



# **"Latvijas Gāze" Joint Stock Company**

## **Unaudited Financial Report of 9 months of 2010**

Prepared according to the Requirements of International Financial Reporting Standards

Riga, 2010






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## Information on the Company

|                                     |  |
|-------------------------------------|--|
| Name of the Company                 | Latvijas Gāze JSC  |
| Legal status of the Company         | Joint Stock Company  |
| Registration number, venue and date | 000300064<br>Riga, March 25, 1991  |
|                                     | Re-registered in the Commercial Register on December 20, 2004 with the unified registration number 40003000642 |
| Address                             | Vagonu Street 20<br>Riga, LV – 1009<br>Latvia  |
| Major shareholders                  | E.ON Ruhrgas International GmbH (47.2 %)<br>Gazprom OJSC (34.0 %)<br>ITERA Latvija LLC (16.0 %)                |
| Reporting period                    | January 1 – September 30, 2010   |

Board members – names, surnames, posts, recent professional experience and education

|  |   |   |   |
|--|---|---|---|
|  | <p><b>Adrians Dāvis – Chairman of the Board</b></p> <p><b>Since 1997</b> – Chairman of the Board of the JSC “Latvijas Gāze”; involved in gas industry since <b>1965</b></p> <p><b>1997</b> Physical Energy Institute of Latvian Science Academy, academic degree of doctor in engineering (Dr.sc.ing.).</p>   |  | <p><b>Alexander Miheyev (Александр Михеев) – Board member, Vice-Chairman of the Board</b></p> <p><b>Since 2003</b> First Deputy Head of the Marketing, Gas and Liquid Hydrocarbon Processing Department of the OJSC Gazprom; involved in gas industry since <b>1968</b></p> <p><b>1968</b> Graduated from the Moscow Oil and Gas Industry Institute named after I. M. Gubkin and obtained the qualifications of engineer in design and operation of oil and gas pipelines, gas storage facilities and oil tanks</p> |
|  | <p><b>Jörg Tumat – Board member, Vice-Chairman of the Board (since 2006)</b></p> <p><b>2001 – 2006</b> E.ON Ruhrgas AG / Ruhrgas AG. Eastern Gas Purchase Department, Head of Division; OJSC “Gazprom” share and eastern gas purchase contracts; involved in gas industry since <b>1998</b>.</p> <p><b>2001 – 2004</b> the University of Hagen, Diploma in Business Administration (Dipl.-Betriebswirt)</p> |  | <p><b>Anda Ulpe – Board member</b></p> <p><b>Since 1997</b> Board member of the JSC “Latvijas Gāze”; involved in gas industry since <b>1984</b></p> <p><b>2002</b> the University of Latvia, Master Degree of Social Sciences in Economics</p>  |
|  | <p><b>Gints Freibergs – Board member</b></p> <p><b>Since 1997</b> Board member of the JSC “Latvijas Gāze”; involved in gas industry since <b>1984</b></p> <p><b>1984</b> Polytechnical Institute of Riga, engineer in industrial heat power</p>   |   |   |

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Council members (since July 2, 2010) – names, surnames, posts, recent professional experience and education

|  |  |   |   |
|--|--|---|---|
|    | <p><b>Kirill Seleznev (Кирилл Селезнев) – Chairman of the Council, Represents the interest of OJSC Gazprom</b></p> <p>Since March 20, 2003 Head of the Gas and Liquid Hydrocarbon Sales and Processing Department, OJSC Gazprom; Member of Management Committee, OJSC Gazprom</p> <p>1997 Graduated from Baltic State Technical University of St. Petersburg named after D. F. Ustinov – Engineering of Impulse Devices and Automated Rotation Lines</p> <p>2002 Graduated from St. Petersburg State University – Credit Theory and Finance Management</p> |    | <p><b>Juris Savickis – Vice-Chairman of the Council, Represents the interest of LLC ITERA Latvija</b></p> <p>Since 1996 LLC “ITERA Latvija”, president</p> <p>1970 – 1972 Polytechnical Institute of Riga, Graduate school</p> <p>1983 - 1984 University of Qualification Raising for Executives, Faculty of International Relations</p>  |
|    | <p><b>Dr. Peter Andreas Frankenberg – Vice-Chairman of the Council, Represents the interest of E.ON Ruhrgas International GmbH</b></p> <p>Since 2010 Head of MU PEG Investment Management and International Shareholdings Mid-/Downstream, Senior Vice-President of E.ON Ruhrgas AG, Managing Director of E.ON Ruhrgas International</p> <p>1992 Dr.reor.oec. (PhD), International Accounting, Ruhr University Bochum</p>  |    | <p><b>Joachim Hockertz – Council member, Represents the interest of E.ON Ruhrgas International GmbH</b></p> <p>2000 – 2002 Head of the Baltic Office of Ruhrgas AG</p> <p>Since 2002 E.ON Ruhrgas International AG</p> <p>1989 – 1992 Max Plank Institute in Mulheim-am-Ruhr, PhD</p>   |
|   | <p><b>Mario Nullmeier – Council member, Represents the interest of E.ON Ruhrgas International GmbH</b></p> <p>Since 2005 Head of the Baltic Office of E.ON Ruhrgas International AG in Tallinn, Estonia</p> <p>2000 Master Degree in Global Business Administration</p>  |   | <p><b>Uwe Fip – Council member, Represents the interest of E.ON Ruhrgas International GmbH</b></p> <p>Since 2002 E.ON Ruhrgas AG – Senior Vice-President, Head of Eastern Department of Gas Supplies</p> <p>Master in Oil Engineering, Degree in Business Management (Diploma – Merchant)</p>   |
|  | <p><b>Heinz Watzka – Council member, Represents the interest of E.ON Ruhrgas International GmbH</b></p> <p>Since 2002 Senior Vice-President of E.ON Ruhrgas AG, responsible for maintenance of the southern gas pipeline system of E.ON Ruhrgas</p> <p>1986 Studied machine manufacturing at the Technical University of Vienna (Austria) – specialized in pump station welding and hydraulic design for the oil industry</p>  |  | <p><b>Yelena Karpel (Елена Карпель) – Council member, Represents the interest of OJSC Gazprom</b></p> <p>Since 2004 Gazprom’s Council Member by the resolution of the Company’s Shareholders’ Meeting</p> <p>1968 Korotchenko Kiev Institute of National Economy getting specialty in Industry Planning</p>   |
|  | <p><b>Alexander Krasnenkov (Александр Красненков) – Council member, Represents the interest of OJSC Gazprom</b></p> <p>Since 2006 General Director of the LLC “Baltic Liquefied Gas”</p> <p>Graduated from the International Institute of Finance and Economics, speciality of international economics and international relations</p>   |  | <p><b>Vlada Rusakova (Влада Русакова) – Council member, Represents the interest of OJSC Gazprom</b></p> <p>Since 2003 Head of the Strategic Development Department, OJSC Gazprom</p> <p>Since 2003 Board member of the OJSC Gazprom</p> <p>1977 Graduated from the Moscow Oil and Gas Industry Institute named after I. M. Gubkin and obtained the qualifications of engineer in design, planning and operation of oil and gas pipelines, gas storage facilities and oil tanks</p>  |
|  | <p><b>Igor Nazarov (Игорь Назаров) – Council member, Represents the interest of LLC ITERA Latvija</b></p> <p>Since 2007 Director of the Export Department, NGK ITERA (Moscow, Russia)</p> <p>1982 Moscow State University of Foreign Affairs (MGIMO) (within the framework of the Ministry of Foreign Affairs), Diploma of Commercial Department, which equals to a Master of Economics: an economist with knowledge of foreign languages (Italian and English)</p>  | <p>Names, surnames and posts of Council members (before July 2, 2010)</p>           | <p>Kirill Seleznev (Кирилл Селезнев) – Chairman of the Council</p> <p>Juris Savickis – Vice-Chairman of the Council</p> <p>Achim Saul – Vice-Chairman of the Council</p> <p>Joachim Hockertz – Council member</p> <p>Uwe Fip – Council member</p> <p>Mario Nullmeier – Council member</p> <p>Heinz Watzka – Council member</p> <p>Yelena Karpel (Елена Карпель) – Council member</p> <p>Alexander Krasnenkov (Александр Красненков) – Council member</p> <p>Vlada Rusakova (Влада Русакова) – Council member</p> <p>Igor Nazarov (Игорь Назаров) – Council member</p> |

## Report on activity of the “Latvijas Gāze” JSC in the 9 months of the year 2010

The Joint Stock Company “Latvijas Gāze” (hereinafter – LG) is the only natural gas transmission, storage, distribution and sale operator in Latvia. The company supplies natural gas to 442.1 thousand customers in Latvia, and in winter – also to Estonia, the Northwestern part of Russia and Lithuania from the Inčukalns Underground Gas Storage Facility.

The goal of LG is to strengthen its leading position in the fuel market of Latvia by enhancing the accessibility of natural gas, facilitating the diversity of its consumption and ensuring for consumers in Latvia one of the most stable supplies in Europe.

The vision of LG is to make Latvia one of the largest natural gas storage hubs in Europe by using the unique geological structures of our country.

The mission of LG is to contribute to the economy of the Baltic region by ensuring the security of energy supplies, the development of the industry and the competitiveness of prices.

The underlying principles of financial activity of LG are as follows:

- investments in modernization of the infrastructure related to natural gas supply stability and security;
- investments in the development of infrastructure and the quality of service;
- competitive price of natural gas and services;
- profit that enables the company to make investments and pay dividends in compliance with the international natural gas industry practice. Such amount of profit is regulated by the Public Utility Commission of the Republic of Latvia by setting the level of capital return (currently the capital return is set to 8.0 % of the regulated asset basis).

### 1. Activity of the Company in the reporting year

In 9 months of 2010 LG sold to consumers 1 200.9 million m<sup>3</sup> of gas, which is by 25.6% or 244.9 million m<sup>3</sup> more than it had been budgeted and by 22.8% more than in the respective period of 2009.

The increase of natural gas consumption among both industrial and residential customers during the 9 months of 2010 stems from the protractedly low air temperature in the 1<sup>st</sup> quarter of 2010 and competitive natural gas sale price because clients received natural gas from Inčukalns Underground Gas Storage Facility (hereinafter - Inčukalns UGS) which was bought in autumn 2009 for considerably lower price than fuel oil price in the market because of the rising oil product quotations in the stock exchange. In the beginning of 2009 there was opposite trend – heat supply companies began to use fuel oil and other alternative fuel because of the high natural gas prices.

The gas injection season at the Inčukalns UGS began in April 11, 2010. Upon the commencement of natural gas injection, the reserves of active gas at the Inčukalns UGS were 51.4 million nm<sup>3</sup>.

The gas injection season at the Inčukalns UGS was completed on October 18, 2010 and over the season 2010, 2 034.5 million nm<sup>3</sup> of natural gas were injected into the Inčukalns UGS, reaching the active gas volume of 1 991.5 million nm<sup>3</sup> at the end of the injection season.

In 9 months of 2010, consumers were sold natural gas and provided services for LVL 230.4 million, which is by 3.2 % less than in the respective period of 2009, still by 29.4% more than planned in the budget of 2010. The fall of income towards the respective period of 2009 stems from the industrial users and residential customers being applied the discriminative natural gas sale end tariffs in the 1<sup>st</sup> quarter of 2010. These tariffs corresponded to the natural gas sale price, which was by 82.6 % lower than in Q1 of 2009. The income, compared to 2009, decreased both from industrial and household customers. The income from transmission and storage, for its part,

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increased, as other countries used the services of the Inčukalns UGS more intensively due to the cold weather, as well as there were higher tariffs of natural gas storage in the 1<sup>st</sup> quarter of 2010.

LG completed 9 months of 2010 with a profit of LVL 9.2 million, which is by 58.6 % higher than in the respective period of 2009 when the profit amounted to LVL 5.8 million.

Within the framework of the capital investment programme, LVL 15.0 million of investment funds were taken up over 9 months of 2010. The funds were mostly spent on the construction of new gas pipelines and the renovation of existing ones, reconstruction of wells, modernization of technological equipment, as well the reconstruction of engineering buildings and constructions.

The key indices of the Company:

|  | <b>2010 9M</b> | <b>2009 9M</b> | <b>2008 9M</b> | <b>2010 9M</b> | <b>2009 9M</b> | <b>2008 9M</b> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
|  | <b>LVL'000</b> | <b>LVL'000</b> | <b>LVL'000</b> | <b>EUR'000</b> | <b>EUR'000</b> | <b>EUR'000</b> |
| Net turnover   | 230 356        | 238 140        | 211 668        | 327 767        | 338 843        | 301 176        |
| Profit before income tax, interest payments, depreciation and amortization                 | 27 907         | 20 752         | 16 385         | 39 708         | 29 527         | 23 314         |
| Profit before income tax, interest payments, depreciation and amortization to net turnover | 12,11%         | 8,71%          | 7,74%          | 12,11%         | 8,71%          | 7,74%          |
| Profit of operational activity   | 12 224         | 5 483          | 2 245          | 17 393         | 7 802          | 3 194          |
| Profitability of operational activity (%)  | 5,31%          | 2,30%          | 1,06%          | 5,31%          | 2,30%          | 1,06%          |
| Profit of reporting period   | 8 985          | 5 479          | (1 062)        | 12 785         | 7 796          | (1 511)        |
| Commercial profitability (%)   | 3,90%          | 2,30%          | (0,50)%        | 3,90%          | 2,30%          | (0,50)%        |
| Total liquidity  | 1,53           | 0,99           | 1,18           | 1,53           | 0,99           | 1,18           |
| Total assets   | 471 857        | 493 445        | 537 751        | 671 392        | 702 109        | 765 151        |
| Equity   | 322 113        | 315 439        | 304 781        | 458 326        | 448 829        | 433 664        |
| Return on assets (ROA)   | 1,86%          | 1,06%          | (0,20)%        | 1,86%          | 1,06%          | (0,20)%        |
| Return on equity (ROE)   | 2,82%          | 1,77%          | (0,34)%        | 2,82%          | 1,77%          | (0,34)%        |
| Number of shares   | 39 900         | 39 900         | 39 900         | 39 900         | 39 900         | 39 900         |
|  | <b>LVL</b>     | <b>LVL</b>     | <b>LVL</b>     | <b>EUR</b>     | <b>EUR</b>     | <b>EUR</b>     |
| Profit per share   | 0,225          | 0,137          | (0,027)        | 0,320          | 0,195          | (0,038)        |
| Share price over earnings per share (P/E)  | 22,51          | 36,41          | (225,42)       | 22,51          | 36,41          | (225,42)       |
| Share book value (BV)  | 8,07           | 7,91           | 7,64           | 11,49          | 11,25          | 10,87          |
| Price to book value (P/BV)   | 0,63           | 0,63           | 0,79           | 0,63           | 0,63           | 0,79           |
| Share price at the end of period   | 5,07           | 5,00           | 6,00           | 7,21           | 7,11           | 8,54           |

### Important activities

Work on introduction of excise tax on natural gas. On 22<sup>nd</sup> April 2010 parliament of Republic of Latvia confirmed changes in law, according to which:

- introduction of excise tax on natural gas will be postponed from 1<sup>st</sup> May 2010 till 1<sup>st</sup> July 2010;

- excise tax will be applied to natural gas which will be supplied to end users - households and industrial users, who use natural gas for thermal energy production and car fuel.

LVL 631.6 thousands were calculated and paid as an excise tax to state budget for natural gas supplied to end users in July and August 2010.

Referring to low resident paying capacity and increase in natural gas purchase price because of oil quotation, opposition parties proposed changes in law “About excise tax” in concordance with which excise tax would not be adjusted from 01.09.2010. till 30.06.2011. Parliament confirmed proposed changes in an extraordinary meeting on 25<sup>th</sup> August 2010.

## **2. Research and development**

In order to ensure uninterrupted natural gas supply to consumers and safe operation of the natural gas supply system, LG has developed the “Action plan for the safety improvement of the Joint Stock Company „Latvijas Gāze” gas supply system 2010-2015”. It was prepared based on the adjudgments of the Russian companies “Gazobezopasnostj” and “Lentransgaz”, the institutes “VNIGAZ” and “Giprospepgaz”, as well as the German companies “Pipeline Engineering GmbH”, “Untergrundspeicher und Geotechnologie – Systeme GmbH”, “E.ON Engineering GmbH”, “E.ON Ruhrgas International AG” and other partners regarding the technical condition of equipment and modernization possibilities.

The action plan envisages investment in safety improvement in the total amount of LVL 50.6 million (EUR 72 million). This basically includes projects that are required for the improvement of system operation safety, the gasification of new units and the improvement of stability of gas supply throughout the region.

## **3. International cooperation**

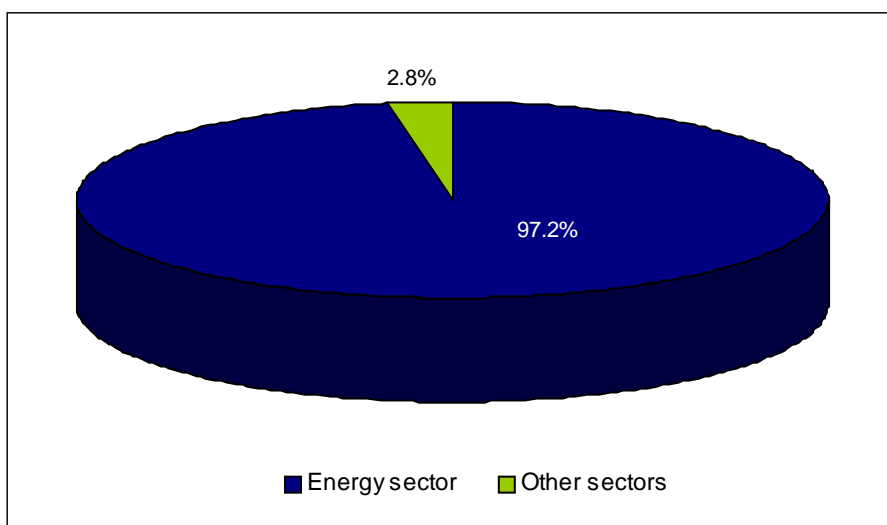
Work on attracting and adopting funds from European Commission (hereinafter – EC). On 17<sup>th</sup> August 2010 LG received from EC resolution Nr C (2010) 5554 dated 13.08.2010. on receiving financial grant for Action No. EEPR-2009-INTg-RF-LV-LT-SI2.566527/SI2.566531/SI2.566541/SI2.566543 in accordance with Regulation EC No. 663/2009 on establishing a programme to aid economic recovery by granting Community financial assistance to projects in the field of energy. In accordance with this resolution LG receives EUR 10.0 mio. for reconstruction of 15 wells in Inčukalns UGS and construction of a new underwater pass and receiving trap inspection with gauges.

## Shares and shareholders

1) The composition of LG shareholders<sup>1</sup> as of December 31, 2009 and previous 2 periods:

| Share                             | 31.12.2009.    | 31.12.2008.    | 31.12.2007.    |
|-----------------------------------|----------------|----------------|----------------|
| “E.ON Ruhrgas International” GmbH | 47.2%          | 47.2%          | 47.2%          |
| “Gazprom” OJSC                    | 34.0%          | 34.0%          | 34.0%          |
| “Itera Latvija” LLC               | 16.0%          | 16.0%          | 16.0%          |
| Others                            | 2.8%           | 2.8%           | 2.8%           |
| <b>TOTAL</b>                      | <b>100.0 %</b> | <b>100.0 %</b> | <b>100.0 %</b> |

2) The composition of shareholders of the “Latvijas Gāze” JSC as to the industries they represent as of December 31, 2009:



3) The number of shares held by the members of the Board and the Council of the “Latvijas Gāze” JSC as of December 31, 2009:

| Board members                |                      | Number of shares |
|------------------------------|----------------------|------------------|
| Chairman of the Board        | Adrians Dāvis        | 417              |
| Vice-Chairman of the Board   | Joerg Tumat          | 900              |
| Vice-Chairman of the Board   | Alexander Miheyev    | 417              |
| Board member                 | Anda Ulpe            | 729              |
| Board member                 | Gints Freibergs      | 416              |
| Council members              |                      | 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                |
| Council member               | Joachim Hockertz     | 0                |
| Council member               | Uwe Fip              | 0                |
| Council member               | Mario Nullmeier      | 0                |
| Council member               | Heinz Watzka         | 0                |
| Council member               | Yelena Karpel        | 0                |
| Council member               | Alexander Krasnenkov | 0                |
| Council member               | Vlada Rusakova       | 0                |
| Council member               | Igor Nazarov         | 0                |

<sup>1</sup> Shareholders owning at least 5 % of capital



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4) The price of shares at NASDAQ OMX Riga in 9 months of 2010 and in the respective period of previous years.

As from February 15, 1999, the shares of LG are quoted at the NASDAQ OMX Riga exchange, and their trading code as from August 1, 2004 is GZE1R.

|  |              |
|--|--------------|
| ISIN                                   | LV0000100899 |
| Exchange code                          | GZE1R        |
| List                                   | Second list  |
| Nominal value                          | 1.00 LVL     |
| Total number of securities             | 39 900 000   |
| Number of securities in public trading | 25 328 520   |
| Guaranteers of liquidity               | None         |

|                              | 2006 9M | 2007 9M | 2008 9M | 2009 9M | 2010 9M |
|------------------------------|---------|---------|---------|---------|---------|
| <u>Share price (LVL):</u>    |         |         |         |         |         |
| First                        | 9.95    | 10.35   | 7.25    | 4.55    | 4.57    |
| Highest                      | 11.13   | 11.25   | 8.20    | 6.00    | 6.00    |
| Lowest                       | 9.27    | 9.65    | 6.00    | 3.32    | 4.57    |
| Average                      | 10.24   | 10.48   | 7.06    | 4.23    | 5.29    |
| Last                         | 10.06   | 9.95    | 6.00    | 5.00    | 5.07    |
| Change                       | 1.11%   | -3.86%  | -17.24% | 9.89%   | 10.94%  |
| Number of transactions       | 778     | 697     | 1 372   | 925     | 675     |
| Number of shares traded      | 117 494 | 142 110 | 37 383  | 48 608  | 50 878  |
| Turnover (million LVL)       | 1.203   | 1.490   | 0.264   | 0.206   | 0.269   |
| Capitalization (million LVL) | 401.394 | 397.005 | 239.400 | 199.500 | 202.293 |

Source: NASDAQ OMX Riga

The capitalization value of LG in 9 months of 2010 reached 202.3 million lats - by 2.8 million lats more than in 9 months of the previous reporting period. By share market capitalization LG took the 1<sup>st</sup> place among companies quoted at NASDAQ OMX RIGA and the 7<sup>th</sup> place among companies quoted at NASDAQ OMX Baltic.

5) The dynamics of LG share price and indexes.

|  |  |
|--|--|
| The shares of LG are included in the following index baskets | B10GI, B10PI, OMXBBCAPGI, OMXBBCAPPI, OMXBBGI, OMXBBPI, OMXBGI, OMXBPI, OMXRGI |
|--|--|

OMX Baltic

An index of all shares, Baltic-wide. Its basket consists of the shares of the Official and Second list of the Baltic exchanges. The index reflects the current situation and changes in the Baltic market overall.

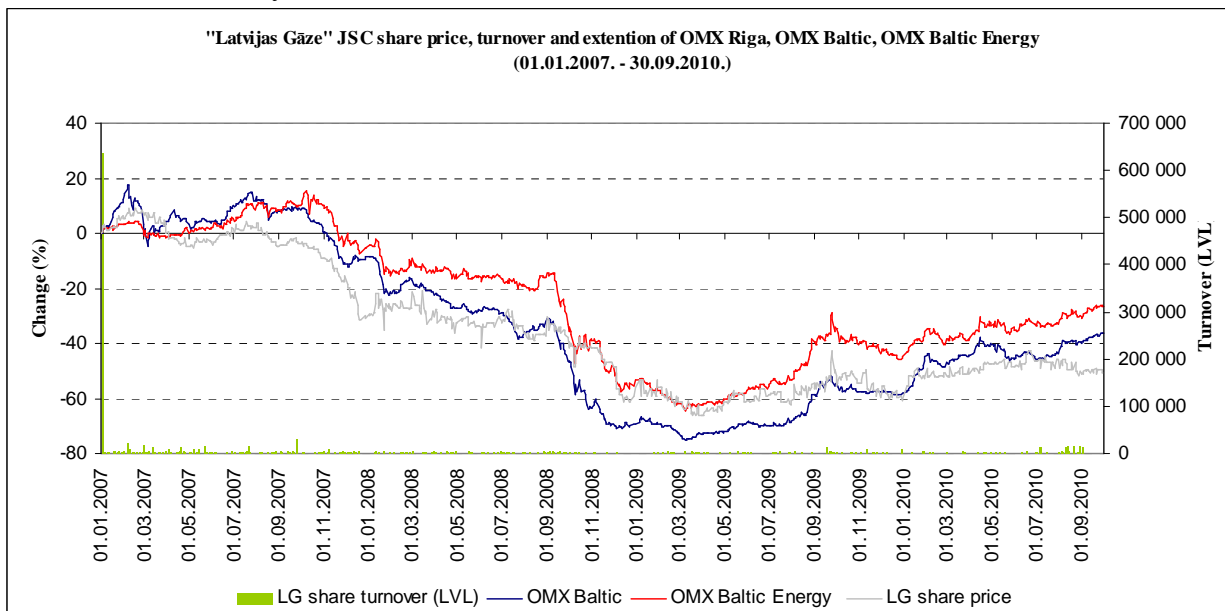
OMX Riga

An index of all shares, local. Its basket consists of the shares of the Official and Second list of the NASDAQ OMX Riga exchange. The index reflects the current situation and changes in the NASDAQ OMX Riga exchange.

OMX Baltic Energy

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A sector index, Baltic-wide, based on the Global Industry Classification Standard (GICS) developed by Morgan Stanley Capital International Inc. (MSCI) together with Standard & Poor's. The international classification standard GICS was created in order to meet the investors' requirement of more precise, comprehensive and standardized classification of companies. The sector index shows the trends of sector and enables a comparison of similar companies within a sector. The index includes the shares of the Official and Second list of the OMX Baltic market; the indexes are calculated for each GICS sector individually.



Source: NASDAQ OMX Riga

| Indexes/Shares        | 01.01.2007. | 30.09.2010. | Changes |
|-----------------------|-------------|-------------|---------|
| OMX Baltic GI         | 749.13      | 479.38      | -36.01% |
| OMX Baltic Energy GI  | 602.43      | 442.31      | -26.58% |
| LG share price        | 10.32       | 5.07        | -50.87% |
| Turnover of LG shares | 455.40      | 857.05      | 88.20%  |

## Balance sheet

|   | Note | 30.09.2010.<br>LVL'000 | 30.09.2009.<br>LVL'000 | 30.09.2010.<br>EUR'000 | 30.09.2009.<br>EUR'000 |
|---|------|------------------------|------------------------|------------------------|------------------------|
| <b>ASSETS</b>   |      |                        |                        |                        |                        |
| <u>Non-current assets</u>   |      |                        |                        |                        |                        |
| Property, plant and equipment                                     |      | 314 333                | 314 472                | 447 256                | 447 453                |
| Intangible assets   |      | 1 963                  | 2 012                  | 2 793                  | 2 863                  |
| Trade receivables   |      | 4                      | 10                     | 6                      | 14                     |
| <b>Total non-current assets</b>                                   |      | <b>316 300</b>         | <b>316 494</b>         | <b>450 055</b>         | <b>450 330</b>         |
| <u>Current assets</u>   |      |                        |                        |                        |                        |
| Inventories   | 1    | 66 816                 | 91 758                 | 95 071                 | 130 559                |
| Trade receivables   |      | 12 373                 | 13 040                 | 17 605                 | 18 554                 |
| Current income tax receivable                                     |      | 4 451                  | 5 299                  | 6 333                  | 7 540                  |
| Other current assets  |      | 49 908                 | 39 215                 | 71 013                 | 55 798                 |
| Cash and cash equivalents   |      | 22 009                 | 27 639                 | 31 316                 | 39 327                 |
| <b>Total current assets</b>                                       |      | <b>155 557</b>         | <b>176 951</b>         | <b>221 338</b>         | <b>251 778</b>         |
| <b>TOTAL ASSETS</b>   |      | <b>471 857</b>         | <b>493 445</b>         | <b>671 393</b>         | <b>702 108</b>         |
| <b>EQUITY AND LIABILITIES</b>                                     |      |                        |                        |                        |                        |
| <u>Equity</u>   |      |                        |                        |                        |                        |
| Share capital   |      | 39 900                 | 39 900                 | 56 773                 | 56 773                 |
| Share premium   |      | 14 320                 | 14 320                 | 20 376                 | 20 376                 |
| Revaluation reserve   | 2    | 186 191                | 186 871                | 264 926                | 265 893                |
| Other reserves  |      | 71 910                 | 69 540                 | 102 319                | 98 947                 |
| Retained earnings   | 3    | 9 792                  | 4 808                  | 13 933                 | 6 840                  |
| <b>Total equity</b>   |      | <b>322 113</b>         | <b>315 439</b>         | <b>458 327</b>         | <b>448 829</b>         |
| <u>Liabilities</u>  |      |                        |                        |                        |                        |
| <u>Non-current liabilities</u>                                    |      |                        |                        |                        |                        |
| Deferred income tax liabilities                                   |      | 29 700                 | 29 915                 | 42 259                 | 42 565                 |
| Accruals for post employment benefits and other employee benefits |      | 4 664                  | 4 673                  | 6 636                  | 6 649                  |
| Deferred income   |      | 13 655                 | 13 594                 | 19 429                 | 19 343                 |
| <b>Total non-current liabilities</b>                              |      | <b>48 019</b>          | <b>48 182</b>          | <b>68 324</b>          | <b>68 557</b>          |
| <u>Current liabilities</u>  |      |                        |                        |                        |                        |
| Trade payables  |      | 67 592                 | 96 787                 | 96 175                 | 137 715                |
| Corporate income tax payable                                      |      | 5 447                  | 2 219                  | 7 750                  | 3 157                  |
| Deferred income   |      | 832                    | 5 148                  | 1 184                  | 7 325                  |
| Other current liabilities   |      | 27 854                 | 25 670                 | 39 633                 | 36 525                 |
| <b>Total current liabilities</b>                                  |      | <b>101 725</b>         | <b>129 824</b>         | <b>144 742</b>         | <b>184 722</b>         |
| <b>Total liabilities</b>  |      | <b>149 744</b>         | <b>178 006</b>         | <b>213 066</b>         | <b>253 279</b>         |
| <b>TOTAL EQUITY AND LIABILITIES</b>                               |      | <b>471 857</b>         | <b>493 445</b>         | <b>671 393</b>         | <b>702 108</b>         |

## Consolidated income statement – by function of expense

|                                 | Note | 30.09.2010.<br>LVL'000 | 30.09.2009.<br>LVL'000 | 30.09.2010.<br>EUR'000 | 30.09.2009.<br>EUR'000 |
|---------------------------------|------|------------------------|------------------------|------------------------|------------------------|
| Revenue                         | 4    | 230 356                | 238 140                | 327 767                | 338 843                |
| Cost of sales                   | 5    | (202 690)              | (218 063)              | (288 402)              | (310 275)              |
| <b>Gross profit</b>             |      | <b>27 666</b>          | <b>20 077</b>          | <b>39 365</b>          | <b>28 568</b>          |
| Administrative expenses         | 6    | (11 755)               | (11 057)               | (16 726)               | (15 733)               |
| Other income                    | 7    | 1 464                  | 1 663                  | 2 082                  | 2 366                  |
| Other expenses                  | 8    | (5 151)                | (5 200)                | (7 329)                | (7 400)                |
| <b>Operating profit</b>         |      | <b>12 224</b>          | <b>5 483</b>           | <b>17 392</b>          | <b>7 801</b>           |
| Finance income                  | 9    | 2 208                  | 2 222                  | 3 142                  | 3 162                  |
| Finance expenses                | 9    | -                      | (7)                    | -                      | (10)                   |
| Finance income, net             | 9    | 2 208                  | 2 215                  | 3 142                  | 3 152                  |
| <b>Profit before income tax</b> |      | <b>14 432</b>          | <b>7 698</b>           | <b>20 534</b>          | <b>10 953</b>          |
| Income tax expense              |      | (5 447)                | (2 219)                | (7 750)                | (3 157)                |
| <b>Profit for the period</b>    |      | <b>8 985</b>           | <b>5 479</b>           | <b>12 784</b>          | <b>7 796</b>           |
| <b>Earnings per share (EPS)</b> |      | 0.225                  | 0.137                  | 0.320                  | 0.195                  |

## Consolidated statement of recognized income and expense

|   |   |              |              |               |              |
|---|---|--------------|--------------|---------------|--------------|
| <b>Items net of tax</b>                               |   |              |              |               |              |
| Disposal of revalued property,<br>plant and equipment | 2 | 198          | 355          | 282           | 505          |
| <b>Net income recognised<br/>directly in equity</b>   |   | <b>198</b>   | <b>355</b>   | <b>282</b>    | <b>505</b>   |
| Profit for the period                                 |   | 8 985        | 5 479        | 12 784        | 7 796        |
| <b>Total recognised income for<br/>the period</b>     |   | <b>9 183</b> | <b>5 834</b> | <b>13 066</b> | <b>8 301</b> |

## Cash flow statement

|   | <b>30.09.2010.</b> | <b>30.09.2009.</b> | <b>30.09.2010.</b> | <b>30.09.2009.</b> |
|---|--------------------|--------------------|--------------------|--------------------|
|   | <b>LVL'000</b>     | <b>LVL'000</b>     | <b>EUR'000</b>     | <b>EUR'000</b>     |
| <b>Cash flow from operating activities</b>                      |                    |                    |                    |                    |
| Cash generated from operations                                  | 17 924             | 49 466             | 25 504             | 70 384             |
| Interest received   | 2 301              | 2 481              | 3 274              | 3 530              |
| Income tax paid   | (3 111)            | (3 938)            | (4 427)            | (5 603)            |
| <b>Net cash generated from operating activities</b>             | <b>17 114</b>      | <b>48 009</b>      | <b>24 351</b>      | <b>68 311</b>      |
| <b>Cash flow from investing activities</b>                      |                    |                    |                    |                    |
| Purchase of property, plant and equipment                       | (14 855)           | (9 602)            | (21 137)           | (13 662)           |
| Proceeds from sale of property, plant and equipment             | 49                 | 17                 | 70                 | 24                 |
| Purchase of intangible assets                                   | (149)              | (275)              | (212)              | (391)              |
| <b>Net cash used in investing activities</b>                    | <b>(14 955)</b>    | <b>(9 860)</b>     | <b>(21 279)</b>    | <b>(14 029)</b>    |
| <b>Cash flow from financing activities</b>                      |                    |                    |                    |                    |
| Repayment of borrowings   | -                  | (1 788)            | -                  | (2 544)            |
| Interest paid   | -                  | (6)                | -                  | (9)                |
| Dividends paid  | (15 960)           | (15 162)           | (22 709)           | (21 574)           |
| <b>Net cash (used in) / generated from financing activities</b> | <b>(15 960)</b>    | <b>(16 956)</b>    | <b>(22 709)</b>    | <b>(24 127)</b>    |
| <b>Net (decrease) / increase in cash and cash equivalents</b>   | <b>(13 801)</b>    | <b>21 193</b>      | <b>(19 637)</b>    | <b>30 155</b>      |
| Cash and cash equivalents at the beginning of the year          | 35 810             | 6 446              | 50 953             | 9 172              |
| <b>Cash and cash equivalents at the end of the year</b>         | <b>22 009</b>      | <b>27 639</b>      | <b>31 316</b>      | <b>39 327</b>      |

## Changes in equity capital

|                               | Share capital<br>LVL'000 | Share premium<br>LVL'000 | Revaluation reserve<br>LVL'000 | Other reserves<br>LVL'000 | Retained earnings<br>LVL'000 | Total<br>LVL'000 |
|-------------------------------|--------------------------|--------------------------|--------------------------------|---------------------------|------------------------------|------------------|
| <b>31 December, 2008</b>      | <b>39 900</b>            | <b>14 320</b>            | <b>187 060</b>                 | <b>66 544</b>             | <b>17 131</b>                | <b>324 955</b>   |
| Income in year 2009,<br>total | -                        | -                        | (189)                          | -                         | 5 834                        | 5 645            |
| Transfer to reserves          | -                        | -                        | -                              | 2 996                     | (2 996)                      | -                |
| Dividends for 2008            | -                        | -                        | -                              | -                         | (15 162)                     | (15 162)         |
| Rounding                      | -                        | -                        | -                              | -                         | 1                            | 1                |
| <b>30 September, 2009</b>     | <b>39 900</b>            | <b>14 320</b>            | <b>186 871</b>                 | <b>69 540</b>             | <b>4 808</b>                 | <b>315 439</b>   |
| <b>31 December, 2009</b>      | <b>39 900</b>            | <b>14 320</b>            | <b>186 360</b>                 | <b>69 540</b>             | <b>18 940</b>                | <b>329 060</b>   |
| Income in year 2010,<br>total | -                        | -                        | (169)                          | -                         | 9 183                        | 9 014            |
| Transfer to reserves          | -                        | -                        | -                              | 2 370                     | (2 370)                      | -                |
| Dividends for 2009            | -                        | -                        | -                              | -                         | (15 960)                     | (15 960)         |
| Rounding                      | -                        | -                        | -                              | -                         | (1)                          | (1)              |
| <b>30 September, 2010</b>     | <b>39 900</b>            | <b>14 320</b>            | <b>186 191</b>                 | <b>71 910</b>             | <b>9 792</b>                 | <b>322 113</b>   |

|                               | Share capital<br>EUR'000 | Share premium<br>EUR'000 | Revaluation reserve<br>EUR'000 | Other reserves<br>EUR'000 | Retained earnings<br>EUR'000 | Total<br>EUR'000 |
|-------------------------------|--------------------------|--------------------------|--------------------------------|---------------------------|------------------------------|------------------|
| <b>31 December, 2008</b>      | <b>56 773</b>            | <b>20 376</b>            | <b>266 163</b>                 | <b>94 684</b>             | <b>24 375</b>                | <b>462 371</b>   |
| Income in year 2009,<br>total | -                        | -                        | (269)                          | -                         | 8 301                        | 8 032            |
| Transfer to reserves          | -                        | -                        | -                              | 4 263                     | (4 263)                      | -                |
| Dividends for 2008            | -                        | -                        | -                              | -                         | (21 574)                     | (21 574)         |
| Rounding                      | -                        | -                        | (1)                            | -                         | 1                            | -                |
| <b>30 September, 2009</b>     | <b>56 773</b>            | <b>20 376</b>            | <b>265 893</b>                 | <b>98 947</b>             | <b>6 840</b>                 | <b>448 829</b>   |
| <b>31 December, 2009</b>      | <b>56 773</b>            | <b>20 376</b>            | <b>265 167</b>                 | <b>98 947</b>             | <b>26 948</b>                | <b>468 211</b>   |
| Income in year 2010,<br>total | -                        | -                        | (241)                          | -                         | 13 066                       | 12 825           |
| Transfer to reserves          | -                        | -                        | -                              | 3 372                     | (3 372)                      | -                |
| Dividends for 2009            | -                        | -                        | -                              | -                         | (22 709)                     | (22 709)         |
| Rounding                      | -                        | -                        | -                              | -                         | 2                            | 2                |
| <b>30 September, 2010</b>     | <b>56 773</b>            | <b>20 376</b>            | <b>264 926</b>                 | <b>102 319</b>            | <b>13 935</b>                | <b>458 329</b>   |

## Notes to the financial statements

|   | 30.09.2010.    | 30.09.2009.    | 30.09.2010.    | 30.09.2009.    |
|---|----------------|----------------|----------------|----------------|
|   | LVL'000        | LVL'000        | EUR'000        | EUR'000        |
| <b>1 INVENTORIES</b>                                      |                |                |                |                |
| Materials and spare parts<br>(at net realisable value)    | 4 053          | 3 547          | 5 767          | 5 046          |
| Gas and fuel (at cost)                                    | 62 763         | 88 211         | 89 304         | 125 513        |
|   | <b>66 816</b>  | <b>91 758</b>  | <b>95 071</b>  | <b>130 559</b> |
| <b>2 REVALUATION RESERVE</b>                              |                |                |                |                |
| At the beginning of the period                            | 186 360        | 187 060        | 265 166        | 266 163        |
| Revaluation of property, plant and<br>equipment           | 29             | 166            | 41             | 236            |
| Disposal of revalued property,<br>plant and equipment     | (198)          | (355)          | (282)          | (505)          |
| Rounding  | -              | -              | 1              | (1)            |
| <b>At the end of the period</b>                           | <b>186 191</b> | <b>186 871</b> | <b>264 926</b> | <b>265 893</b> |
| <b>3 RETAINED EARNINGS</b>                                |                |                |                |                |
| At the beginning of the period                            | 18 939         | 17 131         | 26 948         | 24 375         |
| Disposal of revalued property,<br>plant and equipment     | 198            | 355            | 282            | 506            |
| Profit for the period                                     | 8 985          | 5 479          | 12 784         | 7 796          |
| Transfer to reserves                                      | (2 370)        | (2 996)        | (3 372)        | (4 263)        |
| Dividends for previous period                             | (15 960)       | (15 162)       | (22 709)       | (21 574)       |
| Rounding  | -              | 1              | -              | -              |
| <b>At the end of the period</b>                           | <b>9 792</b>   | <b>4 808</b>   | <b>13 933</b>  | <b>6 840</b>   |
| <b>4 REVENUE</b>  |                |                |                |                |
| Sales per customers' groups are as follows:               |                |                |                |                |
| Income from natural gas sales to<br>industrial customers  | 195 608        | 201 465        | 278 325        | 286 659        |
| Income from natural gas sales to<br>residential customers | 24 692         | 28 879         | 35 133         | 41 091         |
| Income from transmission and<br>storage of natural gas    | 9 683          | 7 271          | 13 778         | 10 346         |
| Income from natural gas sales to<br>vehicles              | 9              | 47             | 13             | 67             |
| Other services  | 364            | 478            | 518            | 680            |
|   | <b>230 356</b> | <b>238 140</b> | <b>327 767</b> | <b>338 843</b> |
| <b>5 COST OF SALES</b>                                    |                |                |                |                |
| Purchase of natural gas                                   | 167 623        | 184 999        | 238 506        | 263 230        |
| Salaries  | 8 311          | 8 972          | 11 826         | 12 766         |
| Social insurance contributions                            | 1 975          | 2 105          | 2 810          | 2 995          |
| Life, health and pension insurance                        | 644            | 649            | 916            | 923            |
| Materials and spare parts                                 | 5 134          | 3 419          | 7 305          | 4 865          |
| Depreciation and amortisation                             | 15 209         | 14 745         | 21 641         | 20 980         |
| Other   | 3 794          | 3 174          | 5 398          | 4 516          |
|   | <b>202 690</b> | <b>218 063</b> | <b>288 402</b> | <b>310 275</b> |

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**6 ADMINISTRATIVE EXPENSES**

|  |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
| Salaries   | 2 294         | 2 147         | 3 264         | 3 055         |
| Social insurance contributions                           | 520           | 521           | 740           | 741           |
| Life, health and pension insurance                       | 113           | 113           | 161           | 161           |
| Maintenance and utilities                                | 655           | 692           | 932           | 985           |
| Real estate tax  | 128           | 121           | 182           | 172           |
| Depreciation and amortisation                            | 396           | 449           | 563           | 639           |
| Bank charges   | 54            | 334           | 77            | 475           |
| Provisions for impairment of bad and doubtful debts, net | 6 942         | 5 958         | 9 878         | 8 477         |
| Other expenses   | 653           | 722           | 929           | 1 028         |
|  | <b>11 755</b> | <b>11 057</b> | <b>16 726</b> | <b>15 733</b> |

**7 OTHER INCOME**

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Penalties from customers                                       | 665          | 845          | 946          | 1 202        |
| Income from contribution to financing of construction works    | 414          | 395          | 589          | 562          |
| Provisions for slow moving and obsolete inventories impairment | 51           | 29           | 72           | 41           |
| Other income   | 334          | 394          | 475          | 561          |
|  | <b>1 464</b> | <b>1 663</b> | <b>2 082</b> | <b>2 366</b> |

**8 OTHER EXPENSES**

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Materials                                 | 25           | 18           | 35           | 26           |
| Salaries                                  | 90           | 97           | 128          | 138          |
| Social insurance contributions            | 16           | 16           | 23           | 23           |
| Depreciation and amortisation             | 77           | 75           | 109          | 107          |
| Sponsorship                               | 120          | 400          | 171          | 569          |
| Loss from sale of fixed assets            | 85           | 608          | 121          | 865          |
| Loss from increase in exchange rates, net | 1 579        | 678          | 2 247        | 965          |
| Other expense                             | 3 159        | 3 308        | 4 495        | 4 707        |
|   | <b>5 151</b> | <b>5 200</b> | <b>7 329</b> | <b>7 400</b> |

**EXPENSES BY NATURE**

|   |                |                |                |                |
|---|----------------|----------------|----------------|----------------|
| Purchase of natural gas                 | 167 623        | 184 999        | 238 506        | 263 230        |
| Depreciation and amortisation           | 15 682         | 15 269         | 22 314         | 21 726         |
| Employee benefit expense                | 13 963         | 14 620         | 19 868         | 20 802         |
| Material and spare parts                | 5 159          | 3 437          | 7 340          | 4 891          |
| Net provisions for impaired receivables | 6 942          | 5 958          | 9 878          | 8 477          |
| Other expenses                          | 13 227         | 10 037         | 18 820         | 14 282         |
|   | <b>219 596</b> | <b>234 320</b> | <b>312 457</b> | <b>333 408</b> |



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**9 FINANCE INCOME, NET**

|                            |              |              |              |              |
|----------------------------|--------------|--------------|--------------|--------------|
| <b>Finance income</b>      |              |              |              |              |
| - Interest income          | 2 208        | 2 222        | 3 142        | 3 162        |
|                            | <u>2 208</u> | <u>2 222</u> | <u>3 142</u> | <u>3 162</u> |
| <b>Finance expenses</b>    |              |              |              |              |
| - Interest expenses        | -            | 7            | -            | 10           |
|                            | <u>-</u>     | <u>7</u>     | <u>-</u>     | <u>10</u>    |
| <b>Finance income, net</b> | <u>2 208</u> | <u>2 215</u> | <u>3 142</u> | <u>3 152</u> |