



Joint Stock Company "Latvijas Gaze"

Unaudited Financial Report of the third quarter of 2005.

Prepared According to the Requirements of International
Accounting Standards.

**Joint Stock Company “Latvijas Gaze”
Third quarter, 2005**

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**Joint Stock Company “Latvijas Gaze”
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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	Adriāns 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

**Joint Stock Company “Latvijas Gaze”
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Report on JSC “Latvijas Gaze” performance in the third quarter of 2005

Economic and financial performance

During the nine months of 2005 JSC “Latvijas Gaze” has sold 1 123,4 mio nm³ of gas to consumers. Compared to corresponding period of 2004 the sales of natural gas have increased for 2,0% (21,6 mio nm³).

Gas injection into Incukalna UGS continues successfully. During September 356,3 mio nm³ were injected into the storage. Gas injection was finished in 10.10.2005, during the season in total 1 951,9 mio nm³ have been injected. Total volume of active gas in the storage amounts to 2 315 mio nm³, 47,1% of which is for needs of the consumers in Latvia.

During the nine months of 2005 natural gas sold and services rendered to the consumers for LVL 88,0 mio and the profit of **LVL 7,1 mio** gained.

Within the framework of Capital Investments program LVL 13,37 mio have been uptaken from the beginning of the year. Work continues on implementation of the projects provided in the budget.

Significant activities during the nine months of 2005

- Organization and implementation of emergency training at Incukalna UGS in cooperation with representatives of Orenburgas Gazbezopasnotj and employees of State safety and rescues services, ensuring the allocation of the emergency and liquidation at underground gas bore.
- Opening of JSC “Latvijas Gaze” Contact Center. The Center provides:
 - Automatic routing of incoming calls;
 - Processing of e-mails (info@lg.lv and latvijas.gaze@lg.lv) and questions from the web page (www.lg.lv) in common queue and routing to specified client administrators;
 - Implementation of united fax number (7041604), their transformation to e-mail and processing in common queue.
- Opening of transmission pipeline in Rezekne;
- Negotiations with PJSC “Gazprom” about amendments to the agreement and to natural gas price setting for 2006 and 2007.
- Participation in Economic Committee of the Saeima to defend LG interests in draft law “On the Procedure for the Coming into Force of Several Energy Law Sections”.
- Participation in the working group of the Ministry of Environment, which is developing Regulations of the Cabinet of Ministers about the payment of compensations to the current owners of IUGS land for limitation of their property rights.
- JSC “Latvijas Gaze” works on development of risk management guidelines and specification of Top 20 risks.
- Work on development of “Handbook for Joint Stock Company’s “Latvijas Gaze” employee”.
- From the beginning of the year 91,2 km of gas distribution pipelines have been commissioned. 83 objects for total length of 166 km are still in construction.

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Incukalns Underground Gas Storage (IUGS)

- Renovation of CS-2 building at Incukalns UGS has been finished.
- For the construction of CS-1 LVL 1,75 mio are uptaken. Construction of stanchions for illumination and lightning-conductor is finished. In the construction field cable drainage and rainwater drainage system is being installed and construction of stronghold beddings for technical pipelines takes place. Additional piling has taken place and construction of technological part has been commenced. Tender for main contractor for installation works has been concluded.
- Agreement about reconstruction of CS-2 technical pump building has been concluded.
- Replacement of illumination at CS-2 machine hall and reconstruction of CS main heating system are finished.

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Profit or loss account

		30.09.2005.			30.09.2004.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
					0.7028	0.671	
	Appendix						
Sales		88 025	82 810	5 215	125 249	123 413	1 836
Cost of sales	1	<u>(72 352)</u>	<u>(64 630)</u>	<u>(7 722)</u>	<u>(102 948)</u>	<u>(96 319)</u>	<u>(6 629)</u>
Gross profit		15 673	18 180	(2 507)	22 301	27 094	(4 793)
Administrative expenses	2	(7 437)	(7 222)	(215)	(10 582)	(10 763)	181
Other operating income	3	608	531	77	865	791	74
Other operating expense	4	<u>(224)</u>	<u>(254)</u>	<u>30</u>	<u>(319)</u>	<u>(379)</u>	<u>60</u>
Operating profit		8 620	11 235	(2 615)	12 265	16 743	(4 478)
Loss on available for sale investments							
Financial income	5	746	1 106	(360)	1 061	1 648	(587)
Financial expense	5	<u>(57)</u>	<u>(1)</u>	<u>(56)</u>	<u>(81)</u>	<u>(1)</u>	<u>(80)</u>
Profit before tax		9 309	12 340	(3 031)	13 245	18 390	(5 145)
Tax		<u>2 217</u>	<u>3 479</u>	<u>(1 262)</u>	<u>3 155</u>	<u>5 185</u>	<u>(2 030)</u>
Net profit		7 092	8 861	(1 769)	10 090	13 205	(3 115)
Earnings per share		0.178	0.222	(0.044)	0.253	0.331	(0.078)

**Joint Stock Company “Latvijas Gaze”
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Balance Sheet

	30.09.2005. 30.09.2004.			30.09.2005. 30.09.2004.		
	LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
Appendix				0.7028	0.671	
Assets						
<u>Non-current assets</u>						
Intangible assets	1 232	945	287	1 753	1 408	345
Property, plant and equipment	205 442	190 776	14 666	292 319	284 316	8 003
Available-for-sale investments	9	9	0	13	13	0
Trade accounts receivable	248	273	(25)	353	407	(54)
Total non-current assets	206 931	192 003	14 928	294 438	286 144	8 294
<u>Current assets</u>						
Inventories	6 31 927	20 824	11 103	45 428	31 035	14 393
Trade accounts receivable	5 629	4 672	957	8 009	6 963	1 046
Other current assets	1 254	1 214	40	1 784	1 809	(25)
Corporate income tax	2 726	2 107	619	3 879	3 140	739
Cash and cash equivalents	31 898	36 544	(4 646)	45 387	54 462	(9 075)
Total current assets	73 434	65 361	8 073	104 487	97 409	7 078
Total assets	280 365	257 364	23 001	398 925	383 553	15 372
Equity and liabilities						
<u>Equity</u>						
Share capital	39 900	39 900	0	56 773	59 463	(2 690)
Share premium	14 320	14 320	0	20 376	21 342	(966)
Revaluation reserve	117 811	117 574	237	167 630	175 222	(7 592)
Other reserves	39 062	33 237	5 825	55 580	49 533	6 048
Retained earnings from previous years	0	0	0	0	0	0
Retained earnings	195	885	(690)	278	1 319	(1 042)
Total equity	211 288	205 916	5 372	300 637	306 879	(6 242)
<u>Liabilities</u>						
<u>Non-current liabilities</u>						
Deferred tax liabilities	20 033	21 657	(1 624)	28 505	32 276	(3 771)
Borrowings	29	81	(52)	41	121	(80)
Deferred income	5 681	3 525	2 156	8 083	5 253	2 830
Total non-current liabilities	25 743	25 263	480	36 629	37 650	(1 021)
<u>Current liabilities</u>						
Trade accounts payable	30 233	15 014	15 219	43 018	22 376	20 642
Other current liabilities	6 272	4 878	1 394	8 924	7 270	1 654
Corporate income tax liability	2 204	2 479	(275)	3 136	3 694	(558)
Provisions	4 386	3 670	716	6 241	5 469	772
Borrowings	31	16	15	44	24	20
Deferred income	208	128	80	296	191	105
Total current liabilities	43 334	26 185	17 149	61 659	39 024	22 635
Total liabilities	69 077	51 448	17 629	98 288	76 674	21 614
Total equity and liabilities	280 365	257 364	23 001	398 925	383 553	15 372

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Cash flow statement

	Appendix	30.09.2005. 30.09.2004.			30.09.2005. 30.09.2004.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
					0.7028	0.671	
Cash flow from operating activities							
Cash generated from operations	7	39 892	22 488	17 404	56 762	33 514	23 248
Interest received		784	732	52	1 116	1 091	25
Corporate income tax paid		(4 049)	(1 372)	(2 677)	(5 761)	(2 045)	(3 716)
Net cash from operating activities		<u>36 627</u>	<u>21 848</u>	<u>14 779</u>	<u>52 117</u>	<u>32 560</u>	<u>19 557</u>
Cash flow from investing activities							
Purchase of property, plant and equipment		(13 369)	(11 183)	(2 186)	(19 022)	(16 666)	(2 356)
Purchase of intangible assets			(180)	180		(268)	268
Proceeds from sales of securities							
Proceeds from sale of property, plant and equipment		14	36	(22)	20	54	(34)
Net cash used in investing activities		<u>(13 355)</u>	<u>(11 327)</u>	<u>(2 028)</u>	<u>(19 002)</u>	<u>(16 880)</u>	<u>(2 122)</u>
Cash flow from financing activities							
Payments on long term borrowings		(17)	(16)	(1)	(24)	(24)	0
Service charge on borrowings		(1)	(1)	0	(1)	(1)	0
Dividends paid		(11 558)	(9 722)	(1 836)	(16 446)	(14 489)	(1 957)
Net cash used in financing activities		<u>(11 576)</u>	<u>(9 739)</u>	<u>(1 837)</u>	<u>(16 471)</u>	<u>(14 514)</u>	<u>(1 957)</u>
(Decrease) / increase in cash and cash equivalents		11 696	782	10 914	16 644	1 166	15 478
Movement in cash and cash equivalents							
At the beginning of the year		20 202	35 762	(15 560)	28 745	53 297	(24 552)
(Decrease) / increase		11 696	782	10 914	16 644	1 166	15 478
At the end of the year		<u>31 898</u>	<u>36 544</u>	<u>(4 646)</u>	<u>45 389</u>	<u>54 463</u>	<u>(9 074)</u>

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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					(11 970)	(11 970)
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			(1)	5 825	(5 825)	(1)
Profits for the Period					7 092	7 092
30.09.2005.	39 900	14 320	117 811	39 062	195	211 288

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	307 585
Dividends for the year 2004					(17 032)	(17 032)
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			(1)	8 288	(8 288)	(1)
Profits for the Period					10 092	10 091
30.09.2005.	56 773	20 376	167 630	55 580	278	300 637

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Appendices

	30.09.2005.	30.09.2004.	30.09.2005.	30.09.2004.
	LVL'000	LVL'000	EUR'000	EUR'000
1 COST OF SALES			0.7028	0.671
Purchase of natural gas	53 442	48 432	76 042	72 178
Salaries	4 672	3 846	6 648	5 732
Social insurance contributions	1 100	912	1 566	1 359
Life, health and pension insurance	371	351	528	524
Materials and spare parts	2 534	2 168	3 605	3 230
Depreciation and amortisation and impairment charge of property, plant and equipment	8 311	7 189	11 825	10 714
Other	1 922	1 733	2 735	2 582
	72 352	64 630	102 949	96 319
2 ADMINISTRATIVE EXPENSES				
Salaries	1 701	1 394	2 421	2 078
Social insurance contributions	282	268	402	399
Life, health and pension insurance	83	81	118	121
Maintenance and utilities	414	423	589	630
Real estate tax	948	955	1 349	1 423
Depreciation and amortisation and impairment charge of property, plant and equipment	416	337	592	502
Bank charges	128	122	181	182
Provisions for impairment of bad and doubtful debts, net	2 743	2 967	3 902	4 422
Other expenses	722	676	1 028	1 007
	7 437	7 222	10 582	10 764
3 OTHER OPERATING INCOME				
Penalties from customers	229	256	326	381
Income from contribution to financing of construction works	179	80	255	119
Gain from disposal of property plant and equipment	13		18	
Provisions for slow moving and obsolete inventories impairment	18	27	25	40
Other income	169	169	240	252
	608	531	866	792

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	30.09.2005.	30.09.2004.	30.09.2005.	30.09.2004.
	LVL'000	LVL'000	EUR'000	EUR'000
4 OTHER OPERATING EXPENSE				
Materials expenses	8	6	11	9
Salaries	71	73	102	109
Social insurance contributions	6	6	8	10
Depreciation, amortisation and impairment charge for property, plant and equipment	14	19	20	28
Sponsorship	22	67	31	101
Loss on disposal of property, plant and equipment		6		9
Provisions for slow moving and obsolete inventories impairment				
Other expense	104	76	147	114
	<u>224</u>	<u>254</u>	<u>319</u>	<u>379</u>
5 FINANCE INCOME				
Finance income				
- Interest income	746	700	1 062	1 043
- Net foreign exchange gains		406		604
	<u>746</u>	<u>1 106</u>	<u>1 062</u>	<u>1 648</u>
Finance expenses				
- Net foreign exchange loses	(56)		(80)	
- Service charge for borrowings	(1)	(1)	(1)	(2)
	<u>(57)</u>	<u>(1)</u>	<u>(81)</u>	<u>(2)</u>
Finance income, net	<u>689</u>	<u>1 105</u>	<u>981</u>	<u>1 646</u>
6 INVENTORIES				
Materials and spare parts (at net realisable value)	1 497	1 430	2 130	2 131
Gas and fuel (at cost value)	30 318	19 281	43 138	28 735
Other (at cost value)	112	113	160	169
	<u>31 927</u>	<u>20 824</u>	<u>45 428</u>	<u>31 035</u>

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	30.09.2005.	30.09.2004.	30.09.2005.	30.09.2004.
	LVL'000	LVL'000	EUR'000	EUR'000
7 CASH GENERATED FROM OPERATIONS				
Profit before tax	9 309	12 340	13 246	18 391
<i>Adjustments for:</i>				
Depreciation	8 412	7 281	11 970	10 851
Amortisation	308	261	438	389
Gains on available-for-sale-investments				
Provision for impairment of slow moving inventories	(17)	(23)	(25)	(34)
Accrual for bonuses	868	540	1 235	804
Accrual for unused annual leave	(139)	(139)	(197)	(207)
Provision charge	3 000	3 780	4 269	5 633
Interest income	(746)	(700)	(1 062)	(1 043)
Service charge for borrowings	(1)	(1)	(1)	(2)
Loss on disposal of property plant and equipment	13	(6)	19	(9)
 <i>Changes in working capital</i>				
- trade and other receivables	4 267	4 377	6 071	6 523
- inventories	(4 516)	(14 411)	(6 425)	(21 476)
- trade and other payables	19 134	9 189	27 225	13 695
	<u>39 892</u>	<u>22 488</u>	<u>56 762</u>	<u>33 514</u>

Contact person:
Kristīne Narnicka
Economist
Phone: 7369104
e-mail: kristine.narnicka@lg.lv