



"Latvijas Gāze" Joint Stock Company

Unaudited Financial Report of 6 months of 2009

Prepared according to the Requirements of International Financial Reporting Standards

Riga, 2009

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Information on the company

Name of the Company	JSC Latvijas Gāze
Legal status of the Company	Joint Stock Company
Registration number, place and date of registration	000300064 Riga, March 25, 1991 Reregistered in Commercial Register December 20, 2004 with common registration No 40003000642
Address	Aristīda Briāna street 6 Riga, LV-1001 Latvia
Names of major shareholders	E.ON Ruhrgas International AG (47.2%) Gazprom JSC (34.0%) Itera Latvija LLC (16.0%)
Names and positions of the Board members	Adrians Dāvis – Chairman of the Board Aleksandrs Mihejevs (Александр Михеев) – Member of the Board, Deputy Chairman of the Board Jörg Tumat – Member of the Board, Deputy Chairman of the Board Anda Ulpe – Member of the Board Gints Freibergs – Member of the Board
Names and positions of the Council members	<u>From July 3, 2009</u> Kiril Seleznov (Кирилл Селезнев) – Chairman of the Council Juris Savickis – Deputy Chairman of the Council Achim Saul – Deputy Chairman of the Council Joachim Hockertz – Member of the Council Mario Nullmeier – Member of the Council Uwe Fip – Member of the Council Heinz Watzka – Member of the Council Jelena Karpel (Елена Карпель) – Member of the Council Aleksandr Krasnenkov (Александр Красненков) – Member of the Council Vlada Rusakova (Влада Русакова) – Member of the Council Igor Nazarov (Игорь Назаров) – Member of the Council <u>Untill July 3, 2009</u> Kiril Seleznov (Кирилл Селезнев) – Chairman of the Council Juris Savickis – Deputy Chairman of the Council Achim Saul – Deputy 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 Jelena Karpel (Елена Карпель) – Member of the Council Aleksandr Krasnenkov (Александр Красненков) – Member of the Council Vlada Rusakova (Влада Русакова) – Member of the Council Igor Nazarov (Игорь Назаров) – Member of the Council
Financial period	1 January – 30 June 2009

Report on activity of the “Latvijas Gāze” JSC in the 6 months of the year 2009

Financial activity

In 6 months of the year 2009, “Latvijas Gāze” Joint Stock Company (hereinafter – LG) sold to consumers 807,1 million nm³ of natural gas. In comparison to the respective period of 2008, the natural gas sales have decreased by 10,0 %.

The decrease of natural gas consumption in 6 months of 2009 has been caused by the temperature as well by 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 May 14, 2009. At commencement of natural gas injection, the reserves of active gas at the Inčukalns UGS were 860,3 million nm³. According to operational data it is planned to inject 1204 million nm³ of natural gas at the Inčukalns UGS in 2009, reaching 2,06 billion m³ of active gas at the end of the injection season. At the end of the reporting period, the total natural gas injection plan had been executed by 34,3 %.

In 6 months of 2009, consumers were sold natural gas and provided services for LVL 205,2 million, which is by 25,4 % more than in the respective period of 2008.

LG completed 6 months of 2009 with a profit of LVL 6,7 million, which correspond to profit for first 6 months of planned budget 2009.

Within the framework of the capital investment programme, LVL 6,37 million were utilized in 6 months of 2009. The funds of investment were mostly used for modernization of technological equipment and construction of new gas pipelines.

The meeting of shareholders of July 3, 2009 passed a resolution on the net profit of 2008 (LVL 19,928 million), determining that the unavailable share of the profit is LVL 1,770 million while the distributable share of profit LVL 18,158 million shall be used as follows – LVL 15,162 million or LVL 0,38 per share shall be paid to shareholders in dividends, setting July 21, 2009 as the date of calculation of dividends and July 28, 2009 as the date of payment of dividends, whereas LVL 2,996 million shall be included in the reserves stipulated by the Articles of Association.

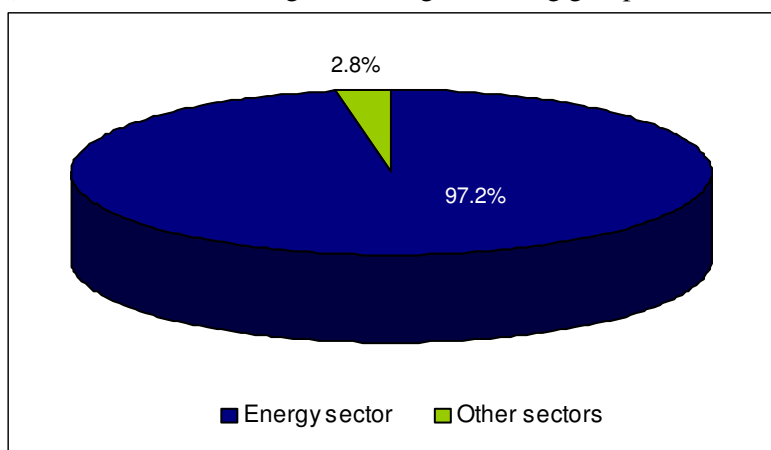
At the Council meeting of LG of July 3, 2009 for a period of three years the new Council of the LG was elected and the Board of the Company was re-elected.

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) Distribution of holdings according to holding groups as on December 31, 2008:



3) 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
	Uwe Fip	0
	Marcus Anton Söhrich	0
	Heinz Watzka	0
	Yelena Karpel	0
	Alexander Krasnenkov	0
	Vlada Rusakova	0
	Igor Nazarov	0

Since February 15, 1999, the shares of LG are quoted at the NASDAQ OMX Riga, and its share trade code since August 1, 2004 is GZE1R. The shares of LG were quoted in the Official list of the

¹ Shareholders owning not less than 5% of capital

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NASDAQ OMX Riga 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 “NASDAQ OMX Riga”, 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 NASDAQ OMX Riga as from August 1, 2008.

The capitalization value of LG on the 30 June 2009 reached LVL 170,77 million – by 38,9 % less than on the 30 June 2009 when capitalization value was LVL 279,30 million. By share market capitalization LG took the 2nd place among companies quoted in Latvia and the 6th place at the Baltic Stock Exchange.

4) Share price of LG as on June 30, 2009 and previous period

	6 months 2009	6 months 2008
<u>Shares price (LVL):</u>		
Highest	5.23	8.20
Lowest	3.32	6.00
Avarage	3.95	7.26
Last	4.28	7.00
Number of shares	27 190	22 950
Turnover (mio LVL)	0.107	0.167
Capitalization (mio LVL)	170.772	279.300

Source: NASDAQ OMX Riga

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 NASDAQ OMX Riga. The index reflects the actual situation and changes in the NASDAQ OMX Riga.

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.

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 9 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 2009 and the result of its operations and cash flows for the period ended 30 June 2009.

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

Balance sheet

	30.06.2009.	30.06.2008.	30.06.2009.	30.06.2008.
	Note	LVL'000	LVL'000	EUR'000
		LVL'000	LVL'000	EUR'000
ASSETS				
<u>Non-current assets</u>				
Property, plant and equipment		316 281	318 560	450 027
Intangible assets		2 135	1 555	3 038
Trade receivables		10	11	15
Total non-current assets		318 426	320 126	453 080
<u>Current assets</u>				
Inventories	1	23 756	55 971	33 801
Trade receivables		22 915	14 858	32 605
Current income tax receivable		7 780	2 252	11 070
Other current assets		20 162	21 678	28 688
Cash and cash equivalents		46 530	63 083	66 206
Total current assets		121 143	157 842	172 370
TOTAL ASSETS		439 569	477 968	625 450
EQUITY AND LIABILITIES				
<u>Equity</u>				
Share capital		39 900	39 900	56 773
Share premium		14 320	14 320	20 376
Revaluation reserve	2	187 069	187 153	266 174
Other reserves		66 544	55 416	94 684
Retained earnings	3	23 831	28 923	33 908
Total equity		331 664	325 712	471 915
<u>Liabilities</u>				
<u>Non-current liabilities</u>				
Deferred income tax liabilities		29 915	33 676	42 565
Accruals for post employment benefits and other employee benefits		4 673	2 500	6 649
Deferred income		13 580	12 282	19 323
Total non-current liabilities		48 168	48 458	68 537
<u>Current liabilities</u>				
Trade payables		29 661	80 764	42 204
Corporate income tax payable		2 219	3 792	3 157
Deferred income		3 332	470	4 741
Other current liabilities		24 525	18 772	34 896
Total current liabilities		59 737	103 798	84 998
Total liabilities		107 905	152 256	153 535
TOTAL EQUITY AND LIABILITIES		439 569	477 968	625 450

Consolidated income statement – by function of expense

	Note	30.06.2009. LVL'000	30.06.2008. LVL'000	30.06.2009. EUR'000	30.06.2008. EUR'000
Sales		205 165	163 575	291 923	232 746
Cost of sales	4	(185 631)	(154 184)	(264 130)	(219 383)
Gross profit		19 534	9 391	27 793	13 363
Administrative expenses	5	(6 348)	(6 154)	(9 032)	(8 756)
Other income	6	1 330	1 443	1 892	2 052
Other expenses	7	(6 526)	(495)	(9 285)	(705)
Operating profit		7 990	4 185	11 368	5 954
Finance income	8	838	1 270	1 192	1 807
Finance expenses	8	(4)	(59)	(6)	(84)
Finance income, net	8	834	1 211	1 186	1 723
Profit before income tax		8 824	5 395	12 554	7 677
Income tax expense		(2 219)	(5 380)	(3 157)	(7 655)
Profit for the period		6 605	15	9 397	22
Earnings per share (EPS)		0.166	0.000	0.236	0.001

Consolidated statement of recognized income and expense

Items net of tax					
Disposal of revalued property, plant and equipment	2	95	627	136	892
Net income recognised directly in equity		95	627	136	892
Profit for the period		6 605	15	9 397	22
Total recognised income for the year		6 700	642	9 533	914

Cash flow statement

	30.06.2009.	30.06.2008.	30.06.2009.	30.06.2008.
	LVL'000	LVL'000	EUR'000	EUR'000
Cash flow from operating activities				
Cash generated from operations	51 149	50 179	72 778	71 398
Interest received	1 021	1 298	1 453	1 847
Income tax paid	(3 938)	(2 473)	(5 603)	(3 519)
Net cash generated from operating activities	48 232	49 004	68 628	69 726
Cash flow from investing activities				
Purchase of property, plant and equipment	(6 153)	(10 155)	(8 755)	(14 449)
Proceeds from sale of property, plant and equipment	15	119	21	169
Purchase of intangible assets	(218)	(101)	(310)	(144)
Net cash used in investing activities	(6 356)	(10 137)	(9 044)	(14 424)
Cash flow from financing activities				
Repayment of borrowings	(1 788)	(20 030)	(2 544)	(28 500)
Interest paid	(4)	(59)	(6)	(84)
Net cash (used in) / generated from financing activities	(1 792)	(20 089)	(2 550)	(28 584)
Net (decrease) / increase in cash and cash equivalents	40 084	18 778	57 034	26 718
Cash and cash equivalents at the beginning of the year	6 446	44 305	9 172	63 040
Cash and cash equivalents at the end of the year	46 530	63 083	66 206	89 758

Notes to the financial statements

	30.06.2009.	30.06.2008.	30.06.2009.	30.06.2008.
	LVL'000	LVL'000	EUR'000	EUR'000
1 INVENTORIES				
Materials and spare parts (at net realisable value)	3 023	3 142	4 301	4 471
Gas and fuel (at cost)	20 733	52 829	29 500	75 169
	23 756	55 971	33 801	79 640
2 REVALUATION RESERVE				
At the beginning of the period	187 060	187 584	266 162	266 907
Revaluation of property, plant and equipment	104	196	148	279
Disposal of revalued property, plant and equipment	(95)	(627)	(136)	(892)
At the end of the period	187 069	187 153	266 174	266 294
3 RETAINED EARNINGS				
At the beginning of the period	17 131	28 281	24 375	40 240
Disposal of revalued property, plant and equipment	95	627	136	892
Profit for the period	6 605	15	9 397	22
At the end of the period	23 831	28 923	33 908	41 154
4 COST OF SALES				
Purchase of natural gas	164 097	132 769	233 489	188 913
Salaries	6 015	5 536	8 559	7 877
Social insurance contributions	1 406	1 295	2 001	1 842
Life, health and pension insurance	421	391	599	556
Materials and spare parts	1 945	2 864	2 767	4 075
Depreciation and amortisation	9 794	9 177	13 936	13 058
Other	1 953	2 152	2 779	3 062
	185 631	154 184	264 130	219 383
5 ADMINISTRATIVE EXPENSES				
Salaries	1 471	1 478	2 093	2 103
Social insurance contributions	356	349	506	497
Life, health and pension insurance	73	70	104	99
Maintenance and utilities	430	418	612	595
Real estate tax	81	70	115	99
Depreciation and amortisation	299	238	425	339
Bank charges	215	99	306	141
Provisions for impairment of bad and doubtful debts, net	(34)	(20)	(48)	(28)
Other expenses	3 457	3 452	4 919	4 911
	6 348	6 154	9 032	8 756

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6 OTHER INCOME

Penalties from customers	760	358	1 081	509
Profit on sale of fixed assets	262	240	373	341
Provisions for slow moving and obsolete inventories impairment	8	14	11	20
Other income	300	140	427	199
Net foreign exchange gains	-	691	-	983
	1 330	1 443	1 892	2 052

7 OTHER EXPENSES

Materials	10	7	14	10
Salaries	68	66	97	94
Social insurance contributions	11	10	16	14
Depreciation and amortisation	50	47	71	67
Sponsorship	389	23	553	33
Loss from sale of fixed assets	74	232	105	330
Loss from increase in exchange rates, net	712	-	1 013	-
Other expense	5 212*	110	7 416*	157
	6 526	495	9 285	705

* incl. LVL 5100 (EUR 7256) provisions for operating costs

EXPENSES BY NATURE

Purchase of natural gas	164 097	132 769	233 489	188 913
Depreciation and amortisation	10 143	9 462	14 432	13 464
Employee benefit expense (see Note 26)	9 821	9 194	13 975	13 082
Material and spare parts	1 955	2 871	2 781	4 085
Net provisions for impaired receivables	(34)	(20)	(48)	(28)
Other expenses	12 523	6 557	17 818	9 328
	198 505	160 833	282 447	228 844

8 FINANCE INCOME, NET

Finance income				
- Interest income	838	1 270	1 192	1 807
	838	1 270	1 192	1 807
Finance expenses				
- Interest expenses	4	59	6	84
	4	59	6	84
Finance income, net	834	1 211	1 186	1 723