JOINT STOCK COMPANY "LATVIJAS GĀZE"

ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

Translation from Latvian original*

* 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

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FOR THE YEAR ENDED 31 DECEMBER 2007

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INFORMATION ON THE COMPANY

Name of the Company	JSC Latvijas Gāze
Legal status of the Company	Joint Stock Company
Registration number, place and date of registration	000300064 Riga, March 25, 1991 Reregistered in Commercial Register December 20, 2004 with common registration No 40003000642
Address	Aristīda Briāna street 6 Riga, LV-1001 Latvia
Names of major shareholders	E.ON Ruhrgas International AG (47.23%) 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	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
Financial year	1 January – 31 December 2007
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

Translation from Latvian Original

JOINT STOCK COMPANY "LATVIJAS GĀZE"
ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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 deals with natural gas supply, storage, distribution and trade. In 1997, the Energy Supply Regulation Council of the Republic of Latvia issued to the Company exclusive licenses for provision of the regulated public utilities until February 10, 2017, whereas on January 31, 2007 the Council of the Public Utility Commission (hereinafter – PUC) issued a license for natural gas trade until February 10, 2012. In compliance with the Energy Law, the Company is a natural gas system operator that ensures uninterrupted and safe natural gas supply to natural gas consumers in Latvia, not allowing overloads of system capacity.

In the reporting year, consumers were supplied 1 673.4 million nm^3 of natural gas. In comparison to the period of 2006, natural gas sales in nm^3 have decreased by 2.7 %. Natural gas consumption has declined due to the relatively high air temperature in the quarters I and IV of 2007 as well as the record-high quotation of oil products at exchanges resulting in a significant increase of natural gas sales end tariffs for Latvia, which in its turn lead to more austere use of resources.

The situation of recent years in the global market of oil products as well as the desire of natural gas suppliers to bring gradually the natural gas supply prices for Latvia closer to the level of the European countries caused a rapid increase of natural gas prices. As of January 1, 2005, the formula of natural gas purchase prices was pegged to the actual heavy fuel oil quotation – up to 200 USD/t. In 2006, the ceiling of natural gas prices was lifted; but in 2007 the price formula was changed, increasing the natural gas purchase price by more than 50% at heavy fuel oil quotation 300 USD/t. Also in 2007, preparation of new amendments to the natural gas supply agreements was continued. These amendments were approved on January 15, 2008. According to them, natural gas price is pegged to heavy fuel oil and gasoline quotation, and natural gas prices in 2008 are expected to reach the level of the European countries and further their changes will depend on fluctuations of oil products at the exchange.

In March 2007, the Company, on the basis of the changes of natural gas purchase prices, submitted to the PUC a project of natural gas tariffs, envisaging an increase of natural gas sales end tariffs as well as those of natural gas transmission, storage, distribution and sale services. With the resolution No.83 "On natural gas sales tariffs of the JSC "Latvijas Gāze"", passed by the Council of the PUC on March 28, 2007, the approved service and natural gas sales end tariffs became effective as of May 1, 2007. The tariffs were approved with heavy fuel oil quotation up to 400 USD/t with a step of 10 USD/t. By application of the tariffs, the average natural gas trade end tariff grew by 36.7%, while the increase by consumer groups depending on annual consumption was 17 % – 44 %.

In 2007, the total income from natural gas sales and other services of business activity reached LVL 239.4 million (EUR 340.7 million), the expenditures (excluding administrative costs) – LVL 195.5 million (EUR 278.2 million) and the gross profit – LVL 43.9 million (EUR 62.5 million). The increase of tariffs gave additional LVL 39.3 million (EUR 55.9 million) of income. In comparison to 2006, the net profit of the Company grew by 55.2% or LVL 11.5 million (EUR 16.3 million), reaching LVL 32.3 million (EUR 45.9 million). The net profitability of business activity was 13.5 % in 2007 and 11.4 % in 2006.

The increase of profit is mostly related to the purchase of gas reserves injected into the Inčukalns Underground Gas Storage Facility (hereinafter – Inčukalns UGS) for consumption in 2007 at the price of 2006.

In the season of 2007, 1.18 billion nm^3 of natural gas was injected into the Inčukalns UGS, with the total gas volume at the facility reaching 4.47 billion nm^3.

On February 1, 2007, the Company performed revaluation of fixed assets, which raised its asset value by LVL 80.2 million (EUR 114.1 million). Revaluation of fixed assets, that had been received without reward and obtained for a lower price during the reporting year, as of December 31, 2007 increased the asset value by LVL 0.8 million (EUR 1.1 million), resulting in asset value of LVL 475.6 million (EUR 676.8 million).

Report of the Board (continued)

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

In 2007, the Company invested LVL 29.1 million (EUR 41.3 million) in modernization of the gas supply system and creation of new fixed assets. 28 % of the total investment were utilized for improvement of operation safety and modernization of equipment at the Inčukalns UGS, 22 % – for modernization of the system of gas transmission pipelines, and 38 % – for expansion of the distribution networks and renewal of fixed assets. The total number of gasified objects in 2007 grew by 3.5 thousand and reached 440.8 thousand.

The most significant unit commissioned in 2007 is the compressor shop KC-1 of the Inčukalns UGS. Implementation of the project, including designing, took six years, and the total costs reached LVL 18.9 million (EUR 26.9 million).

In the reporting period, assembly of technological devices of the gas collection point GSP-1, establishment of the security system and assembly of technical equipment of the methanol feed system was completed at the facility. The unit is due to commissioning in the summer of 2008. Its total costs are already LVL 10.7 million (EUR 15.2 million). Also at the Inčukalns UGS, reconstruction of underground wells in the gas-carrying zone has been commenced, while development of the gas-dynamic model has been completed. The model will provide more precise information on the deposit of the facility and will allow for predicting the technological parameters of deposit operation. In 2007, the gas pipeline, supplying gas to the new power unit of the JSC "Latvenergo", and the largest gas regulation station in the Baltic States Riga-3 with the maximum throughput up to 300 thousand nm^3 per hour was put into operation. Elimination of the defects found in diagnostics of the gas transmission pipelines and construction of pig launchers and receivers for the gas pipelines Riga – Inčukalns UGS and Iecava – Liepāja is in progress. Diagnostics of the other gas transmission pipeline Izborsk – Inčukalns UGS, its repairs and attestation for raising the operating pressure to 55 bar is fully completed.

For construction of gas distribution pipelines, LVL 7.6 million (EUR 10.7 million) were spent. The major projects: construction of a gas pipeline on the TEC-2 and over the Daugava under the Dienvidu Bridge in Riga.

2. Research and development activities

In order to ensure uninterrupted gas supply to consumers and safe operation of the gas supply system in long term, the Company has developed "The plan of measures for improvement of safety of the gas supply system of the Joint Stock Company "Latvijas Gāze" from 2006 to 2010". It has been prepared on the basis of adjudgments of the Russian companies "Gazobezopasnostj" and "Lentransgaz", the institutes "VNIIGAS" and "Giprospecgaz", as well as the German companies "Pipeline Enginiering GmbH", "Untergrundspeiher und Geotechnologie – Systeme GmbH", "E.ON Engineering GmbH", "E.ON Ruhrgas International AG" and other cooperation partners regarding the technical condition of equipment and the possibilities of its modernization.

The plan of measures envisages investment in safety improvement at the total amount of LVL 73.8 million (EUR 105 million). It basically includes projects that are necessary for improvement of operation safety of the system, gasification of new objects and enhanced 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, and in further perspective also to Lithuania.

If the government favours construction of a 400 MW gas station in Riga for providing base capacities of electricity, the infrastructure based on the TEC-2 will be able to provide natural gas supply at the necessary amount for this station as well.

Report of the Board (continued)

3. Post balance sheet events

On the basis of tendencies in the oil products market and the desire of gas suppliers to make the conditions of natural gas supply in Latvia equal to those in other countries of the European Union, as of January 1, 2008 the amendments to the natural gas supply agreement, providing for a new formula for setting the gas purchase price, became effective. In comparison to the formula of 2007, the gas purchase price has increased by 16% on average at heavy fuel quotation 400 USD/t.

In compliance with the resolution No.555 "On the actual quotation of differential natural gas tariffs and heavy fuel oil" passed by the Council of the PUC on November 23, 2007, as of January 1, 2008 tariffs shall be applied considering the actual weighed average quotation of heavy fuel oil. This resolution enabled the end users to pay less for gas. Getting support from shareholders and using a credit, in May 2007, when heavy fuel oil quotation was at its lowest, the Company purchased the gas remaining at the storage facility for consumption in 2008 for the price of 2007. As the result of the PUC resolution, in the 1st quarter of 2008, when normally, according to the average heavy fuel oil quotation of previous six months, the tariffs set at quotation 400 USD/t would be applied, the tariffs corresponding to quotations 310–330 USD/t took effect.

Since the gas reserves at the Inčukalns UGS will run out by April 2008 and after April 1, 2008, when gas injection commences, natural gas will have to be purchased with the new price formula in effect, in January 2008 the Company sent to the PUC an application on applying heavy fuel oil quotation to fixing of tariffs according to the average quotation of previous six months. On March 27, 2008, the Council of the PUC, evaluating the situation in the market, passed the resolution No.99 "On the actual quotation of differential natural gas tariffs and heavy fuel oil", by which the previous order of application of the actual heavy fuel oil quotations, identical to that stipulated in the natural gas supply agreements, will be restored as of April 1, 2008.

In February 2008, the Council of the PUC approved new methods for calculation of natural gas regulated services tariffs. Along with that, development of a cost attribution model for the gas supply system and its coordination with the PUC is in progress, as well as preparation of a project of natural gas tariff increase.

4. Profit distribution 2007 as suggested by the Board

	2007 LVL	2007 EUR
Current year's profit according to statutory financial statements prepared under Latvian accounting regulation	32 818 986	46 697 210
Share of profit not available for distribution (income of deferred tax not utilized due to revaluation of fixed assets)	(1 741 185)	(2 477 483)
Share of profit available for distribution	31 077 801	44 219 727
Suggested profit distribution:		
dividends for shareholders (60.8 %)	19 950 000	28 386 293
dividends per one share (LVL /1 share)	0.50	0.711
Reserves stipulated in the Articles of Association	11 127 801	15 833 434

Individual members of the Council and the Board of the Company hold shares and interests in several companies registered in the Register of Enterprises of the Republic of Latvia and have managerial functions there. During the reporting year, the Company did not execute deals of significant amount (except for those mentioned in the financial account) with these companies.

Information on shares of the Company held by members of the Board and the Council of the Company is available at the Board of the Company.

Report of the Board (continued)

5. Perspective

On the basis of investments into improvement of system operation safety, expansion of the gas pipeline network, attraction of new customers and retrieval of debtors' debts, made in previous years and in the reporting year, as well as considering the situation in the fuel market of Latvia, the Board of the Company considers that the Company will continue its successful development in 2008 and take a stable place in the fuel supply market.

Chairman of the Board A. Dāvis

Board meeting minutes No. 18 (2008)
Riga, April 28, 2008

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 11 to 45 are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Company as of 31 December 2007 and the results of its operations and cash flows for the year ended 31 December 2007.

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 28, 2008

PricewaterhouseCoopers SIA
Kr. Valdemāra iela 19
Rīga, LV-1010
Latvija
Telephone +371 709 4400
Facsimile +371 783 0055

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 11 to 45, which are included in the annual accounts of JSC "Latvijas Gāze", which comprise the balance sheet as of 31 December 2007 and the 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 preparation of Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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. Except as discussed below, 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 included 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.

PRICEWATERHOUSECOOPERS

Basis for qualified opinion

The Company's accounting policy is to account for buildings, gas transmission and distribution system and equipment at fair value less subsequent depreciation and impairment. First revaluation was performed in 2004. As described in the note 2(u) to the financial statements in 2007 the Company performed revaluation of property, plant and equipment, which resulted in increase of carrying amount of the assets by LVL 80.2 million (EUR 114.1 million). International Accounting Standard 16, *Property, Plant and Equipment*, provides that the revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Considering the general increase in costs of construction, gas pipes and real estate prices in the Latvian market during 2006, as well as the results of the revaluation performed in 2007, we consider that the fair value of the buildings, gas transmission system and equipment of the Company was materially different from the carrying amount of those assets as at 31 December 2006. In the absence of valuation of the buildings, gas transmission and distribution system and equipment as at 31 December 2006 we were not able to quantify the effect of the required adjustment to the carrying amount of buildings, gas transmission and distribution system and equipment as at 31 December 2006 and, consequently, the effect on profit for 2007.

Opinion

In our opinion, except for the effect of the matter referred to in paragraph *Basis for qualified opinion*, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2007, 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 Management Report set out on pages 4 to 7 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2007.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Juris Lapshe
Member of the Board

Olga Bukovska
Certified auditor in charge
Certificate No. 170

Riga, Latvia
28 April 2008

* This version of our report 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 our report takes precedence over this translation.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
Assets					
Non-current assets					
Property, plant and equipment	3	317 763	225 771	452 136	321 244
Intangible assets	4	1 824	1 795	2 595	2 554
Trade receivables	5	10	94	14	134
		319 597	227 660	454 745	323 932
Current assets					
Inventories	6	85 359	70 312	121 455	100 045
Trade receivables	5	24 776	13 959	35 253	19 861
Current income tax receivable	21	-	1 116	-	1 588
Other current assets	7	1 604	8 416	2 283	11 974
Cash and cash equivalents	8	44 305	11 048	63 040	15 720
		156 044	104 851	222 031	149 188
Total assets		**475 641**	**332 511**	**676 776**	**473 120**
Equity and liabilities					
Equity					
Share capital	9	39 900	39 900	56 773	56 773
Share premium		14 320	14 320	20 376	20 376
Revaluation reserve		187 584	119 264	266 907	169 697
Other reserves		55 416	47 554	78 850	67 664
Retained earnings		28 280	15 294	40 240	21 760
Total equity		**325 500**	**236 332**	**463 146**	**336 270**
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	21	30 538	19 550	43 453	27 817
Accruals for post employment benefits and other employee benefits		2 500	-	3 557	-
Deferred income	11	11 430	8 425	16 263	11 988
		44 468	27 975	63 273	39 805
Current liabilities					
Trade payables		62 902	54 967	89 501	78 211
Current income tax payable	21	1 412	-	2 009	-
Borrowings	10	20 030	16	28 500	23
Deferred income	11	433	315	616	448
Other current liabilities	12	20 896	12 906	29 731	18 363
		105 673	68 204	150 357	97 045
Total liabilities		**150 141**	**96 179**	**213 630**	**136 850**
Total equity and liabilities		**475 641**	**332 511**	**676 776**	**473 120**

The notes on pages 16 to 45 are an integral part of these financial statements.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
Sales		239 441	182 344	340 693	259 452
Cost of sales	14	(195 533)	(152 794)	(278 218)	(217 406)
Gross profit		**43 908**	**29 550**	**62 475**	**42 046**
Administrative expenses	15	(7 223)	(7 042)	(10 277)	(10 020)
Other income	16	2 884	2 255	4 103	3 209
Other expenses	17	(2 460)	(1 730)	(3 500)	(2 462)
Finance income	19	587	973	836	1 384
Finance expenses	19	(519)	(1)	(738)	(1)
Profit before income tax		**37 177**	**24 005**	**52 899**	**34 156**
Income tax expense	21	(4 905)	(3 216)	(6 980)	(4 576)
Profit for the year		**32 272**	**20 789**	**45 919**	**29 580**
Earnings per share		**LVL**	**LVL**	**EUR**	**EUR**
Basic	22	**0,809**	**0,521**	**1,151**	**0,741**
Diluted	22	**0,809**	**0,521**	**1,151**	**0,741**

The notes on pages 16 to 45 are an integral part of these financial statements.

The financial statements on pages 11 to 45 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 28, 2008

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	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 2005	**39 900**	**14 320**	**119 150**	**39 061**	**16 745**	**229 176**
Revaluation of property, plant and equipment	-	-	391	-	-	391
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(59)	-	-	(59)
Disposal of revalued property, plant and equipment	-	-	(256)	-	256	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	38	-	(38)	-
Net income recognized directly in equity	-	-	*114*	-	*218*	*332*
Profit for the year	-	-	-	-	20 789	20 789
Total recognized income for 2006	-	-	**114**	-	**21 007**	**21 121**
Transfers to reserves	-	-	-	8 493	(8 493)	-
Dividends for 2005	-	-	-	-	(13 965)	(13 965)
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)	-
Net income recognized directly in equity	-	-	*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**

The notes on pages 16 to 45 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007 (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 2005	**56 773**	**20 376**	**169 534**	**55 579**	**23 825**	**326 087**
Revaluation of property, plant and equipment	-	-	556	-	-	556
Deferred income tax liability arising on the revaluation of property, plant and equipment	-	-	(83)	-	-	(83)
Disposal of revalued property, plant and equipment	-	-	(365)	-	365	-
Deferred income tax on disposal of revalued property, plant and equipment	-	-	55	-	(55)	-
Net income recognized directly in equity	-	-	*163*	-	*310*	*473*
Profit for the year	-	-	-	-	29 580	29 580
Total recognized income for 2006	-	-	**163**	-	**29 890**	**30 053**
Transfers to reserves	-	-	-	12 085	(12 085)	-
Dividends for 2005	-	-	-	-	(19 870)	(19 870)
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)	-
Net income recognized directly in equity	-	-	*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**

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 16 to 45 are an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 LVL'000	2006* LVL'000 Corrected	2007 EUR'000	2006* EUR'00 Corrected
Cash flows from operating activities					
Cash generated from operations	24	50 121	35 994	71 316	51 213
Interest received		879	1 392	1 251	1 981
Income tax paid	21	(3 445)	(4 031)	(4 902)	(5 734)
Net cash generated from operating activities		**47 555**	**33 355**	**67 665**	**47 460**
Cash flows from investing activities					
Purchases of property, plant and equipment		(28 371)	(24 386)	(40 368)	(34 698)
Proceeds from sale of property, plant and equipment		60	28	85	40
Purchases of intangible assets		(681)	(692)	(971)	(985)
Investments in term deposits		-	(7 126)	-	(10 140)
Received term deposits		7 126	-	10 140	-
Net cash used in investing activities		**(21 866)**	**(32 176)**	**(31 114)**	**(45 783)**
Cash flows from financing activities					
Repayment of long term borrowings		(16)	(33)	(22)	(47)
Borrowings received		20 030	-	28 500	-
Interest paid		(476)	(1)	(677)	(1)
Dividends paid		(11 970)	(13 965)	(17 032)	(19 870)
Net cash from / (used in) financing activities		**7 568**	**(13 999)**	**10 769**	**(19 918)**
Net increase / (decrease) in cash and cash equivalents		**33 257**	**(12 820)**	**47 320**	**(18 241)**
Cash and cash equivalents at the beginning of the year		11 048	23 868	15 720	33 961
Cash and cash equivalents at the end of the year	8	**44 305**	**11 048**	**63 040**	**15 720**

* Compared to 2006 financial statements the investments in term deposits of LVL 7 126 thousand (EUR 10 140 thousand) in 2006 are included in cash flows from investing activities. In 2006 financial statements these investments were included in cash flows from operating activities. The management believes the present classification better reflects the nature of this transaction.

The notes on pages 16 to 45 are an integral part of these financial statements.

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 2007 the average number of persons employed by the Company was 1 340 (2006: 1 328).

These financial statements have been approved by the Board of Directors on April 28, 2008.

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 2007 and are relevant to the Company's operations

IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007).

IFRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Company's financial instruments, or the disclosures relating to taxation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(b) Standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1 January 2007, 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 2007, but are not relevant for the Company's operations:

IFRS 4	"Insurance Contracts"
IFRIC 7	"Applying the Restatement Approach under IAS 29"
IFRIC 8	"Scope of IFRS 2"
IFRIC 9	"Reassessment of Embedded Derivatives"
IFRIC 10	"Interim Financial Reporting and Impairment"

(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.

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. Company assessed IFRS 8 and concluded that additional notes to financial statements will not be necessary.

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

Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009).
The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Company is currently assessing the impact of the amendment on its consolidated financial statements.

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 March 2007 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 27 "Consolidated and Separate Financial statements" (effective from annual periods beginning on or after 1 July 2009).
IFRS 3 "Business Combinations" (effective from annual periods beginning on or after 1 July 2009).
IFRS 2 "Share based payment" (effective from annual periods beginning on or after 1 January 2008).
IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" (from annual periods beginning on or after 1 March 2007).
IFRIC 12, "Service Concession Arrangements" (effective from annual periods beginning on or after 1 January 2008).
IFRIC 13, "Customer Loyalty Programmes" (effective from annual periods beginning on or after 1 July 2008);
IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from annual periods beginning on or after 1 January 2008).

(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 2006 to 31 December 2007 – 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)
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 (year 2006 – LVL 50 (EUR 71)). According to the management changes in the policy had no significant impact on the financial position of the Company.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(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.

(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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(m) Deferred income tax (continued)
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.

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 assumptions of an actuary. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(r) Revenue recognition

Sales of natural gas

Sales are recognised upon delivery of gas, net of value added tax and discounts. 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.

The Company as well as the Regulator of the Public Utilities Commission have the right during the tariff period (which is 3 years long) to apply for the revision of the tariffs if any of the price factors (like foreign exchange rate, natural gas purchase price etc.) has changed more than by 5% compared to the approved factors.

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.

Penalties income

Penalties income is recognised as it accrues unless its collectability is in doubt.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

(u) Critical estimates and judgements (continued)

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 valuators 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.

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. Publicly available assumptions are used in calculations regarding changes in demographic and financial variables.

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, 2005	**326 050**	**44 705**	**4 437**	**240**	**23 916**	**399 348**
Additions	-	-	-	2 865	21 206	24 071
Reclassified	8 619	5 727	668	(2 808)	(12 202)	4
Revaluation	339	53	-	-	-	392
Disposals	(254)	(959)	(267)	-	(27)	(1 507)
Transferred to intangible assets	-	(1)	(228)	-	-	(229)
At December 31, 2006	**334 754**	**49 525**	**4 610**	**297**	**32 893**	**422 079**
Depreciation						
At December 31, 2005	**158 919**	**23 355**	**2 751**	-	-	**185 025**
Charged for 2006	7 954	3 995	624	-	-	12 573
Disposals	(145)	(832)	(266)	-	-	(1 243)
Transferred to intangible assets	-	(1)	(46)	-	-	(47)
At December 31, 2006	**166 728**	**26 517**	**3 063**	-	-	**196 308**
Net book value at December 31, 2006	168 026	23 008	1 547	297	32 893	225 771
Net book value at December 31, 2005	167 131	21 350	1 686	240	23 916	214 323

	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

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, 2005	463 927	63 609	6 313	341	34 029	568 219
Additions	-	-	-	4 077	30 173	34 250
Reclassified	12 264	8 149	950	(3 995)	(17 362)	6
Revaluation	482	76	-	-	-	558
Disposals	(361)	(1 365)	(380)	-	(37)	(2 143)
Transferred to intangible assets	-	(1)	(323)	-	-	(324)
At December 31, 2006	**476 312**	**70 468**	**6 560**	**423**	**46 803**	**600 566**
Depreciation						
At December 31, 2005	226 122	33 229	3 914	-	-	263 265
Charged for 2006	11 317	5 686	887	-	-	17 890
Disposals	(206)	(1 183)	(377)	-	-	(1 766)
Transferred to intangible assets	-	(1)	(66)	-	-	(67)
At December 31, 2006	**237 233**	**37 731**	**4 358**	-	-	**279 322**
Net book value at December 31, 2006	**239 079**	**32 737**	**2 202**	**423**	**46 803**	**321 244**
Net book value at December 31, 2005	**237 805**	**30 380**	**2 399**	**341**	**34 029**	**304 954**

	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**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 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 has 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. See Note 2(u).

Property, plant and equipment include fully depreciated assets with a total book value of LVL 2 654 thousand or EUR 3 776 thousand (2006: LVL 5 211 thousand or EUR 7 415 thousand).

As at December 31, 2007 the carrying amount in case the property, plant and equipment would be carried under the cost model is LVL 141 082 thousand or EUR 200 742 thousand (December 31, 2006: LVL 117 810 thousand or EUR 167 629 thousand).

4 INTANGIBLE ASSETS

	LVL'000	EUR'000
Cost		
As at December 31, 2005	**2 927**	**4 165**
Additions	687	977
Transferred from fixed assets	229	326
Disposals	(78)	(111)
As at December 31, 2006	**3 765**	**5 357**
Depreciation		
As at December 31, 2005	**1 513**	**2 153**
Charge for the year	488	694
On disposals	(78)	(111)
Transferred from fixed assets	47	67
As at December 31, 2006	**1 970**	**2 803**
Net Book Value as at December 31, 2006	**1 795**	**2 554**
Net Book Value as at December 31, 2005	**1 414**	**2 012**

	LVL'000	EUR'000
Cost		
As at December 31, 2006	**3 765**	**5 357**
Additions	702	999
Disposals	(65)	(93)
As at December 31, 2007	**4 402**	**6 263**
Depreciation		
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**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 INTANGIBLE ASSETS (CONTINUED)

Intangible assets include fully amortised intangible assets with a total cost value of LVL 1 519 thousand or EUR 2 161 thousand (2006: LVL 882 thousand or EUR 1 169 thousand). The major intangible assets are transmission pipelines accounting software SCADA at carrying amount of LVL 324 thousand (EUR 460 thousand) and geographic-informative system GIS at carrying amount of LVL 302 thousand (EUR 430 thousand).

5 TRADE RECEIVABLES

	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
Non-current trade receivables				
Gross value	10	94	14	134
	10	**94**	**14**	**134**
Current trade receivables				
Gross value	26 348	15 870	37 490	22 580
Provisions for impairment of receivables	(1 572)	(1 911)	(2 237)	(2 719)
	24 776	**13 959**	**35 253**	**19 861**
Total trade receivables	**24 786**	**14 053**	**35 267**	**19 995**

Provisions for impairment of bad and doubtful debts:

	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
Provisions at the beginning of the year	**1 940**	**3 035**	**2 760**	**4 318**
Charged to income statement	57	231	81	329
Released to income statement	(230)	(510)	(326)	(726)
Net charge to income statement	**(173)**	**(279)**	**(245)**	**(397)**
Written off	(143)	(816)	(204)	(1 161)
Provisions at the year end	**1 624**	**1 940**	**2 311**	**2 760**

Of the provisions as at 31 December 2007 LVL 1 572 thousand (EUR 2 237 thousand) relate to current trade receivables (2006: LVL 1 911 thousand (EUR 2 719 thousand)). Of the provisions as at 31 December 2007 LVL 52 thousand (EUR 74 thousand) relate to other trade receivables, (2006: LVL 29 thousand (EUR 41 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 INVENTORIES

	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
Materials and spare parts (at net realisable value)	3 014	2 365	4 289	3 365
Gas and fuel (at cost)*	82 345	67 860	117 166	96 556
Other (at cost)	-	87	-	124
	85 359	**70 312**	**121 455**	**100 045**

* see Note 10

Provisions for impairment of obsolete and slow moving inventories:

	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
Provisions at the beginning of the year	383	430	545	612
Charged to income statement	19	71	27	101
Released to income statement	(25)	(30)	(36)	(43)
Written off	(17)	(88)	(24)	(125)
Provisions at the year end	**360**	**383**	**512**	**545**

Provisions have been created for slow moving materials and spare parts. During 2007 the Company sold inventories amounting to LVL 6 thousand or EUR 9 thousand (2006: LVL 1 thousand or EUR 2 thousand) and used in operations inventories amounting to LVL 11 thousand or EUR 16 thousand (2006: LVL 11 thousand or EUR 16 thousand) that had been written off in previous years.

7 OTHER CURRENT ASSETS

	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
Term deposits*	-	7 126	-	10 140
Prepayments and deferred expense	457	427	650	608
Value added tax overpaid	200	201	285	286
Natural resource tax overpaid	1	1	1	1
Interest accrued on bank deposits	54	19	77	27
Claims according to court decisions	-	1	-	1
Receivable for services supplied	20	33	28	47
Other debtors	924	637	1 316	905
	1 656	**8 445**	**2 357**	**12 015**
Provisions for impairment of bad and doubtful debts**	(52)	(29)	(74)	(41)
	1 604	**8 416**	**2 283**	**11 974**

* Term deposits fixed interest rate is from 2.0% to 4.9% per annum.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 CASH AND CASH EQUIVALENTS

	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
Cash on hand	6	2	9	3
Current accounts with banks	13 007	7 110	18 507	10 117
Term deposits*	31 292	3 936	44 524	5 600
	44 305	**11 048**	**63 040**	**15 720**

* Term deposits fixed interest rate is from 2.65% to 10.15% per annum (2006: from 2.0% to 4.9% per annum).

Term deposits with original maturity over 90 days, which on December 31, 2006 were Ls 7 126 thousand (EUR 10 140 thousand) are shown under "Other current assets". There are no such term deposits on December 31, 2007.

9 SHARE CAPITAL

(a) Authorised, subscribed and paid-up share capital as at December 31, 2007 consists of 39 900 000 ordinary shares of LVL 1 each. All shares have equal voting rights and rights to dividend.

	31.12.2007.		31.12.2006.	
	% from total share capital	Number of shares	% from total share capital	Number of 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**

(b) Shareholders

	31.12.2007.		31.12.2006.	
	% from total share capital	Number of shares	% from total share capital	Number of shares
E.ON Ruhrgas International AG *(including registered shares of closed issues 7 285 740)*	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 *(including registered shares of closed issues 7 285 740)*	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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 BORROWINGS

	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
Ministry of Finance	-	16	-	23
SEB Banka	20 030	-	28 500	-
	20 030	**16**	**28 500**	**23**

On November 7, 1995 an agreement was concluded between the Company and the Ministry of Finance of the Republic of Latvia. The agreement provided for assignment of a Danish Government interest free loan of DKK 3 493 thousand that should be used to finance the project stipulated in an agreement of May 4, 1995 between Lyngso Energi & Miljo and JSC "Latvijas Gāze" branch "Rīgas gāze". In 1998 the total amount of the agreement was specified and fixed as USD 508 thousand. The repayment of the loan should be made in 17 semi-annual equal payments commencing June 1999. Company completed repayment of the loan on year 2007.

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 was pledged as a collateral. Effective interest rate was 4.76% in year 2007. The Company has repaid the loan before maturity - in January, 2008.

Current portion of borrowings	**20 030**	**16**	**28 500**	**23**

11 DEFERRED INCOME

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

Current portion of borrowings	11 430	8 425	16 263	11 988
Non-current portion of borrowings	433	315	616	448
	11 863	**8 740**	**16 879**	**12 436**

Deferred income movement:

	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
At the beginning of the year	8 740	6 919	12 436	9 845
Received from residents and enterprises during the reporting year	3 495	2 147	4 973	3 055
Recognized as income in the reporting year (see Note 16)	(373)	(326)	(531)	(464)
Deferred to the following periods	**11 862**	**8 740**	**16 878**	**12 436**

See also Accounting policies Note (r).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 OTHER CURRENT LIABILITIES

	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
Prepayments received	5 475	4 748	7 790	6 756
Social insurance contributions	520	382	739	544
Personal income tax	414	318	589	452
Value added tax	5 014	2 549	7 134	3 627
Real estate tax	-	13	-	18
Salaries	602	395	857	562
Accrued expenses for unused annual leave	798	653	1 135	929
Accrued expenses for bonuses	4 996	1 979	7 109	2 816
Other current liabilities	3 077	1 869	4 378	2 659
	20 896	**12 906**	**29 731**	**18 363**

13 SEGMENT INFORMATION

As the Company is operating in the single business segment – natural gas, no separate information on segments is presented.

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

14 COST OF SALES

	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
Purchase of natural gas	150 010	120 478	213 445	171 425
Salaries	13 954	8 238	19 855	11 722
Social insurance contributions	3 126	1 875	4 448	2 668
Life, health and pension insurance	664	561	945	798
Materials and spare parts	3 984	4 293	5 668	6 108
Depreciation and amortisation	17 695	12 406	25 177	17 652
Other	6 100	4 943	8 680	7 033
	195 533	**152 794**	**278 218**	**217 406**

15 ADMINISTRATIVE EXPENSES

Salaries	3 803	2 690	5 411	3 828
Social insurance contributions	570	415	811	590
Life, health and pension insurance	124	146	176	208
Maintenance and utilities	852	777	1 212	1 106
Real estate tax	157	1 328	223	1 890
Depreciation and amortisation	702	614	1 000	874
Bank charges	171	173	243	246
Provisions for impairment of bad and doubtful debts, net	(172)	(279)	(245)	(397)
Other expenses	1 016	1 178	1 446	1 675
	7 223	**7 042**	**10 277**	**10 020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 OTHER INCOME

	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
Penalties from customers	317	274	451	390
Income from contribution to financing of construction works (see Note 11)	373	326	531	464
Profit on sale of fixed assets	-	56	-	80
Indemnity of loss	6	-	8	-
Other income*	1 728	213	2 459	303
Net foreign exchange gains	149	961	212	1 367
Interest income	311	425	442	605
	2 884	**2 255**	**4 103**	**3 209**

* 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 preformed February 1, 2007.

17 OTHER EXPENSES

	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
Materials	10	11	14	16
Salaries	197	110	280	157
Social insurance contributions	25	11	36	16
Depreciation and amortisation	91	42	129	60
Sponsorship	1 195	746	1 700	1 061
Loss from sale of fixed assets	592	-	842	-
Provisions for slow moving and obsolete inventories impairment	-	41	-	58
Other expense	350	769	499	1 094
	2 460	**1 730**	**3 500**	**2 462**

18 EXPENSES BY NATURE

	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
Purchase of natural gas	150 010	120 478	213 445	171 425
Depreciation and amortisation	18 488	13 062	26 306	18 584
Employee benefit expense (see Note 26)	22 464	14 046	31 963	19 986
Material and spare parts	3 994	4 304	5 683	6 124
Net provisions for impaired receivables	(172)	(279)	(245)	(397)
Other expenses	10 432	9 955	14 843	14 164
	205 216	**161 566**	**291 995**	**229 886**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 FINANCE INCOME, NET

	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
Finance income				
- Interest income	587	973	836	1 384
	587	**973**	**836**	**1 384**
Finance expenses				
- Interest expenses	(519)	(1)	(738)	(1)
	(519)	**(1)**	**(738)**	**(1)**
Finance income, net	**68**	**972**	**98**	**1 383**

20 NET FOREIGN EXCHANGE GAINS AND INTEREST INCOME

The exchange differences are credited to the income statement under Other income (see Note 16).

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

Other income (see Note 16)	311	425	442	605
Finance income, net (see Note 19)	587	973	836	1 384
	898	**1 398**	**1 278**	**1 989**

21 INCOME TAX EXPENSE

Current income tax	5 973	3 584	8 499	5 098
Unrealised deferred income tax gain related to revalued property, plant and equipment	(1 741)	(1 176)	(2 477)	(1 672)
Deferred income tax	673	808	958	1 150
	4 905	**3 216**	**6 980**	**4 576**

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	**37 177**	**24 005**	**52 899**	**34 156**
Theoretically calculated tax at tax rate of 15%	**5 577**	**3 601**	**7 935**	**5 124**
Tax effect of:				
Tax non-deductible expenses, net	2 085	1 425	2 968	2 026
Tax relief on donations	(1 016)	(634)	(1 446)	(902)
Unrealised deferred income tax gain related to revalued property, plant and equipment	(1 741)	(1 176)	(2 477)	(1 672)
Tax charge	**4 905**	**3 216**	**6 980**	**4 576**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 INCOME TAX EXPENSE (CONTINUED)

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

	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
Receivable as at 1 January	(1 116)	(669)	(1 588)	(952)
Charge for the year	5 973	3 584	8 499	5 098
Paid during the year	(3 445)	(4 031)	(4 902)	(5 734)
Liabilities / (receivable) as at 31 December	**1 412**	**(1 116)**	**2 009**	**(1 588)**

Calculation of deferred income tax:

	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
Deferred income tax liabilities at the beginning of the reporting year	**19 550**	**19 897**	**27 817**	**28 311**
Increase of deferred income tax liabilities (charged to income statement)	673	808	958	1 150
Increase in deferred income tax liabilities that results from revaluation of property, plant and equipment (charged to equity)	12 153	59	17 292	83
Decrease in deferred income tax liabilities that results form depreciation of revalued property, plant and equipment (charged to income statement)	(1 741)	(1 176)	(2 477)	(1 672)
Deferred income tax that results from disposal of revalued property, plant and equipment (charged to equity)	(97)	(38)	(137)	(55)
Deferred income tax liabilities at the end of the reporting year	**30 538**	**19 550**	**43 453**	**27 817**

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

	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
Temporary difference on depreciation of property, plant and equipment (to be settled within 12 months)	1 326	867	1 887	1 234
Temporary difference on depreciation of property, plant and equipment (to be settled after more than 12 months)	30 889	19 573	43 951	27 850
Temporary difference on provisions for impairment of bad and doubtful debts (to be settled within 12 months) *	(372)	(394)	(529)	(561)
Temporary difference on accrued expenses for unused annual leave and bonuses (to be settled within 12 months)	(876)	(439)	(1 246)	(625)
Temporary difference on accruals for post employment benefits and other employee benefits (to be settled after more than 12 month)	(375)	-	(533)	-
Temporary difference on provisions for impairment of inventories (to be settled within 12 months)	(54)	(57)	(77)	(81)
Deferred income tax liability, net	**30 538**	**19 550**	**43 453**	**27 817**

* 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 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.

	2007 LVL	2006 LVL	2007 EUR	2006 EUR
Net profit attributable to shareholders (a)	32 271 594	20 789 451	45 918 341	29 580 724
	number	number	number	number
Ordinary shares as at 1 January	39 900 000	39 900 000	39 900 000	39 900 000
Ordinary shares as at 31 December	39 900 000	39 900 000	39 900 000	39 900 000
Weighted average number of ordinary shares outstanding during the year (b)	39 900 000	39 900 000	39 900 000	39 900 000
Basic earnings per share during the year (a/b) in LVL or EUR	0,809	0,521	1,151	0,741

23 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 2007 of LVL 0.50 (EUR 0.71) per share is to 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 2007.

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). The dividends paid in 2006 for 2005 were LVL 13 965 thousand (LVL 0.35 per share) or EUR 19 870 thousand (EUR 0.50 per share).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	2007 LVL'000	2006 LVL'000 Corrected	2007 EUR'000	2006 EUR'000 Corrected
Profit before income tax	37 177	24 005	52 899	34 156
Adjustments for:				
Depreciation (Note 3)	17 819	12 573	25 354	17 890
Amortisation (Note 4)	670	488	953	694
Provision for impairment of slow moving inventories (Note 6)	(6)	41	(9)	58
Accrued expenses for bonuses	3 017	(14)	4 293	(19)
Accrued expenses for unused annual leave	145	(211)	206	(300)
Accrued expenses for post employment benefits and other employee benefits	2 500	-	3 557	-
Interest income (Note 20)	(898)	(1 398)	(1 278)	(1 989)
Interest expense (Note 19)	519	1	738	1
Loss / profit on sale of property plant and equipment (Notes 16, 17)	592	(56)	842	(80)
Changes in working capital				
- trade and other receivables	(10 818)	(636)	(15 394)	(903)
- inventories	(15 001)	(26 669)	(21 343)	(37 947)
- trade and other payables	14 405	27 870	20 498	39 652
	50 121	**35 994**	**71 316**	**51 213**

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"	**2 068**	**4 538**	**2 942**	**6 457**

(b) Purchase of natural gas

JSC "Gazprom"" un "Itera Latvija" LLC	**105 804**	**104 619**	**150 546**	**148 860**

(c) Purchase of services

E.ON Ruhrgas AG	**23**	**9**	**33**	**13**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Accounts payable for natural gas and services

	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
JSC "Gazprom"	3	10 706	4	15 234

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

(e) Accounts receivable for natural gas in transit

JSC "Gazprom"	155	-	221	-

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

Accounts payable to companies controlled JSC "Gazprom"	51	-	72	-

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

	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
Companies controlled JSC "Gazprom"	971	261*	1 381	371*

* were not disclosed in year 2006 financial statements

(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	1 410	1 297	2 006	1 845
Social insurance contributions	102	87	145	124
Expenses for accruals for post employment benefits and other employee benefits	69	-	98	-
Health and life insurance	10	11	14	16
Contributions to pension funds	35	70	50	100
	1 626	**1 465**	**2 313**	**2 085**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 EMPLOYEE BENEFIT COSTS

	2007 LVL'000	2006 LVL'000	2007 EUR'000	2006 EUR'000
Wages and salaries	15 816	11 038	22 504	15 706
Expenses for accruals for post employment benefits and other employee benefits	2 138	-	3 042	-
Social insurance contributions	3 360	2 301	4 781	3 274
Social insurance contributions for accruals for post employment benefits and other employee benefits	362	-	515	-
Life, health and pension insurance	788	707	1 121	1 006
	22 464	14 046	31 963	19 986

In accordance with the Rules of the Cabinet of Ministers of Latvia 74% (2006: 74%) of the social insurance contributions are used to fund the state defined contribution pension system.

27 FINANCIAL RISK MANAGEMENT

27.1. 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) – current debtors, long term debtors, cash, creditors, short term borrowings.

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 (47.7 %) of trade receivables natural gas comprises of debts of 5 largest customers of the Company. It should be noted that major part of this debt is for gas consumed in December 2007, for which payments are due in January 2008.

Credit risk management

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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 m^3 a year;
- companies with gas consumption more than 25 thousand m^3 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 m^3 a year, a notice is sent if receivables are post 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 m^3 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.

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**	**-**

December 31, 2006 (LVL'000):

	TOTAL	Fully performing (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	13 716	13 230	486	-
Other services	243	243	-	-
	13 959	**13 473**	**486**	**-**

December 31, 2006 (EUR'000):

	TOTAL	Fully performing (incl. renegotiated receivables)	Past due, not impaired	Impaired, net*
Natural gas	19 516	18 824	692	-
Other services	345	345	-	-
	19 861	**19 169**	**692**	**-**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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:

	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
Up to 3 months	376	349	535	497
3 to 6 months	428	137	609	195
	804	**486**	**1 144**	**692**

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.
SEB Banka – Moody's short term deposit rating is P-1, but long term – Aa2.
Hansabanka - Moody's short term deposit rating is P-2, but long term – Baa1.
Parex Banka - Moody's credit ratings is Baa3.
Baltic Trust Banka – largest shareholder General Electrics (98%) credit ratings is AAA.
DnB NORD – rating agency "Fitch" long term rating is A+, but short term rating F1.
Latvijas Hipotēku un Zemes banka - Moody's short term deposit rating is P-1, but long term – A2.

	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
Parex Banka	6 233	4 427	8 869	6 299
SEB Banka	29 120	4 380	41 434	6 232
Hansabanka	3 056	770	4 348	1 096
BTB	3 251	1 085	4 626	1 544
Nord/LB	2 639	384	3 755	546
Latvijas Hipotēku un Zemes banka	-	7 126	-	10 140
	4 299	**18 172**	**63 032**	**25 857**

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 position (significant changes in heavy fuel global market price / or natural gas purchase prices) of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Contractual maturity of liabilities as at 31 January, 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 January, 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**	**-**

Contractual maturity of liabilities as at 31 January, 2006 (LVL'000):

	< 1 month	1 – 3 months	3 months – 1 year	1 – 5 years
Accounts payable for natural gas	14 523	33 944	3 449	-
Liabilities to employees	395	-	-	-
Tax liabilities	4 876	-	-	-
Other current liabilities	2 611	18	428	-
Accrued expenses	2 631	-	-	-
Borrowings	-	-	16	-
	25 036	**33 962**	**3 893**	**-**

Contractual maturity of liabilities as at 31 January, 2006 (EUR'000):

	< 1 month	1 – 3 months	3 months – 1 year	1 – 5 years
Accounts payable for natural gas	20 664	48 299	4 907	-
Liabilities to employees	562	-	-	-
Tax liabilities	6 938	-	-	-
Other current liabilities	3 715	25	609	-
Accrued expenses	3 744	-	-	-
Borrowings	-	-	23	-
	35 623	**48 234**	**5 539**	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 FINANCIAL RISK MANAGEMENT (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 10 basis points shift would be a maximum increase of LVL 9 thousand (EUR 13 thousand) or decrease of LVL 9 thousand (EUR 13 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 exposed to the risk of foreign currency exchange rate fluctuations, although gas price is set in USD and afterwards recalculated in EUR, while gas sales tariffs are set in lats. Payments for the supplied gas are made in EUR. Changes of gas purchase prices in USD depending on heavy fuel oil quotation are covered by the natural gas sales tariffs approved by the Regulator of the Public Utilities Commission. To a certain extent the tariffs cover also the fluctuations of EUR/USD rate. The risk of foreign currency rate fluctuations, which is related to debts to suppliers, is controlled through keeping a significant part of financial resources in deposits of the respective currency. As at January 1, 2007 Bank of Latvia pegged lat to euro with official rate – 0.702804 lats for euro. This exchange rate is in force till Latvia will join eurozone. The Bank of Latvia has committed to ensure fluctuations of exchange rate of lats to euro in amount of 1% from official exchange rate. This means, according to this stipulation, euro could not be sold cheaper than 0.6958 and higher than 0.7098 lats for one euro.

Open foreign currencies positions:

	31.12.2007				31.12.2006	
	USD'000	**EUR'000**	**GBP'000**	**Other'000**	**USD'000**	**EUR'000**
Financial assets	312	16 357	139	635	426	6 257
Financial liabilities	(71)	(115 187)	-	-	(74)	(74 890)
Balance sheet position in original currency	241	(98 830)	139	635	352	(68 633)
Balance sheet position in LVL'000	117	(69 458)	133	4	189	(48 236)
Balance sheet position in EUR'000	166	(98 830)	189	6	269	(68 633)

<u>*Exchange rate fluctuations sensitivity analysis*</u>

In determination of future fluctuations of exchange rates, assumption is made based on last year USD currency exchange rate fluctuations, which were in the range of 8%, and for other currencies in range of 1%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency exchange risk (continued)

December 31, 2007

	Currency	Book value LVL'000	Impact to current year profit +8% (USD) +1% (other currencies) LVL'000	Impact to current year profit -8% (USD) -1% (other currencies) LVL'000	Book value EUR'000	Impact to current year profit +8% (USD) +1% (other currencies) EUR'000	Impact to current year profit -8% (USD) -1% (other currencies) 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**

December 31, 2006

	Currency	Book value LVL'000	Impact to current year profit +8% (USD) +1% (other currencies) LVL'000	Impact to current year profit -8% (USD) -1% (other currencies) LVL'000	Book value EUR'000	Impact to current year profit +8% (USD) +1% (other currencies) EUR'000	Impact to current year profit -8% (USD) -1% (other currencies) EUR'000
Assets							
Cash	EUR	4 131	35	(35)	5 878	49	(49)
	USD	219	15	(15)	312	22	(22)
	Other	4	-	-	5	-	-
Accounts receivable	EUR	266	3	(3)	378	3	(3)
	USD	9	1	(1)	13	1	(1)
		4 629	**54**	**(54)**	**6 586**	**75**	**(75)**
Liabilities							
Accounts payable	EUR	52 633	447	(447)	74 890	636	(636)
	USD	24	2	(2)	34	3	(3)
Borrowings	USD	16	1	(1)	23	2	(2)
		52 673	**450**	**(450)**	**74 947**	**641**	**(641)**
Net impact		**(48 044)**	**(396)**	**396**	**(68 361)**	**(566)**	**566**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2. 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 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 a capital of the Company, as well as its solvency. Strategy of the company is to ensure that mentioned proportion is not lower than 12 % and in not higher than 50 %.

In 2007 and 2006 proportion of borrowed capital to total capital was:

	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
Total liabilities	150 141	96 179	213 630	136 850
(Cash and cash equivalents)	(44 305)	(11 048)	(63 040)	(15 720)
Net total liabilities	105 836	85 131	150 590	121 130
Total liabilities and equity	475 641	332 511	676 776	473 120
Borrowed capital proportion to total capital	**22.25 %**	**25.60 %**	**22.25 %**	**25.60 %**

27.3. Fair value

Accounting value 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:

	31.12.2007. LVL'000	31.12.2006. LVL'000	31.12.2007. EUR'000	31.12.2006. EUR'000
Contracted for, but not delivered	11 953	16 265	17 008	23 143
Authorised, but not yet contracted for	16 322	16 885	23 224	24 025
	28 275	**33 150**	**40 232**	**47 168**

29 CONTINGENT LIABILITIES

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. The Board of the Joint Stock Company "Latvijas Gaze" 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 CONTINGENT LIABILITIES (CONTINUED)

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".

The management of the Company believes that it is less than probable that the above litigation will result in a material outflow of the Company's resources.

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, 2007.