



Joint Stock Company "Latvijas Gāze"

Unaudited Financial Report of six months of 2007.

Prepared According to the Requirements of International
Accounting Standards.

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

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

**Report on activity of the Joint Stock Company “Latvijas Gāze”
in the 1st half of the year 2007**

Economical and financial activity

In the first half of 2007, the Joint Stock Company “Latvijas Gāze” (hereinafter – LG) sold to consumers 944.7 million nm³ of gas. In comparison with the respective period of 2006, the natural gas sales have decreased by 9% and fall behind the budget plan by 4.6% or 45.3 million nm³.

The decrease of gas consumption is due to the relatively high air temperature in the 1st quarter of 2007. In the 2nd quarter of the reporting year, the planned sales amounts have been reached and even slightly exceeded, however, currently there is no reason to predict a significant increase of the planned amount of gas sales in the 2nd half. Assuming that in the further months the amount of gas sales will reach that planned in the budget, the prognosis of annual sales might be about **1 650 million nm³ – 1 670 million nm³**.

The gas injection season in the Inčukalns UGS was commenced on April 16 this year. Commencing the injection, the reserves of active gas at the Inčukalns UGS were 1 140.2 million nm³, incl. 676.8 million nm³ for the needs of Latvian customers. It is planned that 1 185 million nm³ of gas will be injected into the Inčukalns UGS in 2007, reaching the amount of active gas 2.32 billion m³ at the end of the injection season. The total plan of natural gas injection in the reporting period was executed by 47.9%.

In the six months of 2007, the consumers have been sold natural gas and provided services for **LVL 110.7 million**, which is by 10% more than in the respective period of 2006, still by 3.2% less than it was planned when preparing the budget. The non-execution of the income plan is mostly due to the non-execution of the gas sales amount and the differences of the tariffs actually applied considering the actual heavy fuel oil quotation, which in the first half of 2007 was significantly lower than it had been predicted when preparing the budget.

On May 1, 2007, the new natural gas sales end tariffs became effective. On average, they were by 30.1% higher than the previous ones and gave additional income at the amount of LVL 4.76 million in the 1st half of 2007.

LG completed the 1st half months of 2007 with a **profit of LVL 6.5 million**, which is 23.5% less than in the respective period of 2006. In the first half of 2006, the profit shown in accounts was LVL 8.5 million, whereas the actual – LVL 13.5 million, as LVL 5.0 million were shifted for building reserves for unforeseen expenses. In 2007, reserves for levelling the operational costs along the reporting period have not been built. Hereof it can be concluded that the real income is by 7 million less than in the respective period of 2006.

On June 18, 2007, LG received a short-term credit of EUR 28.5 million at SEB Unibanka to purchase from the OJSC “Gazprom” part of gas located at the Inčukalns UGS for the price of 2007 for the needs of 2008. According to prognoses of cash flow, the credit will be refunded after the gas is sold to customers.

Within the framework of the capital investment program, LVL 11 576.3 have been utilized in 6 months of 2007. The funds have been mostly used in modernization of technological equipment and construction of new gas pipelines.

The most significant activities:

- Participation in various working groups developing legislations.
- Negotiations with the suppliers of natural gas on the price formula for 2008 and further years.
- Negotiations and conclusion of contracts with foreign companies on natural gas transportation, injection and storage at the Inčukalns UGS on a commercial basis.
- Collaboration with foreign gas companies on issues of improvement of operation safety and provision of new connections.

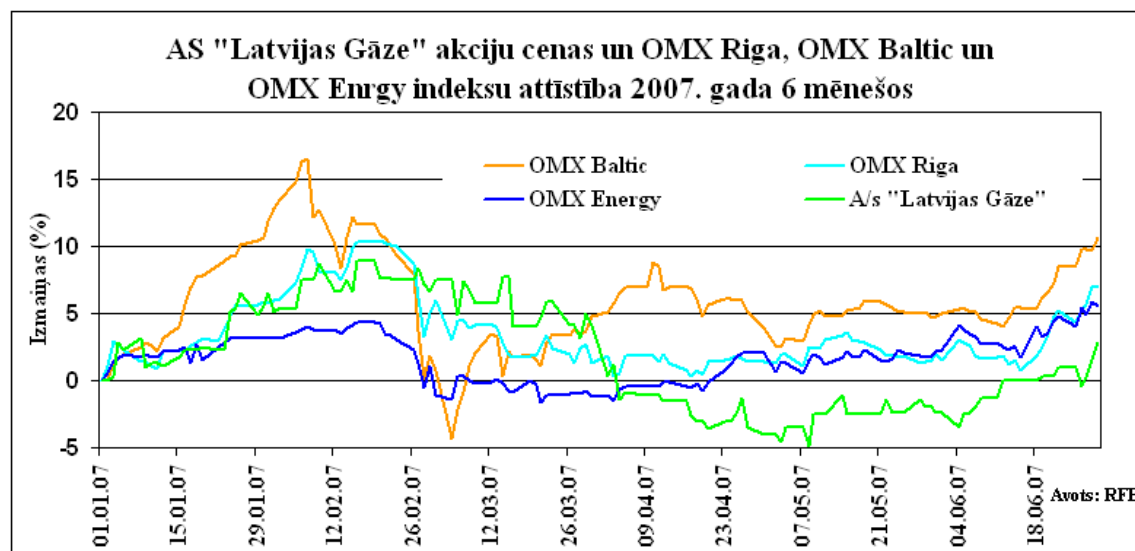
Shares and shareholders

Composition of shareholders¹ of the Joint Stock Company 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 6 months of 2007

Price	2003	2004	2005	2006	2007
First			6.20	9.95	10.35
High	6.25	6.60	9.90	11.13	11.25
Low	5.40	5.40	6.15	9.27	9.65
Average	5.51	5.84	7.73	10.24	10.49
Last	5.50	6.50	9.61	10.32	10.37
Number of shares	4 962 617	181 611	63 360	128 844	133 484
Turnover (mio LVL)	27.340	1.060	0.490	1.320	1.400
Capitalization (mio LVL)	219.450	259.350	383.440	411.770	413.760



¹ Shareholders owning not less than 5% of capital

Statement of Director's responsibility

The Board of Directors of the Joint Stock Company "Latvijas Gāze" (hereinafter – the Company) is responsible for the preparation of the interim financial statements of the Company. Interim financial statements of the Company are not audited.

The financial statements on pages 7 to 14 are prepared in accordance with the underlying accounting records and source documents and present fairly the financial position of the Company as of June 30, 2007 and the result of its operations and cash flows for 6 months of the year 2007.

The financial statements are prepared in accordance with International Financial Reporting Standards on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements 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



August 21, 2007

Joint Stock Company "Latvijas Gāze"
6 months 2007

Profit or loss statement

		30.06.2007.	30.06.2006.		30.06.2007.	30.06.2006.	
	Appendix	LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
Sales		110 719	100 670	10 049	157 539	143 241	14 298
Cost of sales	1	<u>(102 014)</u>	<u>(82 059)</u>	<u>(19 955)</u>	<u>(145 153)</u>	<u>(116 759)</u>	<u>(28 394)</u>
Gross profit		8 705	18 611	(9 906)	12 386	26 482	(14 096)
Administrative expenses	2	(3 077)	(3 644)	567	(4 378)	(5 185)	807
Other operating income	3	2 098	908	1 190	2 982	1 291	1 691
Other operating expenses	4	<u>(286)</u>	<u>(5 145)</u>	<u>4 859</u>	<u>(404)</u>	<u>(7 321)</u>	<u>6 917</u>
Operating profit		7 440	10 730	(3 290)	10 586	15 267	(4 681)
Loss on investments in subsidiary							
Profit from investments available for sale							
Financial income	5	234	403	(169)	333	573	(240)
Financial expenses	5		(1)	1		(1)	
Profit before tax		<u>7 674</u>	<u>11 132</u>	<u>(3 458)</u>	<u>10 919</u>	<u>15 839</u>	<u>(4 921)</u>
Income tax		<u>(1 170)</u>	<u>(2 611)</u>	<u>1 441</u>	<u>(1 665)</u>	<u>(3 715)</u>	<u>2 050</u>
Profit of the reporting year		6 504	8 521	(2 017)	9 254	12 124	(2 871)
Profit per share		0.163	0.214	(0.051)	0.232	0.304	(0.072)

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

Balance sheet

	30.06.2007. LVL'000	30.06.2007. LVL'000	Change	30.06.2007. EUR'000	30.06.2007. EUR'000	Change
				0.7028	0.7028	
ASSETS						
<u>Non-current assets</u>						
Intangible assets	1 613	1 316	297	2 295	1 872	423
Property, plant and equipment	308 918	215 202	93 716	439 551	306 205	133 346
Investments available for sale						
Trade accounts receivable	31	156	(125)	44	222	(178)
Total non-current assets	310 562	216 674	93 888	441 890	308 299	133 591
<u>Current assets</u>						
Inventories	81 020	22 087	58 933	115 281	31 427	83 854
Trade accounts receivable	7 915	8 731	(816)	11 262	12 423	(1 161)
Other current assets	1 926	1 302	624	2 740	1 853	887
Corporate income tax (2391)	3 464	3 011	453	4 929	4 284	645
Cash and cash equivalents	18 451	53 551	(35 100)	26 253	76 196	(49 943)
Total current assets	112 776	88 682	24 094	160 466	126 183	34 283
TOTAL ASSETS	423 338	305 356	117 982	602 356	434 482	167 874
EQUITY AND LIABILITIES						
<u>Equity</u>						
Share capital	39 900	39 900		56 773	56 773	
Share emission premium	14 320	14 320		20 376	20 376	
Revaluation reserve	187 130	119 105	68 025	266 263	169 471	96 792
Other reserves	47 554	39 061	8 493	67 664	55 579	12 085
Retained earnings of previous years	15 294	16 744	(1 450)	21 760	23 824	(2 064)
Retained earnings	6 504	8 521	(2 017)	9 254	12 124	(2 870)
Total equity	310 702	237 652	73 050	442 090	338 147	103 943
<u>Liabilities</u>						
<u>Non-current liabilities</u>						
Deferred tax liabilities	31 582	19 897	11 685	44 937	28 311	16 626
Borrowings		18	(18)		26	(26)
Deferred income	8 886	6 959	1 927	12 644	9 902	2 742
Total non-current liabilities	40 468	26 874	13 594	57 581	38 239	19 342
<u>Current liabilities</u>						
Trade accounts payable	38 704	24 038	14 666	55 070	34 203	20 867
Other liabilities	8 454	5 568	2 886	12 029	7 923	4 106
Corporate income tax liability	1 170	2 611	(1 441)	1 665	3 715	(2 050)
Provisions	3 471	8 336	(4 865)	4 939	11 861	(6 922)
Borrowings	20 030	19	20 011	28 500	27	28 473
Deferred income	339	258	81	482	367	115
Total current liabilities	72 168	40 830	31 338	102 685	58 096	44 589
Total liabilities	112 636	67 704	44 932	160 266	96 335	63 931
TOTAL EQUITY AND LIABILITIES	423 338	305 356	117 982	602 356	434 482	167 874

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

Cash flow statement

	30.06.2007.	30.06.2006.	30.06.2007.	30.06.2006.
	LVL'000	LVL'000	EUR'000	EUR'000
			0.7028	0.7028
Cash flow from operating activities				
Cash generated from operations	(6 061)	38 792	(8 624)	55 196
Interest received	240	421	342	599
Corporate income tax paid	(2 351)	(2 178)	(3 345)	(3 098)
Net cash flow from operating activities	(8 172)	37 035	(11 627)	52 697
Cash flow from investing activities				
Purchase of property, plant and equipment	(11 439)	(7 209)	(16 277)	(10 257)
Proceeds from sale of property, plant and equipment	11	1	15	1
Purchase of intangible assets	(137)	(127)	(195)	(181)
Proceeds from sale of securities				
Net cash flow from investing activities	(11 565)	(7 335)	(16 457)	(10 437)
Cash flow from financing activities				
Payments on borrowings	(16)	(16)	(23)	(24)
Borrowings received	20 030		28 500	
Service charge on borrowings		(1)		(1)
Dividends paid				
Net cash flow from financing activities	20 014	(17)	28 477	(25)
(Decrease) / increase in cash and cash equivalents	277	29 683	393	42 235
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	18 451	53 551	26 253	76 196

Joint Stock Company "Latvijas Gāze"
6 months 2007

Changes in equity capital

	Share capital	Share premium	Revalua- tion reserve	Other reserves	Retained earnings	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
December 31, 2005	39 900	14 320	119 149	39 061	16 744	229 175
Revaluation of fixed assets						
Deferred tax liability arising on the revaluation of property, plant and equipment						
Disposal of revaluated fixed assets			(44)			(44)
Deferred tax on disposal of revalued property, plant and equipment						
<i>Net income admitted in equity</i>			(44)			(44)
Profit of the reporting year					8 521	8 521
Income for 1st half of 2006			(44)		8 521	8 477
Transfer to reserves						
Dividends for 2005						
June 30, 2006	39 900	14 320	119 105	39 061	25 265	237 652

	Share capital	Share premium	Revalua- tion reserve	Other reserves	Retained earnings	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
December 31, 2006	39 900	14 320	119 264	47 554	15 294	236 332
Revaluation of fixed assets			80 216			80 216
Deferred tax liability arising on the revaluation of property, plant and equipment			(12 032)			(12 032)
Disposal of revaluated fixed assets			(318)			(318)
Deferred tax on disposal of revalued property, plant and equipment						
<i>Net income admitted in equity</i>			67 866			67 866
Profit of the reporting year					6 504	6 504
Income for the 1st half of 2007			67 866		6 504	74 370
Transfer to reserves						
Dividends for 2006						
June 30, 2007	39 900	14 320	187 130	47 554	21 798	310 702

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

Changes in equity capital

	Share capital	Share premium	Revalua- tion reserve	Other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2005	56 773	20 376	169 533	55 579	23 824	326 085
Revaluation of fixed assets						
Deferred tax liability arising on the revaluation of property, plant and equipment						
Disposal of revaluated fixed assets			(62)			(62)
Deferred tax on disposal of revalued property, plant and equipment						
<i>Net income admitted in equity</i>			(62)			(62)
Profit of the reporting year					12 124	12 124
Income for the 1st half of 2006			(62)		12 124	12 062
Transfer to reserves						
Dividends for 2005						
June 30, 2006	56 773	20 376	169 471	55 579	35 948	338 147

	Share capital	Share premium	Revalua- tion reserve	Other reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2006	56 773	20 376	169 697	67 664	21 760	336 270
Revaluation of fixed assets			114 137			114 137
Deferred tax liability arising on the revaluation of property, plant and equipment			(17 120)			(17 120)
Disposal of revaluated fixed assets			(451)			(451)
Deferred tax on disposal of revalued property, plant and equipment						
<i>Net income admitted in equity</i>			96 566			96 566
Profit of the reporting year					9 254	9 254
Income for the 1st half of 2007			96 566		9 254	105 820
Transfer to reserves						
Dividends for 2006						
June 30, 2007	56 773	20 376	266 263	67 664	31 014	442 090

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

Appendices

App. No.	30.06.2007. LVL'000	30.06.2006. LVL'000	30.06.2007. EUR'000	30.06.2006. EUR'000
1	COST OF SALES			
	83 325	68 040	118 561	96 812
	4 207	3 490	5 987	4 965
	983	817	1 399	1 163
	302	260	429	370
	1 913	1 926	2 722	2 741
	9 244	5 874	13 152	8 357
	2 040	1 652	2 903	2 351
	102 014	82 059	145 153	116 759
2	ADMINISTRATIVE EXPENSES			
	1 460	1 371	2 077	1 950
	275	237	392	337
	66	50	93	72
	438	373	623	530
	70	650	99	925
	344	302	490	430
	97	86	138	123
	(135)	(1)	(192)	(1)
	462	576	658	819
	3 077	3 644	4 378	5 185
3	OTHER OPERATING INCOME			
	186	222	264	315
	177	162	252	231
		6		8
	12	3	17	5
	1 617	99	2 298	140
	106	416	151	592
	2 098	908	2 982	1 291

Joint Stock Company "Latvijas Gāze"
6 months 2007

Purchase of natural gas	83 325	68 040	118 560	96 812
Depreciation and amortisation	9 634	6 185	13 707	8 801
Staff expenses	7 351	6 266	10 459	8 916
Materials and spare parts	1 919	1 930	2 730	2 747
Net accruals for reduction of debtors' debt	(135)	(1)	(192)	(1)
Other	3 282	8 426	4 670	11 990
	105 376	90 846	149 934	129 265

5 FINANCE INCOME, NET

Finance income				
Interest income	234	403	333	573
	234	403	333	573
Finance expenses				
Service charge for borrowings		1		1
		1		1
Finance income, net	234	402	333	572

6 INVENTORIES

Materials and spare parts (at net sellable value)	2 637	2 251	3 752	3 204
Gas and fuel (at cost value)	78 265	19 758	111 361	28 112
Other (at cost value)	118	78	168	111
	81 020	22 087	115 281	31 427
Accruals at the beginning of the year	383	430	544	612
Accruals made during the year				
Decrease of accruals	(12)	(3)	(17)	(5)
Depreciated	(3)		(3)	
Accruals at the end of the year	368	427	524	607

7 CASH GENERATED FROM

Profit before tax	7 674	11 132	10 919	15 839
<i>Adjustments for:</i>				
Depreciation	9 309	5 963	13 245	8 485
Amortisation	324	222	462	316

Joint Stock Company "Latvijas Gāze"
6 months 2007

7 CASH GENERATED FROM OPERATIONS

Profit before tax	7 674	11 132	10 919	15 839
<i>Adjustments for:</i>				
Depreciation	9 309	5 963	13245	8485
Amortisation	324	222	462	316
Gain on available-for-sale investments				
Provision for impairment of slow-moving inventories	(12)	(3)	(17)	(5)
Accrual for bonuses	(649)	(816)	(923)	(1 161)
Accrual for unused annual leave	(144)	(113)	(205)	(161)
Provision charge	(210)	5 000	(299)	7 114
Interest income	(234)	(402)	(333)	(573)
Service charge for borrowings and interest payments		1		1
gain from disposal of property, plant and equipment	82	(6)	116	(8)
<i>Changes in working capital:</i>				
trade and other receivables	5 471	4 365	7 784	6 211
inventories	(10 721)	21 511	(15 254)	30 607
trade and other payables	(16 951)	(8 061)	(24 119)	(11 469)
	(6 061)	38 793	(8 624)	55 196

8 BORROWINGS

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

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