



Joint Stock Company "Latvijas Gaze"

Unaudited Financial Report of the First Half of 2005.

Prepared According to the Requirements of International
Accounting Standards.

**Joint Stock Company “Latvijas Gāze”
First half, 2005**

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**Joint Stock Company “Latvijas Gaze”
First half, 2005**

JSC “Latvijas Gaze” management

Council members	Kiril Seleznov (Кирил Селезнев) – Chairman of the Council Juris Savickis – Deputy Chairman of the Council Aleksandr Krasnenkov (Александр Красненков) – Member of the Council Stephan Kamphues – Deputy Chairman of the Council Eike Benke – Member of the Council Reiner Lehmann – Member of the Council Matthias Keuchel – Member of the Council Uwe Fip – 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
Board members	Adrians Dāvis – Chairman of the Board Aleksandrs Mihejevs (Александр Михеев) – Member of the Board Frank Siebert – Member of the Board Anda Ulpe – Member of the Board Gints Freibergs – Member of the Board

Report on JSC “Latvijas Gaze” performance in the first half of 2005

Economic and financial performance

During the first six months of 2005 JSC “Latvijas Gaze” has sold 939,6 mio nm³ of gas to consumers. Compared to corresponding period of 2004 the sales of natural gas have increased for 3,8% (904.9milj. nm³).

During the first half of 2005 natural gas sold and services rendered to the consumers for LVL 70,86 mio and the profit of **LVL 8,1 mio** gained, which is for LVL 0,22 mio higher than in 2004. It is anticipated that due to high quotation of heavy fuel oil and due to USD exchange rate gas purchase expenses will be significantly higher than planned. During the first six months of 2004 net turnover reached LVL 66,4 mio, but the net profit – LVL 7,9 mio.

Significant activities during the first half of 2005

Incukalns Underground Gas Strage (IUGS)

- A contract has been signed with the company that won the tender for supply of services as main contractor for the first stage reconstruction of compressor station Nr. 1 (CS-1) at the Incukalns UGS.
- A contract has been signed for reconstruction works of energy supply system. Earthworks have been commenced at the territory of SP2 and SP3.
- Development of modernization project for well and modernization. Consideration of the project is started.
- GSP-1 (gas distribution point) reconstruction works continue.
- Work has been started to ensure capital repair for Compressor Nr. 3 (CR (compressor room) –2).
- Construction of methanol storehouse and methanol pipelines continues.

Gas transmission

- A regulation is developed for selection of applicant for performance of inline diagnostics of gas transmission pipeline Vireši – Tallinn.
- A tender is announced for construction and supply of GRS Riga – 1.
- Technical tasks have been elaborated to announce tender for reconstruction project development of GRS Jelgava-2, GRS Daugmale and GRS Palsmane.
- Technical tasks have been elaborated and tender has been announced for supply of 4 cabinet-type gas regulation stations.

Distribution system

During the first half of 2005 gas pipelines of lengths of 68,34 km have been constructed and put into operation. 67 objects of total length of 102,76 km are in construction phase. Tenders' results are approved for construction of 45 object of total length of 57,89 km. Construction of gas transmission pipeline Preili – Rezekne approaches to be commissioned. Hydraulic inspection of pipeline is finished and currently inspection of pipeline with intellectual pig takes place.

**Joint Stock Company “Latvijas Gaze”
First half, 2005**

Profit or loss account

		30.06.2005. 30.06.2004.			30.06.2005. 30.06.2004.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
					0.7028	0.663	
Appendix							
Sales		70 863	66 405	4 457	100 829	100 159	670
Cost of sales	1	(55 033)	(49 819)	(5 214)	(78 305)	(75 142)	(3 163)
Gross profit		15 830	16 587	(757)	22 524	25 018	(2 494)
Administrative expenses	2	(5 730)	(6 058)	328	(8 153)	(9 137)	984
Other operating income	3	430	378	53	612	570	43
Other operating expense	4	(123)	(155)	32	(175)	(234)	58
Operating profit		10 407	10 752	(345)	14 808	16 217	(1 409)
Loss on available for sale investments							
Financial income	5	352	606	(254)	501	914	(414)
Financial expense	5	(148)	(1)	(147)	(211)	(2)	(209)
Profit before tax		10 611	11 357	(746)	15 098	17 130	(2 032)
Tax		2 517	3 479	(963)	3 581	5 248	(1 667)
Net profit		8 094	7 878	217	11 517	11 882	(365)
Earnings per share in LVL		0.203	0.197	0.005	0.289	0.298	(0.009)

**Joint Stock Company “Latvijas Gaze”
First half, 2005**

Balance Sheet

	30.06.2005.			30.06.2004.			30.06.2005.			30.06.2004.		
	LVL'000	LVL'000	Change	EUR'000	EUR'000	Change	0.7028	0.663	EUR'000	EUR'000	Change	
Appendix												
Assets												
<u>Non-current assets</u>												
Intangible assets	1 149	1 043	106	1 635	1 573	62			287 864	282 614	5 250	
Property, plant and equipment	202 313	187 373	14 940	287 864	282 614	5 250			13	15	(2)	
Available-for-sale investments	9	10	(1)	13	15	(2)			355	351	4	
Trade accounts receivable	249	233	16	355	351	4			289 867	284 553	5 314	
Total non-current assets	203 720	188 659	15 061	289 867	284 553	5 314						
<u>Current assets</u>												
Inventories	6	6 998	1 722	5 276	9 958	2 598	7 360		9 468	9 962	(494)	
Trade accounts receivable		6 654	6 605	49	9 468	9 962	(494)		2 373	1 606	767	
Other current assets		1 668	1 065	603	2 373	1 606	767		2 022	2 868	(846)	
Corporate income tax		1 421	1 901	(480)	2 022	2 868	(846)		69 436	80 639	(11 203)	
Cash and cash equivalents		48 800	53 463	(4 663)	69 436	80 639	(11 203)		93 257	97 673	(4 416)	
Total current assets		65 541	64 756	785	93 257	97 673	(4 416)		383 124	382 226	898	
Total assets		269 261	253 415	15 846	383 124	382 226	898					
Equity and liabilities												
<u>Equity</u>												
Share capital		39 900	39 900	0	56 772	60 181	(3 409)		20 376	21 599	(1 223)	
Share premium		14 320	14 320	0	20 376	21 599	(1 223)		167 429	177 123	(9 694)	
Revaluation reserve		117 670	117 433	237	167 429	177 123	(9 694)		36 145	33 720	2 425	
Other reserves		25 403	22 356	3 047	36 145	33 720	2 425		26 855	19 640	7 215	
Retained earnings from previous years		18 874	13 022	5 852	26 855	19 640	7 215		11 517	11 882	(365)	
Retained earnings		8 094	7 878	216	11 517	11 882	(365)		319 094	324 145	(5 051)	
Total equity		224 261	214 909	9 352	319 094	324 145	(5 051)					
<u>Liabilities</u>												
<u>Non-current liabilities</u>												
Deferred tax liabilities		20 034	21 657	(1 623)	28 505	32 666	(4 161)		41	122	(81)	
Borrowings		29	81	(52)	41	122	(81)		7 360	4 636	2 724	
Deferred income		5 172	3 074	2 098	7 360	4 636	2 724		35 906	37 424	(1 518)	
Total non-current liabilities		25 235	24 812	423	35 906	37 424	(1 518)					
<u>Current liabilities</u>												
Trade accounts payable		4 637	3 329	1 308	6 598	5 021	1 577		10 124	6 168	3 956	
Other current liabilities		7 114	4 089	3 026	10 124	6 168	3 956		4 849	3 740	1 109	
Corporate income tax liability		3 408	2 479	929	4 849	3 740	1 109		6 241	5 535	706	
Provisions		4 386	3 670	716	6 241	5 535	706		44	24	20	
Borrowings		31	16	15	44	24	20		269	168	101	
Deferred income		189	111	78	269	168	101		28 125	20 656	7 469	
Total current liabilities		19 766	13 694	6 072	28 125	20 656	7 469		64 031	58 080	5 951	
Total liabilities		45 001	38 506	6 495	64 031	58 080	5 951					
Total equity and liabilities		269 261	253 415	15 847	383 125	382 225	900					

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Cash flow statement

	Appendix	30.06.2005. 30.06.2004.			30.06.2005. 30.06.2004.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
					0.7028	0.663	
Cash flow from operating activities							
Cash generated from operations	7	36 922	23 435	13 487	52 536	35 347	17 189
Interest received		375	491	(116)	534	741	(207)
Corporate income tax paid		(1 425)	(909)	(515)	(2 027)	(1 372)	(655)
Net cash from operating activities		<u>35 873</u>	<u>23 017</u>	<u>12 856</u>	<u>51 042</u>	<u>34 716</u>	<u>16 326</u>
Cash flow from investing activities							
Purchase of property, plant and equipment		(7 266)	(5 225)	(2 041)	(10 339)	(7 881)	(2 457)
Purchase of intangible assets			(87)	87	0	(131)	131
Proceeds from sales of securities					0	0	
Proceeds from sale of property, plant and equipment		10	15	(5)	14	22	(8)
Net cash used in investing activities		<u>(7 256)</u>	<u>(5 298)</u>	<u>(1 959)</u>	<u>(10 325)</u>	<u>(7 990)</u>	<u>(2 334)</u>
Cash flow from financing activities							
Payments on long term borrowings		(17)	(16)	(1)	(25)	(25)	(0)
Service charge on borrowings		(1)	(1)	0	(1)	(2)	0
Dividends paid					0	0	
Net cash used in financing activities		<u>(18)</u>	<u>(17)</u>	<u>(1)</u>	<u>(26)</u>	<u>(26)</u>	<u>0</u>
(Decrease) / increase in cash and cash equivalents		28 598	17 702	10 897	40 692	26 699	13 992
Movement in cash and cash equivalents							
At the beginning of the year		20 202	35 762	(15 560)	28 744	53 939	(25 195)
(Decrease) / increase		<u>28 598</u>	<u>17 702</u>	<u>10 897</u>	<u>40 692</u>	<u>26 699</u>	<u>13 992</u>
At the end of the year		48 800	53 463	(4 664)	69 436	80 639	(11 203)

Joint Stock Company "Latvijas Gaze"
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Changes in own capital

LVL'000	<i>Share capital</i>	<i>Share premium</i>	<i>Revaluation reserve</i>	<i>Reserves by Company Statutes</i>	<i>Retained earnings</i>	<i>Total</i>
31.12.2004.	39 900	14 320	117 816	33 237	10 898	216 171

Dividends for the year 2004

Revaluation of fixed assets

Deferred tax liability arising on the revaluation of property, plant and equipment

Disposal of revalued fixed assets

(4)

(4)

Deferred tax on disposal of revalued property, plant and equipment

Transfer to reserves

8 094 8 094

Profits for the Period

30.06.2005.	39 900	14 320	117 808	33 237	18 992	224 261
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EUR'000	<i>Share capital</i>	<i>Share premium</i>	<i>Revaluation reserve</i>	<i>Reserves by Company Statutes</i>	<i>Retained earnings</i>	<i>Total</i>
31.12.2004.	56 773	20 376	167 637	47 292	15 506	307 584

Dividends for the year 2004

Revaluation of fixed assets

Deferred tax liability arising on the revaluation of property, plant and equipment

Disposal of revalued fixed assets

(6)

(6)

Deferred tax on disposal of revalued property, plant and equipment

Transfer to reserves

11 516 11 516

Profits for the Period

30.06.2005.	56 773	20 376	167 631	47 292	27 022	319 094
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Appendices

	30.06.2005.	30.06.2004.	30.06.2005.	30.06.2004.
	LVL'000	LVL'000	EUR'000	EUR'000
1 COST OF SALES			0.7028	0.663
Purchase of natural gas	43 049	39 645	61 254	59 796
Salaries	3 130	2 573	4 454	3 881
Social insurance contributions	739	615	1 052	928
Life, health and pension insurance	250	212	356	320
Materials and spare parts	1 177	1 185	1 675	1 787
Depreciation and amortisation and impairment charge of property, plant and equipment	5 510	4 566	7 840	6 887
Other	1 178	1 023	1 676	1 543
	55 033	49 819	78 305	75 142
2 ADMINISTRATIVE EXPENSES				
Salaries	937	942	1 333	1 421
Social insurance contributions	193	192	275	290
Life, health and pension insurance	56	48	80	72
Maintenance and utilities	282	293	401	442
Real estate tax	632	896	899	1 351
Depreciation and amortisation and impairment charge of property, plant and equipment	278	226	396	341
Bank charges	92	87	131	131
Provisions for impairment of bad and doubtful debts, net	2 801	2 989	3 985	4 508
Other expenses	459	385	653	581
	5 730	6 058	8 153	9 137
3 OTHER OPERATING INCOME				
Penalties from customers	159	183	226	276
Income from contribution to financing of construction works	121	70	172	106
Gain from disposal of property plant and equipment	12		17	0
Provisions for slow moving and obsolete inventories impairment	14	11	20	17
Other income	124	114	176	172
	430	378	612	570

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	30.06.2005.	30.06.2004.	30.06.2005.	30.06.2004.
	LVL'000	LVL'000	EUR'000	EUR'000
4 OTHER OPERATING EXPENSE				
Materials expenses	6	4	9	6
Salaries	46	39	65	59
Social insurance contributions	4	4	6	6
Depreciation, amortisation and impairment charge for property, plant and equipment	9	14	13	21
Sponsorship	22	57	31	86
Loss on disposal of property, plant and equipment		5	0	8
Provisions for slow moving and obsolete inventories impairment			0	0
Other expense	36	32	51	48
	<u>123</u>	<u>155</u>	<u>175</u>	<u>234</u>
5 FINANCE INCOME				
Finance income				
- Interest income	352	472	501	712
- Net foreign exchange gains		134	0	202
	<u>352</u>	<u>606</u>	<u>501</u>	<u>914</u>
Finance expenses				
- Net foreign exchange loses	(147)		(209)	0
- Service charge for borrowings	(1)	(1)	(1)	(2)
	<u>(148)</u>	<u>(1)</u>	<u>(211)</u>	<u>(2)</u>
6 INVENTORIES				
Materials and spare parts (at net realisable value)	1 619	1 048	2 303	1 581
Gas and fuel (at cost value)	5 270	527	7 498	795
Other (at cost value)	110	147	156	222
	<u>6 998</u>	<u>1 722</u>	<u>9 958</u>	<u>2 598</u>

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	30.06.2005.	30.06.2004.	30.06.2005.	30.06.2004.
	LVL'000	LVL'000	EUR'000	EUR'000
7 CASH GENERATED FROM OPERATIONS				
Profit before tax	10 611	11 357	15 098	17 130
<i>Adjustments for:</i>				
Depreciation	5 588	4 633	7 952	6 988
Amortisation	201	172	286	259
Gains on available-for-sale-investments				
Provision for impairment of slow moving inventories	(13)	(10)	(19)	(16)
Accrual for bonuses	(418)	(413)	(594)	(624)
Accrual for unused annual leave	(92)	(92)	(131)	(139)
Provision charge	3 000	3 000	4 269	4 525
Interest income	(352)	(472)	(501)	(712)
Service charge for borrowings				
Loss on disposal of property plant and equipment	12	(5)	17	(7)
 <i>Changes in working capital</i>				
- trade and other receivables	2 753	2 627	3 917	3 962
- inventories	20 409	4 678	29 040	7 056
- trade and other payables	(4 778)	(2 038)	(6 798)	(3 075)
	<u>36 922</u>	<u>23 435</u>	<u>52 536</u>	<u>35 347</u>

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