



Joint Stock Company "Latvijas Gaze"

Unaudited Financial Report of the six months of 2006.

Prepared According to the Requirements of International
Accounting Standards.

**Joint Stock Company “Latvijas Gaze”
Six months, 2006**

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**Joint Stock Company “Latvijas Gaze”
Six months, 2006**

JSC “Latvijas Gaze” management

Council members	Kiril Seleznov (Кирилл 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 (till 04.07.2006) 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 Marcus Anton Zorih (Marcus Anton Söhrich) – Member of the Council (from 04.07.2006)
Board members	Adrians Dāvis – Chairman of the Board Aleksandrs Mihejevs (Александр Михеев) – Member of the Board Frank Siebert – Member of the Board (till 15.08.2006.) Anda Ulpe – Member of the Board Gints Freibergs – Member of the Board Jorg Tumat M.A. (Jörg Tumat M.A.) – Member of the Board (from 15.08.2006.)

Joint Stock Company “Latvijas Gaze”
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Report on JSC “Latvijas Gaze” performance in the first half of 2006

Economic and Financial Operations

During the first six months of 2006 JSC “Latvijas Gaze” sold to consumers 1 038,7 mio.nm³ of natural gas. In comparison with corresponding period in 2005 profit is exceeding the indicators by 10,5% or 99,1 mio nm³.

Gas injection season at Incukalns UGS was commenced on April 6 of this year. 1 950 mio nm³ have to be injected into IUGS during 2006. In the second quarter of 2006 887 mio m³ of gas have been injected into Incukalns UGS.

During six months of 2006 natural gas sold and services rendered to the consumers for LVL 100,67 mio and the profit of LVL 8,52 mio gained, which is for LVL 0,426 mio higher than in 2005.

In the framework of the Capital Investment program during the first six months of 2006, LVL 6 876,3 thousands have been used. Works planned in the budget take place according to approved time schedules.

Incukalns UGS

The main assembly works at construction of KC-1 are completed, and the system preparation for the hydraulic test has been commenced.

In the central base, 2 diesel-generators have been installed, adjusted and prepared for run-up. Reconstruction of 0.4 kV substation in the gas-drying unit is completed. Launch of the reconstructed power supply system has been commenced.

Tap assembly on the technological gas pipeline KC2 – GSP2 – GSP1 is completed.

Gas transmission

In the winter period of 2005-2006, the operation unit “Gāzes Transports” performed inspection and repair of defective pipes of the pipeline Pskov – Riga for LVL 483,2 thousand in total.

Purification and internal diagnostics of the gas pipeline Izborsk – Inčukalns will be commenced in September 2006 not to delay gas injection into the Inčukalns UGS.

Reconstruction of GRS Riga is being continued. It is planned that the new equipment will be connected in September, whereas the station will be launched at the end of the year.

Distribution system

The work at construction of the new gas pipelines and extension of the distribution system is continuing. As the most significant projects, one should mention construction of distribution pipe and GRS

**Joint Stock Company “Latvijas Gaze”
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Riga-3, which is necessary to supply gas to the new power unit of TEC of the SJSC “Latvenergo” starting from December 16, 2007.

According to the Board resolution, the technical regulations have been issued for extension of Rēzekne gas pipeline in the direction of Ludza.

In June 2006, a contract has been signed concerning design development for constructing a gas pipeline over Dienvidu bridge and in its access roads, joining both banks of Daugava. This pipeline will increase safety and stability of gas supply in Riga and its locality.

In the six months of 2006, the number of consumers using gas for heating in individual houses has grown by 1470 connections. Meanwhile, with reconstruction of old dwelling houses, the number of consumers, who use gas only for cooking and hot water, is decreasing.

The winner of tender has been approved and contract negotiations have been commenced concerning supply of industrial gas meters and volume corrector calibration and verification equipment for development of laboratory.

The major activities in May and June

Negotiations with the Joint Stock Companies “Eesti gaas “ and “Lietuvos Dujos” concerning use of the services of the Inčukalns Underground Gas Storage Facility.

Preparation and submission of proposals concerning amendments to the Rules of gas supply and use, as well as participation in the workgroup of the Ministry of Economics for development of their final formulation.

Participation in various workgroups developing legislations that can affect expenses and economic activity of LG in the future. At present, it is being worked actively at development of the following legislations and amendment of existing ones:

- Concerning remuneration amount for using bowels of the earth in the IUGS;
- The Law of information systems of inconvenienced territories;

Presentation of LG and its provided services in collaboration with Baltic gas supply companies in the exhibition in Amsterdam within the World Gas Congress.

Meeting with the employee of the General Council of Energy of the European Union Matti Suppona concerning issues of gas market liberalization and price regulation, and presentation of the Inčukalns UGS

**Joint Stock Company "Latvijas Gaze"
Six months, 2006**

Shares and shareholders

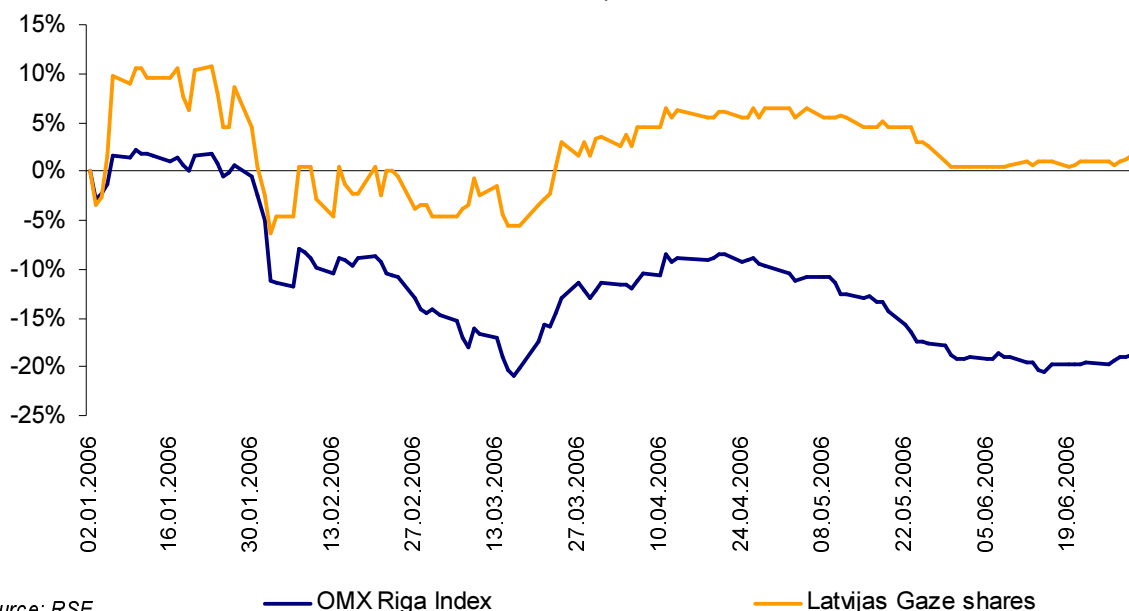
Shareholders¹ of JSC "Latvijas Gaze" as of July 18, 2006.

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

Share price at Riga Stock exchange during the first quarter of 2006

	2003	2004	2005	2006 1Q	2006 6 months
High	6.16	6.60	9.90	11.13	11.13
Low	5.45	5.40	6.15	9.27	9.27
Average	5.51	5.85	7.67	10.18	10.25
Last	5.50	6.50	9.61	10.30	10.10
Total turnover (LVL)	27 341 729.30	1 062 135.53	486 242.35	549 123.52	1 111 647.87
Total turnover (shares)	4 962 993	181 611	63 360	53 960	108 447
Capitalization at the end of period (LVL)	219 450 000.00	259 350 000.00	383 439 000.00	410 970 000.00	402 990 000.00

JSC "Latvijas Gaze" share price and OMX Riga Index development in 6 months, 2006



¹ Shareholders, which owe not less than 5% of equity capital

Joint Stock Company “Latvijas Gāze”
Six months, 2006

Statement of Directors’ Responsibility

The Board of Directors of JSC “Latvijas Gāze” (the Company) is responsible for the preparation of the interim financial statements of the Company. Interim financial statements of the Company are not audited.

The financial statements on pages 8 to 15 are prepared in accordance with the underlying accounting records and source documents and present fairly the financial position of the Company as of 30 June 2006 and the result of its operations and cash flows for the period ended 30 June 2006.

The financial statements are prepared in accordance with International Financial Reporting Standards on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Board of Directors in the preparation of the financial statements.

The Board of Directors of JSC “Latvijas Gāze” is responsible for the maintenance of proper accounting records, the safeguarding of the Company’s assets and the prevention and detection of fraud and other irregularities in the Company. The Board of Directors is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

On behalf of the Board of Directors,

Adrians Dāvis
Chairman of the Board



August 30, 2006

Joint Stock Company "Latvijas Gaze"
Six months, 2006

Profit or loss account

		30.06.2006.			30.06.2005.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
					0.7028	0.671	
Appendix							
Sales		100 670	70 863	29 807	143 241	100 830	42 411
Cost of sales	1	(82 059)	(55 033)	(27 026)	(116 760)	(78 305)	(38 455)
Gross profit		<u>18 611</u>	<u>15 830</u>	<u>2 781</u>	<u>26 481</u>	<u>22 525</u>	<u>3 956</u>
Administrative expenses	2	(3 644)	(5 730)	2 086	(5 185)	(8 153)	2 968
Other operating income	3	492	430	62	700	612	88
Other operating expense	4	(5 145)	(123)	(5 022)	(7 321)	(176)	(7 145)
Operating profit		<u>10 314</u>	<u>10 407</u>	<u>(93)</u>	<u>14 675</u>	<u>14 808</u>	<u>(133)</u>
Loss on available for sale investments		0	0	0	0	0	0
Financial income	5	819	352	467	1 165	501	664
Financial expense	5	(1)	(148)	147	(1)	(211)	210
Profit before tax		<u>11 132</u>	<u>10 611</u>	<u>521</u>	<u>15 839</u>	<u>15 098</u>	<u>741</u>
Tax		<u>2 611</u>	<u>2 517</u>	<u>94</u>	<u>3 715</u>	<u>3 581</u>	<u>134</u>
Net profit		<u>8 521</u>	<u>8 094</u>	<u>427</u>	<u>12 124</u>	<u>11 517</u>	<u>607</u>
Earnings per share		0.214	0.203	0.011	0.304	0.289	0.015

**Joint Stock Company “Latvijas Gaze”
Six months, 2006**

Balance Sheet

	30.06.2006.			30.06.2005.			30.06.2006.			30.06.2005.		
	LVL'000	LVL'000	Change	EUR'000	EUR'000	Change	0.7028	0.7028	Change	0.7028	0.7028	Change
Appendix												
Assets												
<u>Non-current assets</u>												
Intangible assets	1 316	1 149	167	1 873	1 635	238						
Property, plant and equipment	215 202	202 313	12 889	306 207	287 867	18 340						
Available-for-sale investments	4	9	(5)	6	13	(7)						
Trade accounts receivable	153	249	(96)	218	354	(136)						
Total non-current assets	216 675	203 720	12 955	308 304	289 869	18 435						
<u>Current assets</u>												
Inventories	6	22 087	6 998	15 089	31 427	9 957	21 470					
Trade accounts receivable		8 734	6 654	2 080	12 427	9 468	2 959					
Other current assets		4 310	1 668	2 642	6 133	2 373	3 760					
Corporate income tax			1 421	(1 421)	(1)	2 022	(2 023)					
Cash and cash equivalents		53 551	48 800	4 751	76 197	69 437	6 760					
Total current assets		88 682	65 541	23 141	126 182	93 256	32 926					
Total assets		305 357	269 261	36 096	434 486	383 125	51 361					
Equity and liabilities												
<u>Equity</u>												
Share capital		39 900	39 900		56 773	56 773						
Share premium		14 320	14 320		20 376	20 376						
Revaluation reserve		119 106	117 812	1 294	169 472	167 631	1 841					
Other reserves		39 061	33 237	5 824	55 579	47 292	8 287					
Retained earnings from previous years		0	0		0	0						
Retained earnings		25 265	18 992	6 273	35 949	27 024	8 925					
Total equity		237 652	224 261	13 391	338 148	319 095	19 053					
<u>Liabilities</u>												
<u>Non-current liabilities</u>												
Deferred tax liabilities		19 897	20 034	(137)	28 311	28 506	(195)					
Borrowings		18	29	(11)	26	41	(15)					
Deferred income		6 959	5 172	1 787	9 902	7 359	2 543					
Total non-current liabilities		26 874	25 235	1 639	38 239	35 906	2 333					
<u>Current liabilities</u>												
Trade accounts payable		24 016	4 637	19 379	34 172	6 598	27 574					
Other current liabilities		10 928	7 115	3 813	15 549	10 124	5 425					
Corporate income tax liability		2 611	3 408	(797)	3 715	4 849	(1 134)					
Provisions		3 000	4 386	(1 386)	4 270	6 241	(1 971)					
Borrowings		19	31	(12)	27	44	(17)					
Deferred income		258	189	69	367	269	98					
Total current liabilities		40 831	19 765	21 066	58 099	28 124	29 975					
Total liabilities		67 705	45 000	22 705	96 338	64 030	32 308					
Total equity and liabilities		305 357	269 261	36 096	434 486	383 125	51 361					

**Joint Stock Company “Latvijas Gaze”
Six months, 2006**

Cash flow statement

	Appendix	30.06.2006. 30.06.2005.			30.06.2006. 30.06.2005.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
					0.7028	0.7028	
Cash flow from operating activities							
Cash generated from operations	7	38 792	36 922	1 870	55 196	52 536	2 660
Interest received		421	375	46	599	534	65
Corporate income tax paid		(2 178)	(1 425)	(753)	(3 099)	(2 028)	(1 071)
Net cash from operating activities		<u>37 035</u>	<u>35 872</u>	<u>1 163</u>	<u>52 696</u>	<u>51 042</u>	<u>1 654</u>
Cash flow from investing activities							
Purchase of property, plant and equipment		(7 336)	(7 266)	(70)	(10 438)	(10 339)	(99)
Purchase of intangible assets						0	
Proceeds from sales of securities							
Proceeds from sale of property, plant and equipment			10	(10)	0	14	(14)
Net cash used in investing activities		<u>(7 336)</u>	<u>(7 256)</u>	<u>(80)</u>	<u>(10 438)</u>	<u>(10 325)</u>	<u>(113)</u>
Cash flow from financing activities							
Payments on long term borrowings		(17)	(17)		(24)	(24)	
Service charge on borrowings		(1)	(1)		(1)	(1)	
Dividends paid							
Net cash used in financing activities		<u>(18)</u>	<u>(18)</u>		<u>(25)</u>	<u>(25)</u>	
(Decrease) / increase in cash and cash equivalents		29 681	28 598	1 083	42 233	40 692	1 541
Movement in cash and cash equivalents							
At the beginning of the year		23 868	20 202	3 666	33 961	28 745	5 216
(Decrease) / increase		<u>29 681</u>	<u>28 598</u>	<u>1 083</u>	<u>42 232</u>	<u>40 692</u>	<u>1 540</u>
At the end of the year		53 549	48 800	4 749	76 193	69 437	6 756

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>
31.12.2005.	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

Profits for the Period

8 094 8 094

30.06.2005.	39 900	14 320	117 812	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>
31.12.2005.	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

Profits for the Period

11 517 11 517

30.06.2005.	56 773	20 376	167 631	47 292	27 024	319 095
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Joint Stock Company "Latvijas Gaze"
Six months, 2006

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>
31.12.2005.	39 900	14 320	119 150	39 061	16 745	229 176

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

(44)

(44)

Deferred tax on disposal of revalued property, plant and equipment

Transfer to reserves

Profits for the Period

8 521 8 521

30.06.2006.	39 900	14 320	119 106	39 061	25 265	237 652
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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>
31.12.2005.	56 773	20 376	169 534	55 579	23 825	326 087

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

(63)

(63)

Deferred tax on disposal of revalued property, plant and equipment

Transfer to reserves

Profits for the Period

12 124 12 124

30.06.2006.	56 773	20 376	169 472	55 579	35 949	338 148
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Joint Stock Company "Latvijas Gaze"
Six months, 2006

Appendices

	30.06.2006.	30.06.2005.	30.06.2006.	30.06.2005.
	LVL'000	LVL'000	EUR'000	EUR'000
1 COST OF SALES				0.7028
Purchase of natural gas	68 040	43 049	96 813	61 254
Salaries	3 490	3 130	4 965	4 454
Social insurance contributions	817	739	1 163	1 052
Life, health and pension insurance	260	250	370	356
Materials and spare parts	1 926	1 177	2 741	1 675
Depreciation and amortisation and impairment charge of property, plant and equipment	5 874	5 510	8 357	7 840
Other	1 652	1 178	2 351	1 676
	82 059	55 033	116 760	78 305
2 ADMINISTRATIVE EXPENSES				
Salaries	1 371	937	1 950	1 333
Social insurance contributions	237	193	337	275
Life, health and pension insurance	50	56	72	80
Maintenance and utilities	372	282	530	401
Real estate tax	650	632	925	899
Depreciation and amortisation and impairment charge of property, plant and equipment	302	278	430	396
Bank charges	86	92	122	131
Provisions for impairment of bad and doubtful debts, net	(1)	2 801	(1)	3 985
Other expenses	576	459	819	653
	3 644	5 730	5 185	8 153
3 OTHER OPERATING INCOME				
Penalties from customers	222	159	315	226
Income from contribution to financing of construction works	162	121	231	172
Gain from disposal of property plant and equipment	4	12	6	17
Provisions for slow moving and obsolete inventories impairment	3	14	5	20
Other income	100	124	142	176
	492	430	700	612

Joint Stock Company "Latvijas Gaze"
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	30.06.2006.	30.06.2005.	30.06.2006.	30.06.2005.
	LVL'000	LVL'000	EUR'000	EUR'000
4 OTHER OPERATING EXPENSE				
Materials expenses	4	6	6	9
Salaries	37	46	53	65
Social insurance contributions	4	4	6	6
Depreciation, amortisation and impairment charge for property, plant and equipment	9	9	13	13
Sponsorship	42	22	60	31
Loss on disposal of property, plant and equipment		0		
Provisions for slow moving and obsolete inventories impairment		0		
Other expense	5 048	36	7 183	51
	<u>5 145</u>	<u>123</u>	<u>7 321</u>	<u>176</u>
5 FINANCE INCOME				
Finance income				
- Interest income	402	352	573	501
- Net foreign exchange gains	416	0	592	0
	<u>819</u>	<u>352</u>	<u>1 165</u>	<u>501</u>
Finance expenses			0	0
- Net foreign exchange loses		(147)		(210)
- Service charge for borrowings	(1)	(1)	(1)	(1)
	<u>(1)</u>	<u>(148)</u>	<u>(1)</u>	<u>(211)</u>
Finance income, net	<u>818</u>	<u>204</u>	<u>1 164</u>	<u>290</u>
6 INVENTORIES				
Materials and spare parts (at net realisable value)	2 252	1 619	3 204	2 303
Gas and fuel (at cost value)	19 758	5 270	28 113	7 498
Other (at cost value)	78	110	111	156
	<u>22 087</u>	<u>6 998</u>	<u>31 427</u>	<u>9 957</u>

**Joint Stock Company "Latvijas Gaze"
Six months, 2006**

	30.06.2006.	30.06.2005.	30.06.2006.	30.06.2005.
	LVL'000	LVL'000	EUR'000	EUR'000
7 CASH GENERATED FROM OPERATIONS				
Profit before tax	11 132	10 611	15 839	15 098
<i>Adjustments for:</i>				
Depreciation	5 963	5 588	8 484	7 952
Amortisation	222	201	316	286
Gains on available-for-sale-investments				
Provision for impairment of slow moving inventories	(3)	(13)	(5)	(19)
Accrual for bonuses	(816)	(418)	(1 161)	(594)
Accrual for unused annual leave	(113)	(92)	(161)	(131)
Provision charge	5 000	3 000	7 114	4 269
Interest income	(402)	(352)	(573)	(501)
Service charge for borrowings	1		1	
Loss on disposal of property plant and equipment	85	12	120	17
 <i>Changes in working capital</i>				
- trade and other receivables	4 425	2 753	6 296	3 917
- inventories	21 518	20 409	30 618	29 040
- trade and other payables	(8 217)	(4 778)	(11 693)	(6 798)
	<u>38 792</u>	<u>36 922</u>	<u>55 196</u>	<u>52 536</u>

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