



Joint stock company "Latvijas Gāze"

Annual accounts for the year ended 31 December

2008

Prepared in accordance with the International Financial Reporting Standards

Translation from Latvian original*

Riga, 2009

* This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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JOINT STOCK COMPANY "LATVIJAS GĀZE"
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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
Address	Reregistered in Commercial Register December 20, 2004 with common registration No 40003000642 Aristīda Briāna street 6 Riga, LV-1001 Latvia
Names of major shareholders	E.ON Ruhrgas International AG (47.2%) JSC Gazprom (34.0%) LLC Itera Latvija (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>Until July 25, 2008</u> Kiril Seleznov (Кирилл Селезнев) – Chairman of the Council Juris Savickis – Deputy Chairman of the Council Stephan Kamphues – Deputy Chairman of the Council Eike Benke – Member of the Council Reiner Lehmann – Member of the Council Uwe Fip – Member of the Council Marcus Anton Söhrich – Member of the Council Jelena Karpel (Елена Карпель) – Member of the Council Igor Nazarov (Игорь Назаров) – Member of the Council Vlada Rusakova (Влада Русакова) – Member of the Council Aleksandr Krasnenkov (Александр Красненков) – Member of the Council <u>After July, 2008</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 Heinz Watzka – Member of the Council Uwe Fip – Member of the Council Marcus Anton Söhrich – Member of the Council Jelena Karpel (Елена Карпель) – Member of the Council Igor Nazarov (Игорь Назаров) – Member of the Council Vlada Rusakova (Влада Русакова) – Member of the Council Aleksandr Krasnenkov (Александр Красненков) – Member of the Council
Financial year	1 January – 31 December 2008

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INFORMATION ON THE COMPANY (CONTINUED)

Name and address of the auditor and responsible certified auditor PricewaterhouseCoopers SIA
Audit company licence No. 5
Kr. Valdemara Street 19
Riga, LV-1010
Latvia

Responsible certified auditor:
Olga Bukovska
Certified auditor
Certificate No. 170

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JOINT STOCK COMPANY "LATVIJAS GĀZE"
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Report of the Board

1. Operation of the Company in the reporting year

The Joint Stock Company "Latvijas Gāze" (hereinafter – the Company) is an energy supply company that is active in natural gas transmission, storage, distribution and sale. In 1997, the Energy Supply Regulation Council of the Republic of Latvia issued to the Company exclusive licences for the provision of regulated public services by February 10, 2017, and on January 31, 2007, the Council of the Public Utility Commission (hereinafter – the PUC) – a licence for natural gas sales by February 10, 2012. According to the Energy Law, the Company is a natural gas system operator that, avoiding overload capacities, ensures continuous and secure natural gas supply to consumers in Latvia.

During the reporting year, 1 631 million m³ of natural gas were supplied to natural gas users. In comparison to 2007, natural gas sales in m³ have decreased by 2.5%. The decrease of consumption stems from the relatively high air temperature in the 1st and 4th quarter of 2008 and the record-high quotation of oil products at exchanges, as a result of which the natural gas sales end tariffs considerably increased, making for more economical use of resources and a decrease of demand, which was further reinforced by the global financial crisis and the rapid economic recession in the second half of 2008.

The situation of recent years in the global market of oil products as well as the desire of the natural gas suppliers to gradually approximate the natural gas supply prices for the Republic of Latvia to the level of the European countries caused a rapid rise of the natural gas prices. As from January 1, 2005, the formula of the natural gas purchase prices was linked to the actual heavy fuel oil quotation – up to 200 USD/t. In 2006, the ceiling of natural gas prices was lifted, while in 2007 the price formula was changed resulting in the natural gas purchase price being raised by more than 50% at the heavy fuel oil quotation of 300 USD/t. The last stage of the price increase was implemented in 2008 when the natural gas price was pegged to the heavy fuel oil and gasoil quotation and the natural gas purchase prices reached the level of European countries. During the year 2008, the natural gas purchase price grew more than twice compared to 2007. The changes in the price formula increased the natural gas purchase price in 2008 by approximately 16%, while the rest of the increase was related to the rise of the oil prices. Further on, the changes in the natural gas purchase price will depend on the fluctuations of the oil product prices at the exchange and the supply flow of the consumed gas (directly through pipelines or from the Inčukalns Underground Gas Storage Facility (hereinafter – the Inčukalns UGS)).

The average natural gas sales tariff rose by 52.1% during the year 2008, while the purchase costs of natural gas sold – by 82.9%. At the beginning of 2008, the users were supplied the gas that had been bought in 2007 for the needs of 2008 for the price of 2007. The increase of natural gas sales end tariffs in 2008 was contributed to by the levelling of natural gas purchase prices with the EU countries and the record-high prices of oil products in the summer and autumn of 2008. By October 1, 2008, natural gas was sold to consumers for the natural gas sales end tariffs approved with the resolution No.83 of the PUC Council dated March 28, 2007 "On the natural gas supply tariffs of the Joint Stock Company "Latvijas Gāze"" in compliance with the conditions of the resolution No. 555 of the PUC Council dated November 23, 2007 "On the discriminative natural gas sales tariff and actual heavy fuel oil quotation".

On the basis of the changes in gas purchase prices, in April 2008 the Company submitted to the PUC a tariff project, which envisaged a rise of the tariffs of natural gas transmission, storage, distribution and sales, as well as the differential natural gas sales end tariffs as from July 1, 2008. The tariffs had been calculated in compliance with the methods of public utility tariff calculations approved by the PUC Council in February 2008. When evaluating the submitted project, the PUC took into account the Company's profit of 2007 and postponed the enactment of the new tariffs by two months. On July 24, 2008, the PUC passed a resolution on increasing the natural gas tariffs. In compliance with the resolution No.247 of the PUC Council "On the natural gas supply tariffs of the Joint Stock Company "Latvijas Gāze", as from October 1, 2008 the new differential natural gas sales end tariffs took effect. These tariffs consist of two parts: the fixed regulated service tariffs and the natural gas sales price, which changes with a step of 5 LVL/thousand m³ depending on the actual natural gas purchase costs. For users with the annual natural gas consumption over 25 thousand m³, the tariffs are changed monthly, while for users with the annual natural gas consumption up to 25 thousand m³ who settle accounts by the levelled consumption - once in six months.

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Report of the Board (continued)

1. Operation of the Company in the reporting year (continued)

The total income from natural gas sales and other services of basic activities in 2008 reached 351.0 million LVL (499.4 million EUR), the expenses (excluding administrative costs) – 320.0 million LVL (455.4 million EUR), and the gross profit – 31.0 million LVL (44.1 million EUR). In comparison to the year 2007, the Company's net profit fell by 40.1% or 13.2 million LVL (18.8 million EUR), amounting to 19.0 million LVL (27.1 million EUR). The net profitability of basic activities in 2008 was 5.4 %, whereas in 2007 it was 13.5 %.

During the season of 2008, 1.92 billion m³ of natural gas were injected into the Inčukalns UGS, with the total gas volume at the storage facility reaching 4.47 billion m³.

In 2008, the Company invested 22.8 million LVL (32.4 million EUR) in the modernization of the gas supply system and the creation of new fixed assets. 40% of the total investment was spent on the modernization of the gas transmission pipeline system, 10% – on the improvement of operation safety and the modernization of equipment at the Inčukalns UGS, while 36% – on the expansion of the distribution networks and the renewal of fixed assets. 2.9 thousand new users were connected to the gas supply system. The total number of gas-enabled units at the end of the year reached 441.6 thousand.

During the reporting period, the modernization of the gas collection point GCP-1 at the Inčukalns UGS was completed. The total costs of the unit are 11.4 million LVL (16.2 million EUR). The reconstruction of the underground wells in the gas-carrying area is still in progress. The equipment of the underground part of the wells is due to be installed by the Company itself in 2009. In cooperation with the LLC "Gazpromenergodagnostika", examination of the technical condition has been carried out in 23 wells. The reconstruction of the gas drying unit at the CS-1 has been commenced, with the total costs of the project planned around 9.5 million LVL (13.5 million EUR), and is due for completion by the end of 2011. The reconstruction of the gas regulation stations (GRS) – "Koknese" and "Vecbebri" and the assembly of technological equipment at the GRS "Ziemeļi" is completed. The aversion of the damage found in the diagnostics of the gas transmission pipelines, as well as the construction of a pig launcher and a pig receiver for the gas pipelines Riga – Inčukalns UGS, Iecava – Liepāja and Riga – Panevėžis is still in progress. 5.1 million LVL (EUR 7.3 million) have been spent for the construction of gas distribution pipelines in 2008. The major projects were the construction of a gas pipeline over the Daugava below the Dienvidu Bridge in Riga and along the Riga bypass road. During the year 2008, 148.3 km of gas distribution pipelines have been put into operation, and the SCADA system, which controls the operation of the gas regulation points (GRP), has been connected to 28 GRPs (in 2007 – 45 GRPs). The introduction of an automated commercial accounting telemetric system (ARM) has been commenced. The new system will allow for improving and modernizing the natural gas accounting control system.

2. Research and development activities

In order to ensure uninterrupted gas supply to users and secure operation of the gas supply system in a long term, the Company has developed the "Plan of measures for the improvement of operation security of the gas supply system of the Joint Stock Company "Latvijas Gāze" 2006-2010". It has been prepared on the basis of the opinions by the Russian companies "Gazobezopasnostj" and "Lentransgaz", the institutes "VNIIGAS" and "Giprospeccgaz", 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 and modernization possibilities of equipment.

The plan envisages investments in security improvement at the total amount of LVL 73.8 million (EUR 105 million). This basically includes projects to be implemented in order to improve the security of system operation, to provide gas supply to new units and to improve the stability of gas supply in the whole region, covering the seasonal consumption fluctuations with gas supplies from the Inčukalns UGS to Estonia and the Western part of Russia, as well as in further perspective – to Lithuania.

In 2008, the Company commissioned the OJSC "Giprospeccgaz" with an evaluation and feasibility study of development of the gas transmission pipelines system of Latvia. Independent experts evaluated the possibility of transmitting 2.6 billion m³ of gas along the existing pipelines to prospective consumers till 2020 in the directions of Mažeikiai and Daugavpils, as well as assessed the looping of the gas transmission pipelines Izborsk – Inčukalns UGS and Riga – Daugavpils with the new gas pipeline Alūksne – Gulbene – Rēzekne.

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Report of the Board (continued)

3. Post balance sheet events

The most significant event after the end of the reporting year was the signing of the amendments to the natural gas supply agreements with the OJSC "Gazprom" and LLC "Itera Latvija" on natural gas supply to the Republic of Latvia till 2030. The former edition of the agreements stipulated the volumes of gas supply by 2015.

In order to protect the interests of consumers and set fixed differential end tariffs of natural gas in the heating season of 2008/2009, the PUC Council on January 28, 2009 passed the resolution No. 24 "On the procedure of application of the resolution No.247". According to this resolution, the Company had to apply to users with the annual natural gas consumption over 25 thousand m³ the natural gas sales price of 210 LVL/thousand m³ in February, March and April 2009 and include the deviation of total costs occurring due to differences between the applied and actual natural gas sales prices of each month in the calculation of the natural gas sales price in 4th quarter 2009, dividing it equally for each month in 4th quarter.

4. Profit distribution 2008 as suggested by the Board

	2008 LVL	2008 EUR
Current year's profit according to statutory financial statements prepared under Latvian accounting regulation	19 928 226	28 355 311
Share of profit not available for distribution (income of deferred tax not realized due to the revaluation of fixed assets)	(1 770 008)	(2 518 494)
Share of profit available for distribution	18 158 218	25 836 817
Suggested profit distribution:		
dividends to participants (76.1 %)	15 162 000	21 573 582
dividends per one share (LVL / 1 share)	0.38	0.541
 Reserves stipulated in the Articles of Association	 2 996 218	 4 263 235

Some members of the Council and the Board of the Company own shares and interests at several companies registered in the Register of Enterprises of the Republic of Latvia and perform managerial functions. During the reporting year, the Company has not carried out large-scale transactions (except for those mentioned in the financial statements) with these companies.

5. Shares and shareholders

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

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

¹ Shareholders owning not less than 5% of capital

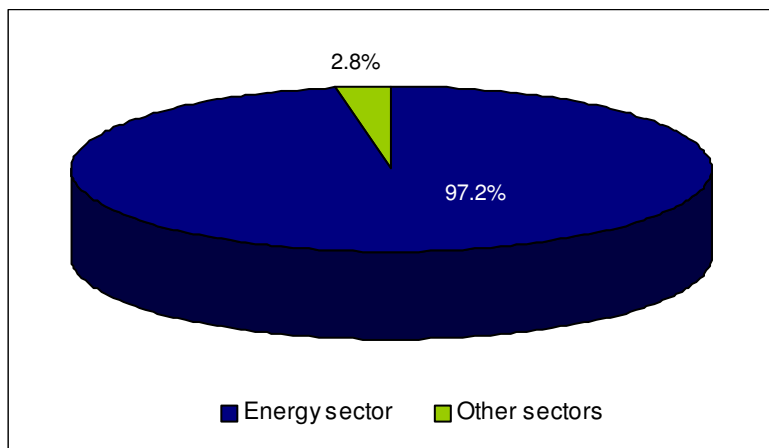
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Report of the Board (continued)

5. Shares and shareholders (continued)

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



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
Vice-Chairman of the Board	Jörg Tumat M.A.	500
Vice-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 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.

LG price over earnings ratio (P/E) at the end of 2008 was 9.53, whereas at the end of 2007 – 8.80.

Translation from Latvian Original

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Report of the Board (continued)

5. Shares and shareholders (continued)

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

	2004	2005	2006	2007	2008
<u>Shares price (LVL):</u>					
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
Average	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

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

OMX Baltic

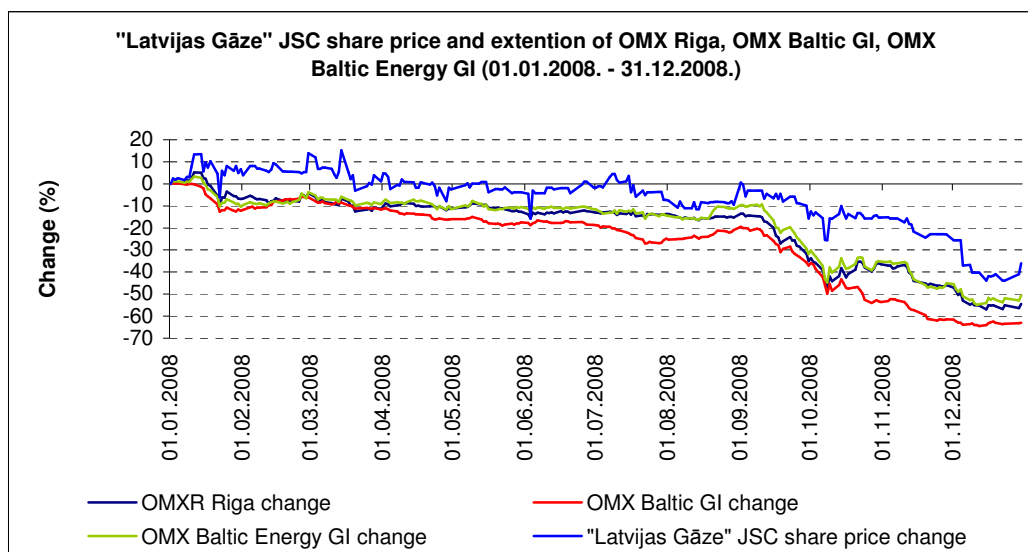
An index of all shares, a Baltic-wide index. Its basket is comprised of the shares of the Official and the Second list of the Baltic exchanges. The index reflects the actual situation and changes in the Baltic market overall.

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.



Source: Riga Stock Exchange

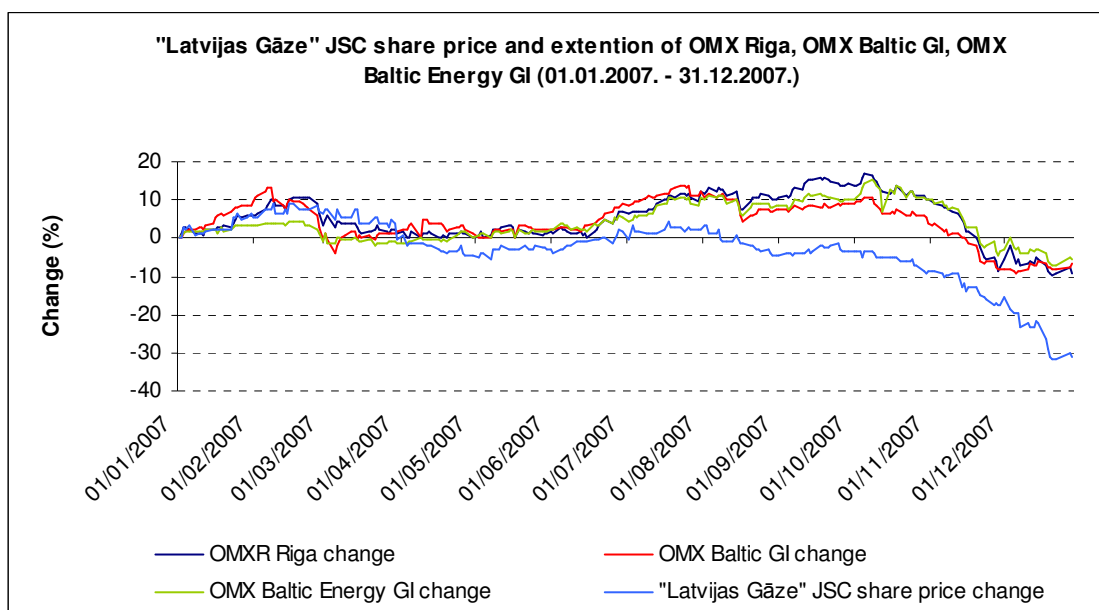
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**JOINT STOCK COMPANY "LATVIJAS GĀZE"
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Report of the Board (continued)

5. Shares and shareholders (continued)

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%

6. Perspective

On the basis of the investments made over the recent years in the improvement of the system operation security, the expansion of the gas pipeline network and the attraction of new customers as well as having regard of the situation in the fuel market of Latvia, the Board of the Company considers that in 2009 the Company will continue its successful development and take a stable place in the fuel supply market.

Chairman of the Board

Board meeting minutes No. 17 (2009)
Riga, April 29, 2009


 A. Dāvis

Translation from Latvian Original

**JOINT STOCK COMPANY “LATVIJAS GĀZE”
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STATEMENT OF DIRECTORS’ RESPONSIBILITY

The Board of Directors of JSC “Latvijas Gāze” (hereafter – the Company) is responsible for the preparation of the financial statements of the Company.

The financial statements on pages 14 to 53 are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Company as of 31 December 2008 and the results of its operations and cash flows for the year ended 31 December 2008.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Board of Directors in the preparation of the financial statements.

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

April 29, 2009

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**JOINT STOCK COMPANY "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
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Translation from Latvian original*

INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC "Latvijas Gāze"

Report on the Financial Statements

We have audited the accompanying financial statements on pages 14 to 53 of JSC "Latvijas Gāze" which comprise the balance sheet as of 31 December 2008 and income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
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Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Report of the Board set out on pages 5 to 10 and did not identify material inconsistencies between the financial information contained in the Report of the Board and that contained in the financial statements for 2008.

A handwritten signature in blue ink, appearing to be 'Juris Lapshe'.

Juris Lapshe
Member of the Board

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

A handwritten signature in blue ink, appearing to be 'Olga Bukovska'.

Olga Bukovska
Certified auditor in charge
Certificate No. 170

Riga, Latvia
29 April 2009

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JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

BALANCE SHEET AS AT 31 DECEMBER 2008

	Note	31.12.2008. LVL'000	31.12.2007. LVL'000	31.12.2008. EUR'000	31.12.2007. EUR'000
Assets					
<u>Non-current assets</u>					
Property, plant and equipment	3	320 052	317 763	455 393	452 136
Intangible assets	4	2 271	1 824	3 231	2 595
Trade receivables	5	11	10	16	14
		<u>322 334</u>	<u>319 597</u>	<u>458 640</u>	<u>454 745</u>
<u>Current assets</u>					
Inventories	6	115 681	85 359	164 599	121 455
Trade receivables	5	39 542	24 776	56 263	35 253
Current income tax receivable	21	3 854	-	5 485	-
Other current assets	7	991	1 604	1 410	2 283
Cash and cash equivalents	8	6 446	44 305	9 172	63 040
		<u>166 514</u>	<u>156 044</u>	<u>236 929</u>	<u>222 031</u>
Total assets		488 848	475 641	695 569	676 776
Equity and liabilities					
<u>Equity</u>					
Share capital	9	39 900	39 900	56 773	56 773
Share premium		14 320	14 320	20 376	20 376
Revaluation reserve		187 060	187 584	266 163	266 907
Other reserves		66 544	55 416	94 684	78 850
Retained earnings		17 131	28 280	24 375	40 240
Total equity		324 955	325 500	462 371	463 146
<u>Liabilities</u>					
<u>Non-current liabilities</u>					
Deferred income tax liabilities	21	29 915	30 538	42 566	43 453
Accruals for post employment benefits and other employee benefits	22	4 672	2 500	6 648	3 557
Deferred income	11	13 460	11 430	19 152	16 263
		<u>48 047</u>	<u>44 468</u>	<u>68 366</u>	<u>63 273</u>
<u>Current liabilities</u>					
Trade payables		86 060	62 902	122 451	89 501
Current income tax payable	21	-	1 412	-	2 009
Borrowings	10	1 788	20 030	2 544	28 500
Deferred income	11	3 674	433	5 227	616
Other current liabilities	12	24 324	20 896	34 610	29 731
		<u>115 846</u>	<u>105 673</u>	<u>164 832</u>	<u>150 357</u>
Total liabilities		163 893	150 141	233 198	213 630
Total equity and liabilities		488 848	475 641	695 569	676 776

The notes on pages 19 to 53 are an integral part of these financial statements.

Translation from Latvian Original


JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 LVL'000	2007 LVL'000	2008 EUR'000	2007 EUR'000
Sales		351 005	239 441	499 435	340 693
Cost of sales	14	(320 028)	(195 533)	(455 359)	(278 218)
Gross profit		30 977	43 908	44 076	62 475
Administrative expenses	15	(9 824)	(7 223)	(13 978)	(10 277)
Other income	16	2 605	2 884	3 706	4 103
Other expenses	17	(2 256)	(2 460)	(3 210)	(3 500)
Operating profit		21 502	37 109	30 594	52 801
Finance income	19	1 083	587	1 541	836
Finance expenses	19	(119)	(519)	(169)	(738)
Finance income, net	19	964	68	1 372	98
Profit before income tax		22 466	37 177	31 966	52 899
Income tax expense	21	(3 420)	(4 905)	(4 866)	(6 980)
Profit for the year		19 046	32 272	27 100	45 919
Earnings per share		LVL	LVL	EUR	EUR
Basic	23a	0.477	0.809	0.679	1.151
Diluted	23a	0.477	0.809	0.679	1.151

The notes on pages 19 to 53 are an integral part of these financial statements.

The financial statements on pages 14 to 53 were approved by the Board of Directors and were signed on its behalf by:


 Adrians Dāvis
 Chairman of the Board


 Anda Ulpe
 Board Member

April 29, 2009

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital LVL'000	Share premium LVL'000	Revaluation reserve LVL'000	Other reserves LVL'000	Retained earnings LVL'000	Total LVL'000
Balance as at 31 December 2006	39 900	14 320	119 264	47 554	15 294	236 332
Revaluation of property, plant and equipment	-	-	81 020	-	-	81 020
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(12 153)	-	-	(12 153)
Disposal of revalued property, plant and equipment	-	-	(644)	-	644	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	97	-	(97)	-
<i>Net income recognized directly in equity</i>	-	-	68 320	-	547	68 867
Profit for the year	-	-	-	-	32 272	32 272
Total recognized income for 2007	-	-	68 320	-	32 819	101 139
Transfers to reserves	-	-	-	7 862	(7 862)	-
Dividends for 2006	-	-	-	-	(11 970)	(11 970)
Rounding	-	-	-	-	(1)	(1)
Balance as at 31 December 2007	39 900	14 320	187 584	55 416	28 280	325 500
Revaluation of property, plant and equipment	-	-	584	-	-	584
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(225)	-	-	(225)
Disposal of revalued property, plant and equipment	-	-	(973)	-	973	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	90	-	(90)	-
<i>Net (expenses)/ income recognized directly in equity</i>	-	-	(524)	-	883	359
Profit for the year	-	-	-	-	19 046	19 046
Total recognized income for 2008	-	-	(524)	-	19 929	19 405
Transfers to reserves	-	-	-	11 128	(11 128)	-
Dividends for 2007	-	-	-	-	(19 950)	(19 950)
Balance as at 31 December 2008	39 900	14 320	187 060	66 544	17 131	324 955

The notes on pages 19 to 53 are an integral part of these financial statements.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008
(CONTINUED)

	Share capital EUR'000	Share premium EUR'000	Revaluation reserve EUR'000	Other reserves EUR'000	Retained earnings EUR'000	Total EUR'000
Balance as at 31 December 2006	56 773	20 376	169 697	67 664	21 760	336 270
Revaluation of property, plant and equipment	-	-	115 281	-	-	115 281
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(17 292)	-	-	(17 292)
Disposal of revalued property, plant and equipment	-	-	(916)	-	916	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	137	-	(137)	-
<i>Net income recognized directly in equity</i>	-	-	97 210	-	779	97 989
Profit for the year	-	-	-	-	45 919	45 919
Total recognized income for 2007	-	-	97 210	-	46 698	143 908
Transfers to reserves	-	-	-	11 186	(11 186)	-
Dividends for 2006	-	-	-	-	(17 032)	(17 032)
Balance as at 31 December 2007	56 773	20 376	266 907	78 850	40 240	463 146
Revaluation of property, plant and equipment	-	-	831	-	-	831
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(320)	-	-	(320)
Disposal of revalued property, plant and equipment	-	-	(1 384)	-	1 384	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	129	-	(129)	-
<i>Net(expenses) / income recognized directly in equity</i>	-	-	(744)	-	1 255	511
Profit for the year	-	-	-	-	27 100	27 100
Total recognized income for 2008	-	-	(744)	-	28 355	27 611
Transfers to reserves	-	-	-	15 834	(15 834)	-
Dividends for 2007	-	-	-	-	(28 386)	(28 386)
Balance as at 31 December 2008	56 773	20 376	266 163	94 684	24 375	462 371

Dividends are distributed and transfers to reserves are made based upon profits and retained earnings as per statutory financial statements prepared under Latvian accounting regulations. Changes in other reserves can be made only with shareholders' approval. Revaluation reserve and share premium cannot be distributed as dividends to shareholders.

The notes on pages 19 to 53 are an integral part of these financial statements.

Translation from Latvian Original
JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 LVL'000	2007 LVL'000	2008 EUR'000	2007 EUR'000
Cash flows from operating activities					
Cash generated from operations	24	30 214	50 121	42 991	71 316
Interest received		2 366	879	3 367	1 251
Income tax paid	21	(9 444)	(3 445)	(13 438)	(4 902)
Net cash generated from operating activities		23 136	47 555	32 920	67 665
Cash flows from investing activities					
Purchases of property, plant and equipment		(21 773)	(28 371)	(30 980)	(40 368)
Proceeds from sale of property, plant and equipment		120	60	171	85
Purchases of intangible assets		(1 000)	(681)	(1 423)	(971)
Received term deposits		-	7 126	-	10 140
Net cash used in investing activities		(22 653)	(21 866)	(32 232)	(31 114)
Cash flows from financing activities					
Repayment of long term borrowings		(20 030)	(16)	(28 500)	(22)
Borrowings received		1 788	20 030	2 544	28 500
Interest paid		(150)	(476)	(214)	(677)
Dividends paid		(19 950)	(11 970)	(28 386)	(17 032)
Net cash (used in) / generated from financing activities		(38 342)	7 568	(54 556)	10 769
Net (decrease) / increase in cash and cash equivalents		(37 859)	33 257	(53 868)	47 320
Cash and cash equivalents at the beginning of the year		44 305	11 048	63 040	15 720
Cash and cash equivalents at the end of the year	8	6 446	44 305	9 172	63 040

The notes on pages 19 to 53 are an integral part of these financial statements.

Translation from Latvian Original

**JOINT STOCK COMPANY “LATVIJAS GĀZE”
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

NOTES TO THE FINANCIAL STATEMENTS

1 INCORPORATION AND ACTIVITIES

JSC Latvijas Gāze was re-organised on January 31, 1994 as a joint stock company wholly owned by the Government of the Republic of Latvia. The Company was formerly a state enterprise which had its assets transferred to and obligations assumed by the joint stock company in accordance with the law. Since 15 February 1999 the shares of the Company are quoted on Riga Stock Exchange. The registered office of the Company is 6 A. Briāna Street, Riga, Latvia.

The Company is involved in import and sales of natural gas in territory of Latvia as well as supply of gas transmission and storage services to foreign companies. The Company is the sole supplier of natural gas in Latvia. The service territory of the Company has a population of approximately 2.3 million.

The tariffs of gas sold to corporate and retail customers are set by the Public Utilities Commission (PUC) of the Republic of Latvia. Changes to tariffs are considered by PUC based on applications of the Company and in accordance with the methodology approved by PUC.

During 2008 the average number of persons employed by the Company was 1 379 (2007: 1 340).

These financial statements have been approved by the Board of Directors on April 29, 2009.

2 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment as disclosed in the Accounting policies Note (d) below.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Significant accounting estimates are described in Note (u).

(a) Standards, amendments and interpretations that are mandatory for accounting periods beginning on 1 January 2008 and are relevant to the Company's operations

None

(b) Standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1 January 2008, but are not relevant to the Company's operations

The following standards, amendments and interpretations to existing standards have been published or revised that are mandatory for the accounting periods beginning on or after 1 January 2008, but are not relevant for the Company's operations:

IAS 39 and IFRS 7	“Financial Instruments: Recognition and Measurement” and “Financial instruments: Disclosures” on the “Reclassification of financial assets”
IFRIC 11; IFRS 2	“Group and treasury share transactions”

Translation from Latvian Original

**JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2009 or later periods but have not been early adopted by the Company:

IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009).

The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The management of the Company expects the revised IAS 1 to affect the presentation of the financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009).

The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Company will apply IAS 23 (Amendment) starting from 1 January 2009.

IAS 36 (Amendment), Impairment of assets (effective from 1 January 2009).

The amendment is part of IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from the date it will become effective.

IFRS 8, Operating Segments (effective from annual periods beginning on or after 1 January 2009).

IFRS 8 achieves convergence with requirements of SFAS 131 Disclosures about segments of an Enterprise and Related Information. The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to the used for internal reporting purposes. The Company is currently assessing what impact the standard will have on segment disclosures in the financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).

The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The Company is currently assessing what impact this interpretation will have on the financial statements.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(d) Standards, amendments and interpretations to that are not mandatory yet and not relevant for the Company's operations

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Company's operations or according to the management estimates will have no impact on accounting policy and disclosures in the financial statements:

IAS 1, Presentation of Financial Statements (and consequential amendments to IAS 7). The amendments are part of IASB's annual improvements project published in May 2008. The previous wording of the standard, which stated that all financial assets and liabilities held for trading should be classified as current, is amended to allow non-current classification for some such assets and liabilities.

IAS 16 (Amendment), Property, plant and equipment (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009). The amendment is part of IASB's annual improvements project published in May 2008. Under the amended standard, entities that routinely sell assets previously held for rental are required to classify such assets as inventories from the point that the assets cease to be leased and become held for sale, while the proceeds from sale are to be recognised as revenue. The rent and proceeds from sale will have to be classified as cash flows from operating activities.

IAS 19 (Amendment), Employee benefits (effective from 1 January 2009). The amendment is part of IASB's annual improvements project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

IAS 20 (Amendment), Accounting for government grants and disclosure of government assistance (effective from 1 January 2009). The amendment is part of IASB's annual improvements project published in May 2008. The amendment requires benefits arising from government loans at below-market interest rates to be accounted for as government grants, with the benefit calculated as the difference between the proceeds and the initial fair value of the loan, net of transaction costs.

IAS 23, Borrowing Costs. The amendment is part of IASB's annual improvements project published in May 2008. The definition of borrowing costs is revised to specify that interest expense forming part of borrowing costs is to be calculated using the effective interest rate method as described in IAS 39.

IAS 27, Consolidated and Separate Financial Statements. The amendment is part of IASB's annual improvements project published in May 2008. Following the amendment, a parent entity that accounts for an investment in a subsidiary in accordance with IAS 39 in its separate financial statements will continue to measure the investment in accordance with IAS 39, even when the investment becomes held for sale (or held in a disposal group held for sale).

IAS 28, Investments in Associates (and consequential amendments to IFRS 7 and IAS 32) (effective from annual periods beginning on or after 1 January 2009). The amendments are part of IASB's annual improvements project published in May 2008. The amendment clarifies that an associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of associate increases. The amendment also reduces the disclosure requirements relating to associates accounted for at fair value through profit or loss.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

IAS 29 (Amendment), Financial reporting in hyperinflationary economies (effective from 1 January 2009). The amendment is part of IASB's annual improvements project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost.

IAS 31, Interests in Joint Ventures (and consequential amendments to IFRS 7 and IAS 32). The amendment is part of IASB's annual improvements project published in May 2008. The amendment reduces the disclosure requirements relating to joint ventures accounted for at fair value through profit or loss.

IAS 32, Financial instruments: Presentation, and IAS 1 (Amendment), Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation (effective from 1 January 2009). The amended standards requires classification as equity of some financial instruments that meet the definition of financial liabilities.

IAS 27, Consolidated and separate financial statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The revised standard is not yet endorsed in EU. The revised standard is not yet endorsed in EU.

IAS 38, Intangible Assets (effective from annual periods beginning on or after 1 January 2009). The amendment is part of IASB's annual improvements project published in May 2008. The amendment clarifies that a prepayment asset may only be recognised where an entity makes a payment in advance of obtaining a right to access goods or receive services. In addition, the provision that there is 'rarely, if ever' support for use of an amortisation method that results in a lower amortisation than the amount determined using the straight line method is removed from the standard.

IAS 38 (Amendment), Intangible assets, (effective from 1 January 2009). The amendment is part of IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method.

IAS 39, Financial Instruments: Recognition and Measurement: Eligible Hedged Items (Amendment)(effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not yet endorsed in EU.

IAS 39, Financial Instruments: Recognition and Measurement. The amendment is part of IASB's annual improvements project published in May 2008. The revised standard allows movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge; and where financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4. The amendment also clarifies that when remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used.

IAS 40 (Amendment), Investment property (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment is part of IASB's annual improvements project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. Where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

IAS 41, Agriculture. The amendment is part of IASB's annual improvements project published in May 2008. Under the revised standard a market-based discount rate is to be used where fair value calculations are based on discounted cash flows. The prohibition on taking into account biological transformation when calculating fair value is removed.

IFRS 1 First time adoption of IFRS and IAS 27 Consolidated and separate financial statements (Amendment) (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes.

IFRS 2, Share-based payment (issued in January 2008, effective for annual periods beginning on or after 1 January 2009). The amended standard deals with vesting conditions and cancellations.

IFRS 3, Business combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised standard is not yet endorsed in EU.

IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009). The amendment is part of IASB's annual improvements project published in May 2008. The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale.

IFRS 7, Financial instruments: Disclosures (amended March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment forms part of IASB's response to the financial crisis and addresses the G20 conclusions aimed at improving transparency and enhance accounting guidance. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles about liquidity risk.

IFRIC 12, Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008). This interpretation applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. Under these arrangements, assets are assessed as either intangible assets or finance receivables. The interpretation is not yet endorsed in EU.

IFRIC 13, Customer loyalty programmes (effective for annual periods on or after 1 July 2008; for entities applying IFRS as adopted in the EU effective for annual periods beginning after 31 December 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.

IFRIC 14, IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction, (effective for annual periods beginning on or after 1 January 2008; for entities applying IFRS as adopted in the EU effective for annual periods beginning after 31 December 2008). Interpretation provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

IFRIC 15, Agreements for construction of real estates (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. The interpretation is not yet endorsed in EU.

IFRIC 16, Hedges of a net investment in a foreign operation (effective for annual periods beginning on or after 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The interpretation is not yet endorsed in EU.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised.

In April 2009 International Accounting Standards Board published amendments to following International Financial Reporting Standards: IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16. Most of the amendments are effective for annual periods beginning on or after 1 January 2010 and are subject to EU endorsement. The amendments have not been early adopted by the Company.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(c) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Latvian Lats (LVL), which is the Company's functional and presentation currency. In accordance with the requirements of the Riga Stock Exchange all balances are also presented in Euro (EUR). For disclosure purposes the translation into EUR is based on the official exchange rate as set by the Bank of Latvia during period from 1 January 2008 to 31 December 2008 – EUR/LVL (1 EUR = LVL 0.702804).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(d) Property, plant and equipment

Buildings, gas transmission and distribution system and equipment are stated at fair value, based on periodic valuation less subsequent depreciation or impairment charge. All other property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Assets purchased, but not yet ready for intended use or under installation process are included in Assets under construction.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Any accumulated depreciation at the date of revaluation is restated proportionately with the charge in gross carrying amount of the asset. Increases in the carrying amount arising on revaluation of building, gas transmission and distribution system and equipment are credited to Revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; any further decreases are charged to the income statement. The revaluation surplus is transferred to retained earnings on the retirement or disposal of the asset.

Land, buffer gas, advances for property, plant and equipment and assets under construction are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives starting from the date when the asset is available for use, using the following rates:

	years
Buildings	60 - 100
Gas transmission and distribution system	40 - 50
Machinery and equipment	5 - 20
Furniture and fittings	5 - 10
Computers and equipment	3.33

The Company's policy is to capitalize property, plant and equipment with cost exceeding LVL 150 (EUR 213) and useful life exceeding 1 year.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note (f)).

Costs of borrowing to finance assets under construction and other direct charges related to the particular asset under construction are capitalised, during the time that is required to complete and prepare the asset for its intended use, as part of the cost of the asset.

Capitalisation of the borrowing costs is suspended during extended periods in which active developments are interrupted.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the income statement during the period in which they are incurred. When revalued assets are sold, the amounts included in Revaluation reserve are transferred to retained earnings.

(e) Intangible assets

Intangible assets primarily consist of software licences and patents. Intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated from the date when the asset is available for use. Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their useful lives. Generally intangible assets are amortised over a period of 5 years.

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of non-financial assets

All Company's non-financial assets have a finite useful life (except land). Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets are reviewed for possible reversal of the impairment at each reporting date.

(g) Financial assets

The Company classifies all its financial assets as receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for assets with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Receivables are classified as 'trade receivables' and 'other current assets' in the balance sheet (Notes 5 and 7 and (i)).

(h) Inventories

The cost of natural gas in Inčukalns UGS and in gas transmission pipelines is determined separately using the first-in first-out (FIFO) method based on total natural gas movement. Materials, spare parts, gas meters and other inventories cost is determined using the weighted average method. The cost of natural gas comprises cost of gas purchased. Direct labour, other direct costs and related production overheads are recognised on an accruals basis and charged to the income statement in the period when incurred.

Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. When the net realisable value of inventories is lower than its purchase price, provisions are created to reduce the value of inventories to their realisable value.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of trade receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances of current accounts with banks and deposits held at call with banks with original term less than 90 days and other short-term highly liquid investments, which can be easily converted to cash and are not subject of significant change in value.

(k) Share capital and dividend authorised

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issues of new shares, other than in connection with business combination, are shown in equity as a deduction, net of tax, from the proceeds. Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the temporary differences will reverse.

The principal temporary differences arise from different intangible asset amortization and property, plant and equipment depreciation rates, as well as provisions for slow-moving inventory, accrued expenses for unused annual leave and bonuses, accruals for post employment and other employee benefits and provisions for bad and doubtful debts where the management is of the opinion that they will meet the criteria stated in Article 9 of the law "On Corporate Income Tax". Deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Increase in deferred income tax liability that results from revaluation of property, plant and equipment is charged to equity as deduction from respective increase in the Revaluation reserve. Decrease in deferred income tax liability that results from depreciation of revalued property, plant and equipment is charged to the income statement.

(n) Income tax

Income tax is assessed for the period in accordance with Latvian tax legislation. The tax rate stated by Latvian tax legislation is 15 percent.

(o) Accrued unused annual leave expenses

Amount of accrual for unused annual leave is determined by multiplying the average daily wage of employees for the last six months of the reporting year by the amount of accrued but unused annual leave at the end of the reporting year.

(p) Employee benefits

Bonus plans

The Company recognizes a liability and expense for bonuses, based on formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Social security and pension contribution

The Company pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. The Company also makes contributions to an external defined contribution pension plan (the Plan). A defined contribution plan is a plan under which the Company pays fixed contributions into the Fund or the Plan and will have no legal or constructive obligations to pay further contributions if the Fund or the Plan does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security and pension contributions are recognised as an expense on an accrual basis and are included within staff costs.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (continued)

Post employment and other employee benefits

The Company provides defined benefits upon retirement and in the period of employment for employees whose employment conditions meet defined criteria according to the Employment contract. Amount of benefit liability is calculated based on current salary level and number of employees, which are entitled or may become entitled to receive those payments, as well as based on actuarial assumptions. Once a year an independent actuary evaluates these liabilities. Expected benefit expenses are accrued during the employment period.

(q) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(r) Revenue recognition

Sales of natural gas

Sales are recognised upon delivery of gas, net of value added tax and discounts and the difference between the forecasted and actual purchase cost of natural gas, which is used for determination of applicable natural gas selling price for the following month. Sales of natural gas to residential customers are recorded on the basis of meter readings reported by customers. Where relevant, this includes an estimate of the sales value of gas supplied between the date of the last meter reading and the year-end. Natural gas sales to corporate customers are recognized based on invoice issued according to meter reading of customers.

Income of transmission and storage on natural gas

Income of performance of services is recognised upon performance of services, net of value added tax and discounts. Income on natural gas transmission and storage is recognized based on actual amount of transmitted and stored gas, which are determined by meter readings.

Applicable natural gas selling price is calculated based on latest available data. The exchange rate for EUR/USD set by ECB in the last day of the previous month, actual gross calorific value of gas in the previous month as well as planned volume of received and delivered gas are used in the calculation. Actual purchase costs of natural gas are calculated based on methodology approved by the PUC's Council, taking into account the exchange rate of EUR/USD at last day of the month when gas is delivered, actual gas gross calorific value as well as actual volume of gas received from suppliers.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. Interest income on term deposits is classified as Other income and interest on cash balances is classified as Finance income. Accrual of interest income is ceased, if it's recoverability is uncertain.

Penalties income

Based on prudence principle penalties, including fines for late payments for gas, are recognized when received. (2007: Penalties income was recognised as it accrues unless its collectability is in doubt.) According to the management changes in the policy had no significant impact on the financial position of the Company.

Income from contribution to financing of construction works

The income from residents and enterprises contribution to financing of construction works of gas pipelines is accounted for as deferred income and recognized in the income statement over the expected period of the customer relationship of 30 to 40 years.

(s) Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(t) Related parties

Related parties are defined as Company's major shareholders that have a significant influence, members of the Council and Board, their close relatives and companies in which they have a significant influence or control.

(u) Critical estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

IFRS requires that in preparing the financial statements, management of the Company make estimates and assumptions that affect the reported amounts of assets and liabilities and required disclosure at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgement are revaluation of property, plant and equipment, determination of frequency of revaluations, the management assumptions and estimates in determination of useful lives of property, plant and equipment, recoverable amount of accounts receivable and inventories, post employment benefits and other employee benefits as described in respective notes.

Revaluation of fixed assets

The management determines fair value and the remaining useful life of buildings, gas transmission and distribution system and equipment based on valuations performed by independent certified valuers in accordance with real estate valuation standards and based on the average construction costs relevant for the reporting year. The Company's internal policy is to perform the revaluations when there are indications that average construction costs and/or purchase prices related to the buildings, gas transmission and distribution system and equipment have increased by cumulative 25%. The management performed an assessment in 2005 and concluded that the said average costs had not increased above 25%. During 2006 there was a considerable and unexpected increase in construction costs and/or purchase prices related to the buildings, gas transmission and distribution system and equipment. Accordingly, the management started preparation of the revaluation in 2006 and as at 1 February 2007 the Company performed revaluation of its property, plant and equipment that increased the carrying amount of assets by LVL 80.2 million (EUR 114.1 million). The amortised replacement cost was determined by independent certified valuator JSC BDO 'Invest Rīga' in collaboration with Company's specialists. During 2008 the said average costs had not increased above 25%.

Recoverable amount of trade receivables

The estimated collectibility of accounts receivable is assessed on an individual basis for each customer. In case individual assessment is not possible due to the large number of individual balances, only the significant debtors are assessed individually. Receivables that are not individually assessed for impairment are classified into groups of receivables with similar credit risk characteristics and are collectively assessed for impairment, using historical loss experience. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Inventory valuation

Upon valuation of inventories, the management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of inventory.

Evaluation of post employment and other employee benefits

Liabilities for the employee benefits are presented in the balance sheet at their present value. Employee benefit liabilities are calculated for each year using Projected Unit Credit method. Both actuary defined and publicly available assumptions are used in calculations regarding changes in demographic and financial variables.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and gas transmission system LVL'000	Equipment and machinery LVL'000	Other assets LVL'000	Advances LVL'000	Assets under construction LVL'000	Total LVL'000
Cost or revaluation						
At December 31, 2006	334 754	49 525	4 610	297	32 893	422 079
Additions	-	-	-	3 257	25 181	28 438
Reclassified	22 136	16 108	1 700	(3 474)	(36 470)	-
Revaluation	218 130	9 536	(75)	-	-	227 591
Disposals	(1 154)	(752)	(743)	-	(64)	(2 713)
Transferred	2 282	(5 899)	3 617	-	-	-
At December 31, 2007	576 148	68 518	9 109	80	21 540	675 395
Depreciation						
At December 31, 2006	166 728	26 517	3 063	-	-	196 308
Charged for 2007	13 159	3 620	1 040	-	-	17 819
Revaluation	141 150	4 185	28	-	-	145 363
Disposals	(639)	(683)	(536)	-	-	(1 858)
Transferred	492	(1 534)	1 042	-	-	-
At December 31, 2007	320 890	32 105	4 637	-	-	357 632
Net book value at December 31, 2007	255 258	36 413	4 472	80	21 540	317 763
Net book value at December 31, 2006	168 026	23 008	1 547	297	32 893	225 771
	Land, buildings and gas transmission system LVL'000	Equipment and machinery LVL'000	Other assets LVL'000	Advances LVL'000	Assets under construction LVL'000	Total LVL'000
Cost or revaluation						
At December 31, 2007	576 148	68 518	9 109	80	21 540	675 395
Additions	-	-	-	3 553	18 279	21 832
Reclassified	22 819	12 633	1 339	(3 414)	(33 490)	(113)
Revaluation	561	35	-	-	-	596
Disposals	(1 537)	(456)	(394)	(1)	(333)	(2 721)
Transferred to stock	-	-	-	-	(245)	(245)
At December 31, 2008	597 991	80 730	10 054	218	5 751	694 744
Depreciation						
At December 31, 2007	320 890	32 105	4 637	-	-	357 632
Charged for 2008	12 993	4 609	1 113	-	-	18 715
Revaluation	12	-	-	-	-	12
Disposals	(884)	(393)	(390)	-	-	(1 667)
At December 31, 2008	333 011	36 321	5 360	-	-	374 692
Net book value at December 31, 2008	264 980	44 409	4 694	218	5 751	320 052
Net book value at December 31, 2007	255 258	36 413	4 472	80	21 540	317 763

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land, buildings and gas transmission system EUR'000	Equipment and machinery EUR'000	Other assets EUR'000	Advances EUR'000	Assets under construction EUR'000	Total EUR'000
Cost or revaluation						
At December 31, 2006	476 312	70 468	6 560	423	46 803	600 566
Additions	-	-	-	4 634	35 830	40 464
Reclassified	31 497	22 920	2 419	(4 943)	(51 893)	-
Revaluation	310 372	13 569	(107)	-	-	323 834
Disposals	(1 643)	(1 069)	(1 057)	-	(91)	(3 860)
Transferred	3 247	(8 394)	5 147	-	-	-
At December 31, 2007	819 785	97 494	12 962	114	30 649	961 004
Depreciation						
At December 31, 2006	237 233	37 731	4 358	-	-	279 322
Charged for 2007	18 723	5 151	1 480	-	-	25 354
Revaluation	200 838	5 955	40	-	-	206 833
Disposals	(908)	(971)	(762)	-	-	(2 641)
Transferred	700	(2 183)	1 483	-	-	-
At December 31, 2007	456 586	45 683	6 599	-	-	508 868
Net book value at December 31, 2007	363 199	51 811	6 363	114	30 649	452 136
Net book value at December 31, 2006	239 079	32 737	2 202	423	46 803	321 244
	Land, buildings and gas transmission system EUR'000	Equipment and machinery EUR'000	Other assets EUR'000	Advances EUR'000	Assets under construction EUR'000	Total EUR'000
Cost or revaluation						
At December 31, 2007	819 785	97 494	12 962	114	30 649	961 004
Additions	-	-	-	5 055	26 009	31 064
Reclassified	32 468	17 976	1 905	(4 858)	(47 652)	(161)
Revaluation	798	50	-	-	-	848
Disposals	(2 187)	(649)	(561)	(1)	(473)	(3 871)
Transferred to stock	-	-	-	-	(349)	(349)
At December 31, 2008	850 864	114 871	14 306	310	8 184	988 535
Depreciation						
At December 31, 2007	456 586	45 683	6 599	-	-	508 868
Charged for 2008	18 487	6 558	1 584	-	-	26 629
Revaluation	17	-	-	-	-	17
Disposals	(1 258)	(559)	(555)	-	-	(2 372)
At December 31, 2008	473 832	51 682	7 628	-	-	533 142
Net book value at December 31, 2008	377 032	63 189	6 678	310	8 184	455 393
Net book value at December 31, 2007	363 199	51 811	6 363	114	30 649	452 136

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3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During 2003 and 2004 buildings, gas transmission and distribution system and equipment were revalued using amortised replacement cost method. The amortised replacement cost was determined by a certified assessor JSC BDO "Invest Riga". Where the amortised cost of the asset replacement amount was lower than their carrying amount the decrease in value was charged to 2003 and 2004 income statements. Increase in value resulting from the revaluation is recognised as increase in the Revaluation reserve, according to the decisions of the Board on February 13, 2004 and February 15, 2005. During 2005 and 2006 the management of the Company revalued the assets which were received for gratis in respective years using the same basis as in revaluation performed during 2003 and 2004. Increase in value resulting from the revaluation is recognised as increase in the Revaluation reserve, according to the decisions of the Board. During 2007 the Company had performed subsequent revaluation of all asset groups mentioned above using amortised replacement cost method. The amortised replacement cost was determined by independent certified valuator JSC BDO "Invest Rīga" in collaboration with the Company's` specialists. During 2008 assets which were received for gratis or in exchange during the reporting year were revaluated. See Note 2(u).

Property, plant and equipment include fully depreciated assets with a total book value of LVL 4 118 thousand or EUR 5 860 thousand (2007: LVL 2 654 thousand or EUR 3 776 thousand).

As at December 31, 2008 the carrying amount in case the property, plant and equipment would be carried under the cost model is LVL 154 318 thousand or EUR 219 575 thousand (December 31, 2007: LVL 141 082 thousand or EUR 200 742 thousand).

Determination of a cadastral value of the land plots and buildings owned by the Company is in process. Assessed cadastral value on December 31, 2008 of the buildings is LVL 12 022 thousand or EUR 17 106 thousand (2007: LVL 9 900 thousand or EUR 14 087 thousand), cadastral value of the land plots is LVL 5 459 thousand or EUR 7 768 thousand (2007: LVL 9 930 thousand or EUR 14 129 thousand), LVL 208 thousand (EUR 296 thousand) for container equipment (2007: LVL 75 thousand or EUR 106 thousand). Cadastral value is not determined for 34 buildings (part of them are mobile), two container equipments and for one land plot.

During the reporting year the Company has capitalized depreciation in amount of LVL 29 thousand or EUR 41 thousand (2007: LVL 1 thousand or EUR 1 thousand).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 INTANGIBLE ASSETS

	LVL'000	EUR'000
<u>Cost</u>		
As at December 31, 2006	3 765	5 357
Additions	702	999
Disposals	(65)	(93)
As at December 31, 2007	4 402	6 263
<u>Depreciation</u>		
As at December 31, 2006	1 970	2 803
Charge for the year	670	953
On disposals	(62)	(88)
As at December 31, 2007	2 578	3 668
Net Book Value as at December 31, 2007	1 824	2 595
Net Book Value as at December 31, 2006	1 795	2 554

	LVL'000	EUR'000
<u>Cost</u>		
As at December 31, 2007	4 402	6 263
Additions	1 000	1 423
Reclassified	113	161
Disposals	(163)	(232)
As at December 31, 2008	5 352	7 615
<u>Depreciation</u>		
As at December 31, 2007	2 578	3 668
Charge for the year	625	889
On disposals	(122)	(173)
As at December 31, 2008	3 081	4 384
Net Book Value as at December 31, 2008	2 271	3 231
Net Book Value as at December 31, 2007	1 824	2 595

Intangible assets include fully amortised intangible assets with a total cost value of LVL 759 thousand or EUR 1 079 thousand (2007: LVL 1 519 thousand or EUR 2 161 thousand). The major intangible assets are geographic-informative system GIS, software for long-distance pipelines SCADA IT and informative database for protective zone for long-distance pipelines at carrying amount of LVL 289 thousand (EUR 411 thousand), LVL 259 thousand (EUR 368 thousand) and LVL 250 thousand (EUR 356 thousand) respectively as at December 31, 2008.

4 TRADE RECEIVABLES

	31.12.2008. LVL'000	31.12.2007. LVL'000	31.12.2008. EUR'000	31.12.2007. EUR'000
<i>Non-current trade receivables</i>				
Gross value	11	10	16	14
	11	10	16	14
<i>Current trade receivables</i>				
Gross value	42 833	26 348	60 946	37 490
Provisions for impairment of receivables	(3 291)	(1 572)	(4 683)	(2 237)
	39 542	24 776	56 263	35 253
Total trade receivables	39 553	24 786	56 279	35 267

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 TRADE RECEIVABLES (CONTINUED)

Provisions for impairment of bad and doubtful debts:

	2008 LVL'000	2007 LVL'000	2008 EUR'000	2007 EUR'000
Provisions at the beginning of the year	1 625	1 940	2 311	2 760
Charged to income statement	2 127	57	3 026	81
Released to income statement	(20)	(230)	(28)	(326)
Net charge to income statement (see Note 15)	2 107	(173)	2 998	(245)
Written off	(383)	(143)	(545)	(204)
Provisions at the year end	3 349	1 624	4 764	2 311

Of the provisions as at 31 December 2008 LVL 3 291 thousand (EUR 4 683 thousand) relate to current trade receivables (2007: LVL 1 572 thousand (EUR 2 237 thousand)). Of the provisions as at 31 December 2008 LVL 58 thousand (EUR 81 thousand) relate to other trade receivables (2007: LVL 52 thousand (EUR 74 thousand)) (see Note 7). Provisions were created based on evaluation of the financial position and operations of separate groups of customers. The eventual losses may differ from the current calculations, as the specific amounts required are regularly reviewed and changes are reflected in the income statement.

6 INVENTORIES

	31.12.2008. LVL'000	31.12.2007. LVL'000	31.12.2008. EUR'000	31.12.2007. EUR'000
Materials and spare parts (at net realisable value)	3 031	3 014	4 313	4 289
Gas and fuel (at cost)*	112 650	82 345	160 286	117 166
	115 681	85 359	164 599	121 455

* see Note 10

Provisions for impairment of obsolete and slow moving inventories:

	2008 LVL'000	2007 LVL'000	2008 EUR'000	2007 EUR'000
Provisions at the beginning of the year	360	383	512	545
Charged to income statement	133	19	189	27
Released to income statement	(40)	(25)	(57)	(36)
Written off	(26)	(17)	(37)	(24)
Provisions at the year end	427	360	607	512

Provisions have been created for slow moving materials and spare parts. During 2008 the Company sold inventories amounting to LVL 6 thousand or EUR 9 thousand (2007: LVL 6 thousand or EUR 9 thousand) and used in operations inventories amounting to LVL 30 thousand or EUR 43 thousand (2007: LVL 11 thousand or EUR 16 thousand) that had been written off in previous years.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 OTHER CURRENT ASSETS

	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
	LVL'000	LVL'000	EUR'000	EUR'000
Prepayments and deferred expense	383	457	545	650
Value added tax overpaid	187	200	266	285
Natural resource tax overpaid	4	1	6	1
Interest accrued on bank deposits	1	54	1	77
Receivable for services supplied	33	20	47	28
Other debtors	441	924	626	1 316
	1 049	1 656	1 491	2 357
Provisions for impairment of bad and doubtful debts**	(58)	(52)	(81)	(74)
	991	1 604	1 410	2 283

*Provisions for impairment of bad and doubtful debts relate principally to Other debtors.

8 CASH AND CASH EQUIVALENTS

	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
	LVL'000	LVL'000	EUR'000	EUR'000
Cash on hand	2	6	3	9
Current accounts with banks	6 246	13 007	8 887	18 507
Term deposits*	198	31 292	282	44 524
	6 446	44 305	9 172	63 040

* Term deposits fixed interest rate is from 3% to 10.15% per annum (2007: from 2.65% to 10.15% per annum).

As at December 31, 2008 and December 31, 2007 there are no deposits with original term over 90 days.

9 SHARE CAPITAL

(a) Authorised, subscribed and paid-up share capital as at December 31, 2008 consists of 39 900 000 ordinary shares of LVL 1 each. All shares have equal voting rights and rights to dividend.

	31.12.2008.		31.12.2007.	
	% from total	Number of	% from total	Number of
	share capital	shares	share capital	shares
Registered (closed issues) shares	36.52	14 571 480	36.52	14 571 480
Bearer (public issues) shares	63.48	25 328 520	63.48	25 328 520
	100.00	39 900 000	100.00	39 900 000

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9 SHARE CAPITAL (CONTINUED)

(b) Shareholders

	31.12.2008.		31.12.2007.	
	% from total share capital	Number of shares	% from total share capital	Number of shares
E.ON Ruhrgas International AG <i>(including registered shares of closed issues 7 285 740)</i>	47.23	18 846 385	47.23	18 846 385
Itera Latvija LLC	16.00	6 384 001	16.00	6 384 001
JSC Gazprom <i>(including registered shares of closed issues 7 285 740)</i>	34.00	13 566 701	34.00	13 566 701
Shares owned by the State	0.00	117	0.00	117
Bearer (public issues) shares	2.77	1 102 796	2.77	1 102 796
	100.00	39 900 000	100.00	39 900 000

State owned shares are given for holding to the Ministry of Economy of the Republic of Latvia.

10 BORROWINGS

	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
	LVL'000	LVL'000	EUR'000	EUR'000
SEB Banka	1 788	20 030	2 544	28 500

On June 14, 2007 a credit agreement was concluded between the Company and *SEB Banka* on EUR 28 500 thousand (LVL 20 030 thousand) for one year with variable interest rate. The loan was used to purchase a natural gas inventories in Inčukalns UGS for year 2008 needs at year 2007 prices. Inventories of natural gas were pledged as a collateral. The Company has repaid the loan before maturity - in January, 2008. Effective interest rate was 5.3% in 2008 (2007: 4.76%).

On September 18, 2008 an Overdraft agreement was concluded between the Company and *SEB Banka* regarding assignment of overdraft limit in amount of EUR 50 000 000 (LVL 35 140 thousand) for one year with variable interest rate. Inventories of natural gas were pledged as a collateral. Overdraft agreement was concluded to reserve financial resources for settlements of payments for received gas, in case payments from users are delayed. At the moment of signing financial statements borrowings are repaid, and overdraft limit is not utilized. Effective interest rate was 3.6% in 2008.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 DEFERRED INCOME

(a) Income from residents and enterprises contribution to financing of construction works of gas pipelines:

	31.12.2008. LVL'000	31.12.2007. LVL'000	31.12.2008. EUR'000	31.12.2007. EUR'000
Current portion of borrowings	13 460	11 430	19 152	16 263
Non-current portion of borrowings	519	433	738	616
	13 979	11 863	19 890	16 879

Deferred income movement:

	2008 LVL'000	2007 LVL'000	2008 EUR'000	2007 EUR'000
At the beginning of the year	11 863	8 740	16 879	12 436
Received from residents and enterprises during the reporting year	2 613	3 496	3 719	4 974
Recognized as income in the reporting year (see Note 16)	(497)	(373)	(708)	(531)
Deferred to the following periods	13 979	11 863	19 890	16 879

(b) difference between the actual and forecasted purchase cost of natural gas:

- current portion*	3 155	-	4 489	-
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* See Note 13

Deferred income movement:

	2008 LVL'000	2007 LVL'000	2008 EUR'000	2007 EUR'000
At the beginning of the year	-	-	-	-
Difference between the actual and forecasted purchase cost of natural gas invoiced to customers in the reporting year	3 155	-	4 489	-
Deferred to the following periods	3 155	-	4 489	-
Total deferred to the following periods	17 134	11 863	24 379	16 879

See also Accounting policies Note (r).

12 OTHER CURRENT LIABILITIES

	31.12.2008. LVL'000	31.12.2007. LVL'000	31.12.2008. EUR'000	31.12.2007. EUR'000
Prepayments received	5 377	5 475	7 651	7 790
Social insurance contributions	593	520	844	739
Personal income tax	433	414	616	589
Value added tax	7 520	5 014	10 700	7 134
Salaries	611	602	869	857
Accrued expenses for unused annual leave	1 004	798	1 429	1 135
Accrued expenses for bonuses	4 900	4 996	6 972	7 109
Other current liabilities	3 886	3 077	5 529	4 378
	24 324	20 896	34 610	29 731

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13 SEGMENT INFORMATION

As the Company is operating in the single business segment – natural gas, no separate information on segments is presented, except sales per customers` groups:

	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
	LVL'000	LVL'000	EUR'000	EUR'000
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

* Sales were decreased by LVL 3 155 thousand (EUR – 4 489 thousand) representing difference between actual and forecasted purchase cost of natural gas in December 2008 that will be taken into account when setting tariff for the following month (see Note 11).

There are no geographical segments of the Company as all principal operations are carried out in Latvia.

14 COST OF SALES

	2008	2007	2008	2007
	LVL'000	LVL'000	EUR'000	EUR'000
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	4 938	4 448
Life, health and pension insurance	880	664	1 252	945
Materials and spare parts	7 785	3 984	11 078	5 668
Depreciation and amortisation	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

15 ADMINISTRATIVE EXPENSES

Salaries	3 663	3 803	5 213	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	469	702	667	1 000
Bank charges	253	171	360	243
Provisions for impairment of bad and doubtful debts, net (see Note 5)	2 107	(173)	2 998	(245)
Other expenses	1 488	1 017	2 117	1 446
	9 824	7 223	13 978	10 277

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16 OTHER INCOME

	2008	2007	2008	2007
	LVL'000	LVL'000	EUR'000	EUR'000
Penalties from customers	458	317	652	451
Income from contribution to financing of construction works (see Note 11)	497	373	708	531
Profit on sale of fixed assets	26	-	37	-
Indemnity of loss	-	6	-	8
Other income*	450	1 728*	639	2 459*
Net foreign exchange gains	-	149	-	212
Interest income	1 174	311	1 670	442
	2 605	2 884	3 706	4 103

* Including LVL 1 311 thousand (EUR 1 866 thousand) of income from reversal of prior fair value decrease of property plant and equipment as the result of revaluation performed on February 1, 2007.

17 OTHER EXPENSES

Materials	13	10	18	14
Salaries	182	197	259	280
Social insurance contributions	24	25	34	36
Depreciation and amortisation	94	91	134	129
Sponsorship	731	1 195	1 040	1 700
Loss from sale of fixed assets	-	592	-	842
Provisions for slow moving and obsolete inventories impairment	93	-	132	-
Loss from increase in exchange rates, net	267	-	380	-
Other expense	852	350	1 213	499
	2 256	2 460	3 210	3 500

18 EXPENSES BY NATURE

Purchase of natural gas	267 707	150 010	380 913	213 445
Depreciation and amortisation	19 312	18 488	27 478	26 306
Employee benefit expense (see Note 26)	24 158	22 464	34 374	31 963
Material and spare parts	7 798	3 994	11 096	5 683
Net provisions for impaired receivables	2 107	(172)	2 998	(245)
Other expenses	11 026	10 432	15 688	14 843
	332 108	205 216	472 547	291 995

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19 FINANCE INCOME, NET

	2008	2007	2008	2007
	LVL'000	LVL'000	EUR'000	EUR'000
Finance income				
- Interest income	1 083	587	1 541	836
	1 083	587	1 541	836
Finance expenses				
- Interest expenses	(119)	(519)	(169)	(738)
	(119)	(519)	(169)	(738)
Finance income, net	964	68	1 372	98

20 NET FOREIGN EXCHANGE GAINS AND INTEREST INCOME

The exchange net differences are credited to the income statement under Other income and Other expenses (see Notes 16 and 17).

Interest income credited to the income statement is included as follows:

Other income (see Note 16)	1 174	311	1 670	442
Finance income, net (see Note 19)	1 083	587	1 541	836
	2 257	898	3 211	1 278

21 INCOME TAX EXPENSE

Current income tax	4 178	5 973	5 944	8 499
Unrealised deferred income tax gain related to revalued property, plant and equipment	(1 770)	(1 741)	(2 518)	(2 477)
Deferred income tax	1 012	673	1 440	958
	3 420	4 905	4 866	6 980

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 15% rate stipulated by the law to profit before taxation:

Profit before income tax	22 466	37 177	31 966	52 899
Theoretically calculated tax at tax rate of 15%	3 370	5 577	4 795	7 935
<i>Tax effect of:</i>				
Tax non-deductible expenses, net	2 442	2 085	3 474	2 968
Tax relief on donations	(622)	(1 016)	(885)	(1 446)
Unrealised deferred income tax gain related to revalued property, plant and equipment	(1 770)	(1 741)	(2 518)	(2 477)
Tax charge	3 420	4 905	4 866	6 980

Deferred income tax is calculated by using the enacted tax rate – 15%.

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21 INCOME TAX EXPENSE (CONTINUED)

Reconciliation between actual corporate income tax charge and the amount of corporate income tax payable:

	2008	2007	2008	2007
	LVL'000	LVL'000	EUR'000	EUR'000
Liabilities / (receivable) as at 1 January	1 412	(1 116)	2 009	(1 588)
Charge for the year	4 178	5 973	5 944	8 499
Paid during the year	(9 444)	(3 445)	(13 438)	(4 902)
(Receivable) / liabilities as at 31 December	(3 854)	1 412	(5 485)	2 009

Calculation of deferred income tax:

Deferred income tax liabilities at the beginning of the reporting year	30 538	19 550	43 453	27 817
Increase of deferred income tax liabilities (charged to income statement)	1 012	673	1 440	958
Increase in deferred income tax liabilities that results from revaluation of property, plant and equipment (charged to equity)	225	12 153	320	17 292
Decrease in deferred income tax liabilities that results from depreciation of revalued property, plant and equipment (charged to income statement)	(1 770)	(1 741)	(2 518)	(2 477)
Deferred income tax that results from disposal of revalued property, plant and equipment (charged to equity)	(90)	(97)	(129)	(137)
Deferred income tax liabilities at the end of the reporting year	29 915	30 538	42 566	43 453

Deferred income tax assets and liabilities are attributable to the following items:

	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
	LVL'000	LVL'000	EUR'000	EUR'000
Temporary difference on depreciation of property, plant and equipment (to be settled within 12 months)	988	1 326	1 406	1 887
Temporary difference on depreciation of property, plant and equipment (to be settled after more than 12 months)	31 393	30 889	44 669	43 951
Temporary difference on provisions for impairment of bad and doubtful debts (to be settled within 12 months) *	(320)	(372)	(455)	(529)
Temporary difference on accrued expenses for unused annual leave and bonuses (to be settled within 12 months)	(890)	(876)	(1 267)	(1 246)
Temporary difference on accruals for post employment benefits and other employee benefits (to be settled after more than 12 month)	(701)	(375)	(997)	(533)
Temporary difference on accruals for other liabilities (to be settled within 12 months)	(491)	-	(699)	-
Temporary difference on provisions for impairment of inventories (to be settled within 12 months)	(64)	(54)	(91)	(77)
Deferred income tax liability, net	29 915	30 538	42 566	43 453

* These are provisions for impairment of bad and doubtful debts that are expected to become allowable for corporate income tax purposes in the foreseeable future as relevant debtor companies are in liquidation.

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22 ACCRUALS FOR POST EMPLOYMENT BENEFITS

	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of reporting year	2 500	-	3 557	-
Employment costs of the reporting year	652	2 500	928	3 557
Interest expenses	398	-	566	-
Post employment benefits paid	(8)	-	(11)	-
Losses as a result of changes in assumptions of actuary	1 130	-	1 608	-
Provisions at the end of the reporting year	4 672	2 500	6 648	3 557

Post employment benefits are unique or monthly (in limited time period) benefits, which are paid to employee, whose employment conditions meet defined criteria according to the Employment contract. Accruals for benefits are calculated based on current level of the salaries and the number of those employees, who might pertain such benefit, if they would terminate an employment with the Company, as well as previously applied benefit rates and actuarial assumptions.

Discount factor applied to discount post employment benefit income is set at a level of 6.75 % (2007: 5.65%) based on government bond market yields at the balance date. In calculations of these accruals a probability of employment termination in various age groups based on previous years experience is taken into consideration.

23 EARNINGS AND DIVIDENDS PER SHARE

(a) EARNINGS PER SHARE

The Company has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as the basic earnings per share.

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

	2008	2007	2008	2007
	LVL'000	LVL'000	EUR'000	EUR'000
Net profit attributable to shareholders (a)	19 046	32 272	27 100	45 919
	number, th.	number, th.	number, th.	number, th.
Ordinary shares as at 1 January	39 900	39 900	39 900	39 900
Ordinary shares as at 31 December	39 900	39 900	39 900	39 900
Weighted average number of ordinary shares outstanding during the year (b)	39 900	39 900	39 900	39 900
Basic earnings per share during the year (a/b) in LVL or EUR	0.477	0.809	0.679	1.151

(b) DIVIDENDS PER SHARE

Dividends payable are not accounted for until they are declared at the Annual General Meeting. At the meeting, a dividend in respect to 2008 of LVL 0.38 (EUR 0.541) per share will be proposed by the management. These financial statements do not reflect these dividends payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings for 2008.

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23 EARNINGS AND DIVIDENDS PER SHARE (CONTINUED)

The dividends paid in 2008 for 2007 were LVL 19 950 thousand (LVL 0.50 per share) or EUR 28 386 thousand (EUR 0.71 per share). The dividends paid in 2007 for 2006 were LVL 11 970 thousand (LVL 0.30 per share) or EUR 17 032 thousand (EUR 0.43 per share).

24 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	2008	2007	2008	2007
	LVL'000	LVL'000	EUR'000	EUR'000
Profit before income tax	22 466	37 177	31 966	52 899
<i>Adjustments for:</i>				
Depreciation (Note 3)	18 686	17 819	26 588	25 354
Amortisation (Note 4)	625	670	889	953
Deviations of actual and predictable purchases of natural gas and income from participation fees (see Note 11)	2 658	(373)	3 781	(531)
Provision for impairment of slow moving inventories (Note 6)	93	(6)	132	(9)
Accrued expenses for bonuses	(96)	3 017	(137)	4 293
Accrued expenses for unused annual leave	206	145	293	206
Difference on accruals for other liabilities	121	-	172	-
Accrued expenses for post employment benefits and other employee benefits (Note 22)	2 172	2 500	3 092	3 557
Interest income (Note 20)	(2 257)	(898)	(3 211)	(1 278)
Interest expense (Note 19)	119	519	169	738
(Profit) / loss on sale of property plant and equipment (Notes 16, 17)	(26)	592	(37)	842
<i>Changes in working capital</i>				
- trade and other receivables	(12 619)	(10 818)	(17 954)	(15 394)
- inventories	(29 332)	(15 001)	(41 736)	(21 343)
- trade and other payables	27 398	14 778	38 984	21 029
	30 214	50 121	42 991	71 316

25 RELATED PARTY TRANSACTIONS

No entity exercises a control over the Company. Entities disclosed below own or owned more than 20% of the shares that deemed to provide a significant influence over the Company.

(a) Sale of services

JSC “Gazprom”	7 218	2 068	10 271	2 942
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(b) Purchase of natural gas

JSC “Gazprom”	173 920	105 804	247 465	150 546
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(c) Purchase of services

E.ON Ruhrgas AG	14	23	20	33
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Accounts payable for natural gas and services

	31.12.2008. LVL'000	31.12.2007. LVL'000	31.12.2008. EUR'000	31.12.2007. EUR'000
JSC "Gazprom"	<u>7 744</u>	<u>3</u>	<u>11 019</u>	<u>4</u>

Payables are payable in cash and are not secured by a pledge or otherwise.

(e) Accounts receivable for natural gas in transit

JSC "Gazprom"	<u>244</u>	<u>155</u>	<u>347</u>	<u>221</u>
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Receivables are receivable in cash and are not secured by a pledge or otherwise.

(f) Accounts payable for services from companies controlled by related party

Accounts payable to companies controlled				
JSC "Gazprom"	<u>-</u>	<u>51</u>	<u>-</u>	<u>72</u>

Payables are payable in cash and are not secured by a pledge or otherwise.

(g) Expenses for services from companies controlled by related party

	2008 LVL'000	2007 LVL'000	2008 EUR'000	2007 EUR'000
Companies controlled JSC "Gazprom"	<u>958</u>	<u>971</u>	<u>1 363</u>	<u>1 381</u>

(h) Remuneration to Board of Directors and Council

A listing of the members of the Board of Directors and Council is shown on page 3.

Salaries	1 378	1 410	1 961	2 006
Social insurance contributions	123	102	175	145
Expenses for accruals for post employment benefits and other employee benefits	-	69	-	98
Health and life insurance	10	10	14	14
Contributions to pension funds	35	35	50	50
	<u>1 546</u>	<u>1 626</u>	<u>2 200</u>	<u>2 313</u>

Salaries and social insurance contributions include accrued bonuses for the reporting year.

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26 EMPLOYEE BENEFIT COSTS

	2008 LVL'000	2007 LVL'000	2008 EUR'000	2007 EUR'000
Wages and salaries	17 211	15 816	24 489	22 504
Expenses for accruals for post employment benefits and other employee benefits	1 800	2 138	2 561	3 042
Social insurance contributions	3 732	3 360	5 310	4 781
Social insurance contributions for accruals for post employment benefits and other employee benefits	381	362	542	515
Life, health and pension insurance	1 035	788	1 473	1 121
	24 159	22 464	34 375	31 963

In accordance with the Rules of the Cabinet of Ministers of Latvia 71,47 % (2007: 74%) of the social insurance contributions are used to fund the state defined contribution pension system.

27 FINANCIAL RISK MANAGEMENT

27.1. Recent instability in the global and Latvian financial markets and economies.

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere, including Latvia. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Management is unable to reliably estimate the effects on the Company's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets as well as the economic downturn in Latvia. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.

Impact on liquidity:

The volume of wholesale financing has significantly reduced recently. Such circumstances may affect the ability of the Company to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The loans payable by the Company are disclosed in Note 10.

Impact on asset valuation:

Debtors of the Company may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. The management have based their assumptions about recoverable amounts of the assets on the available information, however it is not possible to determine reliably the effect of the economic downturn in its entirety.

27.2. Financial risk factors

The Company's overall risk management program is based on "JSC "Latvijas Gāze" risk management guidelines and procedures" developed by SIA Marsh in 2005.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Financial instruments owned by the Company (according to IFRS 7):

- financial assets: current debtors, long term debtors, cash in bank accounts, cash in bank deposits;
- financial liabilities: short term borrowings, creditors.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2. Financial risk factors (continued)

Financial instruments by categories

All financial assets are included in category Loans and Receivables and all financial liabilities are measured at amortised cost.

Company's activities are exposed to following risks:

- Credit risk
- Liquidity risk
- Market risk, incl.
 - Interest rate risk
 - Currency exchange rate risk

Credit risk

The Company is exposed to credit risk, which is a risk of arising of material losses, in case counterparty will not be able to fulfill its contractual obligations to the Company. Credit risk is critical to the operations of the Company, so it is important to manage this risk effectively.

Sources of credit risk

Credit risk mainly relates to few largest customers of the Company. Largest part 48.6% (2007: 47%) of trade receivables natural gas comprises of debts of 4 largest customers of the Company, one of these customers debt comprised 17.2% (2007: 20.7%) at December 31, 2008, second and third largest customer debt comprised 7.2% and 6.3% each (2007: 8.7% and 6.8%) of total trade receivables. The Company has introduced and observes such a credit policy that envisages selling goods on credit only to customers with a good credit history, controlling the amount of credit set for each customer.

Credit risk management

Control over debtors is performed by Gas accounting and payment department and Financial accounting department of the Company.

Debtors aging analysis is prepared on a monthly basis. Debtors are analysed in following groups:

- residential customers;
- house managers, other institutions and organizations, which have contracts for collecting of payments from residential customers;
- companies with gas consumption less than 25 thousand m³ a year;
- companies with gas consumption more than 25 thousand m³ a year.

In case of residential customers, if debt of consumed natural gas is overdue more than 3 months or is more than LVL 50, a reminder of unpaid debt is sent. If debt is not settled in stated term, notice is sent in which client is informed that gas supply can be stopped and collection of debt will be made through the court. If debt is still not received control department of the Company receives task to disconnect debtor from the gas system, and Legal division of the Company applies to the court.

For the companies with gas consumption less than 25 thousand m³ a year, a notice is sent if receivables are past due. If after that the debt is not repaid to the Company, debtor is disconnected from the gas system.

Debts of the companies with gas consumption more than 25 thousand m³ a year are analysed in the Board meetings in which the decision for appropriate actions is made. Most common decision – the Company agrees to accept payments in installments charging interest on unpaid amounts.

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2. Financial risk factors (continued)

Credit risk (continued)

December 31, 2008 (LVL'000):

	TOTAL	Fully performing (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	39 244	31 440	7 804	-
Other services	298	298	-	-
	39 542	31 738	7 804	-

December 31, 2008 (EUR'000):

	TOTAL	Fully performing (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	55 838	44 734	11 104	-
Other services	425	425	-	-
	56 263	45 159	11 104	-

December 31, 2007 (LVL'000):

	TOTAL	Fully performing (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	24 499	23 695	804	-
Other services	277	277	-	-
	24 776	23 972	804	-

December 31, 2007 (EUR'000):

	TOTAL	Fully performing (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	34 859	33 715	1 144	-
Other services	394	394	-	-
	35 253	34 109	1 144	-

* 100% provisions are created for doubtful debtors (see Note 5)

Quality of the debtors

Fully performing debtors are mainly comprised by heat supply companies. The shareholders of major part of the heat supply companies are local municipalities, which guarantee timely settlement of the debts or make advance payments for natural gas.

Past due not impaired and impaired debtors are not secured (with mortgage or commercial pledge).

Aging analysis of trade receivables past due, but not impaired is following:

	31.12.2008. LVL'000	31.12.2007. LVL'000	31.12.2008. EUR'000	31.12.2007. EUR'000
Up to 3 months	6 784	376	9 653	535
3 to 6 months	1 020	428	1 451	609
	7 804	804	11 104	1 144

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2. Financial risk factors (continued)

Credit risk (continued)

Term deposits and cash at bank

Before placing a term deposit the Board of the Company evaluates credit ratings, financial performance as well as offered interest rates of the banks.

Credit ratings of banks (or its owners) used by the Company (as at 25 March 2009):

Bank	Rating agency		Long term rating	Short term rating	Rating of financial security	Reiting forecast
DnB NOR ASA	Moody's Investors Service		Aa1	P-1	-*	Negative
GE Money (General Electric Co)	Moody's Investors Service		Aa2	P-1	-*	Stable
SEB bank	Moody's Investors Service		Aa2	P-1	-*	Negative
Swedbank	Moody's Investors Service	local currency	A1	P-1		
		foreign currency	A1	P-1	C-	-*
Parex Bank	-		-*	-*	-*	-*

* Data on credit rating is not available

	31.12.2008. LVL'000	31.12.2007. LVL'000	31.12.2008. EUR'000	31.12.2007. EUR'000
Parex Bank	2 179	6 233	3 100	8 869
SEB bank	1 790	29 120	2 547	41 434
Swedbank	1 334	3 056	1 898	4 348
GE Money Bank	244	3 251	347	4 626
DnB NORD	897	2 639	1 276	3 755
	6 444	44 299	9 168	63 032

Credit quality of financial assets (Moody's Investors Service)

Aaa	-	3 251	-	4 625
Aa1	897	2 639	1 276	3 756
Aa2	2 034	29 120	2 894	41 434
A1	1 334	-	1 898	-
Baa1	-	3 056	-	4 348
Baa3	-	6 233	-	8 869
Data on credit rating is not available	2 179	-	3 100	-
	6 444	44 299	9 168	63 032

Liquidity risk

Liquidity risk is associated with Company's ability to settle its liabilities within agreed due dates.

Main guidelines applied by the Company – do not permit delay of payments to creditors and prioritise payments to suppliers for the delivered gas. If the Company does not have sufficient amount of cash, credit line is used.

Cash flow plan is prepared to manage liquidity risk on a monthly bases after actual data of the previous month is received, or in cases which may significantly affect financial performance (significant changes in heavy fuel global market price / or natural gas purchase prices) of the Company.

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2. Financial risk factors (continued)

Liquidity risk (continued)

Contractual maturity of liabilities as at 31 December, 2008 (LVL'000):

	< 1 month	1 – 3 months	3 months – 1 year	1 – 5 years
Accounts payable for natural gas	8 317	75 197	-	-
Liabilities to employees	611	-	-	-
Tax liabilities	12 192	-	-	-
Other current liabilities	106	2 488	58	-
Accrued expenses	5 904	42	79	-
Borrowings	1 789	-	-	-
	28 919	77 727	137	-

Contractual maturity of liabilities as at 31 December, 2008 (EUR'000):

	< 1 month	1 – 3 months	3 months – 1 year	1 – 5 years
Accounts payable for natural gas	11 834	106 996	-	-
Liabilities to employees	869	-	-	-
Tax liabilities	17 347	-	-	-
Other current liabilities	151	3 540	83	-
Accrued expenses	8 401	60	112	-
Borrowings	2 546	-	-	-
	41 148	110 596	195	-

Contractual maturity of liabilities as at 31 December, 2007 (LVL'000):

	< 1 month	1 – 3 months	3 months – 1 year	1 – 5 years
Accounts payable for natural gas	2 825	45 194	12 323	-
Liabilities to employees	602	-	-	-
Tax liabilities	8 667	-	-	-
Other current liabilities	138	2 002	558	-
Accrued expenses	5 794	-	-	-
Borrowings	-	-	20 097	-
	18 026	47 196	32 978	-

Contractual maturity of liabilities as at 31 December, 2007 (EUR'000):

	< 1 month	1 – 3 months	3 months – 1 year	1 – 5 years
Accounts payable for natural gas	4 019	64 305	17 534	-
Liabilities to employees	857	-	-	-
Tax liabilities	12 332	-	-	-
Other current liabilities	196	2 849	794	-
Accrued expenses	8 244	-	-	-
Borrowings	-	-	28 595	-
	25 648	67 154	46 923	-

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2. Financial risk factors (continued)

Market risk

Interest rate risk

The Company is exposed to cash flow interest rate risk, as its borrowing is at variable interest rate (Note 10). Based on calculations, the impact on post-tax profit of a 100 basis points shift would be a maximum increase of LVL 11 thousand (EUR 16 thousand) or decrease of LVL 11 thousand (EUR 16 thousand). The rest of the financial assets and liabilities bear no interest, or rate is fixed. As all financial assets and liabilities are accounted for at amortised cost, the Company is not exposed to the fair value interest rate risk.

Foreign currency exchange risk

Foreign currency exchange risk is probability, that foreign currency exchange fluctuations will affect financial position and cash flows of the Company. The Company is not directly subject to the risk of fluctuation of foreign currency rates as the gas purchase price is set in USD and afterwards recalculated in EUR, whereas the gas sales tariffs are set in LVL. Settlements for the supplied gas are made in EUR. As since January 1, 2005 the lat rate is pegged to the euro rate, the fluctuations of the LVL/EUR rate are limited and are not expected to have a significant influence on further financial results. The changes in gas purchase prices in USD depending on the quotation of oil products are covered by the PUC-approved natural gas sales tariffs, which to a certain extent cover the fluctuations of both the LVL/EUR and the EUR/USD rate. The risk of fluctuations of foreign currency rates related to debts to suppliers is under control by keeping a significant share of financial resources in deposits of the respective currency.

Open foreign currencies positions:

	31.12.2008.			
	USD'000	EUR'000	GBP'000	Other'000
Financial assets	476	1 224	25	55
Financial liabilities	-	(121 545)	-	-
Balance sheet position in original currency	476	(120 320)	25	55
Balance sheet position in LVL'000	236	(84 562)	18	4
Balance sheet position in EUR'000	335	(120 320)	25	6

Open foreign currencies positions:

	31.12.2007.			
	USD'000	EUR'000	GBP'000	Other'000
Financial assets	312	16 357	139	635
Financial liabilities	(71)	(115 187)	-	-
Balance sheet position in original currency	241	(98 830)	139	635
Balance sheet position in LVL'000	117	(69 458)	133	4
Balance sheet position in EUR'000	166	(98 830)	189	6

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2. Financial risk factors (continued)

Foreign currency exchange risk (continued)

Exchange rate fluctuations sensitivity analysis

In determination of future fluctuations of exchange rates, assumption is made based on prior year USD currency exchange rate fluctuations, which were in the range of 14 % (2007: 8%), and for other currencies in range of 1 % (2007: 1%) (net of tax effect).

December 31, 2008

	Currency	Book value	Impact to	Impact to	Book value	Impact to	Impact to
			current year profit	current year profit		current year profit	current year profit
			+14% (USD)	-14% (USD)		+14% (USD)	-14% (USD)
			+1% (other currencies)	-1% (other currencies)		+1% (other currencies)	-1% (other currencies)
		LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
Assets							
Cash	EUR	537	4	(4)	764	6	(6)
	USD	234	28	(28)	333	40	(40)
	Other	4	1	(1)	6	-	-
Accounts receivable	EUR	324	3	(3)	461	3	(3)
	USD	1	-	-	1	-	-
	GBP	18	3	(3)	26	3	(3)
Liabilities		1 118	39	(39)	1 591	52	(52)
Accounts payable	EUR	83 634	711	(711)	119 001	1 012	(1 012)
Borrowings	EUR	1 788	15	(15)	2 544	22	(22)
		85 422	726	(726)	121 545	1 034	(1 034)
Net impact		(84 304)	(687)	687	(119 954)	(982)	982

December 31, 2007

	Currency	Book value	Impact to	Impact to	Book value	Impact to	Impact to
			current year profit	current year profit		current year profit	current year profit
			+8% (USD)	-8% (USD)		+8% (USD)	-8% (USD)
			+1% (other currencies)	-1% (other currencies)		+1% (other currencies)	-1% (other currencies)
		LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
Assets							
Cash	EUR	10 681	91	(91)	15 198	129	(129)
	USD	149	10	(10)	212	14	(14)
	Other	4	-	-	6	-	-
Accounts receivable	EUR	815	7	(7)	1 160	9	(9)
	USD	2	-	-	3	-	-
	GBP	133	9	(9)	189	14	(14)
		11 784	117	(117)	16 768	166	(166)
Liabilities							
Accounts payable	EUR	60 924	518	(518)	86 687	736	(736)
	USD	34	3	(3)	48	3	(3)
Borrowings	EUR	20 030	170	(170)	28 500	242	(242)
		80 988	691	(691)	115 235	981	(981)
Net impact		(69 204)	(574)	574	(98 467)	(815)	815

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27 FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3. Capital risk management

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital.

The Company performs management of the capital, based on proportion of borrowed capital against total capital. This indicator is calculated as proportion of total liabilities, except cash and cash equivalents, to the total capital of the Company. Liabilities include all long term and short term liabilities, but total capital includes all liabilities of the Company and equity. This indicator is used to evaluate structure of the capital of the Company, as well as its solvency. Strategy of the company is to ensure that mentioned proportion is not lower than 8 % and not higher than 50 %.

In 2008 and 2007 proportion of borrowed capital to total capital was:

	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
	LVL’000	LVL’000	EUR’000	EUR’000
Total liabilities	163 893	150 141	233 199	213 630
(Cash and cash equivalents)	(6 446)	(44 305)	(9 172)	(63 040)
Net total liabilities	157 447	105 836	224 027	150 590
Total liabilities and equity	488 848	475 641	695 568	676 776
Borrowed capital proportion to total capital	32.21%	22.25%	32.21%	22.25%

Increase of borrowed capital proportion to total capital in 2008 is mainly related to significant increase of purchase cost of natural gas, as a result payable to natural gas suppliers in December 31, 2008 is significantly larger.

27.4. Fair value

Carrying amount of financial assets and liabilities of the Company does not significantly differ from their fair value, because almost all financial assets and liabilities are short term, so influence of discounting factor is minor.

28 CAPITAL COMMITMENTS

The Company has planned to spend the following amounts for capital expenditures for property, plant and equipment and intangible assets in the subsequent year:

	31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
	LVL’000	LVL’000	EUR’000	EUR’000
Contracted for, but not delivered	2 911	11 953	4 142	17 008
Authorised, but not yet contracted for	21 109	16 322	30 035	23 224
	24 020	28 275	34 177	40 232

29 LITIGATIONS

In 2005 in the Vidzeme Suburb Court of Riga proceedings concerning the claim of E.ON Ruhrgas International AG against the Joint Stock Company “Latvijas Gaze” regarding the resolution of the meeting of shareholders on invalidation of the amendments to the Articles of Association, which provide for an increase of the required quorum for competence of the meeting of shareholders from 75% to 85%, were started. The LLC “Itera Latvia” was invited to participate as the third party. Since the court rejected the claim of E.ON Ruhrgas International AG, the judgment of the court in 2005 was appealed in the Regional Court of Riga, which with its judgment of April 10, 2007 satisfied the claim of the E.ON Ruhrgas International AG.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 LITIGATIONS (CONTINUED)

The Board of the Joint Stock Company “Latvijas Gāze” decided to appeal in cassation order against the judgment of the Regional Court of Riga in the Supreme Court of the Republic of Latvia. On December 12, 2007, the Senate of the Supreme Court rejected the cassation claim of the Company against the judgment of the Regional Court of Riga of April 10, 2007, whereby the appeal of E.ON Ruhrgas International AG against the judgment of the Vidzeme Suburb Court of Riga of September 9, 2005 was satisfied and the court invalidated the resolution passed by the repeated extraordinary meeting of shareholders in the 2nd item of agenda in the part concerning amendments to the Articles of Association, which provide for an increase of the required quorum for competence of the meeting of shareholders from 75% to 85%. In order to ensure execution of the judgment, “Latvijas Gāze” has signed a contract with the LLC “Ardente”. On June 25, 2008, the respective amendments to the Articles of Association were registered in the Register of Enterprises.

In 2008, a shareholder of the Company, LLC “ITERA Latvija” pursued a claim in the Constitutional Court on the compliance of the Second Part of Section 142 and the Second Part of Section 284 of the Commercial Act with Article 1 and 105 of the Constitution of the Republic of Latvia. The Constitutional Court, reviewing the application of the LLC “ITERA Latvija” resolved that the Second Part of Section 284 of the Commercial law in the edition, which was in force till 21 January 2009, insofar as it prohibited setting a higher number of votes required for adopting resolutions, in relation to the Joint Stock Company “Latvijas Gāze”, does not comply with Article 105 of the Constitution of the Republic of Latvia since the moment of its passage. Litigations listed above have no direct effect on the financial results of the Company.

30 TAX CONTINGENT LIABILITIES

The tax authorities may at any time inspect the books and records within 3 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

31 SUBSEQUENT EVENTS

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at December 31, 2008.