



Joint Stock Company "Latvijas Gāze"

Unaudited Financial Report of six months of 2008

Prepared according to the Requirements of International Accounting Standards

Riga, 2008

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JSC "Latvijas Gāze" management

Council

Till 4th July 2008

Kirill Seleznev (Кирилл Селезнев) – Chairman of the Council
Juris Savickis – Vice-chairman of the Council
Stephan Kamphues – Vice-chairman of the Council
Eike Benke – Member of the Council
Uwe Fip – Member of the Council
Marcus Anton Söhrich – Member of the Council
Reiner Lehmann – Member of the Council
Yelena Karpel (Елена Карпель) – Member of the Council
Alexander Krasnenkov (Александр Красненков) – Member of the Council
Vlada Rusakova (Влада Русакова) – Member of the Council
Igor Nazarov (Игорь Назаров) – Member of the Council

Council

From 4th July 2008

Kirill Seleznev (Кирилл Селезнев) – Chairman of the Council
Juris Savickis – Vice-chairman of the Council
Achim Saul – Vice-chairman of the Council
Eike Benke – Member of the Council
Uwe Fip – Member of the Council
Marcus Anton Söhrich – Member of the Council
Heinz Watzka – Member of the Council
Yelena Karpel (Елена Карпель) – Member of the Council
Alexander Krasnenkov (Александр Красненков) – Member of the Council
Vlada Rusakova (Влада Русакова) – Member of the Council
Igor Nazarov (Игорь Назаров) – Member of the Council

Board

Adrians Dāvis – Chairman of the Board
Alexander Mihejev (Александр Михеев) – Member of the Board, Deputy Chairman of the Board
Jörg Tumat M.A. – Member of the Board, Deputy Chairman of the Board
Anda Ulpe – Member of the Board
Gints Freibergs – Member of the Board

Report on activity of the JSC "Latvijas Gāze" in the 6 months of the year 2008

Economical and financial activity

In the first 6 months of 2008, the Joint Stock Company "Latvijas Gāze" sold to consumers 897.3 million nm³ of natural gas. In comparison to the respective period of 2007, the natural gas sales have decreased by 5.0 %, as well as there is by 3.8 % or 35.7 million nm³ of natural gas less than it had been planned in the adjusted budget of 2008.

The decrease of natural gas consumption in the first 6 months of 2008 is related to the atypically low air temperature in the 1st quarter of 2008. Currently there is no reason to predict a considerable rise of the planned gas sales volume in the second half of the year. Assuming that in the forthcoming months the gas sales volume reaches the budget plan, the annual sales prediction might be from 1630 million nm³ to 1650 million nm³.

The gas injection season at the Inčukalns UGS was commenced on April 19, 2008. At that moment the reserves of active gas at the Inčukalns UGS were 404.9 million nm³, incl. 120.3 million nm³ for the needs of Latvian consumers. It is planned to inject 1920 million nm³ of natural gas into the Inčukalns UGS over the year 2008, reaching 2300 million nm³ of active gas at the end of the injection season. As at the end of the reporting period, the total natural gas injection plan had been executed by 40.5 %.

In the first 6 months of 2008, consumers were sold natural gas and provided services for LVL 163.6 million, which is by 47.8 % more than in the respective period of 2007, still by 7.2 % less than it had been planned when preparing the updated budget.

LG completed the first 6 months with a profit of LVL 0.64 million, which is by 90.1 % less than in the respective period of 2007 when the profit was LVL 6.5 million.

On July 24, 2008, the Public Utility Commission (hereinafter – PUC) approved the new natural gas trade end tariffs that will become effective on October 1, 2008. The new natural gas trade end tariffs will be by 29.8 % higher than the current ones on average.

On January 21, 2008, the short-term loan of EUR 28.5 million, received from the JSC "SEB Banka" on June 18, 2007, was repaid.

Within the framework of the capital investment programme, LVL 10.3 million have been utilized in 6 months of 2008. The funds have been mostly used for modernization of the technological equipment and construction of new gas pipelines.

LG has announced a closed price survey on awarding of a credit line at the amount of EUR 50.0 million envisaged for settlements for natural gas with the suppliers for the natural gas consumed in the summer of 2008.

The meeting of shareholders of July 4, 2008 passed a resolution on the net profit of 2007 (LVL 32.82 million), determining that the unavailable share of the profit is LVL 1.74 million while the distributable share of profit shall be used as follows – LVL 19.95 million or LVL 0.50 per share shall be paid to shareholders in dividends, setting July 21, 2008 as the date of calculation of dividends and July 29, 2008 as the date of payment of dividends, whereas LVL 11.13 million shall be included in the reserves stipulated by the Articles of Association.

The most significant activities

- Submission of the natural gas tariff project for 2008 to the PUC on April 16, 2008;
- Submission of the natural gas tariff project with supplements to the PUC on July 2, 2008;
- Participation at various working groups developing energy legislation;
- Negotiations and conclusion of contracts with foreign gas companies on natural gas transportation, injection and storage at the Inčukalns UGS on a commercial basis.

Shares and shareholders

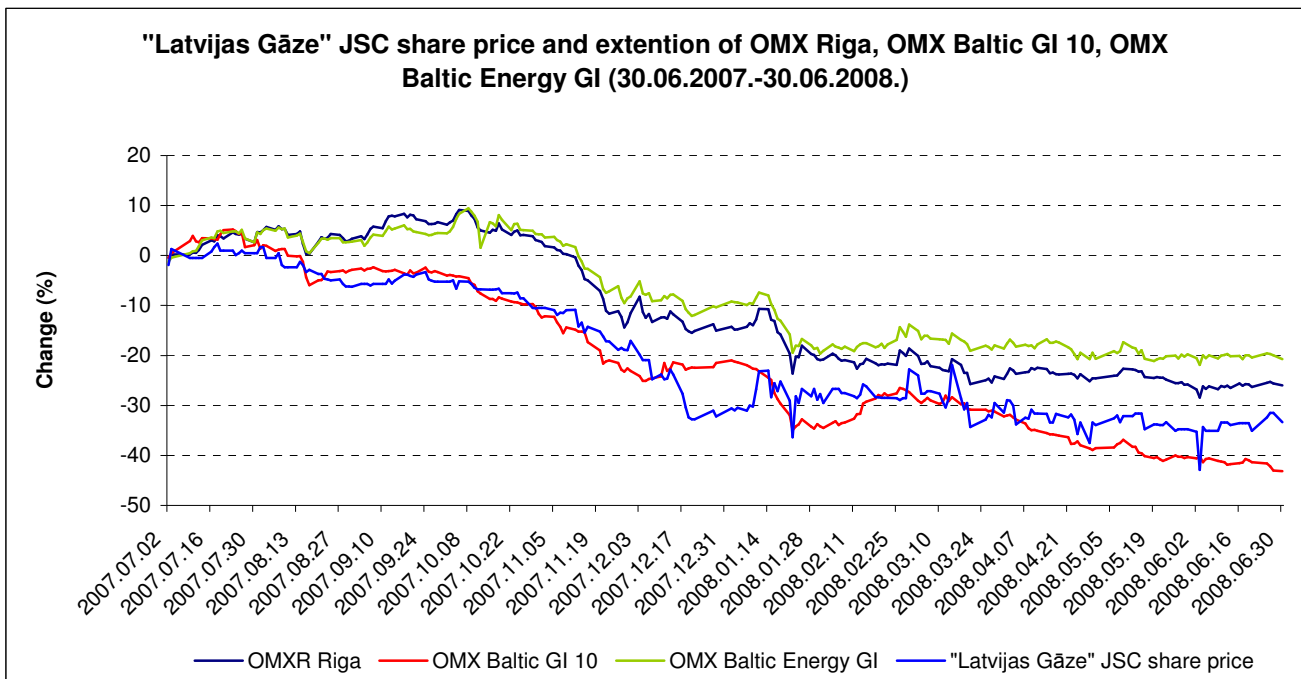
Composition of shareholders¹ of the JSC "Latvijas Gāze" as on December 31, 2007:

Shareholder	Shares (%)
E.ON Ruhrgas International	47.2%
Gazprom	34.0%
Itera Latvija	16.0%
Others	2.8%

Share price of JSC "Latvijas Gāze" at Riga Stock Exchange in 6 months of 2008 and previous periods

	6 months 2004	6 months 2005	6 months 2006	6 months 2007	6 months 2008
<u>Share price:</u>					
Highest	5,65	7,50	11,13	11,25	8,20
Lowest	5,40	6,15	9,27	9,65	6,00
Avarage	5,54	6,58	10,25	10,51	7,26
Last	5,55	7,50	10,10	10,50	7,00
Number of shares	60 670	24 562	108 447	128 270	22 950
Turnover (mio LVL)	0,336	0,162	1,112	1,348	0,167
Capitalization (mio LVL)	221,445	299,250	402,990	418,950	279,300

Source: RSE



Source: RSE

¹ Shareholders owning not less than 5% of capital

Statement of Director’s responsibility

The Board of Directors of the Joint Stock Company “Latvijas Gāze” (hereinafter – the Company) is responsible of the preparation of the interim financial statements of the Company. Interim financial statements of the Company are not audited.

The financial statements on pages 7 to 13 are prepared in accordance with the underlying accounting records and source documents and present fairly the financial position of the Company as of 30 June 2008 and the result of its operations and cash flows for the period ended 30 June 2008.

The financial statements are prepared in accordance with International Financial Reporting Standards on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. The Board of Directors in the preparation of the financial statements has made prudent and reasonable judgements and estimates.

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

On behalf of the Board of Directors,

Anda Ulpe
Commercial proxy

August 19, 2008

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Profit or loss statement

	Appendix	30.06.2008. 30.06.2007.			30.06.2008. 30.06.2007.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
Sales		163 575	110 719	52 856	232 746	157 539	75 207
Cost of sales	1	(154 184)	(102 014)	(52 170)	(219 383)	(145 154)	(74 229)
Gross profit		9 391	8 705	686	13 363	12 385	978
Administrative expenses	2	(6 154)	(3 077)	(3 077)	(8 756)	(4 377)	(4 379)
Other operating income	3	1 838	2 098	(260)	2 614	2 986	(372)
Other operating expenses	4	(264)	(286)	22	(375)	(408)	33
Financial income	5	1 270	234	1 036	1 807	333	1 474
Financial expenses	5	(59)	-	(59)	(84)	-	(84)
Profit before tax		6 022	7 674	(1 652)	8 569	10 919	(2 350)
Income tax		(5 380)	(1 170)	(4 210)	(7 655)	(1 665)	(5 990)
Profit of the reporting year		642	6 504	(5 862)	914	9 254	(8 340)
Earnings per share (EPS)		0,016	0,163	(0,147)	0,023	0,232	(0,209)

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Balance sheet

	30.06.2008. 30.06.2007.			30.06.2008. 30.06.2007.			
	Appendix	LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
ASSETS							
<u>Non-current assets</u>							
Intangible assets		1 555	1 613	(58)	2 213	2 295	(82)
Property, plant and equipment		318 560	309 036	9 524	453 270	439 719	13 551
Trade accounts receivable		11	31	(20)	16	44	(28)
Total non-current assets		320 126	310 680	9 446	455 499	442 058	13 441
<u>Current assets</u>							
Inventories	6	55 971	80 902	(24 931)	79 640	115 114	(35 474)
Trade accounts receivable		14 858	7 915	6 943	21 141	11 262	9 879
Other current assets		21 678	1 926	19 752	30 844	2 740	28 104
Corporate income tax (2391)		2 252	3 464	(1 212)	3 204	4 929	(1 725)
Cash and cash equivalents		63 083	18 451	44 632	89 759	26 253	63 506
Total current assets		157 842	112 658	45 184	224 588	160 298	64 290
TOTAL ASSETS		477 968	423 338	54 630	680 087	602 356	77 731
EQUITY AND LIABILITIES							
<u>Equity</u>							
Share capital		39 900	39 900	-	56 773	56 773	-
Share emission premium		14 320	14 320	-	20 376	20 376	-
Revaluation reserve		187 153	187 130	23	266 292	266 262	30
Other reserves		55 416	47 555	7 861	78 850	67 665	11 185
Retained earnings		28 923	21 797	7 126	41 155	31 014	10 141
Total equity		325 712	310 702	15 010	463 446	442 090	21 356
<u>Liabilities</u>							
<u>Non-current liabilities</u>							
Deferred tax liabilities		33 676	31 582	2 094	47 916	44 937	2 979
Provisions for postemployment benefits		2 500	-	2 500	3 557	-	3 557
Deferred income		12 282	8 886	3 396	17 476	12 644	4 832
Total non-current liabilities		48 458	40 468	7 990	68 949	57 581	11 368
<u>Current liabilities</u>							
Trade accounts payable		80 764	38 704	42 060	114 917	55 070	59 847
Other liabilities		8 988	8 454	534	12 789	12 029	760
Corporate income tax liability		3 792	1 170	2 622	5 396	1 665	3 731
Provisions		9 784	3 471	6 313	13 921	4 939	8 982
Borrowings	7	-	20 030	(20 030)	-	28 500	(28 500)
Deferred income		470	339	131	669	482	187
Total current liabilities		103 798	72 168	31 630	147 692	102 685	45 007
Total liabilities		152 256	112 636	39 620	216 641	160 266	56 375
TOTAL EQUITY AND LIABILITIES		477 968	423 338	54 630	680 087	602 356	77 731

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Cash flow statement

	30.06.2008. LVL'000	30.06.2007. LVL'000	30.06.2008. EUR'000	30.06.2007. EUR'000
Cash flow from operating activities				
Cash generated from operations	50 179	(6 061)	71 398	(8 624)
Interest received	1 298	240	1 847	341
Corporate income tax paid	(2 473)	(2 351)	(3 519)	(3 345)
Net cash flow from operating activities	49 004	(8 172)	69 726	(11 628)
Cash flow from investing activities				
Purchase of property, plant and equipment	(10 155)	(11 439)	(14 449)	(16 276)
Proceeds from sale of property, plant and equipment	119	11	169	16
Purchase of intangible assets	(101)	(137)	(143)	(195)
Net cash flow from investing activities	(10 137)	(11 565)	(14 423)	(16 455)
Cash flow from financing activities				
Borrowings repaid	(20 030)	(16)	(28 500)	(23)
Borrowings received	-	20 030	-	28 500
Service charge on borrowings	(59)	-	(84)	-
Net cash flow from financing activities	(20 089)	20 014	(28 584)	28 477
(Decrease)/increase in cash and cash equivalents	18 779	277	26 719	394
Cash and cash equivalents at the beginning of the year	44 305	18 174	63 040	25 859
Cash and cash equivalents at the end of the year	63 083	18 451	89 759	26 253

Changes in equity capital (LVL)

	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
December 31, 2006	39 900	14 320	119 264	47 554	15 294	236 332
Revaluation of fixed assets	-	-	80 216	-	-	80 216
Deferred tax liability arising on the revaluation of property, plant and equipment	-	-	(12 032)	-	-	(12 032)
Disposal of revaluated fixed assets	-	-	(318)	-	-	(318)
Deferred tax on disposal of revaluated property, plant and equipment	-	-	-	-	-	-
<i>Net income admitted in equity</i>	-	-	67 866	-	-	67 866
Profit of the reporting year	-	-	-	-	6 504	6 504
Income for 6 months of 2007	-	-	67 866	-	6 504	74 370
Transfer to reserves	-	-	-	-	-	-
Dividends for 2006	-	-	-	-	-	-
Rounding	-	-	-	1	(1)	-
June 30, 2007	39 900	14 320	187 130	47 555	21 797	310 702

	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
December 31, 2007	39 900	14 320	187 584	55 416	28 280	325 500
Revaluation of fixed assets	-	-	196	-	-	196
Deferred tax liability arising on the revaluation of property, plant and equipment	-	-	-	-	-	-
Disposal of revaluated fixed assets	-	-	(627)	-	-	(627)
Deferred tax on disposal of revaluated property, plant and equipment	-	-	-	-	-	-
<i>Net income admitted in equity</i>	-	-	(431)	-	-	(431)
Profit of the reporting year	-	-	-	-	642	642
Income for 6 months of 2008	-	-	(431)	-	642	211
Transfer to reserves	-	-	-	-	-	-
Dividends for 2007	-	-	-	-	-	-
Rounding	-	-	-	-	1	1
June 30, 2008	39 900	14 320	187 153	55 416	28 923	325 712

Changes in equity capital (EUR)

	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2006	56 773	20 376	169 697	67 663	21 761	336 270
Revaluation of fixed assets	-	-	114 137	-	-	114 137
Deferred tax liability arising on the revaluation of property, plant and equipment	-	-	(17 120)	-	-	(17 120)
Disposal of revaluated fixed assets	-	-	(452)	-	-	(452)
Deferred tax on disposal of revaluated property, plant and equipment	-	-	-	-	-	-
<i>Net income admitted in equity</i>	-	-	96 565	-	-	96 565
Profit of the reporting year	-	-	-	-	9 254	9 254
Income for 6 months of 2007	-	-	96 565	-	9 254	105 819
Transfer to reserves	-	-	-	-	-	-
Dividends for 2006	-	-	-	-	-	-
Rounding	-	-	-	2	(1)	1
June 30, 2007	56 773	20 376	266 262	67 665	31 014	442 090

	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2007	56 773	20 376	266 907	78 850	40 240	463 146
Revaluation of fixed assets	-	-	278	-	-	278
Deferred tax liability arising on the revaluation of property, plant and equipment	-	-	-	-	-	-
Disposal of revaluated fixed assets	-	-	(893)	-	-	(893)
Deferred tax on disposal of revaluated property, plant and equipment	-	-	-	-	-	-
<i>Net income admitted in equity</i>	-	-	(615)	-	-	(615)
Profit of the reporting year	-	-	-	-	914	914
Income for 6 months of 2008	-	-	(615)	-	914	299
Transfer to reserves	-	-	-	-	-	-
Dividends for 2007	-	-	-	-	-	-
Rounding	-	-	-	-	1	1
June 30, 2008	56 773	20 376	266 292	78 850	41 155	463 446

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Appendices

App. No	30.06.2008.	30.06.2007.		30.06.2008.	30.06.2007.	
	LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
1 COST OF SALES						
Purchase of natural gas	132 769	83 325	49 444	188 913	118 561	70 352
Salaries	5 536	4 207	1 329	7 877	5 986	1 891
Social insurance contributions	1 295	983	312	1 842	1 399	443
Life, health and pension insurance	391	302	89	556	430	126
Materials and spare parts	2 864	1 913	951	4 075	2 722	1 353
Depreciation and amortisation and impairment charge of property, plant and equipment	9 177	9 244	(67)	13 058	13 153	(95)
Other	2 152	2 040	112	3 062	2 903	159
	154 184	102 014	52 170	219 383	145 154	74 229
2 ADMINISTRATIVE EXPENSES						
Salaries	1 478	1 460	18	2 103	2 077	26
Social insurance contributions	349	275	74	497	391	106
Life, health and pension insurance	70	66	4	99	94	5
Maintenance and utilities	418	438	(20)	595	623	(28)
Real estate tax	70	70	-	99	100	(1)
Depreciation and amortisation and impairment charge of property, plant and equipment	238	344	(106)	339	489	(150)
Bank charges	99	97	2	141	138	3
Provisions for impairment of bad and doubtful debtors	2 980	(135)	3 115	4 240	(192)	4 432
Other	452	462	(10)	643	657	(14)
	6 154	3 077	3 077	8 756	4 377	4 379
3 OTHER OPERATING INCOME						
Penalties from customers	358	186	172	509	265	244
Income from contribution to financing of construction works	240	177	63	341	252	89
Gain from disposal of property plant and equipment	395	-	395	562	-	562
Provisions for impairment of slow-moving and obsolete inventories	14	12	2	20	17	3
Other	140	1 617	(1 477)	199	2 301	(2 102)
Net income from fluctuations of foreign currency rates	691	106	585	983	151	832
	1 838	2 098	(260)	2 614	2 986	(372)
4 OTHER OPERATIONAL EXPENSES						
Material expenses	7	6	1	10	9	1
Salaries and other expenses	66	51	15	94	73	21
Social insurance contributions	10	8	2	14	11	3

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Depreciation, amortisation and impairment charge for property, plant and equipment	47	46	1	67	65	2
Sponsorship	24	11	13	33	16	17
Loss on sale of fixed assets	-	82	(82)	-	117	(117)
Provisions for impairment of slow-moving and obsolete inventories	-	82	(82)	-	117	(117)
Other	110	-	110	157	-	157
	264	286	(22)	375	408	(33)

**DISTRIBUTION OF EXPENSES
IN THEIR TERMS**

Purchase of natural gas	132 769	83 325	49 444	188 913	118 561	70 352
Depreciation and amortisation	9 462	9 634	(172)	13 464	13 707	(243)
Staff expenses	9 194	7 352	1 842	13 082	10 461	2 621
Materials and spare parts	2 871	1 919	952	4 085	2 731	1 354
Net accruals for reduction of debtors' debt	2 980	(135)	3 115	4 240	(192)	4 432
Other	3 720	3 200	520	4 730	4 671	59
	160 996	105 295	55 701	228 514	149 939	78 575

5 FINANCE INCOME, NET

Finance income	1 270	234	1 036	1 807	333	1 474
Interest income	1 270	234	1 036	1 807	333	1 474
Finance expenses	59	-	59	84	-	84
Service charge for borrowings	59	-	59	84	-	84
Finance income, net	1 211	234	977	1 723	333	1 390

6 INVENTORIES

Materials and spare parts (at net sellable value)	3 142	2 637	504	4 470	3 753	717
Gas and fuel (at cost value)	52 829	78 265	(25 436)	75 170	111 361	(36 191)
	55 971	80 902	(24 931)	79 640	115 114	(35 474)

7 BORROWINGS

SEB Banka	-	20 030	(20 030)	-	28 500	(28 500)
Refund term of borrowings: Short-term part of the borrowings in 1 year	-	20 030	(20 030)	-	28 500	(28 500)