT-I2.566527/ I2.566531/ SI2.566541/ SI2.566543 under the EC Regulation No. 663/2009 on gas and electricity interconnections. With this resolution, the modernization of 15 wells at the Inčukalns UGS and the construction of a gas passage under Daugava and a pig receiver was granted LVL 7 million (EUR 10 million) with a view to stabilize natural gas supplies between Lithuania and Latvia in emergency situations.

Four wells of the Inčukalns UGS were reconstructed in 2010 and eleven in the reporting period. LVL 5.5 million (EUR 7.8 million) was spent during the reporting year, and the reconstruction of a gas drying unit at the CS-1 was also completed in 2011. The object was commissioned in January 2012 with the total project costs amounting to LVL 8.8 million (EUR 12.5 million) whereof LVL 1.2 million (EUR 1.7 million) was spent in the reporting year.

The elimination of damage found during the diagnostics of gas transmission pipelines is in progress. LVL 1.3 million (EUR 1.8 million) has been spent on the renovation of gas pipelines. The construction of an underwater gas pipeline under Daugava and a pig receiver has been completed. LVL 2.1 million (EUR 3 million) was spent in the reporting year, with the total costs of the object amounting to LVL 5.8 million (EUR 8.3 million).

In 2011, LVL 0.7 million (EUR 1 million) was spent on the construction of gas distribution pipelines and the repair of coating on the gas pipeline from GRS "Riga-2" to GRS "Ziemeļi" was completed – the total costs of the project amounted to LVL 0.8 million (EUR 1.1 million), with LVL 0.7 million (EUR 1million) spent in the reporting year.

The reconstruction of GRS "Riga-2" also began in 2011, with two new container-type GRPs due to be built – the total costs of the project are LVL 0.9 million (EUR 1.3 million), with LVL 0.4 million (EUR 0.6 million) spent in the reporting year. The works are due for completion in 2012.

The year 2011 also saw completion of the replacement of gas pipeline in Liepāja, Brīvības Street, commenced in 2010. The total costs of the project amounted to LVL 0.5 million (EUR 0.7 million), and LVL 0.2 million (EUR 0.3 million) was spent in the reporting year.

Research and Development Measures

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

The plan of measures envisages investment in safety improvement for the total amount of LVL 50.6 million (EUR 72 million). This basically includes projects aimed at the improvement of system safety, the gasification of new objects and the enhancement of gas supply stability in the whole region.

In the reporting year, the OJSC "Gazprom VNIIGAZ" prepared a programme of modernization of the Inčukalns UGS up to 2025. The concept covers two development scenarios – with and without increasing the natural gas storage capacity. The projected costs are LVL 253 million (EUR 360 million) and LVL 133.5 million (EUR 190 million) respectively.

Financial Risk Management

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

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

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

The financial assets subject to credit risk basically consist of customer debts and cash. The Company is ex-

posed to a considerable degree of credit risk because a notable share of the net turnover applies to a limited number of customers. Four of the Company's customers make up to 52.9% (in 2010 – 54.5%) of sales, and one of these debtors as at December 31, 2011 comprised 21.8% (in 2010 – 22.1%) of the total amount of customer debts, the second and third major debtors 6.9% and 6.7% respectively (in 2010 – 7.5% and 5.8%).
The Company has introduced and observes a credit policy that envisages selling goods on credit only to customers with a good credit history, controlling the amount of credit set for each customer.
The customer debts are shown at their recoverable value. The Company's partners in monetary transactions are local financial institutions with a proper credit history.
The Company observes cautious liquidity risk management, ensuring sufficient availability of credit resources for meeting liabilities in due time.

Post Balance Sheet Events

There are no subsequent events since the last date of the reporting year that would have a significant effect on the financial position of the Company as at December 31, 2011.
On January 23, 2012 the Board of the Company agreed to sign an agreement with JSC "BDO" on revaluation of the Company's fixed assets as at February 1, 2012, by using the amortised replacement cost method.

Distribution of 2011 Profits Recommended by the Board

	2011 LVL	2011 EUR
Profit of the reporting year	27,175,200	38,666,826
Share of profit not available for distribution (unrealized deferred tax gain related to the revaluation of fixed assets)	(1,478,951)	(2,104,358)
Share of profit available for distribution	25,696,249	36,562,468
Suggested distribution of profit:		
dividends to shareholders (80.8%)	21,945,000	31,224,922
dividends per share (LVL/1 share)	0.55	0.783
Statutory reserves	3,751,249	5,337,546

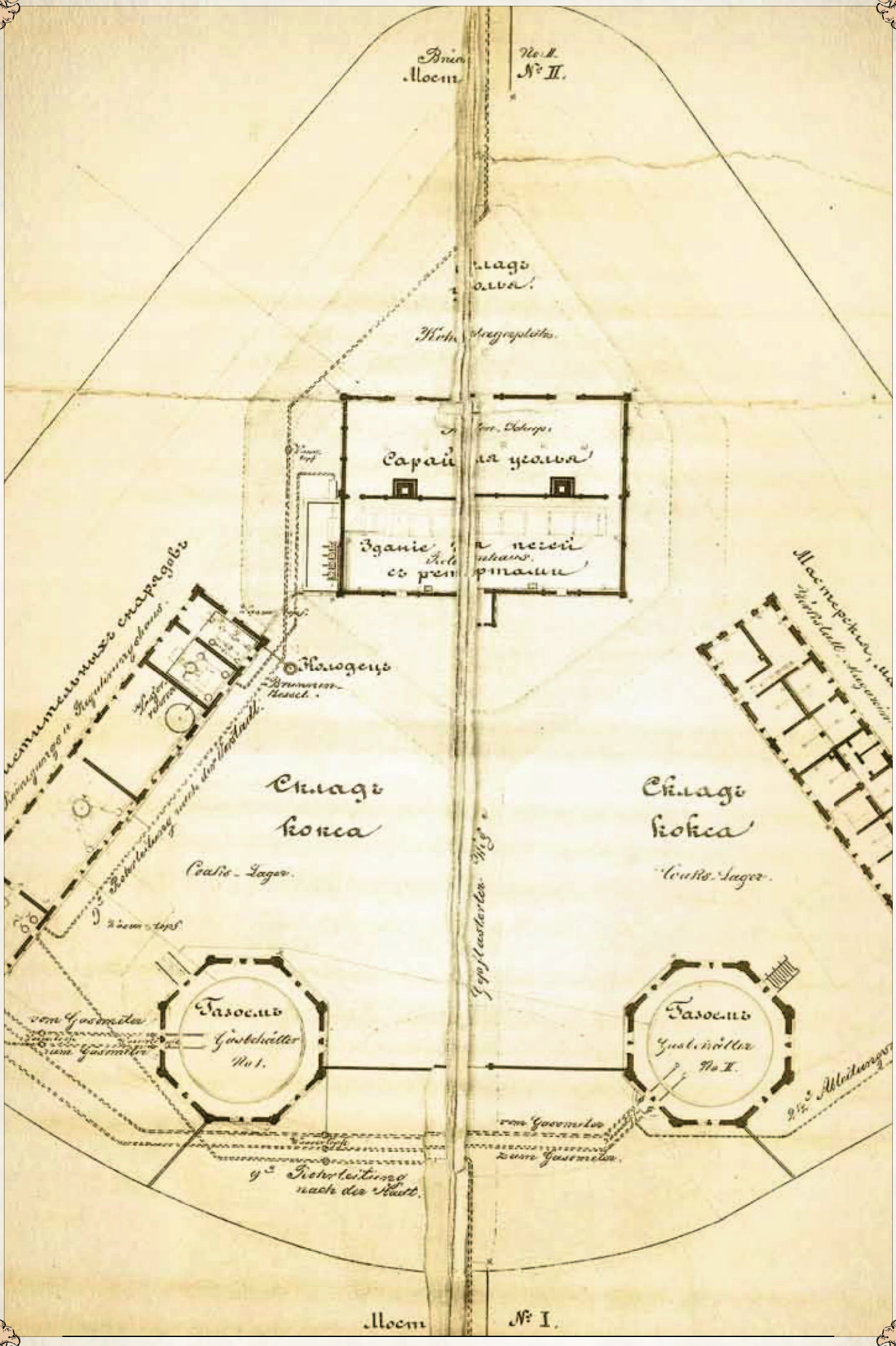
Some members of the Council and the Board of the Company hold shares and interests at numerous companies registered in the Registry of Enterprises of the Republic of Latvia, and they perform managerial functions there. Over the reporting year, the Company has not executed transactions of considerable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

Future Prospects

Having regard of the investments in the improvement of the system operation safety, the expansion of the gas pipeline network and the attraction of new customers made in previous years and in the reporting year, as well as considering the situation in the fuel market of Latvia, the Board of the Company believes that in 2012 the Company will continue successful development and take a stable place in the fuel supply market.

Chairman of the Board
A.Dāvis

Board meeting minutes No.18 (2012)
Riga, April 27, 2012



Design of Riga First Gas Factory - site plan. Author: A. Kiehnel. January 1859.

SUMMARY FINANCIAL STATEMENTS

Profit and loss account for the year ended December 31, 2011

		2011 LVL	2010 LVL	2011 EUR	2010 EUR
1	Net sales	353,338,171	353,345,051	502,754,923	502,764,712
2	Cost of sales	(311,576,638)	(314,673,148)	(443,333,615)	(447,739,551)
3	**Gross profit**	**41,761,533**	**38,671,903**	**59,421,308**	**55,025,161**
5	Administrative expenses	(7,053,909)	(7,093,340)	(10,036,808)	(10,092,914)
6	Other operating income	2,040,854	2,193,068	2,903,873	3,120,455
7	Other operating expenses	(2,900,792)	(3,031,124)	(4,127,455)	(4,312,900)
10	Other interest income and similar income	1,496,999	2,602,591	2,130,038	3,703,153
11	Changes of long term financial investments and short term securities	912	(666)	1,298	(948)
12	Interest expenses and similar expenses	(1,151,672)	(2,605,893)	(1,638,682)	(3,707,852)
13	Provisions for bad and doubtful debtors, net	(2,801,572)	951,855	(3,986,278)	1,354,368
14	Provisions for obsolete and slow moving inventories, net	39,570	(360,508)	56,303	(512,957)
16	**Profit before taxes**	**31,431,923**	**31,327,886**	**44,723,597**	**44,575,566**
17	Corporate income tax for the reporting year	(4,753,241)	(5,877,826)	(6,763,253)	(8,363,393)
18	Deferred income tax	1,263,448	1,771,001	1,797,725	2,519,908
19	Other taxes	(766,930)	(754,679)	(1,091,243)	(1,073,812)
20	**Current year's profit**	**27,175,200**	**26,466,382**	**38,666,826**	**37,658,269**
	Unrealised deferred tax gain related to fixed assets revaluation	(1,478,951)	(1,544,136)	(2,104,358)	(2,197,108)
	Current year's profit available for distribution	**25,696,249**	**24,922,246**	**36,562,468**	**35,461,161**

Balance sheet as at December 31, 2011 (1)

	31.12.2011. LVL	31.12.2010. LVL	31.12.2011. EUR	31.12.2010. EUR
Assets				
Long-term investments				
I. Intangible assets:				
2. Concessions, patents, licenses, trademarks and similar rights	2,031,326	2,083,740	2,890,316	2,964,895
5. Advance payments for intangible assets	44,624	145,501	63,494	207,029
Total intangible assets:	**2,075,950**	**2,229,241**	**2,953,810**	**3,171,924**
II. Fixed assets:				
1. Land, buildings, constructions and gas transmission system	262,369,659	258,558,421	373,318,392	367,895,489
3. Equipment and machinery	37,099,668	38,540,368	52,788,072	54,838,004
4. Other fixed assets	4,843,090	4,958,457	6,891,096	7,055,247
5. Advances for fixed assets and fixed assets under construction	10,817,467	14,932,379	15,391,869	21,246,862
Total fixed assets:	**315,129,884**	**316,989,625**	**448,389,429**	**451,035,602**
V. Long-term financial investments:				
3. Investment in associated companies	80	80	114	114
5. Other securities and investments	4,033	3,121	5,738	4,440
9. Other long-term debtors	1,894,315	-	2,695,368	-
Total long-term financial investments:	**1,898,428**	**3,201**	**2,701,220**	**4,554**
Total long-term investments:	**319,104,262**	**319,222,067**	**454,044,459**	**454,212,080**
Current assets				
I. Inventories:				
1. Raw materials and consumables	38,590,703	10,975,404	54,909,623	15,616,593
5. Advances for goods receivable	38,037,043	24,228,064	54,121,836	34,473,429
Total inventories:	**76,627,746**	**35,203,468**	**109,031,459**	**50,090,022**
III. Debtors:				
1. Trade debtors	27,522,037	35,551,434	39,160,331	50,585,133
3. Receivables from affiliated companies	1,358,799	1,483,215	1,933,397	2,110,425
4. Other debtors	4,485,452	386,220	6,382,223	549,542
7. Deferred expenses	414,056	431,190	589,149	613,528
Total debtors:	**33,780,344**	**37,852,059**	**48,065,100**	**53,858,628**
IV. Short-term financial investments:				
5. Other securities and investments	198	198	282	282
9. Term deposits	9,206,732	-	13,100,000	-
Total short-term financial investments:	**9,206,930**	**198**	**13,100,282**	**282**
V. Cash and bank:	**25,057,210**	**37,572,880**	**35,653,197**	**53,461,392**
Total current assets:	**144,672,230**	**110,628,605**	**205,850,038**	**157,410,324**
Total assets	**463,776,492**	**429,850,672**	**659,894,497**	**611,622,404**

Balance sheet as at December 31, 2011 (2)

	31.12.2011. LVL	31.12.2010. LVL	31.12.2011. EUR	31.12.2010. EUR
Liabilities				
Shareholders' funds:				
1. Share capital	39,900,000	39,900,000	56,772,585	56,772,585
2. Share premium	14,320,210	14,320,210	20,375,823	20,375,823
3. Long-term investments revaluation reserve	184,963,409	185,612,319	263,179,221	264,102,536
5. Reserves				
c) statutory reserve	69,048,633	64,076,387	98,247,353	91,172,485
6. Retained earnings				
a) previous years' retained earnings	10,129,312	8,585,176	14,412,713	12,215,605
b) current year's retained profit	27,175,200	26,466,382	38,666,826	37,658,269
Total shareholders' funds:	**345,536,764**	**338,960,474**	**491,654,521**	**482,297,303**
Creditors:				
Long-term creditors:				
12. Deferred income	20,340,917	13,855,294	28,942,517	19,714,307
15. Accruals for post employment benefits and other employee benefits	4,274,254	5,207,023	6,081,716	7,408,926
16. Deferred tax liabilities	26,443,882	27,821,844	37,626,253	39,586,917
Total long-term creditors:	**51,059,053**	**46,884,161**	**72,650,486**	**66,710,150**
Short-term creditors:				
5. Advances received	7,795,197	5,384,991	11,091,567	7,662,152
6. Trade creditors	35,643,649	10,587,192	50,716,344	15,064,218
8. Accounts payable to related companies	16,672	1,146,560	23,722	1,631,408
10. Taxes and state compulsory social insurance contributions	11,506,488	12,594,348	16,372,257	17,920,143
11. Other creditors	568,802	581,615	809,333	827,564
12. Deferred income	5,438,055	7,565,290	7,737,655	10,764,438
15. Accrued liabilities	6,211,812	6,146,041	8,838,612	8,745,028
Total short-term creditors:	**67,180,675**	**44,006,037**	**95,589,490**	**62,614,951**
Total creditors:	**118,239,728**	**90,890,198**	**168,239,976**	**129,325,101**
Total liabilities and shareholders' funds	**463,776,492**	**429,850,672**	**659,894,497**	**611,622,404**

Statement of changes in equity for the year ended December 31, 2011

	Share capital LVL	Share premium LVL	Long-term investments revaluation reserve LVL	Statutory reserve LVL	Retained earnings LVL	Total LVL
Balance as at 31 December 2009	**39,900,000**	**14,320,210**	**186,218,357**	**61,706,378**	**26,915,185**	**329,060,130**
Dividends	-	-	-	-	(15,960,000)	(15,960,000)
Transferred to reserves	-	-	-	2,370,009	(2,370,009)	-
Revaluation of fixed assets	-	-	80,974	-	-	80,974
Deferred tax liability arising on the revaluation of fixed assets	-	-	(12,146)	-	-	(12,146)
Disposal of revalued fixed assets	-	-	(793,960)	-	-	(793,960)
Deferred tax on disposal of revalued fixed assets	-	-	119,094	-	-	119,094
Profit for the year	-	-	-	-	26,466,382	26,466,382
Balance as at 31 December 2010	**39,900,000**	**14,320,210**	**185,612,319**	**64,076,387**	**35,051,558**	**338,960,474**
Dividends	-	-	-	-	(19,950,000)	(19,950,000)
Transferred to reserves	-	-	-	4,972,246	(4,972,246)	-
Revaluation of fixed assets	-	-	938,036	-	-	938,036
Deferred tax liability arising on the revaluation of fixed assets	-	-	(140,705)	-	-	(140,705)
Disposal of revalued fixed assets	-	-	(1,701,460)	-	-	(1,701,460)
Deferred tax on disposal of revalued fixed assets	-	-	255,219	-	-	255,219
Profit for the year	-	-	-	-	27,175,200	27,175,200
Balance as at 31 December 2011	**39,900,000**	**14,320,210**	**184,963,409**	**69,048,633**	**37,304,512**	**345,536,764**

Statement of changes in equity for the year ended December 31, 2011 (continued)

	Share capital EUR	Share premium EUR	Long-term investments revaluation reserve EUR	Statutory reserve EUR	Retained earnings EUR	Total EUR
Balance as at 31 December 2009	**56,772,585**	**20,375,823**	**264,964,851**	**87,800,266**	**38,296,858**	**468,210,383**
Dividends	-	-	-	-	(22,709,034)	(22,709,034)
Transferred to reserves	-	-	-	3,372,219	(3,372,219)	-
Revaluation of fixed assets	-	-	115,215	-	-	115,215
Deferred tax liability arising on the revaluation of fixed assets	-	-	(17,282)	-	-	(17,282)
Disposal of revalued fixed assets	-	-	(1,129,703)	-	-	(1,129,703)
Deferred tax on disposal of revalued fixed assets	-	-	169,455	-	-	169,455
Profit for the year	-	-	-	-	37,658,269	37,658,269
Balance as at 31 December 2010	**56,772,585**	**20,375,823**	**264,102,536**	**91,172,485**	**49,873,874**	**482,297,303**
Dividends	-	-	-	-	(28,386,293)	(28,386,293)
Transferred to reserves	-	-	-	7,074,868	(7,074,868)	-
Revaluation of fixed assets	-	-	1,334,705	-	-	1,334,705
Deferred tax liability arising on the revaluation of fixed assets	-	-	(200,205)	-	-	(200,205)
Disposal of revalued fixed assets	-	-	(2,420,959)	-	-	(2,420,959)
Deferred tax on disposal of revalued fixed assets	-	-	363,144	-	-	363,144
Profit for the year	-	-	-	-	38,666,826	38,666,826
Balance as at 31 December 2011	**56,772,585**	**20,375,823**	**263,179,221**	**98,247,353**	**53,079,539**	**491,654,521**

Changes in Statutory reserves can only be made with shareholders' approval. Revaluation reserve and share premium cannot be distributed to shareholders.

Cash flow statement for the year ended December 31, 2011

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
I Cash flows from operating activities				
1. Profit before taxes	31,431,923	31,327,886	44,723,597	44,575,566
Adjustments for:				
- fixed asset depreciation and write-down of intangible assets	21,213,887	21,027,365	30,184,642	29,919,244
- difference between the actual and forecasted purchase cost of natural gas and income from participation charge	(2,943,988)	6,167,075	(4,188,918)	8,774,957
- change in provisions for inventories	(39,570)	360,508	(56,303)	512,957
- change in provisions for long-term financial investments	(912)	666	(1,298)	948
- change in accrued expenses for bonuses for reporting year's financial results	(16,400)	(278,000)	(23,336)	(395,558)
- change in accrued unused annual leave expenses	(27,479)	96,490	(39,099)	137,292
- change in other provisions	109,650	35,933	156,019	51,128
- changes in accruals for post employment benefits and other employee benefits	(932,769)	791,039	(1,327,210)	1,125,546
- other interest and similar income	(1,496,999)	(2,602,591)	(2,130,038)	(3,703,153)
- interest and similar expense	1,151,672	2,605,893	1,638,682	3,707,852
- profit on sale of fixed assets	(465,515)	(525,131)	(662,368)	(747,194)
Adjustments for:				
Trade debtors decrease / (increase)	8,157,898	(14,831,884)	11,607,643	(21,103,870)
Inventories (increase) / decrease	(41,186,825)	48,717,219	(58,603,572)	69,318,358
Trade creditors' increase / (decrease)	23,926,568	(48,856,575)	34,044,439	(69,516,643)
Other debtors' decrease	4,074,504	2,373,200	5,797,497	3,376,760
Other creditors' decrease	(2,964,331)	(4,891,431)	(4,217,864)	(6,959,878)
3. Cash generated from operations	**39,991,314**	**41,517,662**	**56,902,513**	**59,074,312**
Interest and similar income	1,184,259	2,671,503	1,685,049	3,801,206
Corporate income tax paid	(8,415,173)	(3,290,742)	(11,973,712)	(4,682,304)
6. Net cash flows generated from operating activities	**32,760,400**	**40,898,423**	**46,613,850**	**58,193,214**
II. Cash flows used in investing activities				
Acquisition of fixed assets and intangible assets	(19,709,075)	(23,303,560)	(28,043,487)	(33,157,979)
Proceeds from sale of fixed assets	37,360	127,730	53,158	181,743
Increase of other investments in term deposits over 90 days, net	(9,206,732)	-	(13,100,000)	-
9. Net cash used in investing activities	**(28,878,447)**	**(23,175,830)**	**(41,090,329)**	**(32,976,236)**
III. Cash flows used in financing activities				
EC funding received	3,552,377	-	5,054,577	-
Dividends paid	(19,950,000)	(15,960,000)	(28,386,293)	(22,709,034)
7. Net cash used in financing activities	**(16,397,623)**	**(15,960,000)**	**(23,331,716)**	**(22,709,034)**
Net (decrease) / increase during the reporting year in cash and cash equivalents	**(12,515,670)**	**1,762,593**	**(17,808,195)**	**2,507,944**
Cash and cash equivalents at the beginning of the reporting year	37,572,880	35,810,287	53,461,392	50,953,448
Cash and cash equivalents at the end of the reporting year	**25,057,210**	**37,572,880**	**35,653,197**	**53,461,392**

Accounting policies

(a) Information on the Company

The legal address of the Joint Stock Company "Latvijas Gāze" is Vagonu street 20, Riga. The Company is registered in Commercial Register with common registration number 4000 300 0642. The Company's main shareholders are E.ON Ruhrgas International AG (47.23%), JSC Gazprom (34.0%) and LLC Itera Latvija (16.0%). The Board of the Company consists of 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) and Gints Freibergs (Member of the Board). The Company's auditor is the certified audit company SIA PricewaterhouseCoopers and certified auditor in charge Lolita Čapkeviča.

(b) Financial statements preparation basis

Financial statements are prepared in accordance with the Law on Accounting and Law on Annual Reports of the Republic of Latvia.
The profit and loss account is prepared in accordance with turnover method.
Cash flow statement is prepared using indirect cash flow method.
The accounting policies used by the Company are consistent with those used in the previous accounting period.

(c) Net sales and income recognition

Sales are recognised upon delivery of gas or performance of services. Net sales represent the total of goods and services sold during the year net of discounts, value added tax and the difference between the actual and forecasted purchase cost of natural gas, which is used for determination of applicable natural gas selling price for the following month. 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 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 the Public Utility Commission (PUC`s) Council, taking into account the exchange rate of EUR/USD at the last day of the month when gas is delivered, actual gross calorific value as well as actual volume of gas received from suppliers. The part of income to be written down in the next reporting periods related to difference between the actual and forecasted purchase cost of natural gas is recorded as deferred income.

Interest income is recognized according to the principle of time proportion using effective interest rate. Interest income from term deposits is classified as other operating income, while interest income from short-term deposits, cash and cash equivalents, late payment and other penalties is classified as interest income.

Accrual of interest income is ceased if its recoverability is uncertain. Based on prudence principle, penalties, including fines for late payments for gas, are recognised when received.

The income from residents and enterprises contribution to financing of construction works of gas pipelines is accounted for as deferred income and recognised in the profit and loss account over the expected useful life of constructed fixed assets of 30 to 40 years.

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

(d) Foreign currency translation

The Company maintains its accounts in Latvian Lats. All transactions denominated in foreign currencies are converted 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 in Lats in accordance

with the official Bank of Latvia exchange rate for the last day of the reporting period. 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 profit and loss account.

	31.12.2011. LVL	31.12.2010. LVL
1 USD	0.544	0.535
1 EUR	0.702804	0.702804

Euro financial statements are prepared using account closing balances in LVL at the last day of the reporting period, performing conversion to EUR by using the official fixed EUR / LVL rate set by the Bank of Latvia 1 EUR = LVL 0.702804 (1 EUR = LVL 0.702804, determined by Bank of Latvia as of December 30, 2004 reposing to resolution of the Council of Bank of Latvia) for all period January 1, 2011 till December 31, 2011.

(e) Intangible assets

Intangible assets are recorded at historic cost net of accumulated amortisation and impairment charge. Amortisation is calculated on a straight-line basis to write down each intangible asset to its estimated residual value over its estimated useful life. Generally, intangible assets are amortised over a period of 5 years.

(f) Fixed assets

Fixed assets are recorded at historic cost or revalued amount net of accumulated depreciation and impairment charge. The company revalues buildings, gas transmission and distribution systems and equipment every 5 years.

Increase in value arising on revaluation is shown in equity under "Long-term investments 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 profit and loss account.

Depreciation is calculated on a straight-line basis to write down each fixed asset to its estimated residual value over its estimated useful life using following rates set by management:

	% per annum
Buildings	1 - 3
Gas transmission system	2 - 2.5
Machinery and equipment	5 - 20
Furniture and fittings	10 - 20
Computers and equipment	30

Depreciation is not calculated for land and buffer gas, advances for fixed assets and assets under construction.

The Company capitalises fixed assets with cost exceeding LVL 150 (EUR 213) and useful life exceeding 1 year.

Direct charges related to the particular fixed asset under construction are capitalised, during the period of time that is required to complete and prepare the asset for its intended use, as part of the cost of the asset.

Where the carrying amount of a fixed asset 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 profit and loss account or off-set against the revaluation reserve if the fixed asset is carried at revalued amount. Recoverable amount is the higher of the fair value less costs to sell and the value in use of the related fixed asset.

Subsequent costs are included in the asset's carrying amount or recognised 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. Such costs are depreciated over the remaining useful life of the related asset. Capitalising the cost of mounted spare parts, the carrying value of the part replaced is written off to the profit and loss account.
Repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.
Gains or losses on disposals are determined by comparing carrying amount with proceeds and gains from related asset's revaluation reserve write-off and are charged to the profit and loss account during the period in which they are incurred.

(g) 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. The cost of natural gas comprises cost of gas purchased. Materials, spare parts, gas meters and other inventories cost is determined by the weighted average method. Direct labour, other direct costs and related production overheads are recognised on an accruals basis and charged to the profit and loss account 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 net realisable value.

(h) Accounts receivable

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. The amount of the provision for bad and doubtful accounts receivable is recognised in the profit and loss account.

(i) Other long-term investments

Other long-term investments are disclosed at the cost less provisions created to cover losses on other than temporary diminution of value of investments. Assessment of investments is made each year based on latest available financial information.

(j) Borrowings

Borrowings are recognised initially at the proceeds received net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account.

(k) Taxes

Corporate income tax for the reporting period is included in the annual accounts 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 annual accounts. 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 fixed assets depreciation and intangible asset amortisation rates, accrued unused annual leave and bonus expenses, accruals for post employment and other 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", and other accrued expenses and provisions for write down to net realisable value of inventory. The deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Increase in deferred tax liability that results from revaluation of fixed assets is charged to equity as respective increase in 'Long-term investments revaluation reserve' decrease. Decrease in deferred tax liability that results from depreciation of revalued fixed assets is charged to the profit and loss account and the respective unrealised tax gain is shown in the notes to the annual accounts.

(l) Accrued unused annual leave expenses and accrued liabilities

Accrued liabilities 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.

Amount of accrued unused annual leave expenses 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.

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

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 actuaries defined and publicly available assumptions are used in calculations regarding changes in demographic and financial variables.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances of current account with banks and short-term deposits with the original maturity up to 3 months, which can be easily converted to cash and are not subject of significant change in value.

(n) Related parties

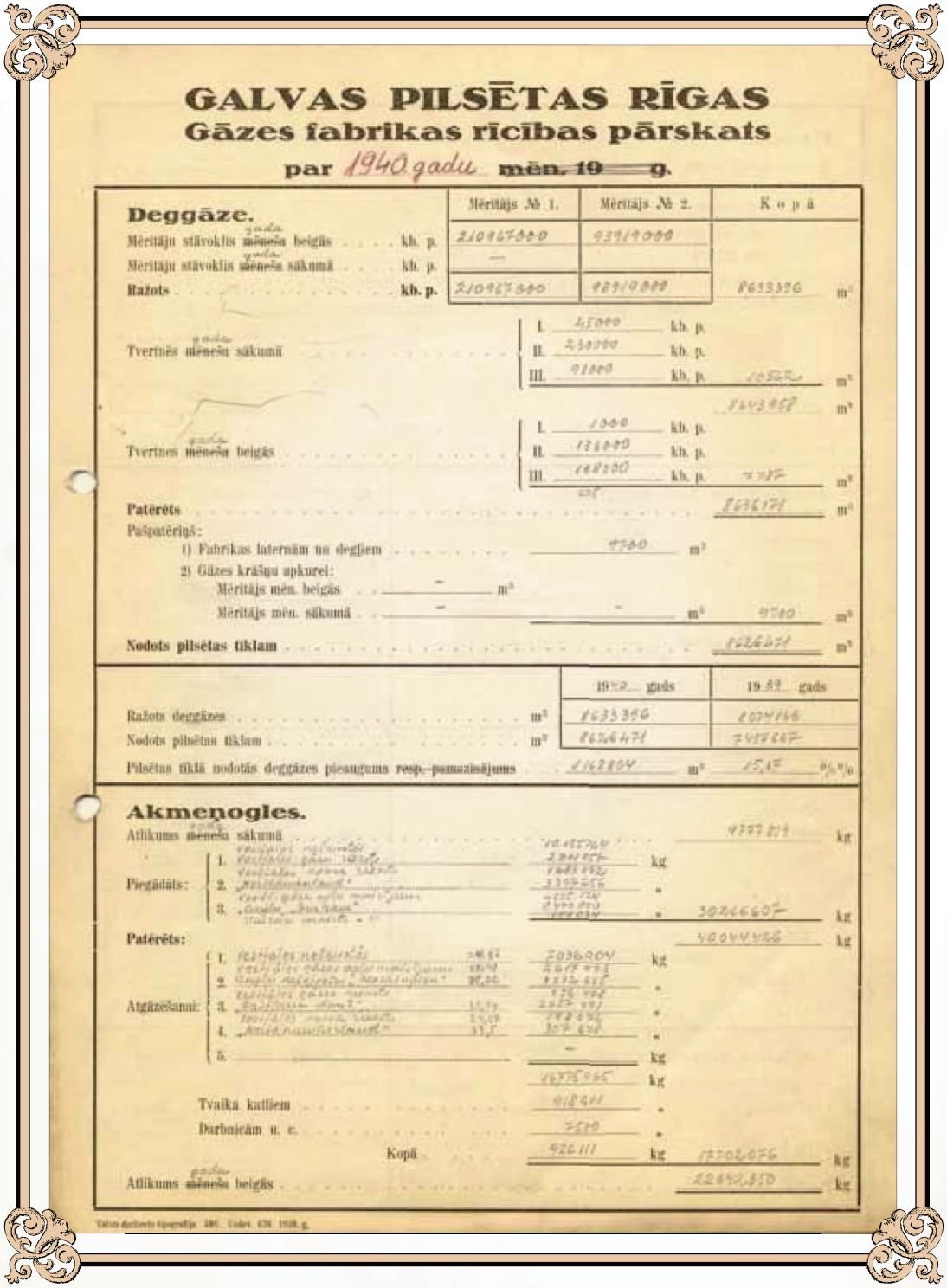
Related parties are defined as the Company's major shareholders, which have a significant influence, members of the Council and members of the Board, their close relatives and companies in which they have a significant influence or control.

(o) Profit available for distribution

On revaluation of fixed assets additional temporary difference arises between fixed asset values for financial and tax purposes. According to accounting policies section (k) the respective increase in deferred tax liability is attributed to the 'Long-term investments revaluation reserve'. Decrease in deferred tax liability that results from depreciation of revalued fixed assets is charged to the profit and loss account as tax gain.
In order to comply with the "Annual Accounts Act" of the Republic of Latvia Section 29 article 4, the said income cannot be distributed. Therefore, the profit available for distribution is calculated as net difference between net profit and unrealised deferred tax gain related to fixed asset revaluation.

(p) Bases of preparation of summary financial statements

These summary financial statements, which comprise the balance sheet as at December 31, 2011, the profit and loss account, the statement of changes in equity and the cash flow statement for the year then ended, and the appendix "Accounting policies" have been prepared by extraction, without any modification,from the relevant information included in the Company's annual accounts. Accordingly, these summary financial statements are consistent with those accounts.



GALVAS PILSĒTAS RĪGAS
Gāzes fabrikas rīcības pārskats
par 1940 gadu mēn. 19 g.

Deggāze.

	Mērītājs № 1.	Mērītājs № 2.	K o p ā
Mērītāju stāvoklis mēneša beigās . . . kb. p.	210967880	9391 9080	
Mērītāju stāvoklis mēneša sākumā . . . kb. p.	—		
Ražots . . . kb. p.	210967880	9391 9080	8633396 m³

Tvertnēs mēneša sākumā . . . I. 45080 kb. p. II. 230700 kb. p. III. 81800 kb. p. 10522 m³ — 1643958 m³

Tvertnes mēneša beigās . . . I. 1080 kb. p. II. 134000 kb. p. III. 168200 kb. p. 7787 m³

Patērēts . . . 8636171 m³

Pašpatēriņš:
1) Fabrikas iekšēm un degļiem . . . 9740 m³
2) Gāzes krāšņu apkurei:
Mērītājs mēn. beigās . . . — m³
Mērītājs mēn. sākumā . . . — — m³ 9740 m³

Nodots pilsētas tīklam . . . 8626431 m³

	1932. gads	19 39. gads
Ražots deggāzes . . . m³	8633396	8074166
Nodots pilsētas tīklam . . . m³	8626431	7497647
Pilsētas tīklā nodotās deggāzes pieaugums resp. pamazinājums . . .	2162804 m³	15,47 %

Akmeņogles.

Atlikums mēneša sākumā . . . 9797 [illegible] kg

Piegādāts: 1. 2. 3. 3044607 kg

Patērēts: 4004426 kg

Atgāzēšanai: 1. 2036004 kg 2. 3. 4. 5. — kg

kg

Tvaika katliem . . . 918611 •

Darbnīcām u. c. . . . 7500 •

Kopā . . . 926111 kg 12702,076 kg

Atlikums mēneša beigās . . . 2284,850 kg

Jahres-Betriebs-Bericht

der Städtischen Gasanstalt II zu Riga

pro Betriebjahr: ~~Monat~~ 1897/98

I. Gasproduction und -Abgabe.

Stand des Stations-Gasmessers Nr. 1 am 1 Juli 97 — 0 — cb'
" " " " " 30 Juni 98 70 534 000 " Prod 70 534 000 cb'
" " " Nr. 2 " 1 Juli 97 — 0 — cb' " " "
" " " " " 30 Juli 98 61 423 000 " " 61 423 000 "

Summa der Production 131 957 000 cb'

Dazu die Bestände zu Anfang des ~~Monats~~ Jahres 1897/98 . . . . . 324 000 "

132 281 000 cb'

Davon ab die Bestände zu Ende des ~~Monats~~ Jahres 1897/98 . . . . . 276 000 "

Mithin sind abgegeben 132 005 000 cb'
= 3738 000 Cubm.

Davon wurden auf dem Werk selbst verbraucht:

	laut Gasmesser	
im Büreau u. Wohngebäude		212 100 cb'
" Maschinen-, Condensator- u. Reinigerraum		233 400 "
" Retortenhaus		510 900 "
im ~~der Klempnerei~~ Kesselhause		535 900 "
" ~~2. Schlosserei~~ Pferdestalle		21 700 "
durch den Gasmotor		— "
nach Berechnung		— "
Summa		1514 000 cb'

II. Vergasungsmaterial.

a. Kohlen.

Bestand zu Anfang des ~~Monats~~ Jahres 1897/98 Tons e. Newcastle 2910 Tons e.
Angeliefert wurden . . . . . 15490,3 "
S^a 18400,3 Tons e.

Vergast wurden:

	in den Generatoröfen:	in den ~~Retorten~~:	Summa:
a.	13 079 100 Kgr.	= Tons e.	12 873,2 Tons e.
b.	"	"	"
c.	"	"	"
	Tons e.	Tons e.	12 873,2 Tons e.

Zu anderen Zwecken verbraucht Gelöscht an d. Werkstatt Dreschhofstr. 2,1 " 12 875,3 "

Mithin Bestand zu Ende des ~~Monats~~ Jahres 1897/98 Tons e. Newcastle 5525 Tons e.

PricewaterhouseCoopers SIA
PVN - LV40003142793
K. Valdemāra iela 19, Rīga, LV-1010, Latvija
Tālrunis +371 67094400, Fakss
+371 67830055 pwc.riga@lv.pwc.com

Translation from Latvian original*

Independent Auditor's Report

To the Shareholders of JSC "Latvijas Gāze"
Report on the Summary Financial Statements

The accompanying summary financial statements, which comprise the balance sheet as at December 31, 2011 and the income statement, statement of changes in equity and cash flow statement for the year then ended, are derived from the audited financial statements of JSC "Latvijas Gāze" for the year ended December 31 2011. We expressed an unmodified audit opinion on those financial statements in our report dated April 27, 2012. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by Annual Account Act. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of JSC "Latvijas Gāze".

Management's Responsibility for the Summary Financial Statements
Management is responsible for the preparation of a summary of the audited financial statements in accordance with the relevant requirements established in Accounting policies section (P) Preparation Regulations of Summary Financial Statements.

Auditor's Responsibility
Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements."

Opinion
In our opinion, the summary financial statements derived from the audited financial statements of JSC "Latvijas Gāze" for the year ended December 31, 2011 are consistent, in all material respects, with those financial statements, in accordance with the relevant requirements established in Accounting policies section (P) Preparation Regulations of Summary Financial Statements.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ahmed Abu Sharkh
Chairman of the Board
Председатель Правления

Lolita Čapkeviča
Certified auditor in charge
Certificate No. 120

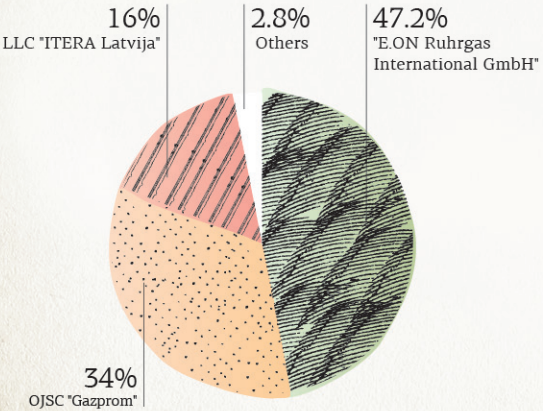
Riga, Latvia
17 June 2012

* 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.

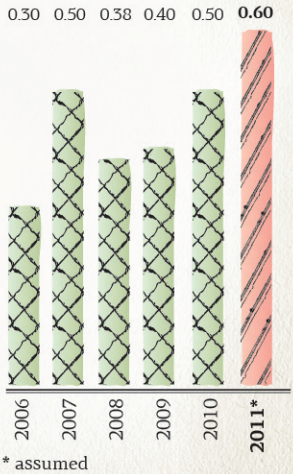
FACTS AND FIGURES

LATVIJAS GĀZE

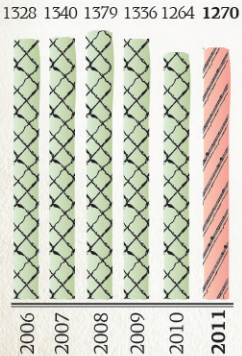
Shareholder structure (%) 31.12.2011.



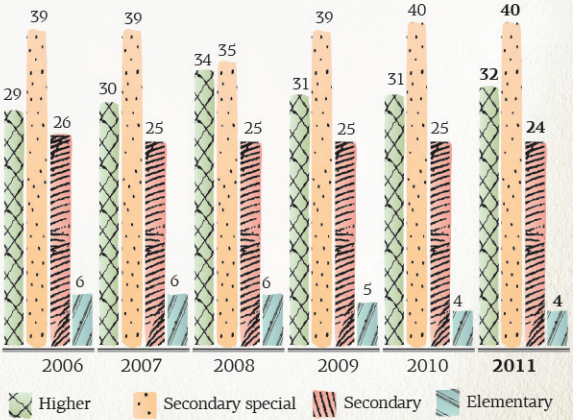
Dividend per share (LVL/share)



Average number of employees



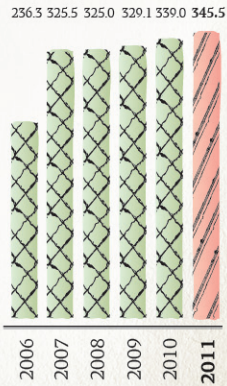
Education profile of employees (%)



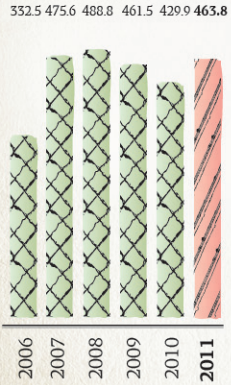
Net turnover (LVL million)

Net profit (LVL million)

Equity (LVL million)

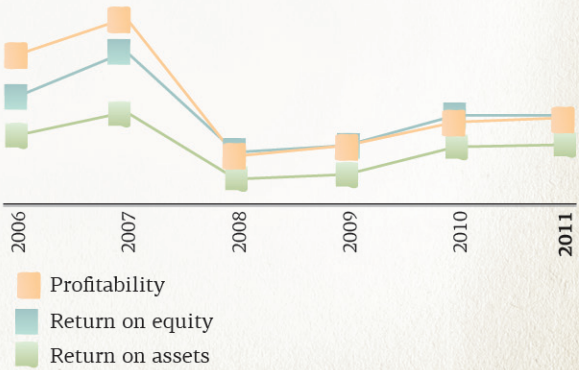


Assets (LVL million)



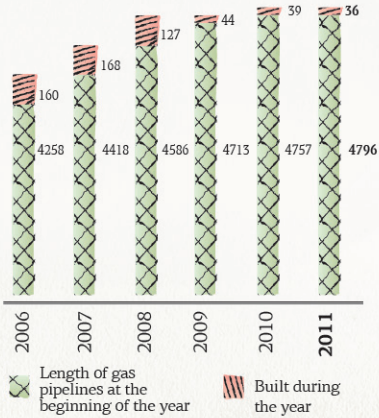
Main financial indices (%)

11.5	13.7	5.7	6.1	7.5	**7.7**
9.0	11.7	6.1	6.1	7.9	**7.9**
6.7	8.1	4.1	4.2	5.9	**6.1**



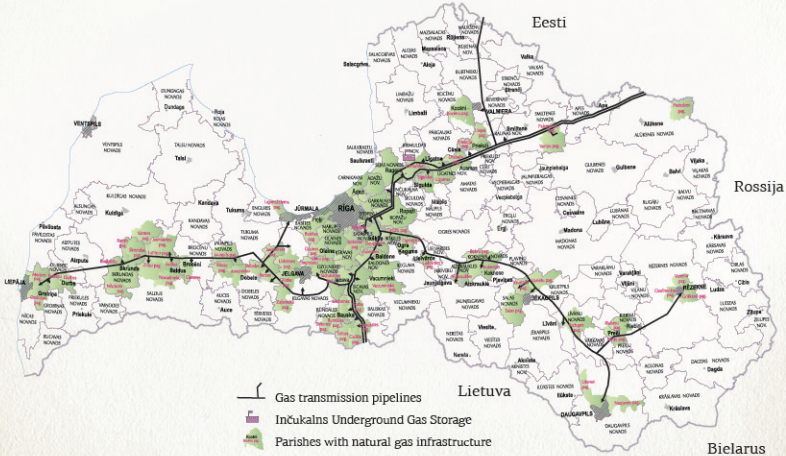
Investment (LVL million)

Length of gas pipelines at the beginning of the year

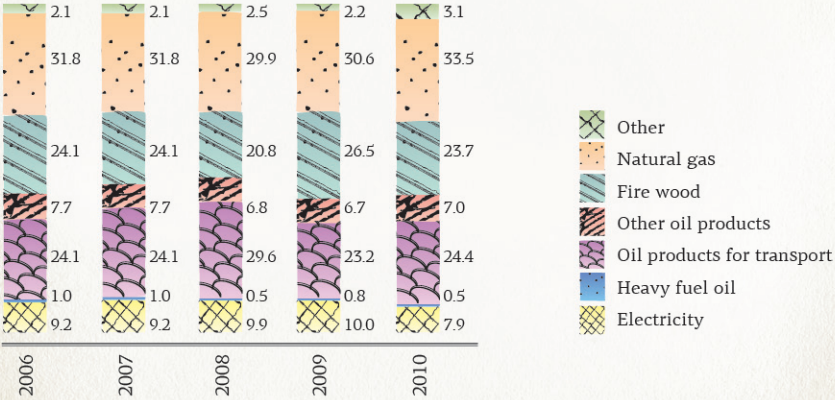


Inčukalns UGS investment (LVL million)

Parishes with natural gas infastructure

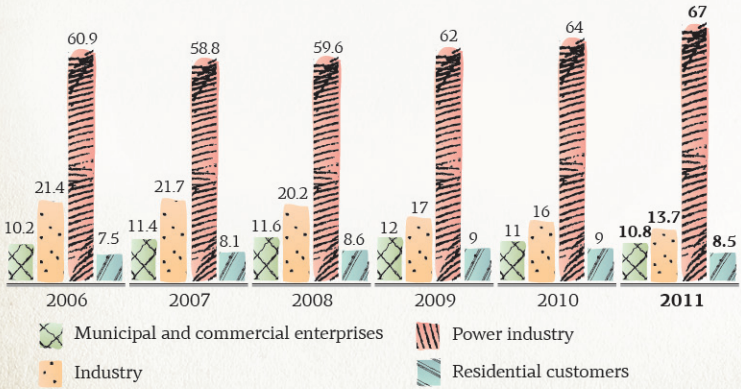


Primary energy resources balance of Latvia (%)

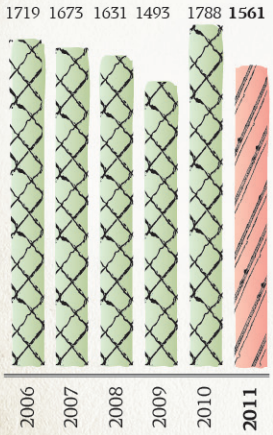


Source: Central Statistical Bureau of Latvia

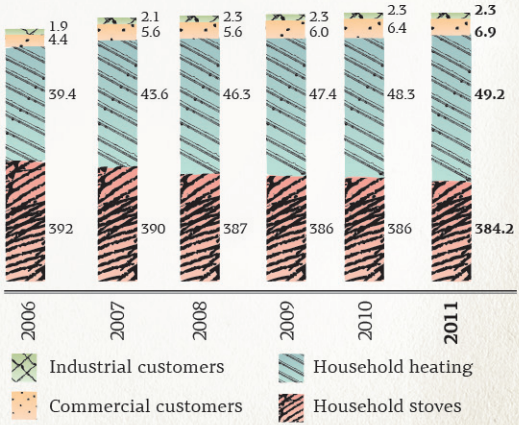
Natural gas sales in Latvia by industries (%)



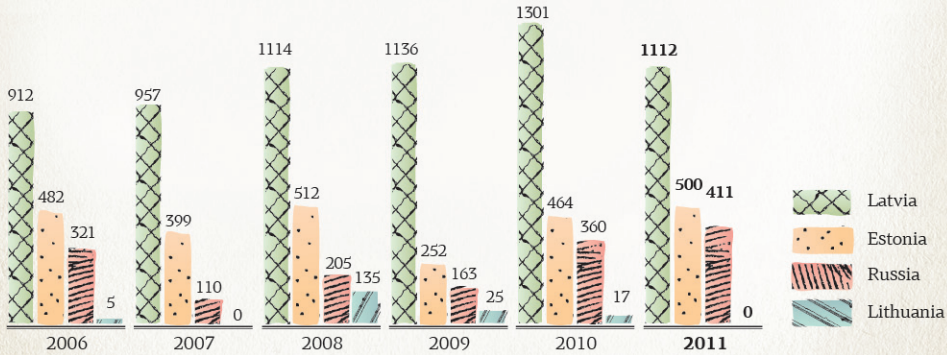
Volume of natural gas sales (million m³)



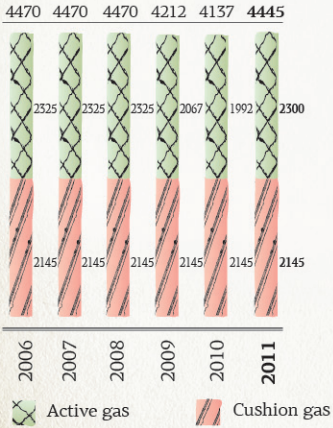
Number of customers (thousand)



Natural gas deliveries from Inčukalns UGS (million m³)



Gas volume in Inčukalns UGS (million m³)



Company-owned gas transmission and distribution pipelines (km)