



"Latvijas Gāze" Joint Stock Company

Unaudited Financial Report of nine months of 2008

Prepared according to the Requirements of International Accounting Standards

Riga, 2008

Contents

“Latvijas Gāze” JSC management	3
Report on activity of the “Latvijas Gāze” JSC in the 9 months of the year 2008	4
Shares and shareholders	6
Profit or loss statement	8
Balance sheet	9
Cash flow statement.....	10
Changes in equity capital (LVL)	11
Changes in equity capital (EUR)	12
Appendices.....	13

“Latvijas Gāze” JSC management

Council

Till 4th July 2008

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

Council

From 4th July 2008

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

Board

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

Report on activity of the “Latvijas Gāze” JSC in the 9 months of the year 2008

Economical and financial activity

In 9 months of the year 2008, “Latvijas Gāze” Joint Stock Company (hereinafter - LG) sold to consumers **1 126.9 million nm³** of natural gas. In comparison with the respective period of 2007, natural gas sales have decreased by 2.1% and are 1.9 % or 22.1 million nm³ behind the updated budget.

The decrease of natural gas consumption in the first 9 months of 2008 is related to the atypically high air temperature in the 1st quarter of 2008. Currently, there is no reason to predict an increase of the planned gas sales volume in the 4th quarter. Assuming that in the next few months the gas sales volume reaches the budget plan, the annual sales prognosis might be within the range of 1650 million nm³ to 1660 million nm³.

The gas injection season at the Inčukalns UGS was commenced on April 19, 2008 and completed on October 9, 2008. Upon the commencement of gas injection the reserves of active gas at the storage facility were 404.9 million nm³, incl. 120.3 million nm³ for the needs of Latvian consumers. Over the season 2008, 1 920.1 million nm³ of natural gas were injected into the Inčukalns UGS, reaching the active gas volume of 2324.97 million nm³ at the end of the injection season, incl. 1 370.3 million nm³ for the needs of Latvian consumers.

In 9 months of 2008, consumers were sold natural gas and provided services for **LVL 211.7 million**, which is by 47.3% more than in the respective period of 2007, still by 4.0% less than it had been planned in the updated budget.

LG completed the 9 months of 2008 with losses of LVL 0.28 million, while the respective period of 2007 ended with a profit of LVL 4.88 million.

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

Within the framework of the capital investment programme, LVL 15.34 million have been utilized in 9 months of 2008. The funds of investment have been used mostly for the modernization of technological equipment and the construction of new gas pipelines.

On the basis of the results of the closed price survey on granting a credit line at the amount of EUR 50.0 million, envisaged for settlements with suppliers for natural gas consumed in the summer of 2008, on September 18, 2008, an overdraft and pledge contract was concluded with the “SEB banka” JSC.

The Meeting of Shareholders of July 4, 2008 passed a resolution on the net profit of 2007 at the amount of LVL 32.82 million, determining that the unavailable share of the profit is LVL 1.74 million, while the distributable share of profit (LVL 31.08 million) shall be used as follows – LVL 19.95 million or LVL 0.50 per share shall be paid to the shareholders in dividends, setting July 21, 2008 as the date of calculation of dividends and July 29, 2008 as the date of payment of dividends, and LVL 11.13 million shall be included in the reserves stipulated by the Articles of Association of LG.

The most significant activities

- The preparation and submission of the updated natural gas tariff increase Project of the LG to the Public Utility Commission (hereinafter – the PUC) on July 2, 2008. 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. The natural gas sale tariffs grew by 38% on average; for individual consumer groups – within the range of 23 to 57%;

“Latvijas Gāze” Joint Stock Company
Unaudited financial report
9 months 2008

- On the basis of the Regulations No.558 of the Cabinet of Ministers adopted on July 14, 2008 “Amendment to the CoM Regulations No.297 of July 3, 2001 “Regulations on regulated types of public utilities”” in natural gas supply, according to which it is not necessary to regulate the sale of the natural gas used in motor transport anymore, including the fixing of tariffs, the PUC Council refused to review the submission of the LG in the part of the request to approve the tariff for the natural gas used in motor transport. This means that LG will be able to set the natural gas tariffs for motor transport by itself, taking into account its own financial and economic considerations;
- The Resolution No.233 of the PUC Council, passed on July 16, 2008, “On natural gas system connection rules”. The new natural gas system connection rules became effective on July 22, 2008;
- The meeting of the Chairman of the Board with the Prime Minister and the Minister of Agriculture in order to evaluate the influence of natural gas tariffs upon the development of individual branches and the welfare of inhabitants;
- Collaboration with the Ministry of Economics in working out the draft Regulations of natural gas supply and usage. The Regulations No.99 of the Cabinet of Ministers on natural gas supply and usage, adopted on February 12, 2008, are effective thru December 30, 2008;
- Negotiations and conclusion of contracts with foreign gas companies on natural gas transportation, injection and storage at the Inčukalns UGS on a commercial basis.
- Negotiations with the “Gazprom” OJSC on changes in the application of the elements of natural gas price formula and the application of the PUC - approved service tariffs to the “Gazprom” OJSC as from October 1, 2008. As a result of the negotiations, amendments to the Natural gas supply agreement have been prepared, according to which the price for natural gas supplied after October 1, 2008 will be set on the basis of the quotation of heavy fuel oil and gasoline at BARGES FOB ARA of the previous 9 months;
- Collaboration with institutions of the European Union. Unlike in the edition of the draft Directive of June 6, 2008, Article 28 envisages exclusion of Lithuania from the derogation. For Latvia, Estonia and Finland, the deviation from the unbundling requirement is retained.

Shares and shareholders

Composition of shareholders¹ of the “Latvijas Gāze” JSC as on December 31, 2007

Shareholder	Shares (%)
“E.ON Ruhrgas International” AG	47.2
“Gazprom” OJSC	34.0
“Itera Latvija” Ltd	16.0
Others	2.8

Number of shares of “Latvijas Gāze” JSC that belong to Members of the Board and Members of the Council as on December 31, 2007

Members of the Board		Number of shares
Chairman of the Board	Adrians Dāvis	417
Deputy Chairman of the Board	Jörg Tumat M.A.	0
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	Stephan Kamphues	0
Vice-chairman of the Council	Juris Savickis	0
Members of the Council	Eike Benke	0
	Uwe Fip	0
	Marcus Anton Söhrich	0
	Reiner Lehmann	0
	Yelena Karpel	0
	Alexander Krasnenkov	0
	Vlada Rusakova	0
	Igor Nazarov	0

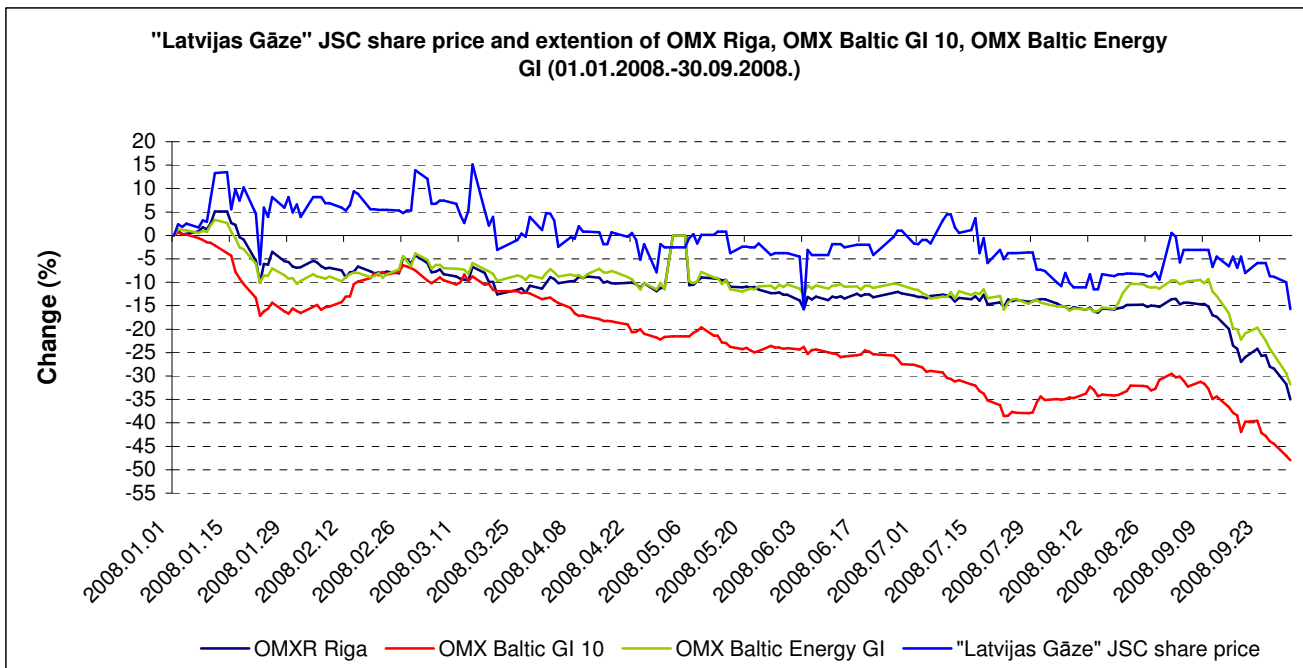
Share price of “Latvijas Gāze” JSC at Riga Stock Exchange in 9 months of 2008 and previous periods

	9 months 2004	9 months 2005	9 months 2006	9 months 2007	9 months 2008
Share price:					
Highest	6,25	7,90	11,13	11,25	8,20
Lowest	5,40	6,15	9,27	9,65	6,00
Average	5,81	6,86	10,24	10,48	7,06
Last	6,20	7,80	10,06	9,95	6,00
Number of shares	164 625	35 741	117 494	142 110	37 383
Turnover (mio LVL)	0,957	0,245	1,203	1,490	0,264
Capitalization (mio LVL)	247,380	311,220	401,394	397,005	239,400

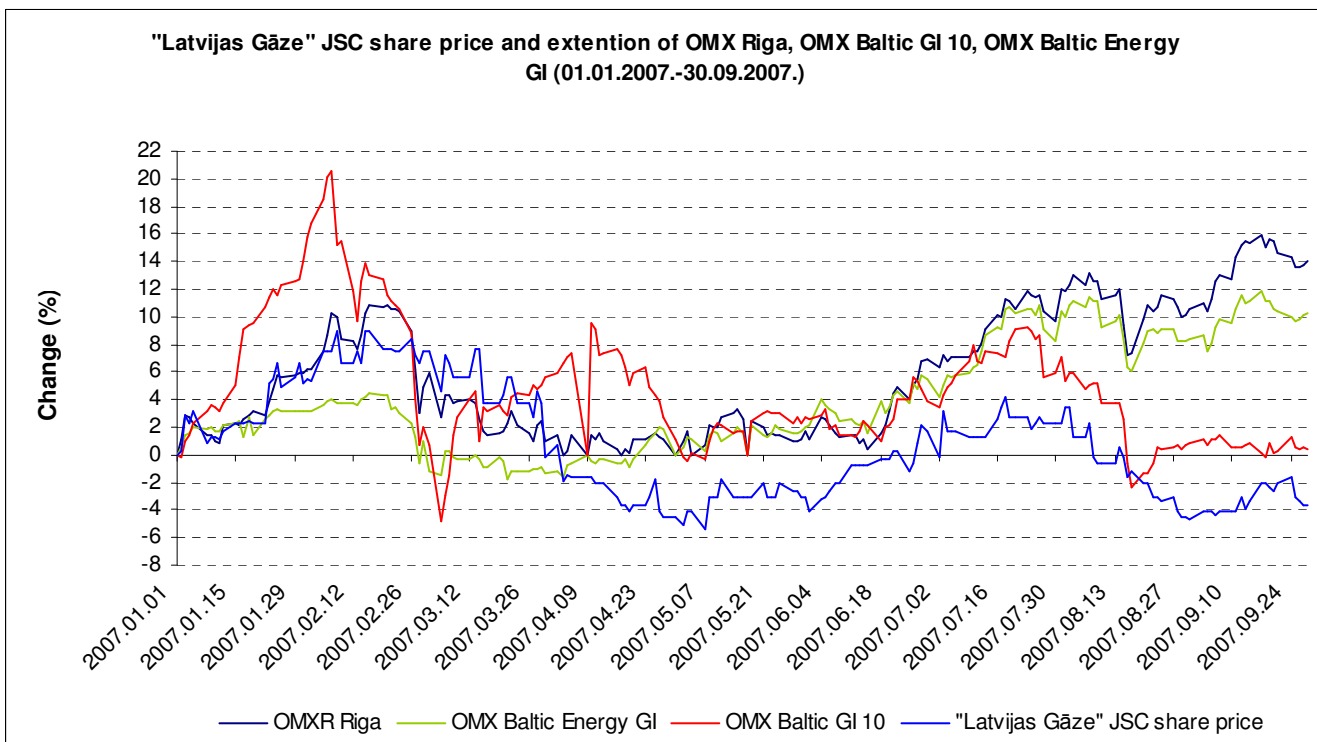
Source: RSE

¹ Shareholders owning not less than 5% of capital

**“Latvijas Gāze” Joint Stock Company
Unaudited financial report
9 months 2008**



Indexes/shares	01.01.2008.	30.09.2008.	Change
OMX Riga	595,30	386,92	-35,00%
OMX Baltic 10	308,77	160,61	-47,98%
OMX Baltic Energy GI	569,41	388,52	-31,77%
LG akciju cena	7,12	6,00	-15,73%



Source: RSE

Indexes/shares	01.01.2007.	30.09.2007.	Change
OMX Riga	655,54	747,36	14,01%
OMX Baltic 10	378,71	380,17	0,39%
OMX Baltic Energy GI	602,43	664,14	10,24%
LG share price	10,32	9,95	-3,59%

“Latvijas Gāze” Joint Stock Company
Unaudited financial report
9 months 2008

Profit or loss statement

	Appendix	30.09.2008. 30.09.2007.			30.09.2008. 30.09.2007.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
Sales		211 668	143 745	67 923	301 176	204 531	96 645
Cost of sales	1	<u>(202 095)</u>	<u>(133 846)</u>	<u>(68 249)</u>	<u>(287 556)</u>	<u>(190 446)</u>	<u>(97 110)</u>
Gross profit		9 573	9 899	(326)	13 620	14 085	(465)
Administrative expenses	2	(8 048)	(5 684)	(2 364)	(11 450)	(8 087)	(3 363)
Other operating income	3	1 997	2 331	(334)	2 841	3 317	(476)
Other operating expenses	4	(497)	(746)	249	(706)	(1 062)	356
Financial income	5	2 134	475	1 659	3 036	676	2 360
Financial expenses	5	<u>(61)</u>	<u>(223)</u>	<u>162</u>	<u>(87)</u>	<u>(317)</u>	<u>230</u>
Profit before tax		5 098	6 052	(954)	7 254	8 612	(1 358)
Income tax		<u>(5 380)</u>	<u>(1 170)</u>	<u>(4 210)</u>	<u>(7 655)</u>	<u>(1 665)</u>	<u>(5 990)</u>
Profit of the reporting year		(282)	4 882	(5 164)	(401)	6 947	(7 348)
Earnings per share (EPS)		(0,007)	0,122	(0,129)	(0,010)	0,174	(0,184)

“Latvijas Gāze” Joint Stock Company
Unaudited financial report
9 months 2008

Balance sheet

	30.09.2008. 30.09.2007.			30.09.2008. 30.09.2007.			
	Appendix	LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
ASSETS							
<u>Non-current assets</u>							
Intangible assets		1 600	1 546	54	2 277	2 200	77
Property, plant and equipment		318 502	311 598	6 904	453 188	443 364	9 824
Trade accounts receivable		11	10	1	16	14	2
Total non-current assets		320 113	313 154	6 959	455 481	445 578	9 903
<u>Current assets</u>							
Inventories	6	150 015	117 536	32 479	213 452	167 239	46 213
Trade accounts receivable		14 989	9 601	5 388	21 327	13 661	7 666
Other current assets		41 448	1 711	39 737	58 975	2 435	56 540
Corporate income tax (2391)		4 766	3 855	911	6 781	5 485	1 296
Cash and cash equivalents		6 420	15 973	(9 553)	9 135	22 728	(13 593)
Total current assets		217 638	148 676	68 962	309 670	211 548	98 122
TOTAL ASSETS		537 751	461 830	75 921	765 151	657 126	108 025
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		187 097	187 150	(53)	266 213	266 290	(77)
Other reserves		66 544	55 416	11 128	94 684	78 850	15 834
Retained earnings		(3 079)	343	(3 422)	(4 380)	488	(4 868)
Total equity		304 782	297 129	7 653	433 666	422 777	10 889
<u>Liabilities</u>							
<u>Non-current liabilities</u>							
Deferred tax liabilities		33 676	31 582	2 094	47 917	44 937	2 980
Provisions for postemployment benefits		2 500	-	2 500	3 557	-	3 557
Deferred income		12 791	9 444	3 347	18 200	13 438	4 762
Total non-current liabilities		48 967	41 026	7 941	69 674	58 375	11 299
<u>Current liabilities</u>							
Trade accounts payable		160 403	74 825	85 578	228 233	106 466	121 767
Other liabilities		12 464	11 888	576	17 735	16 915	820
Corporate income tax liability		2 323	1 170	1 153	3 305	1 665	1 640
Provisions		6 856	3 431	3 425	9 755	4 882	4 873
Borrowings	7	1 464	20 030	(18 566)	2 083	28 500	(26 417)
Deferred income		492	361	131	700	514	186
Unpaid dividends for previous years		-	11 970	(11 970)	-	17 032	(17 032)
Total current liabilities		184 002	123 675	60 327	261 811	175 974	85 837
Total liabilities		232 969	164 701	68 268	331 485	234 349	97 136
TOTAL EQUITY AND LIABILITIES		537 751	461 830	75 921	765 151	657 126	108 025

Cash flow statement

	30.09.2008.	30.09.2007.	30.09.2008.	30.09.2007.
	LVL'000	LVL'000	EUR'000	EUR'000
Cash flow from operating activities				
Cash generated from operations	20 173	(1 551)	28 704	(2 207)
Interest received	2 169	485	3 086	690
Corporate income tax paid	(6 457)	(2 742)	(9 187)	(3 902)
Net cash flow from operating activities	15 885	(3 808)	22 603	(5 419)
Cash flow from investing activities				
Purchase of property, plant and equipment	(15 076)	(18 004)	(21 451)	(25 617)
Proceeds from sale of property, plant and equipment	145	57	206	81
Purchase of intangible assets	(262)	(237)	(373)	(337)
Net cash flow from investing activities	(15 193)	(18 184)	(21 618)	(25 873)
Cash flow from financing activities				
Borrowings repaid	(20 030)	(16)	(28 500)	(23)
Borrowings received	1 464	20 030	2 083	28 500
Service charge on borrowings	(61)	(223)	(87)	(317)
Dividends paid	(19 950)	-	(28 386)	-
Net cash flow from financing activities	(38 577)	19 791	(54 890)	28 160
(Decrease)/increase in cash and cash equivalents	(37 885)	(2 201)	(53 905)	(3 132)
Cash and cash equivalents at the beginning of the year	44 305	18 174	63 040	25 860
Cash and cash equivalents at the end of the year	6 420	15 973	9 135	22 728

Changes in equity capital (LVL)

	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
December 31, 2006	39 900	14 320	119 264	47 554	15 294	236 332
Revaluation of fixed assets	-	-	80 304	-	-	80 304
Deferred tax liability arising on the revaluation of property, plant and equipment	-	-	(12 032)	-	-	(12 032)
Disposal of revaluated fixed assets	-	-	(386)	-	-	(386)
Deferred tax on disposal of revaluated property, plant and equipment	-	-	-	-	-	-
<i>Net income admitted in equity</i>	-	-	67 886	-	-	67 886
Profit of the reporting year	-	-	-	-	4 882	4 882
Income for 9 months of 2007	-	-	67 886	-	4 882	72 768
Transfer to reserves	-	-	-	7 862	(7 862)	-
Dividends for 2006	-	-	-	-	(11 970)	(11 970)
Rounding	-	-	-	-	(1)	(1)
September 30, 2007	39 900	14 320	187 150	55 416	343	297 129

	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
December 31, 2007	39 900	14 320	187 584	55 416	28 280	325 500
Revaluation of fixed assets	-	-	294	-	-	294
Deferred tax liability arising on the revaluation of property, plant and equipment	-	-	-	-	-	-
Disposal of revaluated fixed assets	-	-	(780)	-	-	(780)
Deferred tax on disposal of revaluated property, plant and equipment	-	-	-	-	-	-
<i>Net income admitted in equity</i>	-	-	(486)	-	-	(486)
Profit of the reporting year	-	-	-	-	(282)	(282)
Income for 9 months of 2008	-	-	(486)	-	(282)	(768)
Transfer to reserves	-	-	-	11 128	(11 128)	-
Dividends for 2007	-	-	-	-	(19 950)	(19 950)
Rounding	-	-	-1	-	1	-
September 30, 2008	39 900	14 320	187 097	66 544	(3 079)	304 782

Changes in equity capital (EUR)

	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2006	56 773	20 376	169 697	67 663	21 761	336 270
Revaluation of fixed assets	-	-	114 262	-	-	114 262
Deferred tax liability arising on the revaluation of property, plant and equipment	-	-	(17 120)	-	-	(17 120)
Disposal of revaluated fixed assets	-	-	(549)	-	-	(549)
Deferred tax on disposal of revaluated property, plant and equipment	-	-	-	-	-	-
<i>Net income admitted in equity</i>	-	-	96 593	-	-	96 593
Profit of the reporting year	-	-	-	-	6 946	6 946
Income for 9 months of 2007	-	-	96 593	-	6 946	103 539
Transfer to reserves	-	-	-	11 187	(11 187)	-
Dividends for 2006	-	-	-	-	(17 032)	(17 032)
Rounding	-	-	-	-	-	-
September 30, 2007	56 773	20 376	266 290	78 850	488	422 777

	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2007	56 773	20 376	266 907	78 850	40 240	463 146
Revaluation of fixed assets	-	-	418	-	-	418
Deferred tax liability arising on the revaluation of property, plant and equipment	-	-	-	-	-	-
Disposal of revaluated fixed assets	-	-	(1 110)	-	-	(1 110)
Deferred tax on disposal of revaluated property, plant and equipment	-	-	-	-	-	-
<i>Net income admitted in equity</i>	-	-	(692)	-	-	(692)
Profit of the reporting year	-	-	-	-	(401)	(401)
Income for 9 months of 2008	-	-	(692)	-	(401)	(1 093)
Transfer to reserves	-	-	-	15 833	(15 833)	-
Dividends for 2007	-	-	-	-	(28 386)	(28 386)
Rounding	-	-	-2	1	-	(1)
September 30, 2008	56 773	20 376	266 213	94 684	(4 380)	433 666

Appendices

App. No	30.09.2008. LVL'000	30.09.2007. LVL'000	Change	30.09.2008. EUR'000	30.09.2007. EUR'000	Change
1 COST OF SALES						
Purchase of natural gas	165 745	105 300	60 445	235 834	149 828	86 006
Salaries	8 941	6 469	2 472	12 722	9 205	3 517
Social insurance contributions	2 078	1 501	577	2 957	2 136	821
Life, health and pension insurance	626	458	168	891	652	239
Materials and spare parts	6 913	3 146	3 767	9 836	4 476	5 360
Depreciation and amortisation and impairment charge of property, plant and equipment	13 715	13 315	400	19 515	18 946	569
Other	4 077	3 657	420	5 801	5 203	598
	202 095	133 846	68 249	287 556	190 446	97 110
2 ADMINISTRATIVE EXPENSES						
Salaries	2 414	3 143	(729)	3 435	4 472	(1 037)
Social insurance contributions	489	597	(108)	696	849	(153)
Life, health and pension insurance	110	85	25	156	121	35
Maintenance and utilities	593	583	10	844	830	14
Real estate tax	105	104	1	148	148	-
Depreciation and amortisation and impairment charge of property, plant and equipment	354	523	(169)	504	744	(240)
Bank charges	182	130	52	259	185	74
Provisions for impairment of bad and doubtful debtors	2 980	(137)	3 117	4 240	(195)	4 435
Other	821	656	165	1 168	933	235
	8 048	5 684	2 364	11 450	8 087	3 363
3 OTHER OPERATING INCOME						
Penalties from customers	432	226	206	615	322	293
Income from contribution to financing of construction works	365	272	93	519	387	132
Gain from disposal of property plant and equipment	402	-	402	572	-	572
Provisions for impairment of slow-moving and obsolete inventories	17	21	(4)	24	30	(6)
Other	203	1 660	(1 457)	289	2 362	(2 073)
Net income from fluctuations of foreign currency rates	578	152	426	822	216	606
	1 997	2 331	(334)	2 841	3 317	(476)

“Latvijas Gāze” Joint Stock Company
Unaudited financial report
9 months 2008

4 OTHER OPERATIONAL EXPENSES

Material expenses	8	7	1	11	10	1
Salaries and other expenses	112	88	24	159	125	34
Social insurance contributions	16	11	5	23	16	7
Depreciation, amortisation and impairment charge for property, plant and equipment	71	68	3	101	97	4
Sponsorship	25	28	(3)	35	40	(5)
Loss on sale of fixed assets		54	(54)		77	(77)
Provisions for impairment of slow-moving and obsolete inventories						
Other	265	490	(225)	377	697	(320)
	497	746	(249)	706	1 062	(356)

DISTRIBUTION OF EXPENSES IN THEIR TERMS

Purchase of natural gas	165 745	105 300	60 445	235 834	149 828	86 006
Depreciation and amortisation	14 140	13 906	234	20 120	19 787	333
Staff expenses	14 786	12 353	2 433	21 039	17 576	3 463
Materials and spare parts	6 921	3 153	3 768	9 847	4 486	5 361
Net accruals for reduction of debtors' debt	2 980	(137)	3 117	4 240	(195)	4 435
Other	6 470	5 647	823	8 632	8 113	519
	211 042	140 222	70 820	299 712	199 595	100 117

5 FINANCE INCOME, NET

Finance income	2 134	475	1 659	3 036	676	2 360
Interest income	2 134	475	1 659	3 036	676	2 360
Finance expenses	61	223	(162)	87	317	(230)
Service charge for borrowings	61	223	(162)	87	317	(230)
Finance income, net	2 073	252	1 821	2 949	359	2 590

6 INVENTORIES

Materials and spare parts (at net sellable value)	4 377	3 586	791	6 228	5 102	1 126
Gas and fuel (at cost value)	145 638	113 950	31 688	207 224	162 137	45 087
	150 015	117 536	32 479	213 452	167 239	46 213

7 BORROWINGS

SEB Banka	1 464	20 030	(18 566)	2 083	28 500	(26 417)
Refund term of borrowings: Short-term part of the borrowings in 1 year	1 464	20 030	(18 566)	2 083	28 500	(26 417)