



"Latvijas Gāze" Joint Stock Company

Unaudited Financial Report of 12 months of 2008

Prepared according to the Requirements of International Accounting Standards

Riga, 2009

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“Latvijas Gāze” Joint Stock Company management

| | |
|---------|--|
| Council | <p><u>Till 4th July 2008</u></p> <p>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</p> |
| Council | <p><u>From 4th July 2008</u></p> <p>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</p> |
| Board | <p>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</p> |

Report on activity of the “Latvijas Gāze” JSC in the 12 months of the year 2008

Financial activity

In 12 months of the year 2008, “Latvijas Gāze” Joint Stock Company (hereinafter – LG) sold to consumers 1631.0 million nm³ of natural gas. In comparison to the respective period of 2007, the natural gas sales have decreased by 2.5 % (42.4 million nm³).

The decrease of natural gas consumption in 2008 has been caused by the relatively high air temperature in the 1st and 4th quarter of 2008, as well as the record-high quotation of oil products at exchanges resulting in a considerable increase of natural gas sales end tariffs in Latvia, which lead to more economical use of resources and decisions made by natural gas consumers to decrease business activities because of global financial crisis and decreasing growth pace of national economy of Latvia .

The gas injection season at the Inčukalns UGS was commenced on April 19, 2008 and completed on October 9, 2008. In this season, 1920,1 million nm³ of natural gas were injected into the facility and 1965,7 million nm³ were withdrawn. In comparison to the season of 2007, the amount of natural gas injected has increased by 62,1 % (735,3 million nm³), whereas that of natural gas withdrawn by 34.1% (499,2 million nm³).

Amendments to the natural gas supply agreement, which were signed on 15th January 2008, defined that natural gas purchase price is pegged to the price / quotation of heavy fuel oil (with the sulphur content up to 1%) and gasoil (with the sulphur content up to 0.2%) at the oil products exchange FOB ARA (Free On Board Amsterdam, Rotterdam, Antwerp) but during the year 2008 were changed quotation periods used for settling natural gas purchase price, that is, from 1st January 2008 till 30th September 2008 price was calculated based on six-month average quotation of heavy fuel oil and gasoil, but from 1st October 2008 – based on nine-month average quotation. Changes in used quotation periods allowed decreasing purchase price in 4th quarter and stabilizing changes in purchase prices in relation to fluctuations of prices for oil products.

Natural gas purchase prices in 2008 reached level of European countries and future changes will depend from fluctuations of oil products at the oil products exchange and flow of the used natural gas (directly from pipelines or Inčukalna UGS).

Increase in natural gas sale end tariffs in 2008 was contributed by natural gas purchase price levelling with European Union countries and record-high oil product prices in summer and autumn 2008.

Till 1st October 2008 natural gas was sold to consumers for sale end tariffs approved by the Public Utility Commission (hereinafter – PUC) Council resolution No.83 passed on March 28, 2007 “On natural gas supply tariffs of the “Latvijas Gāze” JSC”, accordingly to conditions of PUC Council resolution No.555 “On natural gas differential sale tariff and heavy fuel oil actual quotation”.

The decision upon increasing the natural gas tariffs was made by the PUC Council on July 24, 2008. According to the PUC Council Resolution No.247 “On natural gas supply tariffs of “Latvijas Gāze” JSC”, as from October 1, 2008, the new discriminative natural gas sale end tariffs became effective. They consist of two parts: the fixed LG service tariffs and the natural gas sale prices that will change by a step of LVL 5 depending on the actual natural gas purchase costs.

During year 2008 for consumers with total consumption above 25 thousand m³ per year there were two increases in tariffs – first from 01.04.2008. till 30.09.2008. by 22 % comparing

with 1st quarter 2008 because natural gas was sold for maximal tariffs at heavy fuel oil quotation 400 USD/t, second – in 4th quarter 2008 by 39,5 % comparing with previous period. In 2008 natural gas average sale end tariff increased by 52,1 %, but purchase costs for sold natural gas increased by 82,9 %.

In 12 months of 2008, consumers were sold natural gas and provided services for LVL 351,0 million, which is by 46,6 % more than in the respective period of 2007.

The year 2008 was completed with LVL 19,4 million of net profit, which is by 39,8 % (LVL 12,9 million) less than in the respective period of 2007 when the profit was LVL 32,3 million.

In taxes and duties were paid LVL 68,65 million (2007. – LVL 41,3 million).

On January 21, 2008, the short-term loan of EUR 28,5 million, received from the “SEB banka” JSC on June 18, 2007, was repaid. On September 18, 2008, an overdraft contract for EUR 50,0 million credit line for 1 year was concluded with the “SEB banka” JSC, as well pledge contract was concluded in accordance with it - 186 million m³ natural gas in Inčukalna UGS is pledged in favour of “SEB banka” JSC.

Net profitability of business activity in 2008 was 5,5 % (in 2007 – 13,5 %).

Within the framework of the capital investment programme, LVL 22,8 million were utilized during the 12 months of 2008. 10,1 % of the total investments were used for the needs of operation security improvement and equipment modernization at the Inčukalns UGS, 39,7 % for modernization of the gas transmission pipeline system, and 36,5 % - for expansion of distribution networks and renewal of existing fixed assets.

The total number of gasified objects in 2008 reached 441,6 thousand. 151 new contracts on natural gas supply to industrial customers were concluded in 2008.

Economical activity

Inčukalns UGS

- On 9th August 2008 it was 40th anniversary since were made first natural gas injection in Inčukalns UGS;
- In June modernization of the gas collection point (GSP-1) was ended and commissioned. LVL 0,9 million have been utilized in the reporting year, LVL 11,4 million in total;
- Were made technically most dangerous capital repairs of 4 wells for LVL 0,5 million;
- In cooperation with “Gazpromenergodagnostic” Ltd were made examination for technical conditions of 23 wells;
- Reconstruction of the gas drying point KC-1 was started. There was signed contract for working out the technical project (LVL 0,6 million) and announced competition for the rights to deliver equipment. The total construction costs are planned ~ LVL 9,5 million, and it is planned to complete the project in year 2011;
- Development of the geographical information system of the Inčukalns UGS, using the data of three-dimensional survey, was continued;

Gas transport

- Construction of pig launcher units without ending gas supply, pig receiver units and launcher-receiver units and replacement of line valves of the gas transmission pipeline Iecava - Liepāja, costs in the reporting period LVL 1,18 million;
- Construction and installation of pig launchers and replacement of line valve units for lines 1 and 2 of the gas transmission pipeline Riga – Inčukalns UGS, costs in the reporting period LVL 1,62 million;
- Materials and equipment for the needs of the gas transmission pipeline Riga – Paņeveža, preparation works for construction of receiver units, costs in the reporting period LVL 0,36 million;
- Acoustic emission diagnostic works in separate sections of the gas transmission pipeline Riga – Paņeveža and Riga – Inčukalna UGS, costs in the reporting period LVL 0,31 million;
- Reconstruction of 8 catodic protection stations (hereinafter – CPS) and worked out projects for reconstruction of more 9 CPS, costs in the reporting period LVL 0,19 million;
- Finalized installation of technological equipment in GRS “Ziemeļi”, costs in the reporting period LVL 1,39 million;
- Reconstruction of GRS “Koknese” and “Vecbebri”, costs in the reporting period LVL 0,34 million.

Distribution system

- In 2008, ~ 126,8 km of gas distribution pipelines were put into operation;
- 2152 individual houses were connected to heating with the total predicted consumption of 6,46 million m³ per year;
- Installation of gas pipeline through “South bridge” was ended and commissioned, LVL 1,62 million;
- 1st round of construction of gas pipeline in Marupe rural municipality along traffic circle A5 of Riga (Jaunmārupe – Gaismas) was ended. Length of gas pipeline – 7,25 km, costs LVL 1,32 million. In the future this gas pipeline will secure stable natural gas supply to existing consumers and will allow attract new clients;
- 6 CPS were reconstructed for LVL 0,1 million;
- 28 gas regulation points (GRP) were connected to the SCADA system that controls the operation of GRP (in 2007 – 45 GRP);
- started work on implementing computerized commercial registration telemetry system (ARM) for modernization and improvement of natural gas registration control system.

Most significant activities

- Participation in working groups developing legislation of the energy sector;
- 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

1) Composition of shareholders¹ of LG as on December 31, 2008:

| Shareholder | 31.12.2008. | 31.12.2007. |
|---------------------------------|----------------|----------------|
| “E.ON Ruhrgas International” AG | 47.2 % | 47.2 % |
| “Gazprom” OJSC | 34.0 % | 34.0 % |
| “Itera Latvija” Ltd | 16.0 % | 16.0 % |
| Others | 2.8 % | 2.8 % |
| TOTAL | 100,0 % | 100,0 % |

2) List of shareholders with special control rights as on December 31, 2008:

| Members of the Board | | Number of shares |
|------------------------------|-------------------|------------------|
| Chairman of the Board | Adrians Dāvis | 417 |
| Deputy Chairman of the Board | Jörg Tumat M.A. | 500 |
| Deputy Chairman of the Board | Alexander Mihejev | 417 |
| Member of the Board | Anda Ulpe | 729 |
| Member of the Board | Gints Freibergs | 416 |

| Members of the Council | | Number of shares |
|------------------------------|----------------------|------------------|
| Chairman of the Council | Kirill Seleznev | 0 |
| Vice-chairman of the Council | Achim Saul | 0 |
| Vice-chairman of the Council | Juris Savickis | 0 |
| Members of the Council | Eike Benke | 0 |
| Members of the Council | Uwe Fip | 0 |
| Members of the Council | Marcus Anton Söhrich | 0 |
| Members of the Council | Heinz Watzka | 0 |
| Members of the Council | Yelena Karpel | 0 |
| Members of the Council | Alexander Krasnenkov | 0 |
| Members of the Council | Vlada Rusakova | 0 |
| Members of the Council | Igor Nazarov | 0 |

3) Shares price of LG as on December 31, 2008 and previous periods

Since February 15, 1999, the shares of LG are quoted at the Riga Stock Exchange, and its share trade code since August 1, 2004 is GZE1R. The shares of LG were quoted in the Official list of the Riga Stock Exchange and the General list of the Baltic Stock Exchange till July 31, 2008. Pursuant to the resolution passed on June 25, 2008 by the Board of the JSC “Riga Stock Exchange”, due to the insufficient number of quotable LG shares available in free public trading, the shares of LG were shifted to the Second list of the Baltic Stock Exchange and the Riga Stock Exchange as from August 1, 2008.

The capitalization value of LG at the end of 2008 reached LVL 181.5 million – by 102.6 million less than at the end of the previous reporting period. By share market capitalization LG took the 2nd place among companies quoted in Latvia and the 7th place at the Baltic Stock Exchange.

¹ Shareholders owning not less than 5% of capital

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| | 2004 | 2005 | 2006 | 2007 | 2008 |
|----------------------------|---------|---------|---------|---------|---------|
| Shares price (LVL): | | | | | |
| First | 5,51 | 6,20 | 9,95 | 10,35 | 7,25 |
| Highest | 6,60 | 9,90 | 11,13 | 11,25 | 8,20 |
| Lowest | 5,40 | 6,15 | 9,27 | 7,05 | 3,62 |
| Avarage | 5,85 | 7,67 | 10,22 | 10,34 | 6,77 |
| Last | 6,50 | 9,61 | 10,32 | 7,12 | 4,55 |
| Number of shares | 181 611 | 63 360 | 128 844 | 154 825 | 46 565 |
| Turnover (mio LVL) | 1,062 | 0,486 | 1,316 | 1,600 | 0,315 |
| Number of deals | 863 | 864 | 1 066 | 1 074 | 1 711 |
| Capitalization (mio LVL) | 259,350 | 383,439 | 411,768 | 284,088 | 181,545 |

Source: Riga Stock Exchange

4) The share prices of LG and the dynamics of OMX Riga, OMX Baltic and OMX Baltic Energy indexes over 12 months of 2008.

The shares of LG are included in the following index baskets – OMX Baltic, OMX Riga, OMX Baltic Energy.

OMX Baltic

An index of all shares, a Baltic-wide index. Its basket is comprised of the shares of the Official and the Secon list of the Baltic exchanges. The index reflects the actual situation and changes in the Baltic market overall.

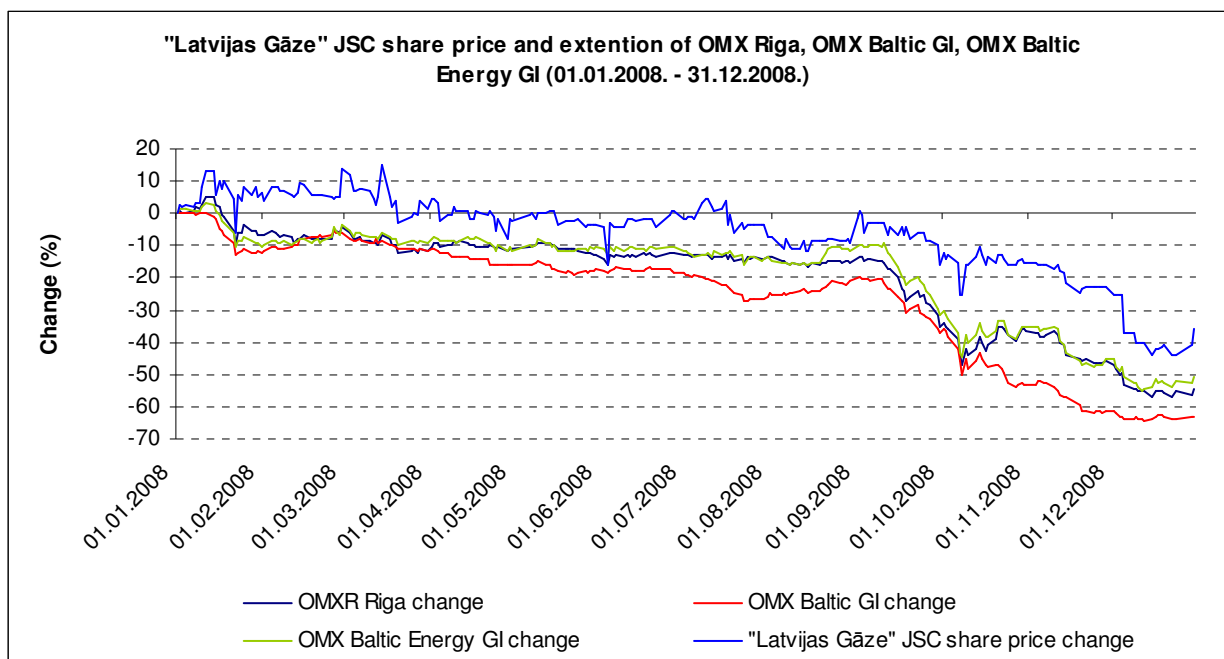
OMX Riga

An index of all shares, a local index. Its basket is comprised of the shares of the Official and the Second list of the Riga Stock Exchange. The index reflects the actual situation and changes in the Riga Stock Exchange.

OMX Baltic Energy

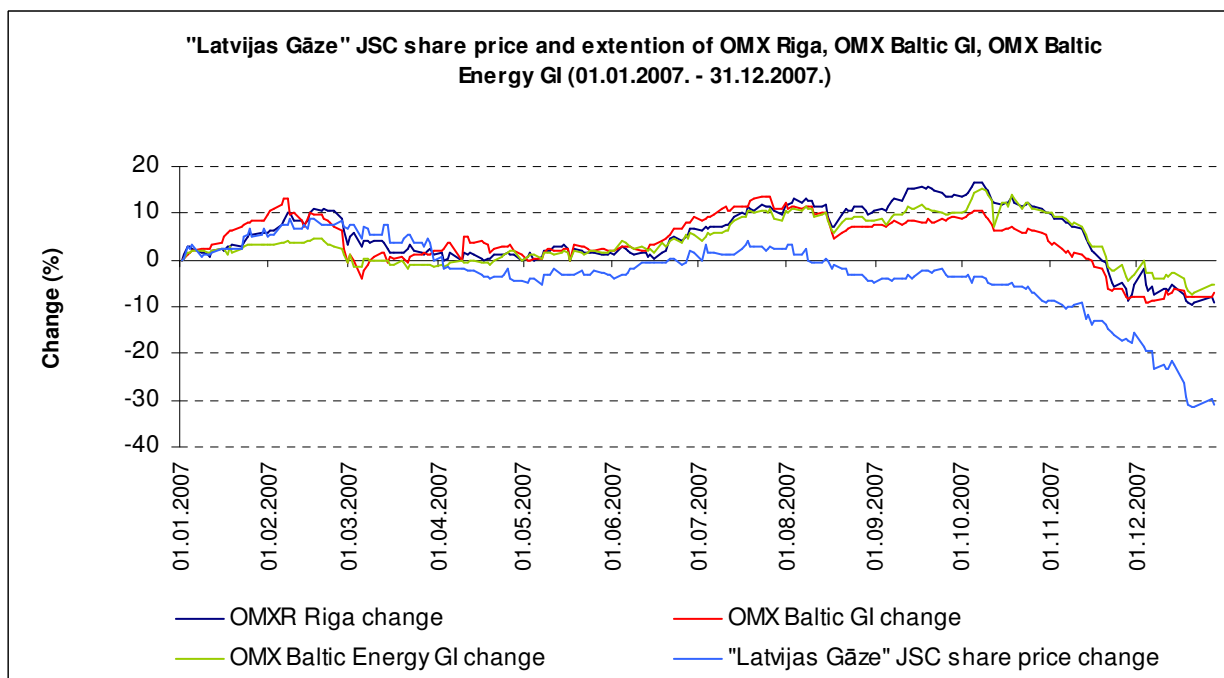
A sector index, a Baltic-wide index, based on the Global Industry Classification Standard (GICS) developed by Morgan Stanley Capital International Inc. (MSCI) in association with Standard & Poor's. The purpose of GICS is to satisfy the investors' need for a more precise, exhaustive and standardized classification of companies. The sector index shows the trends of a sector and enables comparison of similar companies within the sector. The index consists of the shares of the Official and the Second list of the OMX Baltic market, and indexes are calculated for each GICS sector separately.

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Source: Riga Stock Exchange

| Indexes/shares | 01.01.2008. | 31.12.2008. | Change |
|----------------------|-------------|-------------|---------|
| OMX Riga | 595.30 | 271.29 | -54.43% |
| OMX Baltic GI | 515.40 | 190.76 | -62.99% |
| OMX Baltic Energy GI | 569.41 | 280.55 | -50.73% |
| LG share price | 7.12 | 4.55 | -36.10% |



Source: Riga Stock Exchange

| Indexes/shares | 01.01.2007. | 31.12.2007. | Change |
|----------------------|-------------|-------------|---------|
| OMX Riga | 655.54 | 595.30 | -9.19% |
| OMX Baltic GI | 552.94 | 515.40 | -6.79% |
| OMX Baltic Energy GI | 602.43 | 569.41 | -5.48% |
| LG share price | 10.32 | 7.12 | -31.01% |

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 11 to 17 are prepared in accordance with the underlying accounting records and source documents and present fairly the financial position of the Company as of 31 December 2008 and the result of its operations and cash flows for the period ended 31 December 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,



Adrians Dāvis
Chairman of the Board

February 27, 2009

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Profit or loss statement

| | Appendix | 31.12.2008. 31.12.2007. | | | 31.12.2008. 31.12.2007. | | |
|-------------------------------------|----------|-------------------------|---------------|-----------------|-------------------------|---------------|-----------------|
| | | LVL'000 | LVL'000 | Change | EUR'000 | EUR'000 | Change |
| Sales | 1 | 351 005 | 239 441 | 111 564 | 499 435 | 340 693 | 158 742 |
| Cost of sales | 2 | (320 028) | (195 533) | (124 495) | (455 359) | (278 218) | (177 141) |
| Gross profit | | 30 977 | 43 908 | (12 931) | 44 076 | 62 475 | (18 399) |
| Administrative expenses | 3 | (9 866) | (7 223) | (2 643) | (14 037) | (10 277) | (3 760) |
| Other income | 4 | 2 604 | 2 884 | (280) | 3 705 | 4 103 | (398) |
| Other expenses | 5 | (1 844) | (2 460) | 616 | (2 623) | (3 500) | 877 |
| Financial income, net | 6 | 965 | 68 | 897 | 1 373 | 98 | 1 275 |
| Profit before tax | | 22 836 | 37 177 | (14 341) | 32 494 | 52 899 | (20 405) |
| Income tax | | (3 420) | (4 905) | 1 485 | (4 866) | (6 980) | 2 114 |
| Profit of the reporting year | | 19 416 | 32 272 | (12 856) | 27 628 | 45 919 | (18 291) |
| Earnings per share (EPS) | | 0.487 | 0.809 | (0.322) | 0.692 | 1.151 | (0.458) |
| Price over earnings (P/E) | | 0.107 | 0.114 | (0.007) | 0.152 | 0.162 | (0.009) |

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Balance sheet

| | 31.12.2008.31.12.2007. | | | 31.12.2008. 31.12.2007. | | | |
|--|------------------------|----------------|----------------|-------------------------|----------------|----------------|---------------|
| | App. | LVL'000 | LVL'000 | Change | EUR'000 | EUR'000 | Change |
| ASSETS | | | | | | | |
| <u>Non-current assets</u> | | | | | | | |
| Intangible assets | | 2 271 | 1 824 | 447 | 3 231 | 2 595 | 636 |
| Property, plant and equipment | | 320 052 | 317 763 | 2 289 | 455 393 | 452 136 | 3 257 |
| Trade accounts receivable | | 11 | 10 | 1 | 16 | 14 | 2 |
| Total non-current assets | | 322 334 | 319 597 | 2 737 | 458 640 | 454 745 | 3 895 |
| <u>Current assets</u> | | | | | | | |
| Inventories | 7 | 115 681 | 85 359 | 30 322 | 164 599 | 121 455 | 43 144 |
| Trade accounts receivable | | 39 542 | 24 776 | 14 766 | 56 263 | 35 253 | 21 010 |
| Other current assets | | 991 | 1 604 | (613) | 1 410 | 2 283 | (873) |
| Corporate income tax (2391) | | 3 854 | - | 3 854 | 5 484 | - | 5 484 |
| Cash and cash equivalents | | 6 446 | 44 305 | (37 859) | 9 172 | 63 040 | (53 868) |
| Total current assets | | 166 514 | 156 044 | 10 470 | 236 928 | 222 031 | 14 897 |
| TOTAL ASSETS | | 488 848 | 475 641 | 13 207 | 695 568 | 676 776 | 18 792 |
| 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 | | 187 060 | 187 584 | (524) | 266 162 | 266 907 | (745) |
| Other reserves | | 66 544 | 55 416 | 11 128 | 94 684 | 78 850 | 15 834 |
| Retained earnings | | 17 131 | 28 280 | (11 149) | 24 375 | 40 240 | (15 865) |
| Total equity | | 324 955 | 325 500 | (545) | 462 370 | 463 146 | (776) |
| <u>Liabilities</u> | | | | | | | |
| <u>Non-current liabilities</u> | | | | | | | |
| Deferred tax liabilities | | 29 915 | 30 538 | (623) | 42 565 | 43 453 | (888) |
| Provisions for postemployment benefits | | 4 672 | 2 500 | 2 172 | 6 648 | 3 557 | 3 091 |
| Deferred income | | 13 460 | 11 430 | 2 030 | 19 152 | 16 263 | 2 889 |
| Total non-current liabilities | | 48 047 | 44 468 | 3 579 | 68 365 | 63 273 | 5 092 |
| <u>Current liabilities</u> | | | | | | | |
| Trade accounts payable | | 86 060 | 62 902 | 23 158 | 122 451 | 89 501 | 32 950 |
| Other liabilities | | 18 299 | 15 102 | 3 197 | 26 037 | 21 487 | 4 550 |
| Corporate income tax liability | | - | 1 412 | (1 412) | - | 2 009 | (2 009) |
| Provisions | | 6 025 | 5 794 | 231 | 8 573 | 8 244 | 329 |
| Borrowings | 8 | 1 788 | 20 030 | (18 242) | 2 544 | 28 500 | (25 956) |
| Deferred income | | 3 674 | 433 | 3 241 | 5 228 | 616 | 4 612 |
| Total current liabilities | | 115 846 | 105 673 | 10 173 | 164 833 | 150 357 | 14 476 |
| Total liabilities | | 163 893 | 150 141 | 13 752 | 233 198 | 213 630 | 19 568 |
| TOTAL EQUITY AND LIABILITIES | | 488 848 | 475 641 | 13 207 | 695 568 | 676 776 | 18 792 |

Cash flow statement

| | 31.12.2008. | 31.12.2007. | 31.12.2008. | 31.12.2007. |
|---|--------------------|--------------------|--------------------|--------------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Cash flow from operating activities | | | | |
| Cash generated from operations | 30 214 | 50 081 | 42 991 | 71 259 |
| Interest received | 2 366 | 914 | 3 367 | 1 301 |
| Corporate income tax paid | (9 443) | (3 447) | (13 437) | (4 905) |
| Net cash flow from operating activities | 23 137 | 47 548 | 32 921 | 67 655 |
| Cash flow from investing activities | | | | |
| Purchase of property, plant and equipment | (21 773) | (28 371) | (30 980) | (40 368) |
| Proceeds from sale of property, plant and equipment | 120 | 111 | 171 | 158 |
| Purchase of intangible assets | (1 000) | (682) | (1 423) | (971) |
| Net cash flow from investing activities | (22 653) | (28 942) | (32 232) | (41 181) |
| Cash flow from financing activities | | | | |
| Payments on borrowings | (20 030) | (16) | (28 500) | (22) |
| Borrowings received | 1 788 | 20 030 | 2 544 | 28 500 |
| Service charge on borrowings | (151) | (519) | (215) | (739) |
| Dividends paid | (19 950) | (11 970) | (28 386) | (17 032) |
| Net cash flow from financing activities | (38 343) | 7 525 | (54 557) | 10 707 |
| (Decrease)/increase in cash and cash equivalents | (37 859) | 26 131 | (53 868) | 37 181 |
| 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 | 6 446 | 44 305 | 9 172 | 63 040 |

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Changes in equity capital (LVL)

| | Share capital | Share premium | Revaluatio n 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 |
| Transfer to reserves | - | - | - | 7 862 | (7 862) | - |
| Revaluation of fixed assets | - | - | 81 020 | - | - | 81 020 |
| Deferred tax liability arising on the revaluation of property, plant and equipment | - | - | (12 153) | - | - | (12 153) |
| Disposal of revaluated fixed assets | - | - | (644) | - | 644 | - |
| Deferred tax on disposal of revaluated property, plant and equipment | - | - | 97 | - | (97) | - |
| <i>Net income admitted in equity</i> | - | - | <i>68 320</i> | <i>7 862</i> | <i>(7 315)</i> | <i>68 867</i> |
| Dividends for 2006 | - | - | - | - | (11 970) | (11 970) |
| Profit of the reporting year | - | - | - | - | 32 272 | 32 272 |
| Rounding | - | - | - | - | (1) | (1) |
| December 31, 2007 | 39 900 | 14 320 | 187 584 | 55 416 | 28 280 | 325 500 |
| Transfer to reserves | - | - | - | 11 128 | (11 128) | - |
| Revaluation of fixed assets | - | - | 584 | - | - | 584 |
| Deferred tax liability arising on the revaluation of property, plant and equipment | - | - | (88) | - | - | (88) |
| Disposal of revaluated fixed assets | - | - | (603) | - | 603 | - |
| Deferred tax on disposal of revaluated property, plant and equipment | - | - | 90 | - | (90) | - |
| Write-off of reserve | - | - | (508) | - | - | (508) |
| <i>Net income admitted in equity</i> | - | - | <i>(525)</i> | <i>11 128</i> | <i>(10 615)</i> | <i>(12)</i> |
| Profit of the reporting year | - | - | - | - | 19 416 | 19 416 |
| Dividends for 2007 | - | - | - | - | (19 950) | (19 950) |
| Rounding | - | - | 1 | - | - | 1 |
| December 31, 2008 | 39 900 | 14 320 | 187 060 | 66 544 | 17 131 | 324 955 |

Changes in equity capital (EUR)

| | Share capital | Share premium | Revaluatio n 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 | 67 664 | 21 760 | 336 270 |
| Transfer to reserves | - | - | - | 11 186 | (11 186) | - |
| Revaluation of fixed assets | - | - | 115 281 | - | - | 115 281 |
| Deferred tax liability arising on the revaluation of property, plant and equipment | - | - | (17 292) | - | - | (17 292) |
| Disposal of revaluated fixed assets | - | - | (916) | - | 916 | - |
| Deferred tax on disposal of revaluated property, plant and equipment | - | - | 137 | - | (137) | - |
| <i>Net income admitted in equity</i> | - | - | 97 210 | 11 186 | (10 407) | 97 989 |
| Dividends for 2006 | - | - | - | - | (17 032) | (17 032) |
| Profit of the reporting year | - | - | - | - | 45 919 | 45 919 |
| Rounding | - | - | - | - | - | - |
| December 31, 2007 | 56 773 | 20 376 | 266 907 | 78 850 | 40 240 | 463 146 |
| Transfer to reserves | - | - | - | 15 834 | (15 834) | - |
| Revaluation of fixed assets | - | - | 831 | - | - | 831 |
| Deferred tax liability arising on the revaluation of property, plant and equipment | - | - | (125) | - | - | (125) |
| Disposal of revaluated fixed assets | - | - | (858) | - | 858 | - |
| Deferred tax on disposal of revaluated property, plant and equipment | - | - | 128 | - | (128) | - |
| Write-off of reserve | - | - | (722) | - | - | (722) |
| <i>Net income admitted in equity</i> | - | - | (746) | 15 834 | (15 104) | (16) |
| Profit of the reporting year | - | - | - | - | 27 626 | 27 626 |
| Dividends for 2007 | - | - | - | - | (28 386) | (28 386) |
| Rounding | - | - | 1 | - | (1) | - |
| December 31, 2008 | 56 773 | 20 376 | 266 162 | 94 684 | 24 375 | 462 370 |

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Appendices

| App. Nr. | 31.12.2008. LVL'000 | 31.12.2007. LVL'000 | 31.12.2008. EUR'000 | 31.12.2007. EUR'000 |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| 1 NET SALES | | | | |
| Income from natural gas sales to industrial customers | 300 900 | 206 016 | 428 142 | 293 134 |
| Income from natural gas sales to residential customers | 37 534 | 24 333 | 53 406 | 34 623 |
| Income from transmission and storage of natural gas | 10 168 | 6 748 | 14 468 | 9 601 |
| Income from natural gas sales to vehicles | 232 | 296 | 330 | 421 |
| Other services | 2 171 | 2 048 | 3 089 | 2 914 |
| | 351 005 | 239 441 | 499 435 | 340 693 |
| 2 COST OF SALES | | | | |
| Purchase of natural gas | 267 707 | 150 010 | 380 913 | 213 445 |
| Salaries | 15 165 | 13 954 | 21 578 | 19 855 |
| Social insurance contributions | 3 471 | 3 126 | 4 939 | 4 448 |
| Life, health and pension insurance | 880 | 664 | 1 252 | 945 |
| Materials and spare parts | 7 785 | 3 984 | 11 077 | 5 668 |
| Depreciation and amortisation and impairment charge of property, plant and equipment | 18 749 | 17 695 | 26 677 | 25 177 |
| Other | 6 271 | 6 100 | 8 923 | 8 680 |
| | 320 028 | 195 533 | 455 359 | 278 218 |
| 3 ADMINISTRATIVE EXPENSES | | | | |
| Salaries | 3 663 | 3 803 | 5 212 | 5 411 |
| Social insurance contributions | 618 | 570 | 879 | 811 |
| Life, health and pension insurance | 155 | 124 | 221 | 176 |
| Maintenance and utilities | 921 | 852 | 1 310 | 1 212 |
| Real estate tax | 150 | 157 | 213 | 223 |
| Depreciation and amortisation and impairment charge of property, plant and equipment | 469 | 702 | 667 | 1 000 |
| Bank charges | 253 | 171 | 360 | 243 |
| Provisions for impairment of bad and doubtful debtors | 2 107 | (172) | 2 998 | (245) |
| Other | 1 530 | 1 016 | 2 177 | 1 446 |
| | 9 866 | 7 223 | 14 037 | 10 277 |
| 4 OTHER INCOME | | | | |
| Penalties from customers | 458 | 317 | 652 | 451 |
| Income from contribution to financing of construction works | 497 | 373 | 707 | 531 |
| Gain from disposal of property plant and equipment | 26 | - | 37 | - |
| Provisions for impairment of slow-moving and obsolete inventories | - | 6 | - | 8 |
| Other | 450 | 1 728 | 640 | 2 459 |
| Net income from fluctuations of foreign currency rates | - | 149 | - | 212 |
| Bank interest | 1 173 | 311 | 1 669 | 442 |
| | 2 604 | 2 884 | 3 705 | 4 103 |

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5 OTHER EXPENSES

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Material expenses | 13 | 10 | 18 | 14 |
| Salaries and other expenses | 182 | 197 | 259 | 280 |
| Social insurance contributions | 24 | 25 | 34 | 36 |
| Depreciation, amortisation and impairment charge for property, plant and equipment | 94 | 91 | 134 | 129 |
| Sponsorship | 731 | 1 195 | 1 040 | 1 700 |
| Loss on sale of fixed assets | - | 592 | - | 842 |
| Provisions for impairment of slow-moving and obsolete inventories | 93 | - | 132 | - |
| Net loss from fluctuations of foreign currency rates | 267 | - | 380 | - |
| Other | 440 | 350 | 626 | 499 |
| | 1 844 | 2 460 | 2 623 | 3 500 |

DISTRIBUTION OF EXPENSES IN THEIR TERMS

| | | | | |
|---|----------------|----------------|----------------|----------------|
| Purchase of natural gas | 267 707 | 150 010 | 380 913 | 213 445 |
| Depreciation and amortisation | 19 312 | 18 488 | 27 478 | 26 306 |
| Staff expenses | 24 158 | 22 463 | 34 374 | 31 962 |
| Materials and spare parts | 7 798 | 3 829 | 11 095 | 5 682 |
| Net accruals for reduction of debtors' debt | 2 107 | (172) | 2 998 | (245) |
| Other expenses | 10 389 | 10 050 | 14 781 | 14 845 |
| | 331 471 | 204 668 | 471 639 | 291 995 |

6 FINANCE INCOME, NET

| | | | | |
|-------------------------------|--------------|------------|--------------|------------|
| Finance income | | | | |
| Interest income | 1 084 | 587 | 1 542 | 836 |
| | 1 084 | 587 | 1 542 | 836 |
| Finance expenses | | | | |
| Service charge for borrowings | 119 | 519 | 169 | 738 |
| | 119 | 519 | 169 | 738 |
| Finance income, net | 965 | 68 | 1 373 | 98 |

7 INVENTORIES

| | | | | |
|---|----------------|---------------|----------------|----------------|
| Materials and spare parts (at net sellable value) | 3 031 | 3 014 | 4 313 | 4 289 |
| Gas and fuel (at cost value) | 112 650 | 82 345 | 160 286 | 117 166 |
| | 115 681 | 85 359 | 164 599 | 121 455 |

8 BORROWINGS

| | | | | |
|---|--------------|--------------|--------------|---------------|
| SEB banka AS | 1 788 | 20 030 | 2 544 | 28 500 |
| | 1 788 | 1788 | 2 544 | 28 500 |
| Refund term of borrowings: | | | | |
| Short-term part of the borrowings in 1 year | 1 788 | 20030 | 2 544 | 28500 |