



Joint Stock Company "Latvijas Gāze"

Unaudited Financial Report of 3 months of 2007.

Prepared in Compliance with the Requirements of International
Accounting Standards.

**Joint Stock Company “Latvijas Gāze”
3 months of 2007**

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**Joint Stock Company “Latvijas Gāze”
3 months of 2007**

JSC “Latvijas Gāze” management

Council	Kirill Seleznev (Кирилл Селезнев) – Chairman of the Council Juris Savickis – Vice-chairman of the Council Stephan Kamphues – Vice-chairman of the Council Eike Benke – Member of the Council Reiner Lehmann – Member of the Council Uwe Fip – Member of the Council Yelena Karpel (Елена Карпель) – Member of the Council Igor Nazarov (Игорь Назаров) – Member of the Council Vlada Rusakova (Влада Русакова) – Member of the Council Alexander Krasnenkov (Александр Красненков) – Member of the Council Marcus Anton Söhrich – Member of the Council
Board	Adrians Dāvis – Chairman of the Board Alexander Mihejev (Александр Михеев) – Member of the Board Anda Ulpe – Member of the Board Gints Freibergs – Member of the Board Jörg Tumat M.A. – Member of the Board

**Joint Stock Company “Latvijas Gāze”
3 months of 2007**

**Report on activity of the Joint Stock Company
Latvijas Gāze” in 3 months of 2007**

Economic and financial activity

In the 1st quarter of 2007, the Joint Stock Company “Latvijas Gāze” (hereinafter – LG) sold to consumers **653.3 million m³** of natural gas. In comparison with the plans of budget, natural gas sales decreased by 9.3% or 66.7 million m³, which fell behind the indices of the respective period of 2006 by 13.6% or 102.8 million m³. In the 1st quarter of 2006, natural gas sales reached 756.1 million m³ and were significantly affected by the atypically low air temperature.

Gas injection season in the Inčukalns UGS was commenced on April 16 of this year. Commencing natural gas injection, reserves of current gas in the Inčukalns UGS were 1 140.2 million m³, including 676.85 million m³ for the needs of Latvian consumers.

It is planned that in 2007, 1 183 million m³ of gas will be injected in the Inčukalns UGS, reaching amount of current gas 2.32 billion m³ at the end of injection season.

In the 3 months of 2007, consumers have been sold natural gas and provided services for **LVL 72.6 million**, which is by 3.9% more than in the respective period of 2006, but by 11.8% less than it was planned when preparing the budget. Non-execution of the income plan is mostly due to non-execution of gas sales amount and differences of tariffs actually applied considering the actual heavy fuel oil quotation, which in the 1st quarter was considerably lower than it had been predicted when preparing the budget.

LG ended the 1st quarter of 2007 with profit of **LVL 6.5 million**, which is by LVL 3.2 million (~32.6%) less than planned in the budget. It should be noted that in the 1st quarter of 2006 LG worked with a net profit of LVL 6 million, whereas the actual profit was LVL 14.0 million as LVL 8.0 million were shifted for building reserves for unforeseen expenses. This adjustment of profit was due to the seasonal character of natural gas sales and the real purpose of building reserves was to even up the profit through the year. In the 1st quarter of 2007, reserves for levelling operational costs of the reporting period through the year have not been built. Hereof it can be concluded that the actual income is by LVL 7.5 million lower than in the respective period of 2006.

In compliance with the Board resolution, as from January 1, 2007 the accounting policy of fixed assets and low-value inventory was changed, determining that an accounting unit of fixed assets is movable property and fixed property with the period of use longer than one year and purchase value greater than 150 LVL. After passing this resolution, non-depreciated fixed assets at the total amount of LVL 210 thousand LVL were excluded from accounting of fixed assets.

LG profit in the 1st quarter was also affected by revaluation of fixed assets of group 1 and 2 by the situation as on 01.02.2007. As a result of revaluation of fixed assets, LG asset value increased by LVL 80.2 million. As a result of revaluation of fixed assets:

- purchase value of the revaluated assets increased by LVL 226.8 million or 62.7% and reached LVL 588.3 million;
- balance value of the revaluated assets increased by LVL 80.2 million or 47.4% and reached LVL 249.1 million;
- accelerated depreciation LVL 1.47 million was written off in expenses;
- accelerated depreciation LVL 1.31 million, previously written off, was admitted to income.

Overall, it can be concluded that revaluation of fixed assets did not significantly affect the actual net profit (-LVL 135 thousand), though it caused unexpectedly large turnovers of revenue and expense accounts.

Within the capital investment program, LVL 4 429.7 thousand have been utilized. Investment funds have been mostly used for modernization of technological equipment and construction of new pipelines.

**Joint Stock Company “Latvijas Gāze”
3 months of 2007**

The most significant activities

- Elaboration of normative documents for ensuring enforcement of the new tariffs.
- Participation in various working groups elaborating legislations.
- Negotiations with natural gas suppliers on the price formula for 2008 and further years.
- Negotiations and conclusion of contracts with foreign companies on natural gas transportation, injection and storage in the Inčukalns UGS on commercial basis.

Collaboration of foreign gas companies in issues of operation safety improvement and provision of new connections.

**Joint Stock Company "Latvijas Gāze"
3 months of 2007**

Shares and shareholders

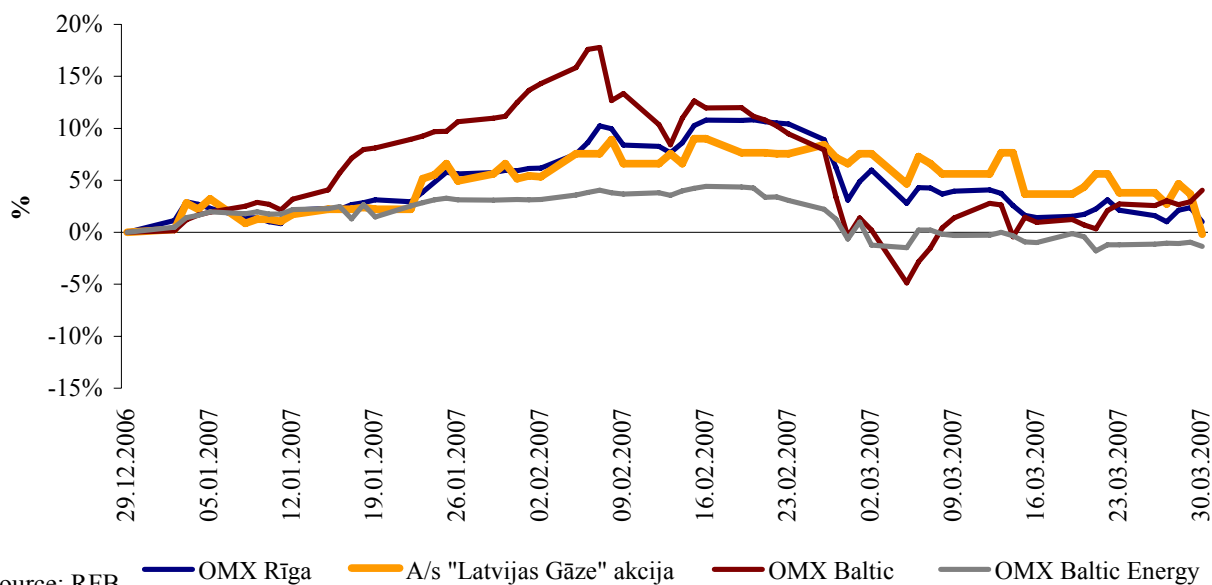
Composition of shareholders of the JSC "Latvijas Gāze"¹ as on December 31, 2006:

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

Share price at Riga Stock Exchange in 3 months of 2007

	2003	2004	2005	2006	3 months of 2007
Lowest	6.16	6.60	9.90	11.13	11.25
Highest	5.45	5.40	6.15	9.27	10.30
Average	5.51	5.85	7.67	10.22	10.57
Last	5.50	6.50	9.61	10.32	10.30
Total turnover (LVL)	27 341 729.30	1 062 135.53	486 242.35	1 316 153.92	1 216 408.37
Total turnover (shares)	4 962 993	181 611	63 360	128 844	115 109
Capitalization at the end of the period	219 450 000	259 350 000	383 439 000	411 768 000	410 970 000

JSC "Latvijas Gāze" share prices and development of OMX Rīga, OMX Baltic un OMX Energy indexes in 3 months of 2007



¹ Shareholders who own not less than 5% of capital

Joint Stock Company “Latvijas Gāze”
3 months of 2007

Profit or loss statement

	31.03.2007. 31.03.2006.			31.03.2007. 31.03.2006.		
	<u>LVL'000</u>	<u>LVL'000</u>	<u>Change</u>	<u>EUR'000</u>	<u>EUR'000</u>	<u>Change</u>
				0.7028	0.7028	
Net turnover	72 628	69 997	2 631	103 340	99 597	3 743
Cost of sales	(65 076)	(52 161)	(12 915)	(92 595)	(74 219)	(18 376)
Gross profit	<u>7 552</u>	<u>17 836</u>	<u>(10 284)</u>	<u>10 745</u>	<u>25 378</u>	<u>(14 633)</u>
Administrative expenses	(1 501)	(1 838)	337	(2 136)	(2 615)	479
Other operating income	1 777	511	1 266	2 529	727	1 802
Other operating expenses	(202)	(8 061)	7 859	(287)	(11 470)	11 183
Operating profit	<u>7 626</u>	<u>8 448</u>	<u>(822)</u>	<u>10 851</u>	<u>12 020</u>	<u>(1 169)</u>
Loss of investment in subsidiaries	0	0		0	0	
Profit of investments available for sale	0	0		0	0	
Financial income	88	175	(87)	125	249	(124)
Financial expenses	0	0		0	0	
Profit before tax	<u>7 714</u>	<u>8 623</u>	<u>(909)</u>	<u>10 976</u>	<u>12 269</u>	<u>(1 293)</u>
Income tax	1 170	2 611	(1 441)	1 665	3 715	(2 050)
Profit of the reporting period	<u>6 544</u>	<u>6 012</u>	<u>532</u>	<u>9 311</u>	<u>8 554</u>	<u>757</u>
Profit per share	0.164	0.151	0.013	0.233	0.214	0.019

Joint Stock Company “Latvijas Gāze”
3 months of 2007

Balance sheet

	31.03.2007.	31.03.2006.	Change	31.03.2007.	31.03.2006.	Change
	LVL'000	LVL'000		EUR'000	EUR'000	
				0.7028	0.7028	
ASSETS						
<u>Non-current assets</u>						
Intangible assets	1 635	1 314	321	2 326	1 869	457
Property, plant and equipment	305 977	214 763	91 214	435 366	305 580	129 786
Investments available for sale	0	0	0	0	0	0
Trade accounts receivable	63	188	(125)	89	268	(179)
Total non-current assets	307 675	216 265	91 410	437 781	307 717	130 064
<u>Current assets</u>						
Inventories	32 231	3 649	28 582	45 861	5 193	40 668
Trade accounts receivable	14 322	18 910	(4 588)	20 378	26 907	(6 529)
Other current assets	1 667	1 401	266	2 372	1 992	380
Corporate income tax	2290	1926	364	3 258	2 740	518
Cash and cash equivalents	23 995	47 238	(23 243)	34 142	67 214	(33 072)
Total current assets	74 505	73 124	1 381	106 011	104 046	1 965
TOTAL ASSETS	382 180	289 389	92 791	543 792	411 763	132 029
EQUITY AND LIABILITIES						
<u>Equity</u>						
Share capital	39 900	39 900	0	56 773	56 773	0
Share premium	14 320	14 320	0	20 376	20 376	0
Revaluation reserve	187 215	119 135	68 080	266 383	169 514	96 869
Other reserves	47554	39 061	8 493	67 664	55 579	12 085
Retained earnings from previous years	15 294	16 745	(1 451)	21 760	23 825	(2 065)
Retained earnings	6 544	6 012	532	9 311	8 554	757
Total equity	310 827	235 173	75 654	442 267	334 621	107 646
<u>Liabilities</u>						
<u>Non-current liabilities</u>						
Deferred tax liabilities	31 582	19 896	11 686	44 937	28 310	16 627
Borrowings	0	18	(18)	0	25	(25)
Deferred income	8 720	6 898	1 822	12 407	9 814	2 593
Total non-current liabilities	40 302	26 812	13 490	57 344	38 149	19 195
<u>Current liabilities</u>						
Trade accounts payable	17 146	5 421	11 725	24 396	7 713	16 683
Other current liabilities	9 324	8 217	1 107	13 267	11 693	1 574
Corporate income tax liability	1 170	2 611	(1 441)	1 665	3 715	(2 050)
Provisions	3 064	10 866	(7 802)	4360	15 461	(11 101)
Borrowings	16	35	(19)	23	50	(27)
Deferred income	331	254	77	470	361	109
Total current liabilities	31 051	27 404	3 647	44 181	38 993	5 188
Total liabilities	71 353	54 216	17 137	101 525	77 142	24 383
TOTAL EQUITY AND LIABILITIES	382 180	289 389	92 791	543 792	411 763	132 029

Joint Stock Company “Latvijas Gāze”
3 months of 2007

Cash flow statement

	31.03.2007. 31.03.2006.		31.03.2007. 31.03.2006.	
	<u>LVL'000</u>	<u>LVL'000</u>	<u>EUR'000</u>	<u>EUR'000</u>
			0.7028	0.7028
Cash flow from operating activities				
Cash generated from operations	11 335	28 091	16 126	39 971
Interest received	88	175	125	249
Corporate income tax paid	(1 176)	(1 264)	(1 673)	(1 799)
Cash flow from operating activities	10 247	27 002	14 578	38 421
Net cash flow from investing activities				
Purchase of property, plant and equipment	(3 694)	(3 631)	(5 255)	(5 167)
Proceeds from sales of fixed assets	4	0	6	0
Purchase of intangible assets	(736)	(1)	(1 047)	(1)
Proceeds from sales of investments				
Net cash flow from investing activities	(4 426)	(3 632)	(6 296)	(5 168)
Cash flow from financial activities				
Payments on borrowings				
Interest paid	0	0	0	0
Dividends paid				
Net cash flow from financial activities	0	0	0	0
(Decrease) / increase in net cash and cash equivalents	5 821	23 370	8 282	33 253
Cash and cash equivalents at the beginning of the year	18 174	23 868	25 860	33 961
Cash and cash equivalents at the end of the year	23 995	47 238	34 142	67 214

**Joint Stock Company “Latvijas Gāze”
3 months of 2007**

Changes in equity

LVL'000	<i>Share capital LVL'000</i>	<i>Share premium LVL'000</i>	<i>Revaluation reserve LVL'000</i>	<i>Other reserves LVL'000</i>	<i>Retained earnings LVL'000</i>	<i>Total LVL'000</i>
31.12.2005.	39 900	14 320	119 150	39 061	16 745	229 176
Revaluation of fixed assets			0		0	0
Deferred tax liability arising on revaluation of property, plant and equipment			0		0	0
Disposal of revaluated fixed assets			(15)		0	(15)
Deferred tax on disposal of revaluated property, plant and equipment			0		0	0
<i>Net income admitted in equity</i>	<i>0</i>	<i>0</i>	<i>(15)</i>	<i>0</i>	<i>0</i>	<i>(15)</i>
Profit for the reporting year					6 012	6 012
Total income for Q1 2006	0	0	(15)	0	6012	5997
Transfer to reserves				0	0	0
Dividends for 2005					0	0
31.03.2006.	39 900	14 320	119 135	39 061	22 757	235 173
LVL'000	<i>Share capital LVL'000</i>	<i>Share premium LVL'000</i>	<i>Revaluation reserve LVL'000</i>	<i>Other reserves LVL'000</i>	<i>Retained earnings LVL'000</i>	<i>Total LVL'000</i>
31.12.2006.	39 900	14 320	119 264	47 554	15 294	236 332
Revaluation of fixed assets			80 216			80 216
Deferred tax liability arising on revaluation of property, plant and equipment			(12 032)			(12 032)
Disposal of revaluated fixed assets			(233)			(233)
Deferred tax on disposal of revaluated property, plant and equipment			0			0
<i>Net income admitted in equity</i>	<i>0</i>	<i>0</i>	<i>67 951</i>	<i>0</i>	<i>0</i>	<i>67 951</i>
Profit for the reporting year					6 544	6 544
Total income for 2007	0	0	67 951	0	6 544	74 495
Transfer to reserves				0	0	0
Dividends for 2006					0	0
31.03.2007.	39 900	14 320	187 215	47 554	21 838	310 827

Joint Stock Company “Latvijas Gāze”
3 months of 2007

EUR'000	<i>Share capital EUR'000</i>	<i>Share premium EUR'000</i>	<i>Revaluation reserve EUR'000</i>	<i>Other reserves EUR'000</i>	<i>Retained earnings EUR'000</i>	<i>Total EUR'000</i>
31.12.2005.	56 773	20 376	169 534	55 579	23 825	326 087
Revaluation of fixed assets			0	0	0	0
Deferred tax liability arising on revaluation of property, plant and equipment			0	0	0	0
Disposal of revaluated fixed assets			(20)	0	0	(20)
Deferred tax on disposal of revaluated property, plant and equipment			0	0	0	0
<i>Net income admitted in equity</i>	<i>0</i>	<i>0</i>	<i>(20)</i>	<i>0</i>	<i>0</i>	<i>(20)</i>
Profit for the reporting year					8 554	8 554
Total income for Q1 2006	0	0	(20)	0	8 554	8 534
Transfer to reserves						0
Dividends for 2005						0
31.03.2006.	56 773	20 376	169 514	55 579	32 379	334 621
EUR'000	<i>Share capital EUR'000</i>	<i>Share premium EUR'000</i>	<i>Revaluation reserve EUR'000</i>	<i>Other reserves EUR'000</i>	<i>Retained earnings EUR'000</i>	<i>Total EUR'000</i>
31.12.2006.	56 773	20 376	169 697	67 664	21 760	336 270
Revaluation of fixed assets			114 137			114 137
Deferred tax liability arising on revaluation of property, plant and equipment			(17 120)			(17 120)
Disposal of revaluated fixed assets			(331)			(331)
Deferred tax on disposal of revaluated property, plant and equipment			0			0
<i>Net income admitted in equity</i>	<i>0</i>	<i>0</i>	<i>96 686</i>	<i>0</i>	<i>0</i>	<i>96 686</i>
Profit for the reporting year					9 311	9 311
Total income for 2007	0	0	96 686	0	9 311	105 997
Transfer to reserves						
Dividends for 2006						
31.03.2007.	56 773	20 376	266 383	67 664	31 071	442 267

**Joint Stock Company “Latvijas Gāze”
3 months of 2007**

Appendices

	31.03.2007.	31.03.2006.	change	31.03.2007.	31.03.2006.	change
	LVL'000	LVL'000		EUR'000	EUR'000	
1 COST OF SALES				0.7028	0.7028	
Purchase of natural gas	55 747	45 838	9 909	79 320	65 221	14 099
Salaries	1 990	1 620	370	2 832	2 306	526
Social insurance contributions	465	380	85	661	541	120
Life, health and pension insurance	141	121	20	201	172	29
Materials and spare parts	615	606	9	875	862	13
Depreciation and amortisation and impairment charge of property, plant and equipment	5 185	2 924	2 261	7 378	4 160	3 218
Other	933	672	261	1 328	957	371
	65 076	52 161	12 915	92 595	74 219	18 376
2 ADMINISTRATIVE EXPENSES						
Salaries	683	304	379	973	433	540
Social insurance contributions	143	132	11	204	187	17
Life, health and pension insurance	32	22	10	46	31	15
Maintenance and utilities	218	214	4	311	304	7
Real estate tax	35	325	(290)	49	462	(413)
Depreciation and amortisation and impairment charge of property, plant and equipment	172	151	21	244	216	28
Bank charges	41	37	4	59	53	6
Provisions for impairment of bad and doubtful debts, net	(12)	0	(12)	(18)	(1)	(17)
Other expenses	189	653	(464)	268	930	(662)
	1 501	1 838	(337)	2 136	2 615	(479)
3 OTHER OPERATION INCOME						
Penalties from customers	117	38	79	167	54	113
Income from contribution to financing of construction works	88	83	5	126	119	7
Gain from disposal of property, plant and equipment	0	17	(17)	0	24	(24)
Loss compensation (payment)	0	0	0	0	0	0
Provisions for slow moving and obsolete inventories impairment	3	1	2	5	1	4
Provisions for impairment of bad and doubtful debts, net	0	0	0	0	0	0
Other income	1 575	100	1 475	2 240	142	2 098
Net income from fluctuations of foreign currency rates	(6)	273	(279)	(9)	387	(396)
Bank interest	0	0	0	0	0	0
	1 777	511	1 266	2 529	727	1 802

**Joint Stock Company "Latvijas Gāze"
3 months of 2007**

	31.03.2007.			31.03.2006.		
	LVL'000	LVL'000	change	EUR'000	EUR'000	change
4 OTHER OPERATION EXPENSES				0.7028	0.7028	
Material expenses	3	2	1	4	3	1
Salaries and other expenses	28	21	7	40	29	11
Social insurance contributions	4	2	2	5	3	2
Depreciation, amortisation and impairment charge for property, plant and equipment	25	5	20	36	7	29
Sponsorship	0	13	(13)	0	18	(18)
Losses from sale of fixed assets	99	0	99	141	0	141
Provisions for slow moving and obsolete inventories impairment	0	0	0	0	0	0
Other expenses	43	8 018	(7 975)	61	11 410	(11 349)
	202	8 061	(7 859)	287	11 470	(11 183)

ALLOCATION OF EXPENSES IN THEIR TERMS

Natural gas purchase	55 747	45 838	9 909	79 320	65 221	14 099
Depreciation and amortization	5 382	3 080	2 302	7 658	4 383	3 275
Expenses on employees	3 486	2 602	884	4 962	3 702	1 260
Materials and spare parts	618	608	10	879	865	14
Net accrual for reduction of debtor's debt	(12)	0	(12)	(18)	(1)	(17)
Other expenses	1 558	9 932	(8 374)	2 217	14 134	(11 917)
	66 779	62 060	4 719	95 018	88 304	6 714

5 FINANCE INCOME, NET

Finance income

- Interest income	88	175	(87)	125	249	(124)
- Net income from fluctuations of foreign currency exchange rates	0	0	0	0	0	0
	88	175	(87)	125	249	(124)

Finance expenses

- Net expenses from fluctuations of foreign currency exchange rates						
- Service charge for borrowings	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0

Finance income, net

	88	175	(87)	125	249	(124)
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6 INVENTORIES

Materials and spare parts (net selling value)	2 701	1 710	991	3 843	2 434	1 409
Gas and fuel (purchase value)	29 444	1 866	27 578	41 895	2 655	39 240
Other (purchase value)	86	73	13	123	104	19
	32 231	3 649	28 582	45 861	5 193	40 668

**Joint Stock Company "Latvijas Gāze"
3 months of 2007**

	31.03.2007.			31.03.2006.		
	LVL'000	LVL'000	change	EUR'000	EUR'000	change
7 CASH GENERATED FROM OPERATIONS				0.7028	0.7028	
Profit before tax	7 714	8 623	(909)	10 976	12 269	(1 293)
<i>Adjustments for:</i>						
Depreciation	5 221	2 971	2 250	7 428	4 228	3 200
Amortisation	162	109	53	230	155	75
Gains on investments available for sale						
Provision for impairment of slow moving inventories	(3)	(1)	(2)	(5)	(1)	(4)
Accrual for bonuses	(320)	(408)	88	(455)	(580)	125
Accrual for unused annual leave	(65)	(51)	(14)	(93)	(72)	(21)
Provision charges	(210)	8 000	(8 210)	(299)	11 383	(11 682)
Interest income	88	175	(87)	125	249	(124)
Service charge on borrowings	0	0		0	0	
Gain on disposal of property, plant and equipment	99	(17)	116	140	(24)	164
<i>Changes in working capital:</i>						
- trade and other receivables	(882)	(5 982)	5 100	(1 254)	(8 512)	7 258
- inventories	38 077	39 952	(1 875)	54 179	56 847	(2 668)
- trade and other payables	(38 546)	(25 280)	(13 266)	(54 846)	(35 971)	(18 875)
	11 335	28 091	(16 756)	16 126	39 971	(23 845)

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