

**JOINT STOCK COMPANY
“LATVIJAS GĀZE”**

**ANNUAL ACCOUNTS
FOR THE YEAR ENDED
DECEMBER 31, 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

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

TABLE OF CONTENTS

Information on the Company	3
Report of the Board of Directors	4 – 7
Financial statements:	
Profit and loss account	8
Balance sheet	9 – 10
Statement of changes in equity	11 – 12
Cash flow statement	13
Notes	14 – 32
Auditors' report	33 – 34

Joint stock company Latvijas Gāze
Annual Accounts
for the year ended December 31, 2007

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	Adriāns 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 (Кирил 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	January 1 – December 31, 2007
Name and address of the auditor and responsible certified auditor	PricewaterhouseCoopers SIA Audit company licence No. 5 Kr. Valdemāra street 19 Riga, LV-1010 Latvia
	Responsible certified auditor: Olga Bukovska Certified auditor Certificate Nr. 170

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 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 nm³ of natural gas. In comparison to the period of 2006, natural gas sales in nm³ 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 56.2% or LVL 11.8 million (EUR 16.8 million), reaching LVL 32.8 million (EUR 46.7 million). The net profitability of business activity was 13.7 % in 2007 and 11.5 % 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 nm³ of natural gas was injected into the Inčukalns UGS, with the total gas volume at the facility reaching 4.47 billion nm³.

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).

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.

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Report of the Board (continued)

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

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 nm³ 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 judgments of the Russian companies "Gazobezопасnostj" and "Lentransgaz", the institutes "VNIIGAS" and "Giprospepgaz", as well as the German companies "Pipeline Engineering 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.

3. Management of financial risks

Operation of the Company is subject to various financial risks, including credit risk and the risks of foreign currency exchange and interest rate fluctuations. The management of the Company seeks to minimize the negative impact of potential financial risks on the financial performance of the Company.

The Company is not directly subject to the risk of foreign currency exchange rate fluctuations, as the gas purchase price is set in USD and afterwards recalculated in EUR, whereas the gas sales tariffs are set in lats. Settlements for the supplied gas are made in EUR. Since as of January 1, 2005 the lat rate is pegged to the euro rate, the fluctuations of the LVL/EUR rate are limited, and they are not expected to have considerable impact on further financial results. The changes of gas purchase prices in USD depending on heavy fuel oil quotation are covered by the PUC-approved natural gas sales tariffs, which to a certain amount cover the fluctuations of the EUR/USD rate as well. The risk of foreign currency rate fluctuations, related to debts to suppliers, is under control via keeping a considerable share of funds in deposits of the respective currency.

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Report of the Board (continued)

3. Management of financial risks (continued)

Borrowings of the Company have variable interest rate.

The financial resources that could potentially lead to a certain concentration of the credit risk in the Company are mainly cash as well as customers' debts. The Company is subject to a considerable degree of credit risk concentration because a notable share of the net turnover refers to a limited number of customers. Four of the customers of the Company cover up to 47 % (in 2006 – 45 %) of sales, one of the debts of these debtors as at December 31, 2007 was 20,7 % (in 2006 – 20.7 %), the second and the third were 8,7 % and 6,8 % respectively (in 2006 – 8.8 % and 6.2 %) of the total amount of debtors' debts. The Company has introduced and observes such a credit policy that envisages selling goods on credit only to customers with a good credit history, controlling the amount of credit set for each customer. Purchasers' and clients' debts are shown at their recoverable value. The partners of the Company in monetary deals are local financial institutions with adequate credit history.

The Company observes prudent management of liquidity risk, ensuring that there are credit resources available for meeting liabilities in due time.

4. 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 Inčukalna 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.

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Report of the Board (continued)**5. Profit distribution 2007 as suggested by the Board**

	2007	2007
	LVL	EUR
Profit of the reporting year	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.

6. 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

Board meeting minutes No. 12 (2008)
Riga, April 28, 2008


A. Dāvis

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Profit and loss account for the year ended December 31, 2007

	Notes	2007 Ls	2006 Ls	2007 EUR	2006 EUR
1. Net sales	1	239 440 515	182 343 882	340 693 159	259 451 970
2. Cost of sales	2	(195 532 509)	(152 793 672)	(278 217 695)	(217 405 809)
3. Gross profit		43 908 006	29 550 210	62 475 464	42 046 161
5. Administrative expenses	3	(7 238 653)	(5 993 429)	(10 299 675)	(8 527 881)
6. Other operating income	4	2 326 442	945 035	3 310 229	1 344 664
7. Other operating expenses	5	(1 874 195)	(1 433 575)	(2 666 739)	(2 039 793)
10. Interest and similar income	6	1 138 801	2 280 957	1 620 368	3 245 509
11. Revaluation of long term financial investments and short term securities	7	384	1 578	546	2 245
12. Interest and similar expenses	8	(558 067)	(38 126)	(794 058)	(54 249)
13. Provisions for bad and doubtful debtors, net	14	172 415	279 089	245 325	397 108
14. Provisions for obsolete and slow moving inventories, net	13	6 042	(41 037)	8 596	(58 390)
16. Profit before taxes		37 881 175	25 550 702	53 900 056	36 355 374
17. Corporate income tax for the reporting year	9	(5 973 221)	(3 582 831)	(8 499 128)	(5 097 909)
18. Deferred income tax	9	1 067 765	367 087	1 519 293	522 317
19. Other taxes	21	(156 733)	(1 327 703)	(223 011)	(1 889 151)
20. Current year's profit		32 818 986	21 007 255	46 697 210	29 890 631
Unrealised deferred tax gain related to fixed assets revaluation	9	(1 741 185)	(1 175 456)	(2 477 483)	(1 672 523)
Profit available for distribution		31 077 801	19 831 799	44 219 727	28 218 108

The notes on pages 14 to 32 are an integral part of these financial statements.


A. Dāvis
Chairman of the Board

April 28, 2008

Joint stock company Latvijas Gāze
Annual Accounts
for the year ended December 31, 2007

Balance sheet as at December 31, 2007

(1)

	Notes	31.12.2007. Ls	31.12.2006. Ls	31.12.2007. EUR	31.12.2006. EUR
Assets					
Long-term investments					
I. Intangible assets:					
1. Research and development		78 337	127 301	111 462	181 131
2. Concessions, patents, licences, trademarks and similar rights		1 620 892	1 522 251	2 306 323	2 165 970
5. Advance payments for intangible assets		203 595	272 766	289 689	388 111
Total intangible assets:	10	1 902 824	1 922 318	2 707 474	2 735 212
II. Fixed assets:					
1. Land, buildings, constructions and gas transmission system		255 258 865	168 026 445	363 200 644	239 080 092
3. Equipment and machinery		36 413 047	23 006 758	51 811 101	32 735 669
4. Other fixed assets		4 390 522	1 419 585	6 247 149	2 019 887
5. Advances for fixed assets and fixed assets under construction		21 621 346	33 190 656	30 764 404	47 226 049
Total fixed assets:	11	317 683 780	225 643 444	452 023 298	321 061 697
V. Long-term financial investments:					
3. Investment in associated companies		80	80	114	114
5. Other securities and investments	12	5 676	5 292	8 077	7 530
9. Trade debtors	14	4 433	89 135	6 308	126 828
Total long-term financial investments:		10 189	94 507	14 499	134 472
Total long-term investments:		319 596 793	227 660 269	454 745 271	323 931 381
Current assets					
I. Inventories:					
1. Raw materials and consumables	13	85 359 145	70 311 771	121 455 121	100 044 637
5. Advances for goods receivable		209 239	69 492	297 720	98 878
Total inventories:		85 568 384	70 381 263	121 752 841	100 143 515
III. Debtors:					
1. Trade debtors	14	24 620 661	13 958 668	35 032 044	19 861 395
3. Receivables from affiliated companies	25e	155 261	-	220 917	-
4. Other debtors	15	920 220	1 890 221	1 309 354	2 689 542
7. Deferred expenses	16	456 930	426 544	650 152	606 917
Total debtors:		26 153 072	16 275 433	37 212 467	23 157 854
IV. Short-term financial investments:					
5. Other securities and investments		17 809	19 746	25 340	28 096
9. Term deposits	17	-	7 126 414	-	10 139 974
Total short-term financial investments:		17 809	7 146 160	25 340	10 168 070
V. Cash and bank:	17	44 304 704	11 047 773	63 039 914	15 719 564
Total current assets:		156 043 969	104 850 629	222 030 562	149 189 003
Total assets		475 640 762	332 510 898	676 775 833	473 120 384

The notes on pages 14 to 32 are an integral part of these financial statements.


Joint stock company Latvijas Gāze
Annual Accounts
for the year ended December 31, 2007

Balance sheet as at December 31, 2007

(2)

	Notes	31.12.2007. Ls	31.12.2006. Ls	31.12.2007. EUR	31.12.2006. EUR
Liabilities					
Shareholders' funds:					
1. Share capital	18	39 900 000	39 900 000	56 772 585	56 772 585
2. Share premium		14 320 210	14 320 210	20 375 823	20 375 823
3. Long-term investments revaluation reserve		187 441 623	119 122 188	266 705 402	169 495 603
5. Reserves					
c) statutory reserve		47 582 358	39 720 559	67 703 596	56 517 264
6. Retained earnings					
a) previous years' retained earnings		3 437 296	2 261 840	4 890 831	3 218 308
b) current year's retained profit		32 818 986	21 007 255	46 697 210	29 890 631
Total shareholders' funds:		325 500 473	236 332 052	463 145 447	336 270 214
Creditors:					
Long-term creditors:					
12. Deferred income	23	11 429 762	8 424 907	16 263 086	11 987 564
15. Accruals for post employment benefits and other employee benefits	19a	2 500 000	-	3 557 180	-
15. Deferred tax liability	19b	30 538 257	19 549 651	43 452 024	27 816 647
Total long-term creditors:		44 468 019	27 974 558	63 272 290	39 804 211
Short-term creditors:					
3. Borrowings from credit institutions	20	20 029 914	16 030	28 500 000	22 809
5. Advances received		5 475 474	4 747 502	7 790 898	6 755 087
6. Trade creditors		62 848 711	44 260 732	89 425 660	62 977 348
8. Accounts payable to related companies	25d	53 251	10 706 272	75 769	15 233 653
10. Taxes and state compulsory social insurance contributions	21	7 589 341	3 284 708	10 798 659	4 673 718
11. Other creditors	22	3 449 052	1 993 524	4 907 559	2 836 529
12. Deferred income	23	432 942	315 606	616 021	449 067
15. Accrued liabilities	19a	5 793 585	2 879 914	8 243 530	4 097 748
Total short-term creditors:		105 672 270	68 204 288	150 358 096	97 045 959
Total creditors:		150 140 289	96 178 846	213 630 386	136 850 170
<u>Total liabilities and shareholders' funds</u>		<u>475 640 762</u>	<u>332 510 898</u>	<u>676 775 833</u>	<u>473 120 384</u>

The notes on pages 14 to 32 are an integral part of these financial statements.


A. Dāvis
Chairman of the Board

April 28, 2008

Joint stock company Latvijas Gāze
Annual Accounts
for the year ended December 31, 2007

Statement of changes in equity for the year ended December 31, 2007

	Share capital	Share premium	Long-term investments revaluation reserve	Other reserves*	Statutory reserve	Retained earnings	Total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Balance as at 31.12.2005.	39 900 000	14 320 210	119 007 653	2 091 647	29 135 700	24 720 052	229 175 262
Dividends	-	-	-	-	-	(13 965 000)	(13 965 000)
Transferred to reserves	-	-	-	(2 091 647)	10 584 859	(8 493 212)	-
Revaluation of fixed assets	-	-	390 988	-	-	-	390 988
Deferred tax liability arising on the revaluation of fixed assets	-	-	(58 648)	-	-	-	(58 648)
Disposal of revalued fixed assets	-	-	(256 241)	-	-	-	(256 241)
Deferred tax on disposal of revalued fixed assets	-	-	38 436	-	-	-	38 436
Profit for the year	-	-	-	-	-	21 007 255	21 007 255
Balance as at 31.12.2006.	39 900 000	14 320 210	119 122 188	-	39 720 559	23 269 095	236 332 052
Dividends	-	-	-	-	-	(11 970 000)	(11 970 000)
Transferred to reserves	-	-	-	-	7 861 799	(7 861 799)	-
Revaluation of fixed assets	-	-	81 019 796	-	-	-	81 019 796
Deferred tax liability arising on the revaluation of fixed assets	-	-	(12 152 969)	-	-	-	(12 152 969)
Disposal of revalued fixed assets	-	-	(643 990)	-	-	-	(643 990)
Deferred tax on disposal of revalued fixed assets	-	-	96 598	-	-	-	96 598
Profit for the year	-	-	-	-	-	32 818 986	32 818 986
Balance as at 31.12.2007.	39 900 000	14 320 210	187 441 623	-	47 582 358	36 256 282	325 500 473

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Statement of changes in equity for the year ended December 31, 2007 (continued)

	Share capital	Share premium	Long-term investments revaluation reserve	Other reserves*	Statutory reserve	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 31.12.2005.	56 772 585	20 375 823	169 332 635	2 976 146	41 456 366	35 173 465	326 087 020
Dividends	-	-	-	-	-	(19 870 405)	(19 870 405)
Transferred to reserves	-	-	-	(2 976 146)	15 060 898	(12 084 752)	-
Revaluation of fixed assets	-	-	556 326	-	-	-	556 326
Deferred tax liability arising on the revaluation of fixed assets	-	-	(83 449)	-	-	-	(83 449)
Disposal of revalued fixed assets	-	-	(364 599)	-	-	-	(364 599)
Deferred tax on disposal of revalued fixed assets	-	-	54 690	-	-	-	54 690
Profit for the year	-	-	-	-	-	29 890 631	29 890 631
Balance as at 31.12.2006.	56 772 585	20 375 823	169 495 603	-	56 517 264	33 108 939	336 270 214
Dividends	-	-	-	-	-	(17 031 776)	(17 031 776)
Transferred to reserves	-	-	-	-	11 186 332	(11 186 332)	-
Revaluation of fixed assets	-	-	115 280 784	-	-	-	115 280 784
Deferred tax liability arising on the revaluation of fixed assets	-	-	(17 292 117)	-	-	-	(17 292 117)
Disposal of revalued fixed assets	-	-	(916 315)	-	-	-	(916 315)
Deferred tax on disposal of revalued fixed assets	-	-	137 447	-	-	-	137 447
Profit for the year	-	-	-	-	-	46 697 210	46 697 210
Balance as at 31.12.2007.	56 772 585	20 375 823	266 705 402	-	67 703 596	51 588 041	463 145 447

* These reserves were made before registration of the Company in Commercial Register in the amount of 5% from annual profit. Since neither the Commercial Law, nor Company Charter require the creation of such reserves, shareholders made the decision to transfer these reserves to Statutory reserve.

Changes in Statutory reserves can only be made with shareholders' approval. Revaluation reserve and share premium cannot be distributed to shareholders.

The notes on pages 14 to 32 are an integral part of these financial statements.

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Cash flow statement for the year ended December 31, 2007

	Notes	2007 Ls	2006 Ls	2007 EUR	2006 EUR
I Cash flows from operating activities					
1. Profit before taxes		37 881 175	25 550 702	53 900 056	36 355 374
<u>Adjustments for:</u>					
- fixed asset depreciation and write-down of intangible assets		18 488 470	13 061 414	26 306 722	18 584 717
- change in provisions for inventories	13	(6 042)	41 037	(8 597)	58 390
- change in provisions for long-term financial investments	12	(384)	(1 578)	(546)	(2 245)
- change in accrued expenses for bonuses for reporting year's financial results	19a	3 017 300	13 300	4 293 233	18 923
- change in accrued unused annual leave expenses	19a	145 060	210 846	206 401	300 007
- change in other provisions	19a	(248 689)	248 689	(353 852)	353 852
- changes in accruals for post employment benefits and other employee benefits	19a	2 500 000	-	3 557 180	-
- interest and similar income	6	(1 138 801)	(2 280 957)	(1 620 368)	(3 245 509)
- interest and similar expense	8	558 067	38 126	794 058	54 249
- Loss / (profit) on sale of fixed assets	4, 5	44 773	(56 281)	63 706	(80 081)
<u>Adjustments for:</u>					
Trade debtors increase		(10 732 552)	(804 357)	(15 271 046)	(1 144 497)
Inventories increase		(15 000 845)	(26 686 765)	(21 344 279)	(37 971 846)
Trade creditors' increase		7 933 090	22 615 685	11 287 770	32 179 221
Other debtors' increase / (decrease)		974 686	(310 276)	1 386 853	(441 482)
Other creditors' increase		5 706 865	3 546 692	8 120 137	5 046 488
3. Cash generated from operations		50 122 173	35 186 277	71 317 428	50 065 561
Interest paid		(475 694)	(75 969)	(676 852)	(108 094)
Interest received		879 318	2 274 112	1 251 157	3 235 770
Corporate income tax paid	21	(3 445 795)	(4 030 034)	(4 902 925)	(5 734 222)
6. Net cash flows generated from operations		47 080 002	33 354 386	66 988 808	47 459 015
II. Cash flows from investing activities					
Acquisition of fixed assets and intangible assets		(29 053 278)	(25 077 950)	(41 339 090)	(35 682 708)
Proceeds from sale of fixed assets		59 670	27 544	84 903	39 192
Net (increase) / decrease of other investments in term deposits over 90 days, net		7 126 414	(7 126 414)	10 139 974	(10 139 974)
9. Net cash used in investing activities		(21 867 194)	(32 176 820)	(31 114 213)	(45 783 490)
III. Cash flows from financing activities					
Repayment of borrowings		(15 791)	(32 449)	(22 469)	(46 171)
Received loans		20 029 914	-	28 500 000	-
Dividends paid		(11 970 000)	(13 965 000)	(17 031 776)	(19 870 405)
7. Net cash used in financing activities		8 044 123	(13 997 449)	11 445 755	(19 916 576)
Net increase / (decrease) in cash and cash equivalents		33 256 931	(12 819 883)	47 320 350	(18 241 051)
Cash and cash equivalents at the beginning of the reporting year		11 047 773	23 867 656	15 719 564	33 960 615
Cash and cash equivalents at the end of the reporting year	17	44 304 704	11 047 773	63 039 914	15 719 564

The notes on pages 14 to 32 are an integral part of these financial statements.

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes**Accounting policies****(a) Information on the Company**

The legal address of the Joint Stock Company "Latvijas Gāze" is Aristīda Briāna street 6, Riga, LV-1001, Latvia. The Company is registered in Commercial Register with common registration number 4000 300 0642. The Company's main shareholders are E.ON Ruhrgas International AG (47.23%), JSC Gazprom (34.0%) and LLC Itera-Latvija (16.0%). The Board of the Company consists of Adriāns 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) and Gints Freibergs (Member of the Board). The Company's auditor is the certified audit company SIA "PricewaterhouseCoopers" and responsible certified auditor Olga Bukovska.

(b) Financial statements preparation basis

Annual accounts are prepared in accordance with the laws of the Republic of Latvia "On Accounting" and "On Annual Accounts of the Companies" and with mandatory Latvian accounting standards. In preparation of these annual accounts following Latvian accounting standards (LAS) are applied: LAS No 1 "Framework of preparation of financial statements", LAS No 2 "Cash flow statement", LAS No 3 "Events after the balance sheet date", LAS No 4 "Change in accounting policies, changes in accounting estimates and prior period errors" and LAS No 5 "Long-term contracts". LAS No 6 "Revenue", LAS No 7 "Property, plant and equipment" and LAS No 8 "Provisions, contingent liabilities and contingent assets".

LAS No 6, LAS No 7 and LAS No 8 become effective for the reporting periods starting in 2007. The implementation of these standards did not leave an effect on the financial statements of the Company.

The profit and loss account is prepared in accordance with turnover method.

Cash flow statement is prepared using indirect cash flow method.

The accounting policies used by the Company are consistent with those used in the previous accounting period, except for accounting policy (f), regarding change of minimal value of capitalized fixed assets. Management of the Company believes that the change of this policy did not have material impact on the financial position of the Company.

(c) Net sales and income recognition

Income is recognised upon delivery of gas or performance of services, net of value added tax and discounts. Interest income and penalties income is recognised on an accruals basis unless its collectibility is in doubt.

The income from residents and enterprises contribution to financing of construction works of gas pipelines is accounted for as deferred income and recognised in the profit and loss account over the expected useful life of constructed fixed assets of 30 to 40 years.

(d) Foreign currency translation

The Company maintains its accounts in Latvian Lats. All transactions denominated in foreign currencies are converted to Lats at the exchange rate set by the Bank of Latvia prevailing on the day on which the transactions took place. Monetary assets and liabilities denominated in foreign currencies are translated in Lats in accordance with the official Bank of Latvia exchange rate for the last day of the reporting period. 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 recognised in the profit and loss account.

	31.12.2007.	31.12.2006.
	Ls	Ls
1 USD	0.484	0.536
1 EUR	0.702804	0.702804

Euro financial statements are prepared using account closing balances in Ls at the last day of the reporting period, performing conversion to EUR by using the official fixed EUR / Ls rate set by the Bank of Latvia 1 EUR = Ls 0.702804.

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

Accounting policies (continued)

(e) Intangible assets

Intangible assets are recorded at historic cost net of accumulated amortisation. Amortisation is calculated on a straight-line basis to write down each intangible asset to its estimated residual value over its estimated useful life. Generally, intangible assets are amortised over a period of 5 years.

(f) Fixed assets

Fixed assets are recorded at historic cost or revalued amount net of accumulated depreciation and impairment charge.

Increase in value arising on revaluation is shown in equity under "Long-term investments revaluation reserve". Decrease that offsets a previous increase of the same asset's value recognised in the said reserve is charged against that reserve; any further decrease is charged to the current year's profit and loss account.

Depreciation is calculated on a straight-line basis to write down each fixed asset to its estimated residual value over its estimated useful life using following rates set by management:

	% per annum
Buildings	1 - 3
Gas transmission system	2 - 2,5
Machinery and equipment	5 - 20
Furniture and fittings	10 - 20
Computers and equipment	30

Depreciation is not calculated for land and buffer gas, advances for fixed assets and assets under construction.

The Company capitalises fixed assets with cost exceeding Ls 150 (EUR 213) and useful life exceeding 1 year (2006: Ls 50 (EUR 71)).

Direct charges related to the particular fixed asset under construction are capitalised, during the period of time that is required to complete and prepare the asset for its intended use, as part of the cost of the asset.

Where the carrying amount of a fixed asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount and the impairment loss is recognised as an expense in the profit and loss account or off-set against the revaluation reserve if the fixed asset is carried at revalued amount. Recoverable amount is the higher of the fair value less costs to sell and the value in use of the related fixed asset.

Subsequent costs are included in the asset's carrying amount or recognised 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. Such costs are depreciated over the remaining useful life of the related asset. Capitalising the cost of mounted spare parts, the carrying value of the part replaced is written off to the profit and loss account.

Repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and gains from related asset's revaluation reserve write-off and are charged to the profit and loss account during the period in which they are incurred.

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

Accounting policies (continued)

(g) 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 by 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 profit and loss account 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 the costs of completion and selling expenses. When the net realisable value of inventories is lower than its cost, provisions are created to reduce the value of inventories to its net realisable value.

(h) Account receivables

Accounts receivable are recorded in the balance sheet at their amortised cost less provisions made to cover anticipated loss on bad and doubtful accounts receivable. Provisions for bad and doubtful accounts receivable are established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provisions for bad and doubtful accounts receivable is the difference between the amortised cost and the recoverable amount.

(i) Other long-term investments

Other long-term investments are disclosed at the cost less provisions created to cover losses on other than temporary diminution of value of investments. Assessment of investments is made each year based on latest available financial information.

(j) Borrowings

Borrowings are recognised initially at the proceeds received net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account.

(k) Taxes

Corporate income tax for the reporting period is included in the annual accounts based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided for using liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the annual accounts. The deferred tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed assets depreciation and intangible asset amortisation rates, accrued unused annual leave and bonus expenses, accruals for post employment and other 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". The deferred income tax assets are 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 tax liability that results from revaluation of fixed assets is charged to equity as deduction from respective increase in 'Long-term investments revaluation reserve'. Decrease in deferred tax liability that results from depreciation of revalued fixed assets is charged to the profit and loss account and the respective unrealised tax gain is shown in the notes to the annual accounts.

(l) Accrued unused annual leave expenses and accrued liabilities

Accrued liabilities are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Amount of accrued unused annual leave expenses 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.

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

Accounting policies (continued)

(l) Accrued unused annual leave expenses and accrued liabilities (continued)

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.

Liabilities of 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.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances of current account with banks and short-term deposits, which can be easily converted to cash and are not subject of significant change in value.

(n) Related parties

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

(o) Profit available for distribution

On revaluation of fixed assets additional temporary difference arises between fixed asset values for financial and tax purposes. According to Accounting policies section (k) the respective increase in deferred tax liability is attributed to the 'Long-term investments revaluation reserve'. Decrease in deferred tax liability that results from depreciation of revalued fixed assets is charged to the profit and loss account as tax income.

In order to comply with the "Annual Accounts Act" of the Republic of Latvia Section 29 article 4, the said income cannot be distributed. Therefore, the profit available for distribution is calculated as net difference between net profit and unrealised deferred tax income related to fixed asset revaluation and is shown separately in profit and loss account.

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(1) Net sales

	2007 Ls	2006 Ls	2007 EUR	2006 EUR
Income from natural gas sales to industrial customers	206 015 529	153 755 635	293 133 689	218 774 559
Income from natural gas sales to residential customers	24 332 864	20 163 230	34 622 546	28 689 692
Income from transmission and storage of natural gas	6 748 373	6 268 582	9 602 070	8 919 389
Income from natural gas sales to vehicles	295 762	406 695	420 831	578 675
Other services	2 047 987	1 749 740	2 914 023	2 489 655
	<u>239 440 515</u>	<u>182 343 882</u>	<u>340 693 159</u>	<u>259 451 970</u>

(2) Cost of sales

Natural gas purchases	150 009 972	120 477 804	213 444 960	171 424 471
Salary expenses	13 954 073	8 237 422	19 854 857	11 720 796
State compulsory social insurance contributions	3 126 288	1 875 094	4 448 307	2 668 018
Life, health insurance and pension insurance	664 269	561 341	945 170	798 716
Depreciation of fixed assets and amortisation of intangibles	16 231 943	11 973 566	23 095 974	17 036 850
Impairment charge of fixed assets	1 462 867	432 060	2 081 472	614 766
Materials purchases	3 818 365	4 292 986	5 433 044	6 108 369
Purchase of individual gas meters	165 271	141 581	235 159	201 452
Other production costs	6 099 461	4 801 818	8 678 752	6 832 371
	<u>195 532 509</u>	<u>152 793 672</u>	<u>278 217 695</u>	<u>217 405 809</u>

(3) Administrative expenses

Communication expenses	470 162	465 109	668 980	661 790
Office maintenance expenses	381 913	311 739	543 413	443 565
Annual accounts and professional services expenses	37 258	46 131	53 013	65 638
Bank charges	171 547	173 189	244 089	246 426
Administration salary expenses	2 392 953	1 393 393	3 404 865	1 982 620
Board salary expenses	695 858	602 551	990 117	857 353
Council salary expenses	713 921	694 191	1 015 818	987 745
Administration state compulsory social insurance contributions	482 437	327 515	686 446	466 012
Board state compulsory social insurance contributions	26 763	29 036	38 080	41 315
Council state compulsory social insurance contributions	61 164	58 141	87 030	82 727
Life, health insurance and pension insurance	123 644	146 367	175 929	208 261
Depreciation of fixed assets and amortisation of intangibles	699 991	613 965	995 997	873 593
Impairment charge of fixed assets	2 550	-	3 628	-
Other administrative expenses	978 492	1 132 102	1 392 270	1 610 836
	<u>7 238 653</u>	<u>5 993 429</u>	<u>10 299 675</u>	<u>8 527 881</u>

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(4) Other operating income

	2007 Ls	2006 Ls	2007 EUR	2006 EUR
Income from social infrastructure objects	5 838	3 788	8 307	5 390
Income from contribution to financing of construction works (see Note 23)	373 163	326 109	530 963	464 011
Income from sales of fixed assets, net	-	56 281	-	80 081
Other income	1 636 683*	133 598	2 328 790	190 093
Bank interest	310 758	425 259	442 169	605 089
	<u>2 326 442</u>	<u>945 035</u>	<u>3 310 229</u>	<u>1 344 664</u>

* Including LVL 1 311 155 (EUR 1 866 605) of income from reversal of prior fair value decrease of property plant and equipment as the result of revaluation performed February 1, 2007.

(5) Other operating expenses

Materials purchases	10 032	10 743	14 274	15 285
Salaries and other staff expenses	197 308	110 563	280 746	157 316
State compulsory social insurance contributions	25 336	10 681	36 050	15 197
Sponsorship	1 195 000	746 100	1 700 332	1 061 604
Loss from sale of fixed assets, net	44 773	-	63 706	-
Depreciation and impairment charge of fixed assets	91 119	41 823	129 652	59 508
Other expenses	310 627	513 665	441 979	730 883
	<u>1 874 195</u>	<u>1 433 575</u>	<u>2 666 739</u>	<u>2 039 793</u>

(6) Interest income and similar income

Bank interest	586 648	973 324	834 725	1 384 915
Gains from increase in exchange rates and sales of foreign currencies, net	148 876	960 648	211 831	1 366 879
Penalties from customers	317 069	274 419	451 149	390 463
Other income	86 208	72 566	122 663	103 252
	<u>1 138 801</u>	<u>2 280 957</u>	<u>1 620 368</u>	<u>3 245 509</u>

(7) Revaluation of long term finance investments and short term securities

Revaluation of holdings in equities (see Note 12)	<u>384</u>	<u>1 578</u>	<u>546</u>	<u>2 245</u>
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(8) Interest expenses and similar expenses

Penalties	7 174	5 406	10 208	7 692
Interest expenses	519 045	826	738 534	1 176
Other expenses	31 848	31 894	45 316	45 381
	<u>558 067</u>	<u>38 126</u>	<u>794 058</u>	<u>54 249</u>

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(9) Corporate income tax for the reporting year

	2007 Ls	2006 Ls	2007 EUR	2006 EUR
Deferred tax charge (see Note 19 (b))	673 420	808 369	958 190	1 150 206
Unrealised deferred tax gain related to fixed assets revaluation (see Note 19 (b))	<u>(1 741 185)</u>	<u>(1 175 456)</u>	<u>(2 477 483)</u>	<u>(1 672 523)</u>
	(1 067 765)	(367 087)	(1 519 293)	(522 317)
Corporate income tax charge for the current year	5 973 221	3 582 831	8 499 128	5 097 909
	<u>4 905 456</u>	<u>3 215 744</u>	<u>6 979 835</u>	<u>4 575 592</u>

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 taxes	<u>37 881 175</u>	<u>25 550 702</u>	<u>53 900 056</u>	<u>36 355 374</u>
Theoretically calculated tax at a tax rate of 15%	5 682 176	3 832 605	8 085 008	5 453 306
Tax non-deductible expenses	1 980 215	1 192 780	2 817 592	1 697 173
Tax relief on donations	(1 015 750)	(634 185)	(1 445 282)	(902 364)
Unrealised deferred tax gain related to fixed assets revaluation (see Note 19 (b))	<u>(1 741 185)</u>	<u>(1 175 456)</u>	<u>(2 477 483)</u>	<u>(1 672 523)</u>
Tax charge	<u>4 905 456</u>	<u>3 215 744</u>	<u>6 979 835</u>	<u>4 575 592</u>

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

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(10) Intangible assets

	Research and development	Concessions, patents, licences, trademarks and similar rights	Advances for intangible assets	Total
	Ls	Ls	Ls	Ls
Cost				
31.12.2006.	480 070	3 491 299	272 766	4 244 135
Additions	-	-	702 121	702 121
Reclassified	-	768 323	(768 323)	-
Disposals	(130 091)	(62 477)	(2 969)	(195 537)
31.12.2007.	349 979	4 197 145	203 595	4 750 719
Amortisation				
31.12.2006.	352 769	1 969 048	-	2 321 817
Charge for 2007	48 964	669 682	-	718 646
Disposals	(130 091)	(62 477)	-	(192 568)
31.12.2007.	271 642	2 576 253	-	2 847 895
Net book value 31.12.2007.	78 337	1 620 892	203 595	1 902 824
Net book value 31.12.2006.	127 301	1 522 251	272 766	1 922 318
	Research and development	Concessions, patents, licences, trademarks and similar rights	Advances for intangible assets	Total
	EUR	EUR	EUR	EUR
Cost				
31.12.2006.	683 077	4 967 672	388 111	6 038 860
Additions	-	-	999 028	999 028
Reclassified	-	1 093 225	(1 093 225)	-
Disposals	(185 103)	(88 897)	(4 225)	(278 225)
31.12.2007.	497 974	5 972 000	289 689	6 759 663
Amortisation				
31.12.2006.	501 946	2 801 702	-	3 303 648
Charge for 2007	69 669	952 872	-	1 022 541
Disposals	(185 103)	(88 897)	-	(274 000)
31.12.2007.	386 512	3 665 677	-	4 052 189
Net book value 31.12.2007.	111 462	2 306 323	289 689	2 707 474
Net book value 31.12.2006.	181 131	2 165 970	388 111	2 735 212

Intangible assets include fully amortised intangible assets with a total cost of Ls 1 518 834 or EUR 2 161 106 (2006: Ls 822 008 or EUR 1 169 612). The major intangible assets are software for long-distance pipelines SCADA IT and geographic-informative system GIS at carrying amount of Ls 323 639 (EUR 460 497) and Ls 302 043 (EUR 429 768) respectively as at December 31, 2007.

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(11) Fixed assets

	Land, buildings, constructions and gas transmission system Ls	Equipment and machinery Ls	Other fixed assets Ls	Advances for fixed assets Ls	Fixed assets under construction Ls	Total Ls
Cost or revaluation						
31.12.2006.	334 754 367	49 524 203	4 129 721	297 447	32 893 209	421 598 947
Additions	-	-	-	3 256 874	25 181 478	28 438 352
Reclassified	22 136 127	16 108 203	1 699 068	(3 473 876)	(36 469 522)	-
Revalued	218 130 447	9 536 312	(74 560)	-	-	227 592 199
Disposals	(1 154 373)	(751 366)	(742 604)	-	(64 264)	(2 712 607)
Transferred	2 281 705	(5 899 057)	3 617 352	-	-	-
31.12.2007.	576 148 273	68 518 295	8 628 977	80 455	21 540 901	674 916 891
Depreciation						
31.12.2006.	166 727 922	26 517 445	2 710 136	-	-	195 955 503
Charged for 2007	11 903 383	3 404 725	993 224	-	-	16 301 332
Revalued	142 405 260	4 399 864	28 083	-	-	146 833 207
Disposals	(638 744)	(682 596)	(535 591)	-	-	(1 856 931)
For transferred	491 587	(1 534 190)	1 042 603	-	-	-
31.12.2007.	320 889 408	32 105 248	4 238 455	-	-	357 233 111
Net book value						
31.12.2007.	255 258 865	36 413 047	4 390 522	80 445	21 540 901	317 683 780
Net book value						
31.12.2006.	168 026 445	23 006 758	1 419 585	297 447	32 893 209	225 643 444

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(11) Fixed assets (continued)

	Land, buildings, constructions and gas transmission system EUR	Equipment and machinery EUR	Other fixed assets EUR	Advances for fixed assets EUR	Fixed assets under construction EUR	Total EUR
Cost or revaluation						
31.12.2006.	476 312 552	70 466 594	5 876 063	423 229	46 802 820	599 881 258
Additions	-	-	-	4 634 114	35 830 015	40 464 129
Reclassified	31 496 871	22 919 908	2 417 556	(4 942 880)	(51 891 455)	-
Revalued	310 371 664	13 568 950	(106 089)	-	-	323 834 525
Disposals	(1 642 525)	(1 069 098)	(1 056 630)	-	(91 439)	(3 859 692)
Transferred	3 246 574	(8 393 602)	5 147 028	-	-	-
31.12.2007.	819 785 136	97 492 752	12 277 928	114 463	30 649 941	960 320 220
Depreciation						
31.12.2006.	237 232 460	37 730 925	3 856 176	-	-	278 819 561
Charged for 2007	16 936 988	4 844 487	1 413 230	-	-	23 194 705
Revalued	202 624 430	6 260 442	39 959	-	-	208 924 831
Disposals	(908 851)	(971 247)	(762 077)	-	-	(2 642 175)
Transferred	699 465	(2 182 956)	1 483 491	-	-	-
31.12.2007.	456 584 492	45 681 651	6 030 779	-	-	508 296 922
Net book value						
31.12.2007.	363 200 644	51 811 101	6 247 149	114 463	30 649 941	452 023 298
Net book value						
31.12.2006.	239 080 092	32 735 669	2 019 887	423 229	46 802 820	321 061 697

During 2003 and 2004 buildings, gas transmission and distribution system and equipment were revaluated using cost (amortised replacement) method. The amortised replacement cost was determined by a certified independent assessor JSC BDO "Invest Riga". Where the amortised replacement cost of assets was lower than their carrying amount, the decrease in fixed asset value was charged to 2003 and 2004 profit and loss account. Increase in fixed asset value resulting from revaluation is recognised as increase in Long-term investments revaluation reserve, according to Board decisions on February 13, 2004 and February 15, 2005. In 2005 and 2006 the management of the Company revalued the assets which were received with no consideration during 2005 and 2006 using the same basis as in revaluation performed during 2003 and 2004. Increase in fixed asset value resulting from revaluation is recognised as increase in Long-term investments revaluation reserve according to the Board's decisions. During 2007 the Company 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 Riga' in collaboration with the Company's specialists.

Property, plant and equipment include fully depreciated assets with a total book value of Ls 2 653 743 or EUR 3 775 936 (2006: Ls 5 210 939 or EUR 7 414 498).

Determination of a cadastral value of the land plots and buildings owned by the Company is in process. At the moment assessed cadastral value of the buildings is Ls 9 900 081 or EUR 14 086 546 (2006: Ls 7 944 613 or EUR 11 304 166), cadastral value of the land plots as at December 31, 2007 is Ls 9 930 208 or EUR 14 129 413 (2006: Ls 1 491 460 or EUR 2 122 156), Ls 74 727 (EUR 106 327) for container equipment. Cadastral value is not determined for 102 buildings (part of them are mobile), 33 container equipments and for 11 land plots.

During the reporting year the Company has capitalized depreciation in amount of Ls 824 or EUR 1 172 (2006: Ls 39 or EUR 55).

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(12) Other securities and investments

	31.12.2007. Ls	31.12.2006. Ls	31.12.2007. EUR	31.12.2006. EUR
JSC "Baltic International Bank" (JSC "Baltijas starptautiskā banka")	1 129 975	1 129 975	1 607 810	1 607 810
	<u>1 129 975</u>	<u>1 129 975</u>	<u>1 607 810</u>	<u>1 607 810</u>
Provisions for investment in:				
JSC "Baltic International Bank" (JSC "Baltijas starptautiskā banka")	(1 124 299)	(1 124 683)	(1 599 733)	(1 600 280)
Carrying amount of investments	<u>5 676</u>	<u>5 292</u>	<u>8 077</u>	<u>7 530</u>
	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Changes in provisions for investments and securities:				
Provisions at the beginning of reporting year	1 124 683	1 126 261	1 600 280	1 602 525
Decrease in provisions for JSC "Baltic International Bank" (JSC "Baltijas starptautiskā banka") (see Note 7)	<u>(384)</u>	<u>(1 578)</u>	<u>(546)</u>	<u>(2 245)</u>
Provisions at the end of the reporting year	<u>1 124 299</u>	<u>1 124 683</u>	<u>1 599 734</u>	<u>1 600 280</u>

Investments in JSC "Baltijas Starptautiskā banka" (JSC "Lainbanka", afterwards JSC "Baltijas Starptautiskā banka") were made in 1997, by transforming the subordinated capital and accrued interest of JSC "Baltic International Bank" in ordinary shares. As at December 31, 2007 the participation in JSC "Baltic International Bank" forms 0.05%. The gross value of the investments is their cost.

(13) Raw materials and consumables

	31.12.2007. Ls	31.12.2006. Ls	31.12.2007. EUR	31.12.2006. EUR
Natural gas*	82 345 121	67 860 091	117 166 551	96 556 211
Materials, spare parts, low value inventory, fuel	3 206 527	2 747 089	4 562 477	3 908 755
Meters	167 152	87 225	237 836	124 110
Provision for obsolete and slow-moving inventory	<u>(359 655)</u>	<u>(382 634)</u>	<u>(511 743)</u>	<u>(544 439)</u>
	<u>85 359 145</u>	<u>70 311 771</u>	<u>121 455 121</u>	<u>100 044 637</u>

*See also Note 20

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(13) Raw materials and consumables (continued)

Changes in provisions for obsolete and slow-moving items:

	2007 Ls	2006 Ls	2007 EUR	2006 EUR
Provisions at the beginning of the reporting year	382 634	430 037	544 439	611 888
Charge for the year	18 907	70 927	26 902	100 920
Obsolete and slow-moving materials sold	(9 242)	(1 539)	(13 150)	(2 190)
Decreased provisions	(4 424)	(17 688)	(6 295)	(25 168)
Used in operations	(11 283)	(10 663)	(16 054)	(15 172)
Net (decrease) / increase in provisions	(6 042)	41 037	(8 597)	58 390
Written-off obsolete and slow-moving materials	(16 937)	(88 440)	(24 099)	(125 839)
Provisions at the end of the reporting year	359 655	382 634	511 743	544 439

(14) Trade debtors

	31.12.2007. Ls	31.12.2006. Ls	31.12.2007. EUR	31.12.2006. EUR
<i>Long-term debtors</i>				
Gross value of long-term debtors	4 433	89 135	6 308	126 828
	4 433	89 135	6 308	126 828
<i>Short-term debtors</i>				
Gross value of short-term debtors	26 193 350	15 869 846	37 269 779	22 580 756
Provisions	(1 572 689)	(1 911 178)	(2 237 735)	(2 719 361)
	24 620 661	13 958 668	35 032 044	19 861 395
Total trade debtors	24 625 094	14 047 803	35 038 352	19 988 223

Changes in provisions for bad and doubtful debtors:

	2007 Ls	2006 Ls	2007 EUR	2006 EUR
Provisions at the beginning of the reporting year	1 940 136	3 034 555	2 760 564	4 317 782
Charge for the year	57 417	230 984	81 697	328 661
Recovered bad and doubtful debts during the year	(229 832)	(510 073)	(327 021)	(725 769)
Net decrease in provisions	(172 415)	(279 089)	(245 324)	(397 108)
Written off bad debts	(143 159)	(815 330)	(203 697)	(1 160 110)
Provisions at the end of the reporting year	1 624 562	1 940 136	2 311 543	2 760 564

Provisions as at December 31, 2007 of Ls 1 572 689 (EUR 2 237 735) relate to short-term trade debtors, but for year 2006 Ls 1 911 178 (EUR 2 719 361). Provisions as at December 31, 2007 of Ls 51 873 (EUR 73 809) relate to other debtors (2006: Ls 28 957 (EUR 41 202)) (see also Note 15). 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 profit and loss account.

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(15) Other debtors

	31.12.2007. Ls	31.12.2006. Ls	31.12.2007. EUR	31.12.2006. EUR
VAT accepted	80 690	33 855	114 812	48 171
VAT input (see Note 21)	199 716	201 031	284 171	286 041
Overpaid corporate income tax (see Note 21)	-	1 115 132	-	1 586 690
Overpaid natural resource tax (see Note 21)	553	553	787	787
Overpaid state compulsory social insurance contributions (see Note 21)	-	8 472	-	12 055
Overpaid real estate tax (see Note 21)	1 098	1 061	1 562	1 510
Prepayments for services	101 170	84 665	143 952	120 467
Receivable for services rendered	20 030	33 216	28 500	47 262
Cases under investigation	15 599	25 465	22 195	36 234
Claims according to court decisions	509	509	724	724
Interest accrued on bank deposits	54 267	19 196	77 215	27 313
Other debtors	498 461	396 023	709 245	563 490
Provisions created (see Note 14)	(51 873)	(28 957)	(73 809)	(41 202)
	<u>920 220</u>	<u>1 890 221</u>	<u>1 309 354</u>	<u>2 689 542</u>

(16) Deferred expenses

Software maintenance expenses	55 977	93 751	79 648	133 395
Press subscription for next year	17 525	12 954	24 936	18 432
General third part liability and property insurance	18 969	6 898	26 990	9 815
Health insurance	94 761	82 450	134 833	117 316
Car insurance	118 013	85 385	167 917	121 492
Other deferred expenses	151 685	145 106	215 828	206 467
	<u>456 930</u>	<u>426 544</u>	<u>650 152</u>	<u>606 917</u>

(17) Cash and bank

Short-term deposits	31 291 966	11 062 116	44 524 456	15 739 973
Cash in bank	13 006 678	7 109 765	18 506 835	10 116 284
Cash on hand	6 060	2 306	8 623	3 281
	<u>44 304 704</u>	<u>18 174 187</u>	<u>63 039 914</u>	<u>25 859 538</u>

As at December 31, 2007 there are no deposits with original term over 90 days. Deposits with original term over 90 days as at December 31, 2006 in value of Ls 7 126 414 (EUR 10 139 974) are included in "Term deposits".

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(18) Share capital

(a) Registered, subscribed and paid-up share capital as at December 31, 2007 consists of 39 900 000 ordinary shares with a nominal value of Ls 1 each. All shares have equal voting rights and right to receive 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	47.23	18 846 385	47.23	18 846 385
LLC Itera Latvija	16.00	6 384 001	16.00	6 384 001
JSC Gazprom	34.00	13 566 701	34.00	13 566 701
Shares owned by the State	0.00	117	0.00	117
Shares sold through public offer	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.

(19) Deferred tax liability and accrued liabilities

(a) Movement of accrued liabilities during the reporting year

	Accrued unused annual leave expenses Ls	Accrued expenses for reporting year's financial results Ls	Accruals for post employment benefits and other employee benefits Ls	Other accrued liabilities Ls	Total Ls
December 31, 2006	652 525	1 978 700	-	248 689	2 879 914
Increase	145 060	4 903 568	2 500 000	-	7 548 628
Decrease	-	(1 886 268)	-	(248 689)	(2 134 957)
December 31, 2007	797 585	4 996 000	2 500 000	-	8 293 585

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(19) Deferred tax liability and accrued liabilities (continued)**(a) Movement of accrued liabilities during the reporting year (continued)**

	Accrued unused annual leave expenses	Accrued expenses for bonuses for reporting year's financial results	Accruals for post employment benefits and other employee benefits	Other accrued liabilities	Total
	EUR	EUR	EUR	EUR	EUR
December 31, 2006	928 460	2 815 436	-	353 852	4 097 748
Increase	206 401	6 977 151	3 557 180	-	10 740 732
Decrease	-	(2 683 918)	-	(353 852)	(3 037 770)
December 31, 2007	<u>1 134 861</u>	<u>7 108 669</u>	<u>3 557 180</u>	<u>-</u>	<u>11 800 710</u>

(b) Deferred tax liability

	2007 Ls	2006 Ls	2007 EUR	2006 EUR
Deferred tax liability at the beginning of the reporting year	19 549 651	19 896 526	27 816 647	28 310 206
Increase in deferred tax liability charged to profit and loss account (see Note 9)	673 420	808 369	958 190	1 150 206
Increase in deferred tax liability that results from revaluation of fixed assets	12 152 969	58 648	17 292 117	83 448
Decrease in deferred tax liability that results from depreciation of revalued fixed assets (see Note 9)	(1 741 185)	(1 175 456)	(2 477 483)	(1 672 523)
Deferred tax that results from disposal of revalued fixed assets	(96 598)	(38 436)	(137 447)	(54 690)
Deferred tax liability at the end of the reporting year	<u>30 538 257</u>	<u>19 549 651</u>	<u>43 452 024</u>	<u>27 816 647</u>

Deferred tax has been calculated from the following temporary differences between value of assets and liabilities for financial and tax purposes:

	31.12.2007. Ls	31.12.2006. Ls	31.12.2007. EUR	31.12.2006. EUR
Temporary difference on fixed assets depreciation (at actual cost)	5 705 975	4 246 446	8 118 870	6 042 148
Temporary difference on revaluation reserve and depreciation of revalued fixed assets	26 509 276	16 194 090	37 719 302	23 042 114
Gross liabilities	<u>32 215 251</u>	<u>20 440 536</u>	<u>45 838 172</u>	<u>29 084 262</u>
Temporary difference on provisions for bad and doubtful debts	(372 384)	(393 893)	(529 855)	(560 459)
Temporary difference on provisions for slow moving and obsolete inventory	(53 948)	(57 395)	(76 761)	(81 666)
Temporary difference on unused annual leave accrued expenses, accrued expenses for bonuses, and accruals for post employment and other benefits	(1 250 662)	(439 597)	(1 779 532)	(625 490)
Gross assets	<u>(1 676 994)</u>	<u>(890 885)</u>	<u>(2 386 148)</u>	<u>(1 267 615)</u>
Deferred tax liability, net	<u>30 538 257</u>	<u>19 549 651</u>	<u>43 452 024</u>	<u>27 816 647</u>

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(20) **Deferred tax liability and accrued liabilities** (continued)

(b) **Deferred tax liability** (continued)

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

	31.12.2007. Ls	31.12.2006. Ls	31.12.2007. EUR	31.12.2006. EUR
Temporary difference on depreciation of property, plant and equipment (to be settled within 12 months)	1 325 548	866 437	1 886 085	1 232 828
Temporary difference on depreciation of property, plant and equipment (to be settled after more than 12 months)	30 889 703	19 574 099	43 952 087	27 851 434
Temporary difference on provisions for impairment of bad and doubtful debts (to be settled within 12 months) *	(372 384)	(393 893)	(529 855)	(560 459)
Temporary difference on accrued expenses for unused annual leave and bonuses (to be settled within 12 months)	(875 662)	(439 597)	(1 245 955)	(625 490)
Temporary difference on accruals for post employment benefits and other employee benefits (to be settled after more than 12 month)	(375 000)	-	(533 577)	-
Temporary difference on provisions for impairment of inventories (to be settled within 12 months)	(53 948)	(57 395)	(76 761)	(81 666)
Deferred income tax liability, net	<u>30 538 257</u>	<u>19 549 651</u>	<u>43 452 024</u>	<u>27 816 647</u>

* 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.

(20) **Borrowings from credit institutions**

	31.12.2007. Ls	31.12.2006. Ls	31.12.2007. EUR	31.12.2006. EUR
Ministry of Finance of the Republic of Latvia	-	16 030	-	22 809
SEB Banka	20 029 914	-	28 500 000	-
	<u>20 029 914</u>	<u>16 030</u>	<u>28 500 000</u>	<u>22 809</u>

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 3 492 800 that should be used to finance the project stipulated in an agreement between Lyngso Energi & Miljo and JSC "Latvijas Gāze" branch "Rīgas gāze" of May 4, 1995. In 1998 the total amount of the agreement was specified and fixed as USD 508 417. The repayment of the loan should be made in 17 semi-annual equal payments, commencing June 1999. Loan was fully repaid during Year 2007.

On June 14, 2007 a credit agreement was concluded between the Company and *SEB Banka* on EUR 28 500 000 (LVL 20 029 914) 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. The Company has repaid the loan before maturity - in January 2008.

Short-term portion of the borrowing	<u>20 029 914</u>	<u>16 030</u>	<u>28 500 000</u>	<u>22 809</u>
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JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(21) Taxes and state compulsory social insurance contributions

	Liability 31.12.2006. Ls	(Overpaid)* 31.12.2006. Ls	Charged for 2007 Ls	Paid in 2007 Ls	Liability 31.12.2007. Ls	(Overpaid)* 31.12.2007. Ls
State compulsory social insurance contributions	382 350	(8 472)	3 822 759	(3 677 055)	519 582	-
Personal income tax	317 980	-	2 839 819	(2 743 893)	413 906	-
VAT	2 548 887	(201 031)	33 173 924	(30 707 570)	5 013 926	(199 716)
Real estate tax	13 347	(1 061)	156 733	(170 025)	92	(1 098)
Corporate income tax	-	(1 115 132)	5 973 221	(3 445 795)	1 412 294	-
Withholding tax	1 577	-	227 253	(9 030)	219 800	-
Natural resources tax	20 567	(553)	138 448	(149 274)	9 741	(553)
Total:	3 284 708	(1 326 249)	46 332 157	(40 902 642)	7 589 341	(201 367)

	Liability 31.12.2006. EUR	(Overpaid)* 31.12.2006. EUR	Charged for 2007 EUR	Paid in 2007 EUR	Liability 31.12.2007. EUR	(Overpaid)* 31.12.2007. EUR
State compulsory social insurance contributions	544 035	(12 055)	5 439 296	(5 231 978)	739 298	-
Personal income tax	452 445	-	4 040 698	(3 904 208)	588 935	-
VAT	3 626 739	(286 041)	47 202 241	(43 692 936)	7 134 174	(284 171)
Real estate tax	18 991	(1 510)	223 011	(241 924)	132	(1 562)
Corporate income tax	-	(1 586 690)	8 499 128	(4 902 925)	2 009 513	-
Withholding tax	2 244	-	323 352	(12 849)	312 747	-
Natural resources tax	29 264	(787)	196 994	(212 398)	13 860	(787)
Total:	4 673 718	(1 887 083)	65 924 720	(58 199 218)	10 798 659	(286 520)

* Taxes overpaid are shown under "Other debtors" (see Note 15).

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(22) Other creditors

	31.12.2007. Ls	31.12.2006. Ls	31.12.2007. EUR	31.12.2006. EUR
December VAT invoiced in January	2 708 790	1 592 496	3 854 261	2 265 918
Salaries	601 884	395 438	856 404	562 657
Other creditors	138 378	5 590	196 894	7 954
	<u>3 449 052</u>	<u>1 993 524</u>	<u>4 907 559</u>	<u>2 836 529</u>

(23) Deferred income

Income from customers contributions to financing of construction works of gas pipelines:

- long-term portion	11 429 762	8 424 907	16 263 086	11 987 564
- short-term portion	432 942	315 606	616 021	449 067
	<u>11 862 704</u>	<u>8 740 513</u>	<u>16 879 107</u>	<u>12 436 631</u>

	2007 Ls	2006 Ls	2007 EUR	2006 EUR
Balance as at the beginning of the reporting year	8 740 513	6 919 514	12 436 631	9 845 581
Received from residents and enterprises during the reporting year	3 495 354	2 147 108	4 973 439	3 055 061
Recognised as income in the reporting year*	(373 163)	(326 109)	(530 963)	(464 011)
Balance at the end of the reporting year	11 862 704	8 740 513	16 879 107	12 436 631

* See also Note 4 and Accounting policies Note (c).

(24) Average number of employees

	2007	2006
Average number of employees during the reporting year	1 340	1 328
According to clause 24 3 rd part of the "Annual Accounts Act"	<u>1 352</u>	<u>1 336</u>

(25) Transactions with related parties**(a) Sale of services**

	2007 Ls	2006 Ls	2007 EUR	2006 EUR
JSC Gazprom	<u>2 067 765</u>	<u>4 538 025</u>	<u>2 942 165</u>	<u>6 457 028</u>

Translation from Latvian Original

JOINT STOCK COMPANY "Latvijas Gāze"
Annual Accounts
for the year ended December 31, 2007

Notes (continued)

(25) Transactions with related parties (continued)

(b) Purchase of goods

	2007 Ls	2006 Ls	2007 EUR	2006 EUR
JSC Gazprom	<u>105 804 318</u>	<u>104 619 347</u>	<u>150 545 982</u>	<u>148 859 920</u>

(c) Purchase of services

E.ON Ruhrgas AG	23 382	8 799	33 270	12 520
Companies controlled by JSC Gazprom	<u>970 850</u>	<u>261 063*</u>	<u>1 381 395</u>	<u>371 459*</u>
	<u>994 232</u>	<u>269 862</u>	<u>1 414 665</u>	<u>383 979</u>

* Were not disclosed in year 2006 financial statements

(d) Accounts payable to related parties

	31.12.2007. Ls	31.12.2006. Ls	31.12.2007. EUR	31.12.2006. EUR
JSC Gazprom	2 757	10 706 272	3 923	15 233 653
Companies controlled by JSC Gazprom	<u>50 494</u>	<u>-</u>	<u>71 846</u>	<u>-</u>
	<u>53 251</u>	<u>10 706 272</u>	<u>75 769</u>	<u>15 233 653</u>

(e) Accounts receivable from related parties

JSC Gazprom	<u>155 261</u>	<u>-</u>	<u>220 917</u>	<u>-</u>
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(26) 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 Gāze" 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 Gāze" decided to appeal in cassation order against the judgment of the Regional Court of Riga in the Supreme Court of the Republic of Latvia. On December 12, 2007, the Senate of the Supreme Court rejected the cassation claim of the Company against the judgment of the Regional Court of Riga of April 10, 2007, whereby the appeal of E.ON Ruhrgas International AG against the judgment of the Vidzeme Suburb Court of Riga of September 9, 2005 was satisfied and the court invalidated the resolution passed by the repeated extraordinary meeting of shareholders in the 2nd item of agenda in the part concerning amendments to the Articles of Association, which provide for an increase of the required quorum for competence of the meeting of shareholders from 75% to 85%. In order to ensure execution of the judgment, "Latvijas Gāze" has signed a contract with the LLC "Ardente".

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.

(27) 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.

* * *

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 8 to 32 of JSC "Latvijas Gāze" which comprise the balance sheet as of 31 December 2007 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Annual Accounts Act of the Republic of Latvia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act of the Republic of Latvia.

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.