

# **A/S LATVIJAS GĀZE**

## **CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

(Translation from Latvian Original)

**A/S Latvijas Gāze  
Consolidated Annual Accounts  
for the year ended 31 December 2003**

**TABLE OF CONTENTS**

Information on the Parent company	3
Report of the Board of Directors	4 - 8
Consolidated profit and loss account	9
Consolidated balance sheet	10 - 11
Consolidated statement of changes in equity	12
Consolidated cash flow statement	13
Consolidated notes	14 - 28
Auditors' report	29

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Information on the Parent company**

Name of the parent company	A/S Latvijas Gāze
Legal status of the Parent company	Joint Stock Company
Registration number, place and date of registration	000 300 064 Riga, 25 March 1991
Address	A. Briāna street 6 Riga, LV-1001 Latvia
Names and positions of the Board members	Adriāns Dāvis – Chairman of the Board Aleksandrs Mihejevs (Александр Михеев) – Deputy Chairman of the Board Frank Siebert (Frank Siebert) - Deputy Chairman of the Board Anda Ulpe – Member of the Board Gints Freibergs – Member of the Board Uldis Auniņš - Member of the Board
Names and positions of the Council members	Kiril Selezņov (Кирил Селезнев) - Member of the Council (up to 04.07.2003), Chairman of the Council (since 04.07.2003) Aleksandr Krasņenkov (Александр Красненков) – Chairman of the Council (up to 04.07.2003), Member of the Council (since 04.07.2003) Fritz Gautier - Deputy Chairman of the Council Juris Savickis - Deputy Chairman of the Council Eike Benke – Member of the Council Reiner Lehmann – Member of the Council Matthias Keuchel – Member of the Council Stefan F. Seipl – Member of the Council Jelena Karpel (Елена Карпель) – Member of the Council Igor Nazarov (Игорь Назаров) - Member of the Council Vlada Rusakova (Влада Русакова) - Member of the Council
Financial year	1 January – 31 December 2003
Name and address of the auditor and responsible certified auditor	PricewaterhouseCoopers SIA Audit company licence No. 5 Kr. Valdemāra street 19 Riga, LV-1010 Latvia  Responsible certified auditor: Juris Lapshe Personal ID: 250670 -10408 Certified auditor Certificate Nr. 116

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Report of the Board of Directors****1. Description of activities**

In the year 2003, the Joint Stock Company "Latvijas Gāze" (further the Group) continued to strengthen its position in the fuel market. In the reporting period the Group's indices of the economic activity improved and the investment amount increased. According to the operative information of the Central Statistical Bureau of Latvia, the natural gas share in the energy consumption balance of Latvia was retained at its previous position exceeding 30% level. In comparison with the year 2002, the sales of natural gas grew by 3.8%, reaching 1,629.4 mio nm<sup>3</sup>. Basically, this growth of the natural gas sales volume was ensured by gas supply connections to new objects and the unexpectedly low air temperature during the first quarter of 2003. More than half of the gas sold (52%) in 2003 was used for heat production.

In April 2003, taking into consideration increase of expenditures in gas purchase and gas supply system development, the Public Utilities Commission approved new natural gas sales end-user tariffs for a three years tariff cycle providing for a gradual tariff increase by an average of 16.5%. New tariffs became effective from 1 July 2003 and in an average increased by ~12.5%.

The total revenues from natural and gas sales and other basic activity services amounted to Ls 119.4 mio in 2003, and expenses (excl. administration) - to Ls 99.9 mio, but the gross profit was Ls 19.5 mio.

In comparison with the year 2002 the net profit of the Group grew by 6.8% or Ls 0.8 mio and reached Ls 13.0 mio. In 2003 the net profitability reached 10.9%. The over-fulfilment of the profit budget was ensured by the increase of gas sales volumes, revenue from interest on deposits and the decrease of USD exchange rate.

In 2003 the cooperation with Daugavpils City Council was successful. By attraction of credit funds, the debt of the JSC "Daugavpils siltumtīkli", for the amount of Ls 2.0 mio was paid before the start of the new heating season as well as JSC "Latvijas Gāze" reached agreement on further payments. The similar path was chosen by Liepāja City Council, which also participated in the repayment of the debt of the local heat supply company "Liepājas siltumtīkli". As a result, the debt of natural gas users at the end of the year was by 16.9% lower than in the beginning of the year.

In 2003 a great attention was paid by the Group to further natural gas distribution system expansion and new users' connection to the existing gas supply system. As of 1 January 2003 the total natural gas pipeline length was 4,751 km, including 1,244 km of transmission lines and 3,507 km of distribution lines. 152.3 km of the distribution lines has been constructed during the year, including 122 km of street lines and 30.3 km of house connections.

The number of individual users using gas for heating grew by 3.4 thousands users during 2003 and reached 26.7 thousand by the end of the year. This figure has grown by 16.3 thousand (62.5%) in five years time. In order to optimise gas supply installation in the individual sector, work has been started to develop a new method for connection fee calculation and to increase the internal organisation efficiency of the gas supply installation process when connecting users to the natural gas distribution network.

In 2003 Inčukalns UGS achieved the highest ever operation indices in the facility's history. The total gas volume was increased by 65.8 mio m<sup>3</sup> reaching 4.4 BCM, including working gas volume of 2.25 BCM.

Pursuant to the resolution of the JSC "Latvijas Gāze" Supervisory Board in 2003, the Group sold all the shares of SIA "Latvijas propāna gāze" in a closed auction and on 8 December 2003 SIA "Massonyx Ltd" was registered as the new owner in the LR Commercial Register.

Till 7 December 2003 SIA "Latvijas propāna gāze" sold gas and rendered services to consumers for the total amount of Ls 6.58 mio and at the moment of the sale reported year losses achieved Ls 172 thousands.

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Report of the Board of Directors (continued)**

**2. Legal proceedings**

- In June 2003 the ruling of the UNCITRAL court of arbitration was announced in the arbitration case concerning the claim submitted by JSC "Latvijas Gāze" against the state of Latvia for the non-performance of the share purchase – sale agreement. According to the ruling of the court of arbitration tribunal the Republic of Latvia shall pay JSC "Latvijas Gāze" damages to the amount of Ls 6.9 mio plus interest.
- On 19 September 2003 the Government of the Republic of Latvia appealed to the Swedish Court of Appeals to revoke the ruling of the Stockholm Court of Arbitration dated 19 June 2003. The state requests cancelling of the aforementioned ruling and demands remuneration of all costs related to the legal proceedings. In reply to the state's appeal, JSC "Latvijas Gāze" submitted its statement of defence at the end of 2003.
- During the reporting year JSC "Latvijas Gāze" appealed to the Riga City Vidzeme Borough and Ziemeļu district court against two statements of the State Environment Inspectorate of the Ministry of Environment of the Republic of Latvia regarding the usage of the earth entrails at Inčukalns UGS. The case was closed in 2004 recognizing the JSC "Latvijas Gāze" licensed operations at Inčukalns UGS as being lawful.

**3. Most important activities in 2003**

*International cooperation:*

- Cooperation with Russian Institutes "VNIIGAS", "Giprospeccgas" and German company "Pipeline Engineering GmbH" on issues of modernization and further development of Inčukalns Underground Gas Storage.
- Cooperation with Russian gas company "Lentransgas" on issues of diagnostics of gas transmission pipelines.
- Cooperation with Russian company "Gazobezopasnost" and German company "Untergrundspeicher und Goetechnologie-Systeme GmbH" on Incukalns Underground Storage safety issues.
- Participation at the GTE (Gas Transmission Europe) meetings on issues of gas storage, transmission and market liberalization.
- Cooperation with German gas and water supply union, DVGW (Deutscher Verein des Gas und Wasserfaches), on implementation of European Standards and technical norms in JSC "Latvijas Gāze".
- Joint Baltic Gas and BASREC (Baltic Sea Region Energy Co-operation) seminar organization in Riga on perspectives of Baltic Sea countries' gas supply with participation of representatives from Baltic Gas and BASREC.
- Participation in the World Gas Conference in Tokyo.

*On national scale:*

- The Public Utilities Commission's (PUC) resolution Nr. 105 "On the approval of the JSC "Latvijas Gāze" natural gas tariff proposal" dated 9 April 2003, pursuant to which the tariffs are approved for three years, and dismissing of the initiated legal proceedings against PUC for the rejection of tariff proposals submitted by JSC "Latvijas Gāze" and application of tariffs set by PUC
- Ruling of the Riga City Vidzeme Borough court considering the claim, which the Latvian Central Trade Union filed, regarding the Public Utilities Commission Council resolution Nr. 105 "On the

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Report of the Board of Directors (continued)**

**3. Most important activities in 2003 (continued)**

*On national scale (continued):*

approval of the JSC "Latvijas Gāze" natural gas tariff proposal" dated 9 April 2003, according to which the Regulator's actions are recognised as being lawful.

- Preparation of proposals concerning amendments to the Energy Law in connection with the implementation of EU directives in the Republic of Latvia and their submission to the Ministry of Economy.
- Submission of proposals to the Ministry of Economy for amendments to the Law of Safety Zones regarding the establishment of the size of operation and safety zones, determination of a single payment for the safety zones of newly built gas pipelines and JSC "Latvijas Gāze" rights to fix the safety zones in the Land Register without the landowners' approval.

*On the Group scale:*

- Work on the modernization of Inčukalns UGS and provision of spare compressor capacity.
- Conclusion of the Collective Labour Agreement till 1 January 2005 and revision of labour agreements with all employees of JSC "Latvijas Gāze" in accordance with the new Labour Law.
- Work on the optimisation of the JSC "Latvijas Gāze" management structure and redistribution of functions among structural units.
- Cooperation with state and municipal institutions on safeguarding the execution of the effective legal acts.
- Elaboration of normative documents in accordance with the European standards.
- Work on the performance of activities envisaged in the budget, reduction of production costs and improvement of the Group's efficiency.

During the reporting year the Group, in the modernization of existing gas supply system and new fixed assets formation has spent Ls 15.8 mio. 43.3% of the total investment amount has been used for the modernization of Inčukalns Underground Gas Storage facility (IUGS), 18% for the development of the gas transmission grid and 38.7% for the distribution system development and attraction of new clients. The most significant projects were:

- Commencement of the project to ensure the spare compressor capacity at IUGS;
- Start of implementation of the program of bore-wells refurbished at IUGS;
- Commissioning of the dispatching centre and the installation of the automated control panel FT-50 at IUGS;
- Implementation of the automated operation and control system for fire-fighting pumps and reconstruction of the CS-2 oil equipment and diethylene glycol equipment in line with the EU standards;
- Modernisation of gas regulation installations (GRP) for gas distribution system. 59 GRP and 96 SGRP (cabinet-type gas regulation installations) were modernized in 2003. The program will be completed in 2004 and its total cost will amount to Ls 2.3 mio.;
- Modernisation of gas regulation stations (GRS). 52.4% of the total number of GRS has been modernized. 20 more GRS must be refurbished in two years time to fulfil the program completely;
- Construction of launching and reception chambers for gas transmission pipeline pigging;
- Preparatory works for the construction of the Preiļi – Rēzekne gas transmission pipeline;
- Coating repairs on the Rīga – IUGS gas pipeline and renovation of the communications cable of the Iecava - Liepāja gas pipeline;
- In 2003 the Group has purchased 52 plots of land with a total area of 16.8 ha, incl. 12.9 ha at Inčukalns, where the construction of the new station is envisaged.

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Report of the Board of Directors (continued)****4. The Group further development**

For several years the Group has set as its target preservation of the acquired market share and attraction of new consumers. The expansion and modernisation of the gas supply system, construction of new gas pipelines as well as the development of information technologies and systems will be the Group's priorities also in the future.

Topical projects within the next few years will be:

- participation with international organisations and work groups in elaborating energy strategies;
- provision of spare gas injection capacity at Inčukalns Underground Gas Storage facility;
- diagnostics of the gas transmission pipelines Pskov – Riga and Riga - Daugavpils by intelligent pigging and assessment of the technical condition of the gas transmission pipelines on the basis of these diagnostics;
- further modernisation and safety improvement of gas transmission mains and city gas supply systems implementing JSC "Latvijas Gāze" 2004-2007 Investment Program amounting to Ls 79.6 mio in total;
- cooperation with the state governing institutions in the discussions and application of European Union directives in Latvia.

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

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

- ensure further liberalisation of gas prices;
- amend the Energy Law and other legal acts defining exactly the responsibility of legal entities and individuals for the technical condition and operation safety of gas supply systems, equipment and appliances owned by them;
- amend legal acts currently in force, including the Law on Protective Zones, in order to facilitate the registration of encumbrances in land books for land, on which gas pipelines and equipment are located.

**6. Evaluation of economic activities**

Except for the revaluation of buildings, gas transmission system, plant and machines of the Company in year 2004, no significant or extraordinary circumstances, which would affect the financial results of the Company, have occurred since the last day of the reporting year till the day of signing the report by the Board of Directors.

According to the Board of Directors resolution of 13 February 2004, the SIA BDO "Invest Rīga" information on replacement cost of buildings and technological equipments and passed the decision to reflect the results of the revaluation as of 1 February 2004. As a result, asset value increased by Ls 128 mio (219%)

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



**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Report of the Board of Directors (continued)****6. Evaluation of economic activities (continued)**

As the Group has ensured safe operation of the gas supply systems and uninterrupted gas supplies in 2003, as well as fulfilled the budget indices approved by the General Meeting, the JSC "Latvijas Gāze" Board of Directors' opinion is that the Group has worked satisfactorily in 2003.

**Proposal for the Group's profit of 2003 distribution, (Ls)**

	2003 Ls
Current year's retained profit	13 015 410
Previous years' retained earnings	6 138
	<hr/> 13 021 548
Profit distribution proposed:	
Calculated shareholders' dividends (76.6%)	
Dividend per share (Ls/1 share)	9 975 000
	0.25
Transfer to reserves provided for in the Company's statutes	3 046 548
<b>Total reserves</b>	<b>3 046 548</b>

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

Information on the shareholdings and managerial positions held by the members of the JSC "Latvijas Gāze" Supervisory Board and Board of Directors in other companies registered in the Enterprise Register of the Republic of Latvia is available with the JSC "Latvijas Gāze" Board of Directors.

Chairman of the Board of Directors



A. Dāvis

Minutes of the Board of Directors  
meeting No.(16)  
Riga, 13 May 2004





**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated profit and loss account for the year ended 31 December 2003**

	Notes	2003 Ls	2002 Ls
1. Net sales	1	119,434,607	106,243,521
2. Cost of sales	2	(99,940,927)	(86,605,430)
3. Gross profit		<u>19,493,680</u>	<u>19,638,091</u>
5. Administrative expenses	3	(4,799,218)	(5,051,433)
6. Other operating income	4	186,235	237,802
7. Other operating expenses	5	(813,747)	(759,986)
8. Profit from investments in subsidiary undertakings and associated companies	26	319,306	-
9. Income from disposal of long term financial investments	12	-	230,955
10. Interest and similar income	6	1,741,977	1,640,765
11. Revaluation of long term financial investments and short term securities	7	644	(127)
12. Interest and similar expense	8	(18,558)	(466,093)
14. Provisions for bad and doubtful debts, net	14	80,028	(102,183)
15. Provisions for obsolete and slow moving inventories, net	13	(195,574)	(71,088)
16. Profit before taxes		<u>15,994,773</u>	<u>15,296,703</u>
17. Corporate income tax for the reporting year	9	(2,709,728)	(2,844,818)
18. Other taxes	21	(269,635)	(259,510)
19. Current year's profit		<u>13,015,410</u>	<u>12,192,375</u>

Notes on pages from 14 to 28 form an integral part of these consolidated financial statements.

  
A. Dāvis  
Chairman of the Board

  
K. Seleznovs  
Chairman of the Council

27 May 2004

A/S Latvijas Gāze  
Consolidated Annual Accounts  
for the year ended 31 December 2003

Translation from Latvian Original

Consolidated balance sheet as at 31 December 2003

(1)

	Notes	31.12.2003 Ls	31.12.2002 Ls
<b>Assets</b>			
<b>Long-term investments:</b>			
<b>I. Intangible assets:</b>			
1. Research and development costs		115,840	166,782
2. Concessions, patents, licences, trademarks and similar rights		1,076,503	1,004,644
5. Advance payments for intangible assets		76,188	112,864
<b>Total intangible assets:</b>	10	<b>1,268,531</b>	<b>1,284,290</b>
<b>II. Fixed assets:</b>			
1. Land, buildings and constructions		41,788,545	44,675,929
3. Plant and machinery		8,014,712	6,322,999
4. Other fixed assets		653,072	905,632
5. Fixed assets under installation and fixed assets under construction		7,915,521	1,872,326
6. Advances for fixed assets		-	37,978
<b>Total fixed assets:</b>	11	<b>58,371,850</b>	<b>53,814,864</b>
<b>III. Long-term financial investments:</b>			
3. Investment in associated companies		80	80
5. Other securities and investments	12	8,941	8,297
6. Long-term trade debtors	14	132,700	-
9. Finance lease		-	2,697
<b>Total long-term financial investments:</b>		<b>141,721</b>	<b>11,074</b>
<b>Total long-term investments:</b>		<b>59,782,102</b>	<b>55,110,228</b>
<b>Current assets:</b>			
<b>I. Inventories:</b>			
1. Raw materials and consumables	13	6,288,757	4,686,223
3. Finished goods and goods for sale		101,136	116,781
5. Advances for goods receivable		14,851	17,936
<b>Total inventories:</b>		<b>6,404,744</b>	<b>4,820,940</b>
<b>II. Debtors:</b>			
1. Trade debtors	14	9,750,512	11,731,311
Receivables from related companies	25	236	4,646
4. Other debtors	15	1,371,313	998,983
7. Deferred expenses	16	246,518	373,957
<b>Total debtors:</b>		<b>11,368,579</b>	<b>13,108,897</b>
<b>III. Securities and shareholdings:</b>			
3. Other securities and shareholdings		28,659	36,093
<b>Total securities and shareholdings:</b>		<b>28,659</b>	<b>36,093</b>
<b>IV. Cash and bank:</b>	17	<b>35,761,765</b>	<b>31,931,923</b>
<b>Total current assets:</b>		<b>53,563,747</b>	<b>49,897,853</b>
<b>Total assets</b>		<b>113,345,849</b>	<b>105,008,081</b>

Notes on pages from 14 to 28 form an integral part of these consolidated financial statements.

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated balance sheet as at 31 December 2003**

(2)

	Notes	31.12.2003 Ls	31.12.2002 Ls
<b>Liabilities</b>			
<b>Shareholders' funds:</b>			
1. Share capital	18	39,900,000	39,900,000
2. Share premium		14,320,210	14,320,210
3. Long-term investments revaluation reserve		7,877,665	8,638,232
4. Reserves			
a) legal reserves		2,091,647	2,091,647
c) statutory reserve		20,264,394	16,058,157
5. Retained profit			
a) previous years' retained earnings		6,138	-
b) current year's profit		13,015,410	12,192,375
<b>Total shareholders' funds:</b>		<b>97,475,464</b>	<b>93,200,621</b>
<b>Provisions:</b>			
2. Provisions for taxes		1,156,709	705,715
3. Other provisions		2,199,506	2,297,508
<b>Total provisions:</b>	19	<b>3,356,215</b>	<b>3,003,223</b>
<b>Creditors:</b>			
<b>Long-term creditors:</b>			
3. Borrowings from credit institutions	20	80,898	124,353
4. Other borrowings		840	840
12. Deferred income	23	2,744,514	1,688,926
<b>Total long-term creditors:</b>		<b>2,826,252</b>	<b>1,814,119</b>
<b>Current creditors:</b>			
3. Borrowings from credit institutions	20	32,359	35,529
5. Advances received		1,075,107	652,053
6. Trade creditors		1,264,173	1,286,867
Accounts payable to related companies	25	4,576,420	3,586,031
10. Taxes and social insurance payments	21	2,365,139	1,014,091
11. Other creditors	22	276,623	356,172
12. Deferred income	23	98,097	59,375
<b>Total current creditors:</b>		<b>9,687,918</b>	<b>6,990,118</b>
<b>Total creditors:</b>		<b>12,514,170</b>	<b>8,804,237</b>
<b>Total liabilities and shareholders' funds</b>		<b>113,345,849</b>	<b>105,008,081</b>

Notes on pages from 14 to 28 form an integral part of these consolidated financial statements.

  
A. Dāvis  
Chairman of the Board

  
K. Seleznovs  
Chairman of the Council

27 May 2004

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated statement of changes in equity for the year ended 31 December 2003**

	Share capital	Share premium	Long-term investments revaluation reserve	Legal reserves	Reserves by Company statutes	Retained earnings	Total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls
As at 31.12.2001	39,900,000	14,320,210	8,638,232	2,179,584	12,243,863	10,509,357	87,791,246
Dividends	-	-	-	-	-	(6,783,000)	(6,783,000)
Transferred to reserves	-	-	-	(87,937)	3,814,294	(3,726,357)	-
Profit for the year	-	-	-	-	-	12,192,375	12,192,375
As at 31.12.2001	<u>39,900,000</u>	<u>14,320,210</u>	<u>8,638,232</u>	<u>2,091,647</u>	<u>16,058,157</u>	<u>12,192,375</u>	<u>93,200,621</u>
Dividends	-	-	-	-	-	(7,980,000)	(7,980,000)
Transferred to reserves	-	-	-	-	4,206,237	(4,206,237)	-
Disposal of revalued fixed assets	-	-	(26,166)	-	-	-	(26,166)
Impairment charge for revalued fixed assets	-	-	(734,401)	-	-	-	(734,401)
Profit for the year	-	-	-	-	-	13,015,410	13,015,410
As at 31.12.2002	<u>39,900,000</u>	<u>14,320,210</u>	<u>7,877,665</u>	<u>2,091,647</u>	<u>20,264,394</u>	<u>13,021,548</u>	<u>97,475,464</u>

In accordance with the legislation of Latvia profit is distributed on the basis of financial statements of the Group's parent company a/s "Latvijas Gāze".

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

Notes on pages from 14 to 28 form an integral part of these consolidated financial statements.

**A/S Latvijas Gaze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated cash flow statement for the year ended 31 December 2003**

	Notes	2003 Ls	2002 Ls
<b>Cash flow from operating activities</b>			
Profit before taxes		15,994,773	15,296,703
<u>Adjustments for:</u>			
– depreciation and amortisation	2, 3, 5	4,341,423	3,840,534
– impairment charge of fixed assets	11	3,537,800	-
– profit from sale of investment in subsidiary	26	(319,306)	-
– other taxes	21	(269,635)	(259,510)
– provisions for inventories	13	195,574	71,088
– provisions for bad and doubtful debts	14	(80,028)	102,183
– provisions for long-term financial investments	12	(644)	127
– provisions for bonuses for reporting year's financial results	19	(6,997)	(231,396)
– provisions for unused annual leave	19	14,031	(168,721)
– other provisions	19	-	670,000
– (profit) / loss from disposal of fixed assets	4	16,277	(124,230)
– profit from disposal of securities	12	-	(230,955)
<b>Cash flow from operating activities before changes in net current assets</b>		<b>23,423,268</b>	<b>18,965,832</b>
Inventories (increase) / decrease		(3,535,362)	7,267,882
Trade debtors' (increase) / decrease		1,393,778	(798,069)
Other debtors' (increase) / decrease		397,308	(275,633)
Other creditors' increase		2,405,809	1,180,069
Trade creditors' increase / (decrease)		1,830,530	(74,740)
<b>Cash generated from operations</b>		<b>25,915,331</b>	<b>26,265,332</b>
Corporate income tax paid	21	(2,923,240)	(3,303,309)
<b>Net cash flow from operating activities</b>		<b>22,992,091</b>	<b>22,962,023</b>
<b>Cash flow from investing activities</b>			
Fixed assets and intangible assets acquisitions		(16,088,152)	(12,037,313)
Proceeds from disposal of investments		-	327,016
Proceeds from disposal of fixed assets		139,396	2,368,358
Proceeds from sale of investment in subsidiary undertaking	26	4,812,894	-
Acquisition of securities		-	(25,123)
Repayment received under finance lease		238	-
Fixed assets issued under finance lease acquisition		-	(2,697)
<b>Net cash used in investing activities</b>		<b>(11,135,624)</b>	<b>(9,369,759)</b>
<b>Cash flow from financing activities</b>			
Borrowings repaid		(46,625)	(50,004)
Dividends paid		(7,980,000)	(6,783,000)
<b>Net cash used in financing activities</b>		<b>(8,026,625)</b>	<b>(6,833,004)</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,829,842</b>	<b>6,759,260</b>
Cash and cash equivalents at the beginning of the year		31,931,923	25,172,663
<b>Cash and cash equivalents at the end of the year</b>	17	<b>35,761,765</b>	<b>31,931,923</b>

Notes on pages from 14 to 28 form an integral part of these financial statements.

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated notes**  
**Accounting policies**

**(a) General principles**

The Consolidated Financial Statements are prepared in accordance with the laws of the Republic of Latvia "On Accounting" and "On Consolidated Accounts of the Companies".

The profit and loss account is prepared in accordance with turnover module.

Cash flow statement is prepared using indirect cash flow method.

The accounting policies used by the Group are consistent with those used in the previous reporting period.

**(b) Consolidation**

Subsidiary undertakings, which are those companies in which the Group has an interest of more than one half of the voting rights, have been consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

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

**(c) Recognition of income**

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

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

**(d) Foreign currency translation**

Group 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 into Lats in accordance with the official Bank of Latvia exchange rate for the last day of the reporting period. The resulting profit or loss is charged to the profit and loss account.

	31.12.2003	31.12.2002
	Ls	Ls
1 USD	0.541	0.594
1 EUR	0.674	0.610

**(e) Intangible assets**

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

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated notes (continued)**  
**Accounting policies (continued)**

**(f) Fixed assets**

Fixed assets are stated at historical cost or revalued amount, less accumulated depreciation and impairment charge.

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 charged on a straight-line basis using the following rates, based on estimated useful lives of the assets:

Buildings:	0.7 - 1.2% per annum
Gas transmission system:	2 - 2.5% per annum
Machinery and equipment:	14 - 20% per annum
Furniture and fittings:	10 - 20% per annum
Computers and equipment:	30% per annum

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

Costs of borrowing to finance fixed assets under construction and other 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. Capitalisation of the borrowing costs is suspended during extended periods in which active developments are interrupted.

Where the carrying amount of a fixed asset exceeds its estimated recoverable amount, and this is considered to be other than temporary, 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. Estimated recoverable amount is the higher of the net realisable value and value in use of the related fixed asset.

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.

Until 31 December 2000 the acquisition of fixed assets at nil consideration in the form of Government grant, from other companies or individuals, was accounted for through the revaluation reserve at its estimated value. The valuation was performed by experts of the Group and approved by the management. The valuation was based on the fair value of the assets to the Group on the basis of their existing use. On disposal of revalued assets, the revaluation amounts are included in profit and loss account for the reporting period. Starting from year 2001 the fixed assets acquired in a such way are recorded at cost, i.e. at zero value and not revalued.

**(g) Inventories**

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

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses. Where required, provision has been made for slow moving, obsolete or damaged inventories.



**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated notes (continued)**  
**Accounting policies (continued)**

**(h) Debtors**

Accounts receivable are recorded in the balance sheet at their net value, being original invoice amount 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 Group 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 original invoice amount and the recoverable amount.

**(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) Taxes**

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

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

**(k) Provisions**

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

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

**(l) Cash and cash equivalents**

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

**(m) Related parties**

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

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated notes (continued)****(1) Net sales**

	2003 Ls	2002 Ls
Income from natural gas sales to industrial customers	96,593,928	84,737,511
Income from natural gas sales to residential customers	11,087,212	9,873,018
Income from transmission and storage of natural gas	4,338,048	4,130,268
Income from natural gas sales to vehicles	241,816	282,933
Income from liquefied petroleum gas sales to industrial and residential customers	4,136,564	4,270,550
Income from liquefied petroleum gas sales to motor transport	2,027,460	2,105,113
Other income from liquefied petroleum gas sales	211,490	30,538
Other services	798,089	813,590
	<u>119,434,607</u>	<u>106,243,521</u>

**(2) Cost of sales**

Natural gas purchases	74,965,849	67,242,401
Liquefied petroleum gas purchases	3,931,952	3,530,444
Salaries	6,284,971	5,643,858
Social insurance contributions	1,483,299	1,415,771
Life, health and pension insurance	420,421	134,154
Depreciation	3,965,011	3,500,267
Impairment charge of fixed assets (see Note 11)	3,525,215	-
Materials purchases	2,528,752	2,467,024
Purchase of individual gas meters	124,083	120,686
Other costs	2,711,374	2,550,825
	<u>99,940,927</u>	<u>86,605,430</u>

**(3) Administrative expenses**

Communications	360,163	384,454
Office maintenance expenses	231,988	268,281
Annual report and professional services expenses	54,219	129,266
Bank charges	320,755	324,980
Administration salaries	913,223	932,886
Board salaries	433,995	419,197
Council salaries	192,340	218,453
Administration social insurance contributions	183,682	210,364
Board social insurance contributions	41,511	34,997
Council social insurance contributions	44,140	46,794
Life, health and pension insurance	152,373	126,859
Depreciation	358,370	320,783
Impairment charge of fixed assets (see Note 11)	11,471	-
Other administrative expenses	1,500,988	1,634,119
	<u>4,799,218</u>	<u>5,051,433</u>

**(4) Other operating income**

Income from social infrastructure objects	3,319	3,052
Income from contribution to financing of construction works *	97,247	21,734
Income from disposal of fixed assets, net	-	124,230
Other income	85,669	88,786
	<u>186,235</u>	<u>237,802</u>

\* See Note 23 and Accounting policies Note (c).

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated notes (continued)****(5) Other operating expenses**

	2003 Ls	2002 Ls
Materials purchases	6,725	12,911
Salaries and other staff expenses	105,414	114,772
Social insurance contributions	18,171	21,078
Sponsorship	505,506	452,983
Loss from disposal of fixed assets, net	16,277	-
Depreciation and impairment charge of fixed assets (see Note 11)	24,356	19,484
Other expenses	137,298	138,758
	<u>813,747</u>	<u>759,986</u>

**(6) Other interest and similar income**

Bank interest	953,645	1,351,246
Gains from increase in exchange rate and sales of foreign currencies, net	412,249	-
Penalties from customers	242,337	179,481
Other income	133,746	110,038
	<u>1,741,977</u>	<u>1,640,765</u>

**(7) Revaluation of long-term finance investments and short-term securities**

Revaluation of holdings in share capital (see Note 12)	<u>644</u>	<u>(127)</u>
--	------------	--------------

**(8) Other interest and similar expense**

Penalties	5,359	15,951
Loss from increase in exchange rate and sales of foreign currencies, net	-	370,949
Interest	2,604	3,318
Other expenses	10,595	75,875
	<u>18,558</u>	<u>466,093</u>

**(9) Corporate income tax**

Increase in deferred tax liabilities	500,334	230,319
Corporate income tax charge for the year	2,209,394	2,614,499
	<u>2,709,728</u>	<u>2,844,818</u>

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 19% rate stipulated by the law to the Group's profit before taxation:

	2003 Ls	2002 Ls
Profit before taxation	<u>15,994,773</u>	<u>15,296,703</u>
Theoretically calculated tax at a tax rate of 19% (2002 – 22%)	3,039,007	3,365,275
Tax non-deductible expenses	147,349	275,362
Tax relief on donations	(452,508)	(394,774)
Effect of different tax rates on expected reversals	(24,120)	(401,045)
Tax charge	<u>2,709,728</u>	<u>2,844,818</u>

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated notes (continued)****(9) Corporate income tax (continued)**

At the end of reporting year the following income tax rates have been stipulated by the law:

Year	Tax rate
2003	19%
2004 and on	15%

**(10) Intangible assets**

	Research and development costs	Concessions, patents, licences, trademarks and similar rights	Advances for intangible assets	Total
	Ls	Ls	Ls	Ls
<b>Cost</b>				
31.12.2002.	255,844	1,486,027	112,864	1,854,735
Additions	-	1,638	341,791	343,429
Reclassified	-	363,487	(363,487)	-
Disposed due to sale of investment in subsidiary	-	(28,262)	(14,980)	(43,242)
Disposals	(1,100)	(471)	-	(1,571)
31.12.2003.	254,744	1,822,419	76,188	2,153,351
<b>Amortisation</b>				
31.12.2002.	89,062	481,383	-	570,445
Charge for 2003	50,942	283,968	-	334,910
Disposed due to sale of investment in subsidiary	-	(18,964)	-	(18,964)
Disposals	(1,100)	(471)	-	(1,571)
31.12.2003.	138,904	745,916	-	884,820
<b>Net book value 31.12.2003.</b>	<b>115,840</b>	<b>1,076,503</b>	<b>76,188</b>	<b>1,268,531</b>
<b>Net book value 31.12.2002.</b>	<b>166,782</b>	<b>1,004,644</b>	<b>112,864</b>	<b>1,284,290</b>

Intangible assets include fully depreciated intangible assets with a total gross book value of Ls 124,212 (2002: Ls 62,840).

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated notes (continued)****(11) Fixed assets**

	Land, buildings, gas transmission system	Plant and machinery	Other fixed assets	Fixed assets under installation and construction	Advance payments for fixed assets	Total
	Ls	Ls	Ls	Ls	Ls	Ls
<b>Cost or valuation</b>						
31.12.2002.	62,415,074	22,095,001	3,224,800	1,872,326	37,978	89,645,179
Additions	80,212	55,297	72,283	15,550,764	-	15,758,556
Reclassified	4,843,789	4,338,833	316,593	(9,481,158)	(18,057)	-
Impairment of previously revalued fixed assets	(798,920)	(1,581)	-	-	-	(800,501)
Disposed due to sale of investment in subsidiary	(3,596,816)	(2,408,171)	(592,281)	(26,411)	(19,921)	(6,643,600)
Disposals	(259,803)	(364,468)	(121,343)	-	-	(745,614)
<b>31.12.02.</b>	<b>62,683,536</b>	<b>23,714,911</b>	<b>2,900,052</b>	<b>7,915,521</b>	<b>-</b>	<b>97,214,020</b>
<b>Depreciation</b>						
31.12.2002.	17,739,145	15,772,002	2,319,168	-	-	35,830,315
Charge	1,469,904	2,002,764	541,116	-	-	4,013,784
Reclassified	(15,839)	15,319	520	-	-	-
Impairment of previously revalued fixed assets	(64,800)	(1,300)	-	-	-	(66,100)
Disposed due to sale of investment in subsidiary	(1,453,916)	(1,948,649)	(507,289)	-	-	(3,909,854)
Disposals	(108,845)	(348,395)	(106,535)	-	-	(563,775)
<b>31.12.2003.</b>	<b>17,565,649</b>	<b>15,491,741</b>	<b>2,246,980</b>	<b>-</b>	<b>-</b>	<b>35,304,370</b>
<b>Impairment charge</b>						
31.12.2002.	-	-	-	-	-	-
Impairment charge in the reporting year	3,329,342	208,458	-	-	-	3,537,800
<b>31.12.2003.</b>	<b>3,329,342</b>	<b>208,458</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,537,800</b>
<b>Net book value</b>						
<b>31.12.2003.</b>	<b>41,788,545</b>	<b>8,014,712</b>	<b>653,072</b>	<b>7,915,521</b>	<b>-</b>	<b>58,371,850</b>
<b>Net book value</b>						
<b>31.12.2002.</b>	<b>44,675,929</b>	<b>6,322,999</b>	<b>905,632</b>	<b>1,872,326</b>	<b>37,978</b>	<b>53,814,864</b>

**Impairment is reflected as:**

	Ls
- cost of sales	3,525,215
- administration expenses	11,471
- other operating expense	1,114
- decrease of revaluation reserve in the equity	734,401
<b>Total impairment</b>	<b>4,272,201</b>

During 2003 and 2004 the revaluation of buildings, gas transmission system and plant and machinery was carried out using the depreciated replacement cost method. The depreciated replacement costs were determined by certified independent valuator SIA BDO "Invest R ga". In case where depreciated replacement costs of the assets are lower than their carrying amount, the impairment is considered to be incurred and the resulting diminution in value has been recognised in the income statement for the current period. The upward revaluation result will be included in the financial statements for 2004 based on the decision of the Board passed on 13 February 2004.

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Notes (continued)****(11) Fixed assets (continued)**

Fixed assets include fully depreciated fixed assets with a total gross book value of Ls 12,227,799 (2002: Ls 11,389,193).

Cadastral (registered) value of land plots owned by the Company as at 31 December 2003 is Ls 1,210,968 (2002: Ls 1,427,216), except for one land plot for which cadastral value is not yet determined.

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

In 2003 the Company has capitalized depreciation for Ls 7,271.

**(12) Other securities and investments**

	31.12.2003 Ls	31.12.2002 Ls
<b>Other investments</b>		
a/s "Baltijas Starptautiskā banka" (a/s "Lainbanka")	180,796	180,796
a/s "Brocēni"	-	-
P/s "Saldus Laukceltnieks"	6,400	6,400
	<u>187,196</u>	<u>187,196</u>
 Provisions for a/s "Baltijas Starptautiskā banka" (a/s "Lainbanka")	 (178,255)	 (178,899)
Provisions for a/s "Brocēni"	-	-
<b>Carrying amount:</b>	<u>8,941</u>	<u>8,297</u>

**Changes in provisions for investments and securities:**

Provisions at the beginning of reporting period	178,899	1,104,636
Decrease in provisions for a/s "Brocēni"	-	(925,864)
Increase/ (decrease) in provisions for a/s "Baltijas Starptautiskā banka" (a/s "Lainbanka") (see Note 7)	(644)	127
<b>Provisions at the end of the reporting year</b>	<u>178,255</u>	<u>178,899</u>

Investments in a/s "Baltijas Starptautiskā banka" (a/s "Lainbanka") and a/s Brocēni were made in 1997, transforming the subordinated capital and accrued interest of a/s "Baltijas Starptautiskā banka" (a/s "Lainbanka") and the debts of a/s Brocēni into ordinary shares of those companies. As at 31 December 2003 the participation in a/s "Baltijas Starptautiskā banka" (a/s "Lainbanka") forms 0.05%, p/s "Saldus Laukceltnieks" 0.015%, but shares of a/s Brocēni - 15.57% were sold in 2002 year. The resulting profit from the sale was following:

	2003 Ls	2002 Ls
Cost value a/s "Brocēni"	-	1,021,925
Provisions made	-	(925,864)
<b>Carrying value as at the year end</b>	<u>-</u>	<u>96,061</u>
 Proceeds from disposal of securities	 -	 327,016
Carrying value as at the year end	-	(96,061)
<b>Profit from disposal of long term financial investments</b>	<u>-</u>	<u>230,955</u>

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

Notes (continued)

**(13) Raw materials and consumables**

	31.12.2003	31.12.2002
	Ls	Ls
Natural gas	5,131,494	1,959,104
Liquefied petroleum gas	-	1,225,433
Materials, spare parts, low value inventory, fuel	1,397,572	1,610,864
Meters	136,943	159,648
Provision for obsolete and slow-moving items	(377,252)	(268,826)
	<u>6,288,757</u>	<u>4,686,223</u>

Raw materials and consumables comprise natural gas kept in gas supply system as well as inventories kept in warehouses for intended use in maintenance of the gas system.

**Changes in provisions for obsolete and slow-moving items:**

	2003	2002
	Ls	Ls
<b>Provisions at the beginning of the year</b>	<b>268,826</b>	<b>236,627</b>
Charge for the year	207,109	85,586
Sold obsolete and slow-moving materials	(888)	(727)
Decreased provisions	(4,234)	(4,493)
Used in operations	(6,413)	(9,278)
<b>Net increase in provisions</b>	<b>195,574</b>	<b>71,088</b>
Written-off obsolete and slow-moving materials	(34,288)	(38,889)
SIA "Latvijas Propāna gāze" provisions at the moment of sale	(52,860)	-
<b>Provisions at the end of the year</b>	<b><u>377,252</u></b>	<b><u>268,826</u></b>

**(14) Trade debtors**

	31.12.2003	31.12.2002
	Ls	Ls
<i>Long-term debtors</i>		
Gross value of long-term debtors	452,318	159,178
Provisions for bad and doubtful debts	(319,618)	(159,178)
	<u>132,700</u>	<u>-</u>
<i>Short-term debtors</i>		
Gross value of short-term debtors	11,411,539	14,030,133
Provisions for bad and doubtful debts	(1,661,027)	(2,298,822)
	<u>9,750,512</u>	<u>11,731,311</u>
<b>Total trade debtors</b>	<b><u>9,883,212</u></b>	<b><u>11,731,311</u></b>

**Changes in provisions for bad and doubtful debts:**

	2003	2002
	Ls	Ls
<b>Provisions at the beginning of year</b>	<b>3,449,108</b>	<b>4,039,824</b>
Charge for the year	267,439	194,047
Recovered during the year	(347,467)	(91,864)
Net increase / (decrease) in provisions	(80,028)	102,183
Written off bad debts	(160,456)	(692,899)
SIA "Latvijas Propāna gāze" provisions at the moment of sale	(234,976)	-
<b>Provisions at the end of year</b>	<b><u>2,973,648</u></b>	<b><u>3,449,108</u></b>

Notes (continued)



**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**(14) Trade debtors (continued)**

Of the provisions previously shown, Ls 319,618 (2002: Ls 159,178) are attributable to long term debtors, Ls 1,661,027 (2002: Ls 2,139,648) are attributable to short term debtors and Ls 993,003 (2002: Ls 991,108) to other debtors (see also Note 15).

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

**(15) Other debtors**

	31.12.2003	31.12.2002
	Ls	Ls
VAT accepted	111,944	101,782
VAT input (see Note 21)	11,456	25,666
Overpaid corporate income tax (see Note 21)	991,762	352,648
Overpaid real estate tax (see Note 21)	10,614	11,481
Prepayments for excise tax (see Note 21)	-	8,073
Withholding tax and natural resource tax (see Note 21)	954	3,606
Prepayments for services	81,456	103,976
Receivable for services rendered	28,138	9,230
Cases under investigation	104,247	104,247
Claims according to court decisions	133,149	133,148
Interest accrued on bank deposits	66,399	294,771
Other debtors	824,197	841,463
Provisions created (see Note 14)	(993,003)	(991,108)
	<u>1,371,313</u>	<u>998,983</u>

**(16) Deferred expenses**

Railway expenses	-	43,531
Software maintenance expenses	63,989	66,267
Licences	-	300
Press subscription	9,940	14,978
Board members' insurance	-	56,870
General third part liability and property insurance	31,273	10,621
Health insurance	54,063	61,612
Car insurance	51,458	43,678
Other deferred expenses	35,795	76,100
	<u>246,518</u>	<u>373,957</u>

**(17) Cash and bank**

Short-term deposits	29,829,381	24,266,502
Cash in bank	5,926,606	7,611,099
Cash on hand	5,778	15,458
Cash in transit	-	38,864
	<u>35,761,765</u>	<u>31,931,923</u>

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

Notes (continued)

**(18) Share capital**

(a) Registered, subscribed and paid-up share capital as at 31 December 2003 consists of 39,900,000 ordinary shares of Ls 1 each.

	<u>31.12.2003</u>		<u>31.12.2002</u>	
	% from total share capital	Number of shares	% from total share capital	Number of shares
Shares of closed issues	36.52	14,571,480	36.52	14,571,480
Shares of public issues	63.47	25,326,020	63.47	25,326,020
Non-voting shares of the Board	0.01	2,500	0.01	2,500
	<b>100.00</b>	<b>39,900,000</b>	<b>100.00</b>	<b>39,900,000</b>

**(b) Shareholders**

	<u>31.12.2003</u>		<u>31.12.2002</u>	
	% from total share capital	Number of shares	% from total share capital	Number of shares
Ruhrgas Energie Beteiligungs AG*				
<i>(including shares of closed issues 7,285,740)</i>	47.15	18,813,078	28.18	11,245,447
Itera-Latvija SIA	25.00	9,975,701	25.00	9,975,701
Gazprom AAS				
<i>(including shares of closed issues 7,285,740)</i>	25.00	9,975,001	25.00	9,975,001
E.ON Energie AG*				
<i>(including shares of closed issues 2,914,296)</i>	-	-	18.79	7,496,965
Shares owned by the State	0.00	117	0.00	117
Shares sold through public offer	2.84	1,133,603	3.02	1,204,269
Non-voting shares of the Board	0.01	2,500	0.01	2,500
	<b>100.00</b>	<b>39,900,000</b>	<b>100.00</b>	<b>39,900,000</b>

State-owned shares are held by the Latvian Privatisation Agency.

\* According to the agreement between Ruhrgas Energie Beteiligungs AG and E.ON Energie AG agreement in December 2003 all E.ON Energie shares of JSC "Latvijas Gāze" including 2,914,296 shares of closed issues were transferred to Ruhrgas Energie Beteiligungs AG. In 2003 Ruhrgas Energie Beteiligungs AG and E.ON Energie offered to JSC "Latvijas Gāze" shareholders to buy out shares. 15,642 shares were offered for sale.

**(19) Provisions**

	Provision for deferred taxes	Provisions for unused annual leave	Provisions for bonuses for reporting year's financial results	Provisions for liabilities	Total
	Ls	Ls	Ls	Ls	Ls
At the beginning of the reporting year	705,715	411,911	1,215,597	670,000	3,003,223
Increase	500,334	16,706	1,068,987	-	1,586,027
Decrease	-	(2,675)	(1,075,984)	-	(1,078,659)
Decrease due to sale of investment in subsidiary	(49,340)	(105,036)	-	-	(154,376)
At the end of the reporting year	<b>1,156,709</b>	<b>320,906</b>	<b>1,208,600</b>	<b>670,000</b>	<b>3,356,215</b>

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Notes (continued)****(19) Provisions (continued)****(a) Provisions for deferred tax liability**

	2003 Ls	2002 Ls
Deferred tax liability at the beginning of the reporting year	705,715	475,396
Increase of deferred tax liability during the reporting year (see Note 9)	500,334	230,319
Decrease due to sale of investment in subsidiary	(49,340)	-
<b>Deferred tax liability at the end of the reporting year</b>	<b><u>1,156,709</u></b>	<b><u>705,715</u></b>

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

	31.12.2003 Ls	31.12.2002 Ls
Temporary difference on fixed assets depreciation	2,084,231	2,296,888
Temporary difference on provisions for bad and doubtful debts	(641,508)	(1,229,584)
Temporary difference on provisions for slow moving and obsolete inventory	(229,426)	(309,227)
Temporary difference on provisions for unused annual leave and bonuses	(56,588)	(52,362)
<b>Deferred tax liability</b>	<b><u>1,156,709</u></b>	<b><u>705,715</u></b>

**(b) Provisions for liabilities**

The Company has made provisions for liabilities to cover potential court case expenses in the amount of Ls 670,000.

**(20) Borrowings from credit institutions**

Ministry of Finance, 2007	<u>113,257</u>	<u>159,882</u>
---------------------------	----------------	----------------

On 7 November 1995 an agreement was concluded between the Parent Company a/s "Latvijas Gāze" and the Ministry of Finance of the Republic of Latvia. The agreement provided for assignment of a Danish Government interest free loan of DKK 3,492,800 that should be used to finance the project stipulated in an agreement between Lyngso Energi & Miljø and a/s "Latvijas Gāze" branch "Rīgas gāze" of 7 November 1995. In 1999 the total amount of the agreement was specified and fixed as USD 508,417. The repayment of the loan should be made in 17 semi-annual equal payments, commencing June 1999.

Current portion of the borrowing	32,359	35,529
Non-current portion of the borrowing	80,898	124,353
	<u>113,257</u>	<u>159,882</u>

**Maturity of non-current portion of the borrowing:**

Between 1 and 5 years	<u>80,898</u>	<u>124,353</u>
-----------------------	---------------	----------------

A/S Latvijas Gāze  
Consolidated Annual Accounts  
for the year ended 31 December 2003

## Notes (continued)

## (21) Taxes and social insurance

	Liability (Overpaid)*		Charged	Offsetting	Paid	Reduced due	Liability (Overpaid)*	
	31.12.02	31.12.02	for 2003	with other taxes	in 2003	to sale of investment in subsidiary	31.12.03	31.12.03
	Ls	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Social insurance contributions	313,767	-	2,421,644	-	(2,444,476)	(30,818)	260,117	-
Personal income tax	211,398	-	1,692,938	-	(1,691,753)	(18,795)	193,788	-
VAT	482,158	(55,382)	6,236,848	(40,000)	(4,758,761)	26,233	1,902,552	(11,456)
Real estate tax	1,657	(11,481)	269,635	-	(272,459)	4,875	2,841	(10,614)
Corporate income tax	-	(352,648)	2,209,394	40,000	(2,923,240)	34,732	-	(991,762)
Withholding tax	-	(3,468)	280,000	-	(275,475)	-	1,057	-
Natural resources tax	5,111	(138)	21,559	-	(22,546)	(156)	4,784	(954)
Excise tax	-	(8,073)	335,802	-	(330,808)	3,079	-	-
<b>Total:</b>	<b>1,014,091</b>	<b>(431,190)</b>	<b>13,467,820</b>	<b>-</b>	<b>(12,719,518)</b>	<b>19,150</b>	<b>2,365,139</b>	<b>(1,014,786)</b>

\* Taxes overpaid are shown under "Other debtors" (see Note 15).

## (22) Other creditors

	31.12.2003	31.12.2002
	Ls	Ls
Salaries	211,228	289,910
Other creditors	65,395	66,262
	<u>276,623</u>	<u>356,172</u>

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated notes (continued)****(23) Deferred income**

	31.12.2003	31.12.2002
	Ls	Ls
Income from customers contributions to financing of construction works of gas pipelines:		
- non-current portion	2,744,514	1,688,926
- current portion	98,097	59,375
	<u>2,842,611</u>	<u>1,748,301</u>
	2003	2002
	Ls	Ls
Balance at the beginning of the year	1,748,301	486,735
Received from residents and enterprises during the reporting year	1,191,557	1,283,300
Recognised as income in the reporting year	(97,247)	(21,734)
Deferred to the following periods	<u>2,842,611</u>	<u>1,748,301</u>

See also Note 4 and Accounting policies Note (c).

**(24) Average number of employees**

	2003	2002
Average number of employees during the reporting period	<u>1,674</u>	<u>1,728</u>

**(25) Transactions with related parties****(a) Income from providing services**

	2003	2002
	Ls	Ls
AAS Gazprom	4,187,164	3,980,314
SIA Itera Latvija	-	117,451
Ruhrgas Energie Beteiligungs AG	-	20,672
	<u>4,187,164</u>	<u>4,118,437</u>

**(b) Purchase of natural gas**

AAS Gazprom and Itera Latvija SIA	<u>79,338,060</u>	<u>68,224,710</u>
-----------------------------------	-------------------	-------------------

**(c) Accounts payable to related companies**

	31.12.2003	31.12.2002
	Ls	Ls
AAS Gazprom	1,345,685	785,232
Itera Latvia SIA	3,230,735	2,800,799
	<u>4,576,420</u>	<u>3,586,031</u>

**(d) Accounts receivable from related companies**

Ruhrgas Energie Beteiligungs AG	-	4,646
AAS Gazprom	236	-
	<u>236</u>	<u>4,646</u>

**A/S Latvijas Gāze**  
**Consolidated Annual Accounts**  
**for the year ended 31 December 2003**

**Consolidated notes (continued)**

**(26) Investment in subsidiary undertaking**

**(a) participation in subsidiary undertakings**

Name	Acquisition price of subsidiary undertakings		Participating interest in share capital of subsidiary undertakings	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
	Ls	Ls	%	%
SIA "Latvijas propāna Gāze"	-	5,020,000	-	100

**b) information about the subsidiary undertaking**

Name	Address	Shareholders' funds		Profit/(loss) for the period	
		31.12.2003	31.12.2002	01.01.2003-07.12.2003	2002
		Ls	Ls	Ls	Ls
SIA "Latvijas propāna gāze"	Kurzemes avenue 19, Rīga, LV-1067, Latvia	-	4,849,569	(172,049)	6,138

Movement in participation in subsidiary undertaking was as follows:

Investment value as at 31 December 2002	4,849,569
Loss for the period from 1 January 2003 till 7 December 2003	(172,049)
Investment value as at 7 December 2003	<u>4,677,520</u>

SIA "Latvijas propāna gāze" was registered on 9 May 2000 in Rīga with registration number 000349356. SIA "Latvijas propāna gāze" core business activities are import, storage, distribution, transit, sales and export of liquefied petroleum gas. On 7 December 2003 the investment in subsidiary undertaking SIA "Latvijas propāna gāze" was sold. The resulting profit from the sale is following:

Cost value SIA "Latvijas propāna gāze"	5,020,000
Result of investment revaluation	(342,480)
Carrying value as at 7 December 2003	<u>4,677,520</u>
Proceeds from sale of investment in subsidiary undertaking	5,020,000
Carrying value as at 7 December 2003	(4,677,520)
Expenses relating to sale of investment in subsidiary undertaking	(23,174)
Profit from sale of investment in subsidiary undertaking	<u>319,306</u>
Proceeds from sale of investment in subsidiary	5,020,000
Cash in subsidiary sold	(207,106)
Net cash inflow on sale of investment in subsidiary	<u>4,812,894</u>

**(27) Subsequent events**

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2003. In February 2004 the result of the revaluation exercise carried out by SIA BDO "Invest Rīga" (see Note 13) was incorporated in the financial statements of the Group. As result of revaluation property, plant and equipment value increased by Ls 128,330,485.

In 2004 the Swedish Court of Appeals in Stockholm is continuing to consider the appeal of the Government of the Republic of Latvia to revoke the ruling of the Stockholm Court of Arbitration according to which the Republic of Latvia shall pay JSC "Latvijas Gāze" damages to the amount of Ls 6.9 mio plus interest.

Translation from Latvian Original

AUDITORS' REPORT

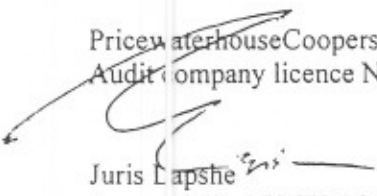
**To the shareholders of a/s Latvijas Gāze**

We have audited the consolidated financial statements on pages 9 to 28 of a/s Latvijas Gāze and its subsidiaries ("the Group") for 2003. The audited consolidated financial statements include the consolidated balance sheet as of 31 December 2003, related consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for 2003 and note disclosure. These consolidated financial statements are the responsibility of a/s Latvijas Gāze management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by a/s Latvijas Gāze management, as well as evaluating the overall consolidated financial statements presentation. We verified that, in all material respects, the report of board of directors is consistent with the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2003, and of the results of its operations and its cash flows for the year then ended in accordance with the requirements of the law On the Consolidated Annual Accounts of the Republic of Latvia.

PricewaterhouseCoopers SIA  
Audit company licence No. 5

  
Juris Lapshe  
Personal ID: 250670-10408  
Certified auditor  
Certificate No. 116

Member of the Board

27 May 2004