



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

Unaudited Financial Report of nine months of 2007.

Prepared according to the Requirements of International Accounting  
Standards.

**Joint Stock Company “Latvijas Gāze”  
9 months 2007**

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## **JSC “Latvijas Gāze” management**

### **Council**

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

### **Board**

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

## **Report on activity of the JSC “Latvijas Gāze” in the 9 months of the year 2007**

### **Economical and financial activity**

In the nine months of 2007, the Joint Stock Company “Latvijas Gāze” (hereinafter – LG) sold to consumers 1150,7 million nm<sup>3</sup> of natural gas. In comparison with the respective period of 2006, the natural gas sales have decreased by 6,3 %, but are higher than the budget plan by 0,9 % or 10,6 million nm<sup>3</sup>.

The decrease of gas consumption in nine months of 2007 is due to the relatively high air temperature in the 1<sup>st</sup> quarter of 2007. In the 2<sup>nd</sup> and 3<sup>rd</sup> quarter of the reporting year, the planned sales amounts have been reached and even slightly exceeded, however, currently there is no reason to predict a significant increase of the planned amount of gas sales in the 4<sup>th</sup> quarter of 2007. Assuming that in the further months the amount of gas sales will reach that planned in the budget, the prognosis of annual sales might be about **1 660 million nm<sup>3</sup> – 1 670 million nm<sup>3</sup>**.

The gas injection season in the Incukalns Underground Gas Storage (hereinafter – IUGS) was commenced on April 16 this year and has been completed on October 10 this year. Commencing the injection, the reserves of active gas at the IUGS were 1140,2 million nm<sup>3</sup>, incl. 678,5 million nm<sup>3</sup> for the needs of Latvian customers. There were injected 1 185 million nm<sup>3</sup> of gas into IUGS in year 2007, reaching the amount of active gas 2,32 billion m<sup>3</sup> at the end of the injection season.

In the nine months of 2007, the consumers have been sold natural gas and provided services for LVL 143,7 million, which is by 14,8 % more than in the respective period of 2006 and more than 2,0 % than it was planned when preparing the budget.

On May 1, 2007, the new natural gas sales end tariffs became effective. On average, they were by 30,1 % higher than the previous ones.

LG completed nine months of 2007 with a profit of LVL 4,88 million, which is 43,6 % less than in the respective period of 2006, when profit was LVL 8,66 million.

In the nine months of 2007 were not made provisions for levelling of maintenance costs. In comparison with the respective period of 2006, accruals for this aim were LVL 5,0 million.

On June 18, 2007, LG received a short-term credit of EUR 28,5 million at SEB Unibanka to purchase from the OJSC “Gazprom” part of gas located at the IUGS for the price of 2007 for the needs of 2008. According to prognoses of cash flow, the credit will be refunded after the gas is sold to customers.

Within the framework of the capital investment program, LVL 18 241,3 thousands have been utilized in 9 months of 2007. The funds have been mostly used in modernization of technological equipment and construction of new gas pipelines. The new compressor workshop has been put in to operation in IUGS.

### **The most significant activities:**

- Participation in various working groups developing legislation;
- Negotiations with the suppliers of natural gas on the price formula for 2008 and further years;
- Collaboration with foreign gas companies on issues of improvement of operation safety and provision of new connections;
- Collaboration with the Public Utility Commission for new methodology of tariffs for natural gas services;

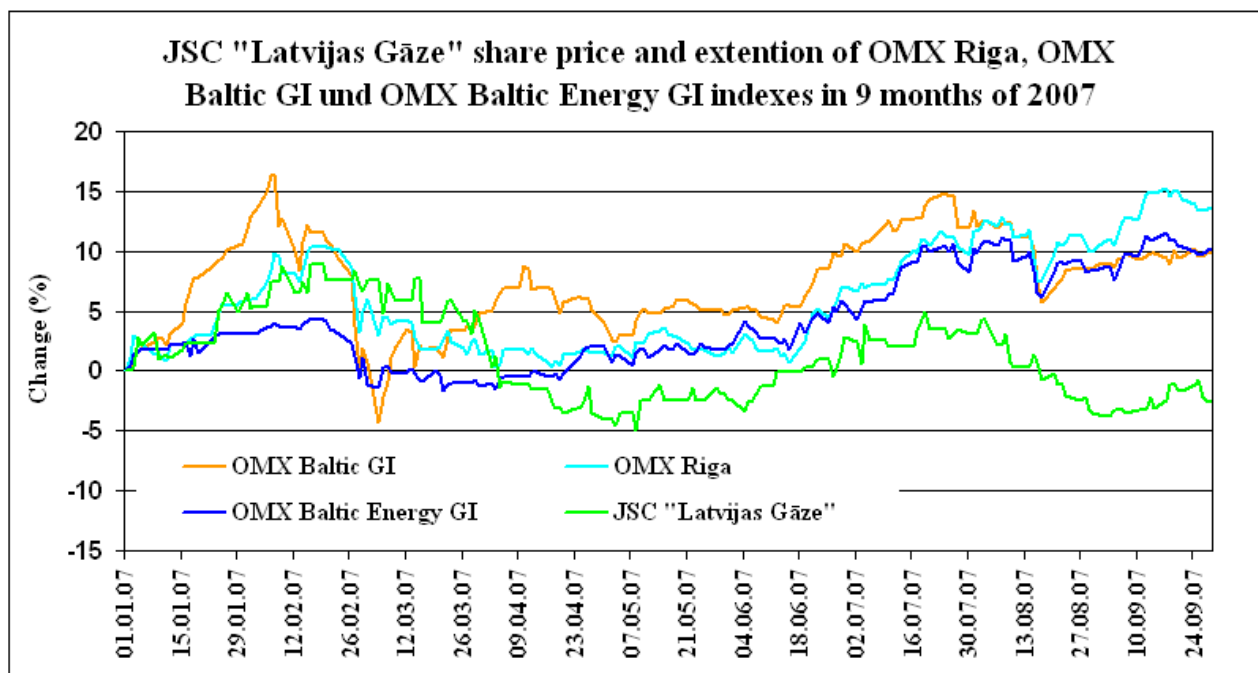
## Shares and shareholders

Composition of shareholders<sup>1</sup> of the JSC "Latvijas Gāze" as on December 31, 2006:

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

### Share price of JSC "Latvijas Gāze" at Riga Stock Exchange in 9 months of 2007

	2003	2004	2005	2006	2007
<u>Share price:</u>					
First			6,20	9,95	10,35
Highest	6,25	6,60	9,90	11,13	11,25
Lowest	5,40	5,40	6,15	9,27	9,65
Avarage	5,51	5,84	7,73	10,24	10,48
Last	5,50	6,50	9,61	10,32	9,95
Number of shares	4 962 617	181 611	63 360	128 844	142 110
Turnover (mio LVL)	27,340	1,060	0,490	1,320	1,490
Capitalization (mio LVL)	219,450	259,350	383,440	411,770	397,005



Source: RSE

<sup>1</sup> Shareholders owning not less than 5% of capital

**Joint Stock Company “Latvijas Gāze”  
9 months 2007**

**Profit or loss statement**

	Appendix	30.09.2007. 30.09.2006.			30.09.2007. 30.09.2006.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
Sales		143 745	125 227	18 518	204 531	178 182	26 349
Cost of sales	1	(133 846)	(105 485)	(28 361)	(190 446)	(150 092)	(40 354)
<b>Gross profit</b>		<b>9 899</b>	<b>19 742</b>	(9 843)	<b>14 085</b>	<b>28 090</b>	(14 005)
Administrative expenses	2	(5 702)	(5 216)	(486)	(8 113)	(7 422)	(691)
Other operating income	3	2 331	1 269	1 062	3 317	1 806	1 511
Other operating expenses	4	(728)	(5 355)	4 627	(1 036)	(7 619)	6 583
<b>Operating profit</b>		<b>5 800</b>	<b>10 440</b>	(4 640)	<b>8 253</b>	<b>14 855</b>	(6 603)
Financial income	5	475	866	(391)	676	1 232	(556)
Financial expenses	5	(223)	(1)	(222)	(317)	(1)	(316)
<b>Profit before tax</b>		<b>6 052</b>	<b>11 305</b>	(5 253)	<b>8 612</b>	<b>16 086</b>	(7 474)
Income tax		(1 170)	(2 643)	1 473	(1 665)	(3 761)	2 096
<b>Profit of the reporting year</b>		<b>4 882</b>	<b>8 662</b>	<b>(3 780)</b>	<b>6 947</b>	<b>12 325</b>	<b>(5 378)</b>
<b>Earnings per share (EPS)</b>		0,122	0,217	(0,095)	0,174	0,309	(0,135)

**Joint Stock Company "Latvijas Gāze"**  
**9 months 2007**

**Balance sheet**

	30.09.2007. 30.09.2006.			30.09.2007. 30.09.2006.		
	LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
<b>ASSETS</b>						
<u>Non-current assets</u>						
Intangible assets	1 546	1 310	236	2 200	1 864	336
Property, plant and equipment	311 480	218 864	92 616	443 196	311 415	131 781
Trade accounts receivable	10	125	(115)	14	178	(164)
<b>Total non-current assets</b>	<b>313 036</b>	<b>220 299</b>	<b>92 737</b>	<b>445 410</b>	<b>313 457</b>	<b>131 953</b>
<u>Current assets</u>						
Inventories	117 654	43 237	74 417	167 407	61 521	105 886
Trade accounts receivable	9 601	5 338	4 263	13 661	7 595	6 066
Other current assets	1 711	1 673	38	2 435	2 380	54
Corporate income tax (2391)	3 855	3 435	420	5 485	4 888	598
Cash and cash equivalents	15 973	40 423	(24 450)	22 728	57 517	(34 789)
<b>Total current assets</b>	<b>148 794</b>	<b>94 106</b>	<b>54 688</b>	<b>211 715</b>	<b>133 901</b>	<b>77 814</b>
<b>TOTAL ASSETS</b>	<b>461 830</b>	<b>314 405</b>	<b>147 425</b>	<b>657 125</b>	<b>447 358</b>	<b>209 767</b>
<b>EQUITY AND LIABILITIES</b>						
<u>Equity</u>						
Share capital	39 900	39 900	0	56 773	56 773	0
Share emission premium	14 320	14 320	0	20 376	20 376	0
Revaluation reserve	187 150	119 089	68 061	266 290	169 448	96 842
Other reserves	55 416	47 555	7 861	78 850	67 665	11 185
Retained earnings	343	2 948	(2 605)	488	4 195	(3 707)
<b>Total equity</b>	<b>297 129</b>	<b>223 812</b>	<b>73 317</b>	<b>422 776</b>	<b>318 456</b>	<b>104 321</b>
<u>Liabilities</u>						
<u>Non-current liabilities</u>						
Deferred tax liabilities	31 582	19 897	11 685	44 937	28 311	16 626
Borrowings		18	(18)	0	26	(26)
Deferred income	9 444	7 330	2 114	13 438	10 430	3 008
<b>Total non-current liabilities</b>	<b>41 026</b>	<b>27 245</b>	<b>13 781</b>	<b>58 375</b>	<b>38 766</b>	<b>19 609</b>
<u>Current liabilities</u>						
Trade accounts payable	74 825	45 280	29 545	106 466	64 428	42 039
Other liabilities	11 888	8 238	3 650	16 915	11 722	5 193
Corporate income tax liability	1 170	2 643	(1 473)	1 665	3 761	(2 096)
Provisions	3 431	6 895	(3 464)	4 882	9 811	(4 929)
Borrowings	20 030	19	20 011	28 500	27	28 473
Deferred income	361	273	88	514	388	125
Unpaid dividends for previous years	11 970		11 970	17 032		
<b>Total current liabilities</b>	<b>123 675</b>	<b>63 348</b>	<b>60 327</b>	<b>175 974</b>	<b>90 136</b>	<b>85 838</b>
<b>Total liabilities</b>	<b>164 701</b>	<b>90 593</b>	<b>74 108</b>	<b>234 348</b>	<b>128 902</b>	<b>105 446</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>461 830</b>	<b>314 405</b>	<b>147 425</b>	<b>657 125</b>	<b>447 358</b>	<b>209 767</b>

**Joint Stock Company “Latvijas Gāze”  
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## Cash flow statement

	Appendix	30.09.2007. LVL'000	30.09.2006. LVL'000	30.09.2007. EUR'000	30.09.2006. EUR'000
<b>Cash flow from operating activities</b>					
Cash generated from operations	7	(1 551)	46 433	(2 207)	66 068
Interest received		485	889	690	1 265
Corporate income tax paid		(2 742)	(2 595)	(3 902)	(3 692)
<b>Net cash flow from operating activities</b>		<b>(3 808)</b>	<b>44 727</b>	<b>(5 418)</b>	<b>63 641</b>
<b>Cash flow from investing activities</b>					
Purchase of property, plant and equipment		(18 004)	(14 195)	(25 618)	(20 198)
Proceeds from sale of property, plant and equipment		57	6	81	9
Purchase of intangible assets		(237)		(337)	
Proceeds from sale of securities					
<b>Net cash flow from investing activities</b>		<b>(18 184)</b>	<b>(14 189)</b>	<b>(25 874)</b>	<b>(20 189)</b>
<b>Cash flow from financing activities</b>					
Payments on borrowings		(16)	(17)	(23)	(24)
Borrowings received		20 030		28 500	
Service charge on borrowings		(223)	(1)	(318)	(1)
Dividends paid			(13 965)		(19 870)
<b>Net cash flow from financing activities</b>		<b>19 791</b>	<b>(13 983)</b>	<b>28 159</b>	<b>(19 896)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(2 201)</b>	<b>16 555</b>	<b>-3 132</b>	<b>23 556</b>
Cash and cash equivalents at the beginning of the year		18 174	23 868	25 860	33 961
<b>Cash and cash equivalents at the end of the year</b>		<b>15 973</b>	<b>40 423</b>	<b>22 728</b>	<b>57 517</b>



**Joint Stock Company “Latvijas Gāze”**  
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## Changes in equity capital

	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>December 31, 2005</b>	<b>39 900</b>	<b>14 320</b>	<b>119 150</b>	<b>39 061</b>	<b>16 744</b>	<b>229 176</b>
Revaluation of fixed assets			0		0	0
Deferred tax liability arising on the revaluation of property, plant and equipment			0		0	0
Disposal of revaluated fixed assets			(61)		0	(61)
Deferred tax on disposal of revaluated property, plant and equipment			0		0	0
<i>Net income admitted in equity</i>	<i>0</i>	<i>0</i>	<i>(61)</i>	<i>0</i>	<i>0</i>	<i>(61)</i>
Profit of the reporting year					8 662	8 662
<b>Income for 9 months of 2006</b>	<b>0</b>	<b>0</b>	<b>(61)</b>	<b>0</b>	<b>8 662</b>	<b>8 601</b>
Transfer to reserves				8 493	(8 493)	0
Dividends for 2005					(13 965)	(13 965)
<b>September 30, 2006</b>	<b>39 900</b>	<b>14 320</b>	<b>119 089</b>	<b>47 555</b>	<b>2 948</b>	<b>223 812</b>

	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>December 31, 2006</b>	<b>39 900</b>	<b>14 320</b>	<b>119 264</b>	<b>47 554</b>	<b>15 293</b>	<b>236 331</b>
Revaluation of fixed assets			80 304			80 304
Deferred tax liability arising on the revaluation of property, plant and equipment			(12 032)			(12 032)
Disposal of revaluated fixed assets			(386)			(386)
Deferred tax on disposal of revaluated property, plant and equipment			0			0
<i>Net income admitted in equity</i>	<i>0</i>	<i>0</i>	<i>67 886</i>	<i>0</i>	<i>0</i>	<i>67 886</i>
Profit of the reporting year					4 882	4 882
<b>Income for 9 months of 2007</b>	<b>0</b>	<b>0</b>	<b>67 886</b>	<b>04 882</b>	<b>72 768</b>	
Transfer to reserves				7 862	(7 862)	0
Dividends for 2005					(11 970)	(11 970)
<b>September 30, 2007</b>	<b>39 900</b>	<b>14 320</b>	<b>187 150</b>	<b>55 416</b>	<b>343</b>	<b>297 129</b>

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## Changes in equity capital

	Share capital	Share premium	Revaluatio n reserve	Other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>December 31, 2005</b>	56 773	20 376	169 534	55 579	23 824	326 086
Revaluation of fixed assets			0	0	0	0
Deferred tax liability arising on the revaluation of property, plant and equipment			0	0	0	0
Disposal of revaluated fixed assets			(86)	0	0	(86)
Deferred tax on disposal of revaluated property, plant and equipment			0	0	0	0
<i>Net income admitted in equity</i>	0	0	(86)	0	0	(86)
Profit of the reporting year					12 325	12 325
<b>Income for 9 months of 2006</b>	<b>0</b>	<b>0</b>	<b>(86)</b>	<b>0</b>	<b>12 325</b>	<b>12 239</b>
Transfer to reserves				12 085	(12 085)	0
Dividends for 2005					(19 869)	(19 869)
<b>September 30, 2006</b>	<b>56 773</b>	<b>20 376</b>	<b>169 448</b>	<b>67 664</b>	<b>4 195</b>	<b>318 456</b>
	Share capital	Share premium	Revaluatio n reserve	Other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>December 31, 2006</b>	56 773	20 376	169 697	67 664	21 760	336 270
Revaluation of fixed assets			114 262			114 262
Deferred tax liability arising on the revaluation of property, plant and equipment			(17 120)			(17 120)
Disposal of revaluated fixed assets			(549)			(549)
Deferred tax on disposal of revaluated property, plant and equipment			0			0
<i>Net income admitted in equity</i>	0	0	96 593	0	0	96 593
Profit of the reporting year					6 946	6 946
<b>Income for 9 months of 2007</b>	<b>0</b>	<b>0</b>	<b>96 593</b>	<b>0</b>	<b>6 946</b>	<b>103 540</b>
Transfer to reserves				11 186	(11 186)	0
Dividends for 2005					(17 034)	(17 034)
<b>September 30, 2007</b>	<b>56 773</b>	<b>20 376</b>	<b>266 290</b>	<b>78 850</b>	<b>486</b>	<b>422 776</b>

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## Appendices

App. No	30.09.2007. LVL'000	30.09.2006 LVL'000	30.09.2007. EUR'000	30.09.2006 EUR'000
<b>1 COST OF SALES</b>				
Purchase of natural gas	105 300	83 178	149 828	118 352
Salaries	6 469	5 470	9 205	7 783
Social insurance contributions	1 501	1 275	2 136	1 814
Life, health and pension insurance	458	401	652	571
Materials and spare parts	3 146	3 569	4 476	5 078
Depreciation and amortisation and impairment charge of property, plant and equipment	13 315	8 881	18 946	12 637
Other	3 657	2 711	5 203	3 857
	<b>133 846</b>	<b>105 485</b>	<b>190 446</b>	<b>150 092</b>
<b>2 ADMINISTRATIVE EXPENSES</b>				
Salaries	3 143	2 094	4 472	2 979
Social insurance contributions	597	324	849	461
Life, health and pension insurance	85	111	121	158
Maintenance and utilities	583	537	830	764
Real estate tax	104	975	148	1 387
Depreciation and amortisation and impairment charge of property, plant and equipment	523	453	744	645
Bank charges	130	126	185	179
Provisions for impairment of bad and doubtful debtors	(137)	(253)	(195)	(360)
Other	674	849	959	1 208
	<b>5 702</b>	<b>5 216</b>	<b>8 113</b>	<b>7 422</b>
<b>3 OTHER OPERATING INCOME</b>				
Penalties from customers	226	254	322	361
Income from contribution to financing of construction works	272	240	387	341
Gain from disposal of property plant and equipment		17		24
Provisions for impairment of slow-moving and obsolete inventories	21	21	30	30
Provisions for impairment of bad and doubtful debtors Other	1 660	142	2 362	202
Net income from fluctuations of foreign currency rates	152	595	216	847
Bank interest				
	<b>2 331</b>	<b>1 269</b>	<b>3 317</b>	<b>1 806</b>

**Joint Stock Company "Latvijas Gāze"**  
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**4 OTHER OPERATIONAL EXPENSES**

Material expenses	7	6	10	9
Salaries and other expenses	88	63	125	90
Social insurance contributions	11	6	16	9
Depreciation, amortisation and impairment charge for property, plant and equipment	68		97	
Sponsorship	28	14	40	20
Loss on sale of fixed assets	54	56	77	80
Provisions for impairment of slow-moving and obsolete inventories				
Other	472	5 210	672	7 413
	<u>728</u>	<u>5 355</u>	<u>1 036</u>	<u>7 619</u>

**DISTRIBUTION OF EXPENSES IN THEIR TERMS**

Purchase of natural gas	105 300	83 178	149 828	118 352
Depreciation and amortisation	13 906	9 334	19 786	13 281
Staff expenses	12 352	9 743	17 575	13 863
Materials and spare parts	3 153	3 575	4 486	5 087
Net accruals for reduction of debtors' debt	(137)	(253)	(195)	(360)
Other	5 702	10 465	8 113	14 890
	<u>140 276</u>	<u>116 042</u>	<u>199 595</u>	<u>165 113</u>

**5 FINANCE INCOME, NET**

**Finance income**

Interest income	475	866	676	1 232
	<u>475</u>	<u>866</u>	<u>676</u>	<u>1 232</u>

**Finance expenses**

Service charge for borrowings	223	1	317	1
	<u>223</u>	<u>1</u>	<u>317</u>	<u>1</u>

**Finance income, net**

	<u>252</u>	<u>865</u>	<u>359</u>	<u>1 231</u>
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**6 INVENTORIES**

Materials and spare parts (at net sellable value)	3 586	2 619	5 102	3 727
Gas and fuel (at cost value)	113 950	40 618	162 136	57 794
Other (at cost value)	118		168	
	<u>117 654</u>	<u>43 237</u>	<u>167 407</u>	<u>61 521</u>

**Joint Stock Company “Latvijas Gāze”**  
**9 months 2007**

**7 CASH GENERATED FROM OPERATIONS**

Profit before tax	6 052	11 305	8 611	16 086
<i>Adjustment for:</i>				
Depreciation	13 416	8 999	19 089	12 804
Amortisation	489	346	696	492
Gain on available-for-sale investments				
Provision for impairment of slow-moving inventories	(21)	(10)	(30)	(14)
Accrual for bonuses	(238)	1 223	(339)	1 741
Accrual for unused annual leave	(223)	(178)	(317)	(253)
Provision charge	90	5 000	128	7 114
Interest income	(475)	(866)	(675)	(1 232)
Service charge for borrowings and interest payments	223	1	317	1
Gain from disposal of property, plant and equipment	54	17	77	24
<i>Changes in working capital:</i>				
- trade and receivables	4 022	7 433	5 723	10 576
- inventories	(47 342)	348	(67 362)	495
- trade and other payables	22 402	12 815	31 875	18 234
	<b>(1 551)</b>	<b>46 433</b>	<b>(2 207)</b>	<b>66 068</b>
	(1 551)	46 433	(2 207)	66 068
	0	0		

**8 BORROWINGS**

The Ministry of Finance, 2007		37		53
SEB Latvijas Unibanka	20 030		28 500	
	<b>20 030</b>	<b>37</b>	<b>28 500</b>	<b>53</b>
Refund term of borrowings:				
Short-term part of the borrowings in 1 year	20 030	18	28 500	26
Long-term part of the borrowings in 2 years		19		27
	<b>20 030</b>	<b>37</b>	<b>28 500</b>	<b>53</b>

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