

Introduction

This report is published in accordance with the requirements of Article 33.¹ of the Republic of Latvia Law on Certified Auditors and Article 40 of the Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (the Audit Directive).

Legal Structure, Ownership and Network Arrangements

PricewaterhouseCoopers SIA is a private limited company owned (49.05 %) by PricewaterhouseCoopers Eastern Europe B.V. registered in the Netherlands, and (50.95%) by PricewaterhouseCoopers Sp. Z o.o. registered in Poland. These entities are ultimately owned by the partners of PricewaterhouseCoopers in our Central and Eastern European firms.

PricewaterhouseCoopers SIA together with other firms across the world is a member of PricewaterhouseCoopers International Limited, ("PwC International") a company limited by guarantee and registered in England. PwC International provides an international network structure for PwC member firms. PwC International does not provide services to clients. PwC International's primary activities are to: identify broad market opportunities and develop associated strategies; strengthen PwC's internal product, skill, and knowledge networks; promote the PwC brand; and develop and work for the consistent application of common risk and quality standards by member firms, including compliance with independence processes.

Member firms of PwC International do not act as agents of PwC International in providing services to clients or otherwise, and PwC International does not act as the agent of its member firms. PwC International has no right or ability to control any member firm's exercise of professional judgement. PwC International does not have any liability for the acts or omissions of any member firm.

Each member firm is a separate legal entity.

PricewaterhouseCoopers SIA cooperates with other Central and Eastern European member firms to provide services to local and mutual international clients operating in our region. This cooperation is organised through a regional management team which, in addition to ensuring the adherence of regional firms to the policies and procedures of PwC International, enables resource sharing, the enforcement of risk management policies and quality standards.

Each national member firm also has its own local management structure in place, in accordance with legal and operational requirements. This legal structure and network arrangement gives each member firm the flexibility and autonomy to respond quickly and effectively to conditions in its local market. It also reflects the fact that regulatory authorities in most countries grant the right to practise as auditors to nationally based firms in which locally qualified professional auditors (or in the European Union a combination of auditors and or EU audit firms) have at least majority ownership and control.

When a member firm becomes a member of PricewaterhouseCoopers International and joins the global network, it acquires the right to use the PricewaterhouseCoopers name and gain ready access to the network's shared resources, methodologies, knowledge and

expertise. In return each firm commits to abide by a set of common policies and maintain quality standards which are approved by the Board of PwC International.

The global network of PricewaterhouseCoopers creates a platform on which member firms share knowledge, skills and resources in order to deliver services of a consistently high standard to clients across the world. In every country our firms are supported by shared methodologies, knowledge databases, technology and by access to highly specialist expertise and thought leadership.

Each PwC member firm engages in quality control and compliance monitoring activities, covering the provision of services, ethics, business conduct and independence issues.

Governance

Within the Central and Eastern European grouping of PricewaterhouseCoopers member firms which includes 21 national territories, a matrix system of management is operated. Each partner votes in a 4 yearly election of a Chief Executive who selects a Management Board, comprising of a mixture of territory Chief Executives and Operational leaders from functional and business lines. This Board is responsible for setting broad business objectives and ensuring compliance with PricewaterhouseCoopers International policies.

Across geographical lines the policy and business objectives of each principal business line (assurance, taxation and advisory) are set by the business line management team.

At the date of issuing this report the Management Board of PricewaterhouseCoopers SIA consists of 5 Board Members of which 3 are Latvian Certified Auditors.

Supervision of the Regional Management Board on behalf of the partners is carried out through an elected regional Partner Council which cooperates closely with the Management Board, approving key policies and decisions which affect partners and the firm.

Internal Quality Control System and Statement of Effectiveness

As a member firm of PricewaterhouseCoopers International we are obliged to abide by the common risk and quality standards approved by the organisation. These requirements are supplemented by local legal requirements and where applicable third country audit quality standards if we are required to report on an entity from such a country.

Our detailed quality control procedures are contained within our audit policy manuals. The following summarises the key policies, attitudes, behaviours and actions which ensure that we maintain a consistently high level of audit quality:

Quality Control Standards

PwC International member firms are required by internal policies and global Generally Accepted Auditing Standards to enforce a system of quality controls over our auditing practices.

Our quality control system is in full compliance with the International Federation of Accountants ("IFAC") requirements which have also been approved for use in the Republic of Latvia. This quality control system is embedded as part of day to day activities.

With effect from 15 June 2005 International Standard on Quality Control 1 (ISQC 1), issued by IFAC applies to all audit member firms carrying out audits and reviews of historic financial information.

This standard sets out the required elements of the quality control system which should operate in an audit firm.

The requirements cover:

- 1) Leadership responsibilities for quality within the firm
- 2) Ethical Requirements
- 3) Procedures for acceptance and continuance of client relationships and specific engagements
- 4) Human Resources
- 5) Engagement Performance
- 6) Monitoring

PricewaterhouseCoopers SIA addresses these requirements as follows:

1) Leadership Responsibilities for Quality within the Firm.

Tone from the Top: Our regional and Latvian leadership is committed to taking all actions required to ensure that PricewaterhouseCoopers continues to stand for quality, independence, objectivity and ethical behaviour. The firm's leadership regularly sends communications to partners that include an emphasis on the importance of "standing firm on quality". The same messages are contained in regular leadership communications to all staff members. Equally important is leadership's regular communications that alert our partners and staff about new standards and related guidance to assist them in providing high-quality service to our clients. Communications from the top take every relevant opportunity to emphasize the importance of maintaining quality standards on a daily basis. Our leadership team demonstrates by its behaviours that it firmly believes in our quality assurance objectives and systems. This is evidenced by the appointment of partners responsible for risk management and audit quality who report directly to our Territorial Senior Partner. These partners are individuals of experience and stature who consult and if necessary instruct client service partners on risk and quality matters.

2) Ethical requirements

Integrity and objectivity

The reputation and success of PricewaterhouseCoopers SIA depends on the professionalism and integrity of each and every partner and employee.

All PwC International Member Firms, partners and professional staff are required to comply with PwC International ethical standards. Those standards demand that our people act with integrity, objectivity; that they act with professional competence and due care; and that they respect confidentiality and behave in a professional manner. Our ethical standards comply fully with the IFAC code of ethics and are contained in the PricewaterhouseCoopers "Code of Conduct". The code is issued to all partners and staff members on joining the firm. Among other things the code contains a "framework for ethical decision making" which our people are required to use as a basis for determining their professional behaviour. They are expected to live by the values expressed in the Code in the course of their careers with PwC. Partners and staff are tested on their knowledge of the code.

Supervision over ethical matters is carried out by a regional Business Conduct Leader and each country practise has a local Business Conduct leader who is a partner. The Business Conduct Leader leads on ethical matters locally and is responsible for ensuring that we comply with all applicable ethical standards. Each office has access to the detailed ethical policies which supplement our Code of Conduct. These policies include guidance on such matters as the receipt of gifts from clients and how staff should proceed if they become aware of unethical behaviour by any partner or employee. Staff may also submit anonymous questions to their local Business Conduct Leader about correct procedure in particular circumstances. A library of queries and answers is maintained and available for staff.

The Business Conduct Leader is obliged to investigate all complaints or allegations by staff and ensure appropriate measures are taken to prevent any reprisals against staff reporting breaches of ethical conduct.

The PricewaterhouseCoopers website contains in the Code of Conduct section a link which enables third parties to submit information about potential breaches of ethical behaviour by the firm's employees and partners to the Business Conduct leader.

Independence

PricewaterhouseCoopers SIA has adopted the PwC Global policies and related rules regarding independence and compliance, complemented when necessary by more restrictive local professional and regulatory rules. PricewaterhouseCoopers SIA strictly monitors compliance with regulatory, professional, and PwC independence requirements related to financial interests in clients and business and service relationships with them.

Further information on the procedures we enforce to maintain our independence is set out in the "Independence Practices of PricewaterhouseCoopers SIA" section of this report.

3) Client Acceptance and Retention

PricewaterhouseCoopers SIA has implemented a process to identify acceptable clients based on the PwC International proprietary decision support system for client acceptance and retention ("Acceptance and Continuance – "A&C")

The system involves a determination by the engagement team, business management, industry experts and risk management professionals of whether the risks related to an existing client or a potential client are manageable, and whether or not we should be associated with the particular company and its management. Among the issues that we consider during the course of the A&C process are:

- The reputation of the company and its management
- The effectiveness of its Board
- The background and experience of the client's financial reporting personnel
- Any incentives or inclinations for management to manipulate reported results
- Any significant transactions structured to achieve revenue recognition
- Any unusually aggressive or creative accounting
- Any transactions that are complex, unusual or difficult to evaluate
- Any estimates that involve uncertainty or subjective judgments
- Any transactions with related parties that are not part of the consolidated group
- Any indications that the company might be in financial difficulty
- The expertise necessary to carry out a particular engagement



A&C is a powerful enabler, but the real backbone of our client acceptance and continuance process is the significant time invested by our risk management partners. As discussed more fully in the Engagement Performance section below, our risk management partners are senior partners with stature and independence who provide key input into the decision to accept or continue a client relationship.

Upon acceptance or retention of the client, the results of these assessments are incorporated into our audit process, impacting for example the scope of work and assignment of resources. We decline to propose, accept, or retain work when the risks are considered not to be manageable, when the company will not agree on the scope of the work required or the fee relationship is otherwise unacceptable.

4) Human Resources

Hiring: We maintain stringent hiring standards for both entry-level and experienced recruits, which include assessment not only of each individual's school/academic records, but also interviews, background checks, and references. We also assess the quality of those people we hire from colleges and universities, ensuring that we focus our recruiting efforts on those institutions that have a track record of graduating high-quality people who do well in our profession.

Professional Development: Training is an ongoing process. Training starts when a person is hired and continues throughout his or her career. Our people participate in a variety of local and national formal training courses and are also trained continuously on the job. Both the broad core competencies in accounting, auditing and independence and the specialized areas in which they work (a specific industry) are addressed. Our partners also receive continuous training, development and education and they are an integral part of the on-the-job training of our staff. A key partner responsibility is to work with all staff members coaching, reviewing, training, sharing experience and setting an example for the professionals on their teams.

The Firm has established an environment in which our people are personally responsible for their own development over the course of their careers and, to that end, we have developed broad course offerings and tools to help our people tailor a personalized training curriculum to match their roles and responsibilities with the unique aspects of the clients they serve. In addition to attendance at self-elected training, partners and staff are required to participate in courses which the firm considers to be fundamental to their ability to perform their jobs within the appropriate technical and ethical frameworks. The Firm also ensures compliance with national professional standards on the periodic amount and type of continuing professional education required. Our learning and education programs are continually updated to ensure that they provide our people with the development, skills and experiences they need as client service professionals.

Supervision and direction: Each engagement partner is responsible, in consultation with others as necessary, for ensuring that partners and staff assigned to the engagement have the professional competence and experience required in the circumstances. Further, on the engagement they are ultimately responsible for determining the extent of direction, supervision and review of the work of more junior staff to whom work is delegated.

Advancement: Partner and staff performance is evaluated annually through a review process that includes peers, subordinates and superiors. Partners and client service staff are recognized and rewarded for performing as good, well-rounded accountants and auditors. We also encourage, recognize and reward teamwork. Staff are provided with formal performance feedback for each project where they spend 40 or more hours. All staff are formally evaluated

at least annually with input from partners and superiors with whom they have worked on an engagement. Additionally, our audit methodology provides built-in opportunities for informal feedback and coaching throughout an engagement. Our methodology is designed to ensure both a quality work product and the continued development of our people. All of this leads into an annual assessment of how well each of our people has performed relative to our values, the goals each has set for the year and their peers. Following individual annual performance reviews and assessments a moderation process involving senior staff is carried out to ensure that staff assessments are consistent and that advancements are justified. Our staff move up in their careers only when they are ready for the next level of responsibility.

5) Engagement Performance

Consistent Global Methodology: We, in conjunction with other PwC firms on a global basis, use an audit methodology and process for all audit engagements to ensure uniformity and consistency in approach. The methodology is enhanced as necessary to respond to the changing environment. All partners and staff receive on-going training in this methodology. Our methodology is sufficiently flexible to allow the incorporation of any additional procedures which may be required by local regulations.

Comprehensive Policies and Procedures: We have comprehensive policies and procedures governing our accounting and auditing practice that are constantly updated to reflect new professional developments and our local operating environment, and to address emerging issues, as well as the needs and concerns of the practice. These policies cover not only professional and regulatory standards, but also reflect the guidance that we provide to our professionals about how best to implement them. They are available in electronic files and databases, are regularly updated or supplemented for all current developments and are accessible to our people remotely at any time.

Engagement-Specific Quality Controls: There are a number of other quality control procedures that are performed specifically with respect to a particular engagement. For example, on all of our publicly listed clients and a wide range of other entities, including corporations and certain public or state bodies, regarded as being significant due to their size, complexity, industry or high public profile, we appoint a quality review partner ("QRP") who discusses all significant issues with the engagement partner and who is responsible for independently assessing the audit plan its execution, the resolution of significant issues, the financial statements and disclosures and the appropriateness of the Firm's report. Specific criteria are set forth in our policies to ensure that the assigned QRP has the appropriate level of experience and industry expertise to perform that role.

Our policies also require consultations with firm-wide technical experts and industry specialists for specified transactions and circumstances that may involve the application of significant judgment. Finally, our "consultative culture", which is discussed further below, means that our engagement teams regularly have consultations with such experts and others beyond those that are formally required. Engagement partners on each public interest entity audit client are rotated to ensure a fresh look without sacrificing institutional knowledge.

Furthermore, PwC Global Methodology is built on the principle that work performed by each member of the engagement team is reviewed by another member of the team, of at least equal competence to consider whether the work has been performed as intended, competently, and to ensure that the correct conclusions have been drawn.

Accounting and Auditing Resources: Consultation is a key element of quality control in our Firm. Our Accounting Consulting group is staffed by partners and staff who are experts in accounting and auditing. If an engagement partner disagrees with the advice provided by our technical experts, we have a formal process for continuing the discussion within our chain-of-command until the matter is resolved with due regard for the view of such technical experts.

With the wider introduction of International Financial Reporting Standards as approved for use in the EU (IFRS) we have set up a system to ensure that our clients' financial statements are evaluated by our audit teams in a way that is consistent and in accordance with the full intent of the Standards.

The key element of the system is the review work carried out independently by our regional Accounting Consulting Services team ("ACS") which is geographically located throughout CEE/CIS. Depending on the complexity and risk associated with particular industry sectors, client size and listed/non-listed status, ACS will carry out a review of clients' IFRS statements. The financial statements of listed financial services clients for example will be reviewed by a specialist team with a final review being carried out by one of our ACS partners. Smaller clients in less risky sectors will be reviewed cyclically by the ACS team. All first IFRS adoption clients or first audit by PricewaterhouseCoopers of a new client reporting in accordance with IFRS will trigger a full review. During the review the audit team will be required to explain the justifications for the IFRS treatments and disclosures in the financial statement and obtain the client's consent to improving treatments and disclosures where these are assessed by the ACS team as being non-compliant with the standards.

Risk and Quality Group: Our Firm's risk management, consulting and policy resources are a central function, comprising both full and part time personnel, internally referred to as Risk and Quality ("R&Q") is a separate unit within our accounting and auditing practice, independent from those responsible for revenue generation or management, with a seat on the Assurance Practice top leadership team. The R&Q organization includes the following key functions: Risk Management, Accounting Technical Services, Capital Markets Services, Assurance Policy and Assurance Quality. R&Q includes at least one full-time partner assisted by other experienced personnel. This partner is also assisted by R&Q partners from other larger PwC practices when the need arises.

A key responsibility of the risk management partners is to be an integral part of the client acceptance and retention process, responsible for assessing risk on both a qualitative and quantitative basis. In addition, risk management partners are required to be integrally involved with engagement teams, where necessary, for consultations on issues and judgments, such as going concern considerations.

We have developed formal and strictly enforced protocols setting out the circumstances under which engagement teams must consult with the R&Q group.

This group of independent and experienced partners is focused on quality, prompting changes to policy and procedures when and as appropriate.

6) Monitoring

We have a formal post-issuance quality-monitoring program, which is run as part of a PwC global program. The program includes inspection of a partner's work and all aspects of our quality control system to ensure that our quality controls are functioning properly and to provide reasonable assurance that we comply with all applicable professional standards and our own Firm policies and procedures. This program is managed and supervised by the Assurance Quality function within R&Q.

Engagement reviews are conducted by experienced partners, directors and senior managers with appropriate industry experience who are not connected either with the office that performs the audit or the audit itself. Reviews are conducted at least once every three years when all partners are subject to review. More timely reviews are performed when there is a possibility of increased risk.

In addition, there is a rotating program of "office" visits to review implementation of policies and practices at a firm, rather than engagement level. Our inspection process also involves periodic testing of the effectiveness of our quality controls in functional areas such as hiring, training, advancement and independence.

Quality monitoring is also an integral part of our continuous improvement program. We constantly evaluate inputs from formal programs such as this and a variety of informal sources in an ongoing effort to improve our policies, procedures and the consistency of the quality of our work. Every instance of failure to meet performance standards is treated seriously - the partner responsible is counselled to improve performance and the work of the partner is reviewed in the following year. Poor technical or risk management performance would result in a negative adjustment to the partner's compensation; in some cases the partner is no longer permitted to sign audit opinions in the Firms' name and in serious cases the partner is requested to leave the Firm.

The Management Board of PricewaterhouseCoopers SIA believes that the quality control environment described above is in compliance with all applicable regulations and that it provides a reasonable basis for believing that statutory audits carried out by PricewaterhouseCoopers SIA consistently meet the required quality standards.

Last Quality Assurance Review in Compliance with Article 29 of the EU 43rd Audit Directive

The amendments in the Law on Certified Auditors which implemented the need for external quality review were enacted on 22 January 2004 and required a quality assurance review to be performed once every 5 years. New amendments to the law incorporating the requirements set out in EU 43rd Directive were enacted on 12 June 2008 requiring that such inspections shall be carried out at least every 3 years. Quality assurance review of PricewaterhouseCoopers SIA by the Latvian Association of Certified Auditors was carried out in October 2009 and, consequently, it met the requirements of EU 43rd Directive.

Independence Practices of PricewaterhouseCoopers SIA

- **Independence, Integrity and Objectivity**

Our Firm's Independence Partner and supporting staff monitors strict regulatory, professional, and PwC independence requirements related to financial interests in and business relationships with clients. The Firm has, as part of a response throughout the PricewaterhouseCoopers Global Network, implemented an independence compliance program and monitoring system. The systems and controls cover the following key elements:

1. Written independence policies and procedures
2. An automated tracking system and restricted entity list
3. Ongoing independence training
4. Internal monitoring of our independence system and controls
5. Responsibility for independence and our system and controls vested in senior management
6. An appropriate "tone from the top" and culture relating to independence
7. Prompt reporting of personnel employment negotiations with clients

8. Reporting by personnel of potential or apparent independence violations
9. Disciplinary policies and processes
10. Controls over business relationships and alliances and commissions and contingent fees.

This system results in it being required that partners and staff examine and document any concerns over the firm's independence either in relation to the acceptance of a new client or a particular engagement. Before any non-assurance engagement is accepted from an audit client enquiry is made via the above-mentioned system of the partner globally responsible for our services to that client. Unless that partner confirms that the proposed engagement does not constitute a threat to independence or that sufficient procedures can be put in place to neutralise any risk to independence, the assignment is not accepted.

An important aspect of our independence culture is the central support provided to individual partners both in relation to technical accounting or auditing matters and client behaviour.

Where clients will not accept clear accounting guidance, audit results on material issues or behave in an unethical manner, the firm supports the engagement partner in making the appropriate reporting decision even if that means ending the business relationship with that client.

The Management Board of PricewaterhouseCoopers SIA confirms that the last internal independence review at PricewaterhouseCoopers SIA took place in June 2011.

- **Continuing Education of Statutory Auditors**

Statutory auditors are required to take part in the annual obligatory training which covers audit, tax, accounting, business management, law and ethics amounting to minimum of 40 academic hours per year. As referred to in the section above on audit quality our Statutory Auditors are fully involved in the firm's continuing education programme.

Financial Information for the year ended 30 June 2010

(unaudited)	thousands of LVL
Total turnover in local currency*	3,910
Of which in respect of:	
Statutory Audit	1,914
Other Assurance Services	195
Tax Advisory Services	1,107
Other non-audit services	694

List of financial institutions and companies whose transferable securities are included in the regulated market of the member states audited by PricewaterhouseCoopers SIA in the Financial Year Ended 30 June 2011:

- Latvijas Gāze A/S – audit for the year ended 31 December 2010;
- Parex Banka A/S – audit for the year ended 31 December 2010.

Basis for Remuneration of Certified Auditors

Remuneration of Certified Auditors whose grade is below Partner (i.e., manager, senior manager, director) is different from the remuneration of the certified auditor – Partner. Non-partners receive fixed salary, based on their role in the Firm and are entitled to an annual bonus subject to achieving budget and performance goals.

Basis for Partners Remuneration

Partners are remunerated solely out of the profits of the firm and are personally responsible for funding pensions and other benefits such as medical care. A partner's remuneration is determined by the Regional Management Board after evaluating each partner's contribution to the firm during the year and following the completion of the annual audits for the national firms. The determinations made by the Management Board are reviewed and approved by the Partner Council. Each partner's remuneration comprises three interrelated profit dependent components:

Responsibility Income - reflecting the partner's sustained contribution and responsibilities; Performance Income - reflecting how a partner and the teams he works with perform in a given year; and Equity Unit Income which represents a partner's share in the profits after the allocation of the first two elements.

Equity units are allocated to partners on the basis of a matrix which takes account of numerous factors including but not limited to consistency of performance and role within the firm. [Performance income is determined by assessing a partner's achievements against an individually tailored balanced scorecard of objectives based on the partner's role. These objectives include the realisation of the firm's audit quality standards and absolute adherence to our integrity and independence regulations.]

To The Best Knowledge and Belief of PricewaterhouseCoopers SIA the Information Contained in This Report Is Correct at the Time of Publication.

A handwritten signature in blue ink, appearing to read 'Ahmed Abu-Sharkh', is written over a horizontal line.

Ahmed Abu-Sharkh
PricewaterhouseCoopers SIA, Chairman of the Board
30 September 2011