



Joint Stock Company "Latvijas Gaze"

Unaudited Financial Report of the nine months of 2006.

Prepared According to the Requirements of International
Accounting Standards.

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

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**Joint Stock Company “Latvijas Gaze”
Nine 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
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

Board members

Adrians Dāvis – Chairman of the Board
Aleksandrs Mihejevs (Александр Михеев) – Member of the Board
Anda Ulpe – Member of the Board
Gints Freibergs – Member of the Board
Jorg Tumat (Jörg Tumat) – Member of the Board

Joint Stock Company “Latvijas Gaze”
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Report on JSC “Latvijas Gaze” performance in the nine months of 2006

Economic and Financial Operations

In the nine months of the year 2006, the Joint Stock Company “Latvijas Gāze” has sold to consumers 1 228.3 million nm³ of gas. In comparison with the respective period of 2005, sales of natural gas have increased by 9.3% (+104.9 million nm³). According to the information by Latvian Environment, Geology and Meteorology agency “September of the year 2006 with overall monthly average air temperature in Latvia of 14,2⁰C, which is by 2,7 degrees above the norm, has become the third warmest autumn beginning month over the last 83 years in Latvia.” (www.meteo.lv). Naturally, the beginning of heating season is held off, and it will negatively affect execution of the total natural gas sales budget.

Gas injection into the Incukalns Underground Gas Storage (hereinafter – IUGS) has been completed successfully. It was completed on 16.10.2006. In this season, 2 148.5 million nm³ of gas have been injected into the storage facility, which is the largest amount injected since the beginning of operation of the storage facility. The total amount of active gas after completion of injection was 2 324 million nm³.

In the 9 months of the year 2006, consumers have been sold natural gas and provided services for LVL 125.2 million, profiting LVL 8.7 million which is by LVL 1.57 million more than in the 9 months of the year 2005.

Within the capital investment programme, LVL 14.2 million have been utilized since the beginning of the year, of which for modernization of technological equipment LVL 5 750.0 thousand and for construction of gas pipelines LVL 4 015.3 thousand.

The reconstructed power supply system has been put into operation at IUGS.

The tender concerning rights to perform the reconstruction of the IUGS gas pipeline electrochemical protection system has ended.

The tender concerning rights to perform three-dimensional survey of the IUGS communications has ended.

A new program of IUGS well reconstruction has been worked out, the basis of which is evaluation of technical condition of each well.

Change of armature of gas transmission pipelines is in progress.

Renovation of isolation of individual sections and change of sections of gas transmission pipelines has been implemented for LVL 642.8 thousand.

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Distribution system

For construction of distribution pipelines and branches LVL 3 103.1 thousand have been utilized, 95.16 km of gas pipelines (distribution pipeline – 83.01 km, branches – 12.15 km) have been built and put into operation.

Construction of the gas reservoir in Vagonu Street 20, Riga, is completed.

The major activities in September

Participation in the Dialogue marketing conference in Badlautenburg, organized by E.ON Ruhrgas, and further collaboration with the specialists of E.ON Ruhrgas on issues of optimisation of sales processes and new natural gas application technologies.

Meeting of the Practical and Scientifically Technical Council of the Interrepublic Association of Gas Workers in Riga on October 4 – 6 of this year. Participants of the meeting got acquainted with work of individual operation units of LG and discussed various issues, paying most attention to modernization of gas supply system and improvement of supply safety.

Visit of the Norwegian company JSC “Avenir” in LG on October 13 of this year. The Norwegians got acquainted with the Dispatcher Centre and Contact Centre of LG, as well as read a lecture on gas supply issues in Western Europe and perspectives of gas supply development. The lecture was attended by specialists of LG, as well as representatives of the Ministry of Economics, the SJSC “Latvenergo”, the Association of Heat Production Companies, the Energy Institute of the Academy of Sciences, and other organizations.

Training of engineering technical employees of the Inčukalns UGS after the course “Responsible specialist of natural gas storage system with rights to manage gas-hazardous and fire-hazardous works”. The courses were run by professors of Russian State Gubkin University.

Participation of employees of the Inčukalns UGS in the international conference “Underground gas storage facilities – safety and efficiency”, which took place in VNIIGAZ, Moscow, on 11. – 13.10.2006., with four publications and three presentations.

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

Shares and shareholders

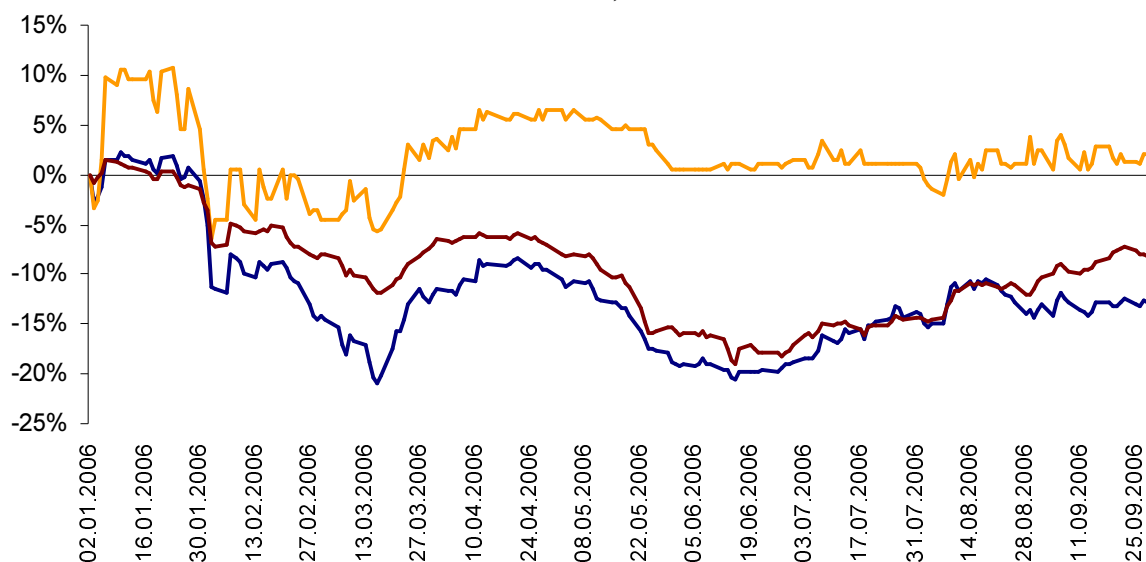
Shareholders¹ of JSC "Latvijas Gaze" as of July 18, 2006.

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 nine months of 2006

	2003	2004	2005	2006 1Q	2006 6 months	2006 9 months
High	6.16	6.60	9.90	11.13	11.13	11.13
Low	5.45	5.40	6.15	9.27	9.27	9.27
Average	5.51	5.85	7.67	10.18	10.25	10.24
Last	5.50	6.50	9.61	10.30	10.10	10.06
Total turnover (LVL)	27 341 729.30	1 062 135.53	486 242.35	549 123.52	1 111 647.87	1 202 902.00
Total turnover (shares)	4 962 993	181 611	63 360	53 960	108 447	117 494
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	401 394 000.00

JSC "Latvijas Gaze" share price and OMX Riga Index development in 9 months, 2006



Source: RSE

— OMX Riga Index

— Latvijas Gaze shares

— BALTIX Index

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

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

Profit or loss account

		30.09.2006.			30.09.2005.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
					0.7028	0.7028	
Appendix							
Sales		125 227	88 025	37 202	178 183	125 249	52 934
Cost of sales	1	(105 485)	(72 352)	(33 133)	(150 092)	(102 948)	(47 144)
Gross profit		<u>19 742</u>	<u>15 673</u>	<u>4 069</u>	<u>28 091</u>	<u>22 301</u>	<u>5 790</u>
Administrative expenses	2	(5 216)	(7 437)	2 221	(7 422)	(10 582)	3 160
Other operating income	3	662	608	54	942	866	77
Other operating expense	4	(5 343)	(224)	(5 119)	(7 602)	(320)	(7 282)
Operating profit		<u>9 845</u>	<u>8 620</u>	<u>1 225</u>	<u>14 009</u>	<u>12 264</u>	<u>1 745</u>
Loss on available for sale investments							
Financial income	5	1 461	746	715	2 079	1 061	1 018
Financial expense	5	(1)	(56)	55	(1)	(80)	79
Profit before tax		<u>11 305</u>	<u>9 310</u>	<u>1 995</u>	<u>16 087</u>	<u>13 245</u>	<u>2 842</u>
Tax		<u>2 643</u>	<u>2 217</u>	<u>426</u>	<u>3 761</u>	<u>3 155</u>	<u>606</u>
Net profit		<u>8 662</u>	<u>7 093</u>	<u>1 569</u>	<u>12 326</u>	<u>10 090</u>	<u>2 236</u>
Earnings per share		0.217	0.178	0.039	0.309	0.253	0.056

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

Balance Sheet

	30.09.2006.			30.09.2005.			30.09.2006.			30.09.2005.		
	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	1 310	1 232	78	1 864	1 753	111						
Property, plant and equipment	218 864	205 442	13 422	311 417	292 319	19 098						
Available-for-sale investments	4	9	(5)	6	13	(7)						
Trade accounts receivable	121	248	(127)	172	353	(181)						
Total non-current assets	220 299	206 931	13 368	313 459	294 438	19 021						
<u>Current assets</u>												
Inventories	6	43 237	31 927	11 310	61 521	45 428	16 093					
Trade accounts receivable		5 339	5 629	(290)	7 597	8 009	(412)					
Other current assets		5 107	1 254	3 853	7 267	1 784	5 484					
Corporate income tax			2 726	(2 726)	0	3 879	(3 879)					
Cash and cash equivalents		40 423	31 898	8 525	57 517	45 387	12 130					
Total current assets		94 106	73 434	20 672	133 902	104 486	29 416					
Total assets		314 405	280 365	34 040	447 361	398 924	48 437					
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		119 089	117 811	1 278	169 449	167 630	1 819					
Other reserves		39 061	39 061		55 579	55 579						
Retained earnings		11 441	195	11 246	16 279	278	16 001					
Total equity		223 811	211 287	12 524	318 456	300 635	17 820					
<u>Liabilities</u>												
<u>Non-current liabilities</u>												
Deferred tax liabilities		19 898	20 034	(137)	28 312	28 506	(194)					
Borrowings		18	29	(11)	26	41	(15)					
Deferred income		7 330	5 681	1 649	10 430	8 083	2 347					
Total non-current liabilities		27 246	25 744	1 502	38 768	36 630	2 138					
<u>Current liabilities</u>												
Trade accounts payable		45 263	30 233	15 030	64 404	43 018	21 386					
Other current liabilities		12 150	6 272	5 878	17 288	8 924	8 364					
Corporate income tax liability		2 643	2 204	439	3 761	3 136	625					
Provisions		3 000	4 386	(1 386)	4 269	6 241	(1 972)					
Borrowings		19	31	(12)	27	44	(17)					
Deferred income		273	208	65	388	296	92					
Total current liabilities		63 348	43 334	20 014	90 137	61 659	28 478					
Total liabilities		90 594	69 078	21 516	128 905	98 289	30 616					
Total equity and liabilities		314 405	280 365	34 040	447 361	398 924	48 437					

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

Cash flow statement

	Appendix	30.09.2006. 30.09.2005.			30.09.2006. 30.09.2005.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
					0.7028	0.7028	
Cash flow from operating activities							
Cash generated from operations	7	46 432	39 892	6 540	66 067	56 762	9 305
Interest received		889	784	105	1 265	1 116	149
Corporate income tax paid		(2 595)	(4 048)	1 454	(3 692)	(5 760)	2 068
Net cash from operating activities		<u>44 727</u>	<u>36 628</u>	<u>8 099</u>	<u>63 640</u>	<u>52 118</u>	<u>11 522</u>
Cash flow from investing activities							
Purchase of property, plant and equipment		(14 195)	(13 369)	(826)	(20 198)	(19 022)	(1 176)
Purchase of intangible assets							
Proceeds from sales of securities							
Proceeds from sale of property, plant and equipment		6	14	(8)	9	20	(11)
Net cash used in investing activities		<u>(14 189)</u>	<u>(13 355)</u>	<u>(834)</u>	<u>(20 189)</u>	<u>(19 002)</u>	<u>(1 187)</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		(13 965)	(11 558)	(2 407)	(19 871)	(16 446)	(3 425)
Net cash used in financing activities		<u>(13 983)</u>	<u>(11 576)</u>	<u>(2 407)</u>	<u>(19 896)</u>	<u>(16 471)</u>	<u>(3 425)</u>
(Decrease) / increase in cash and cash equivalents							
		16 555	11 697	4 858	23 555	16 645	6 910
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>16 555</u>	<u>11 697</u>	<u>4 858</u>	<u>23 555</u>	<u>16 643</u>	<u>6 912</u>
At the end of the year		40 423	31 899	8 524	57 516	45 388	12 128

Joint Stock Company "Latvijas Gaze"
Nine months, 2006

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	39 061	195	211 287

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					(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)	(2)
Profits for the Period					10 092	10 090
30.09.2005.	56 773	20 376	167 630	55 579	278	300 635

**Joint Stock Company “Latvijas Gaze”
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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 (13 965) (13 965)

Revaluation of fixed assets

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

Disposal of revalued fixed assets (61) (61)

Deferred tax on disposal of revalued property, plant and equipment

Transfer to reserves

Profits for the Period 8 662 8 662

30.09.2006.	39 900	14 320	119 089	39 061	11 441	223 811
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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 (19 871) (19 871)

Revaluation of fixed assets

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

Disposal of revalued fixed assets (85) (85)

Deferred tax on disposal of revalued property, plant and equipment

Transfer to reserves

Profits for the Period 12 325 12 325

30.09.2006.	56 773	20 376	169 449	55 579	16 279	318 456
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**Joint Stock Company “Latvijas Gaze”
Nine months, 2006**

Appendices

	30.09.2006.	30.09.2005.	30.09.2006.	30.09.2005.
	LVL'000	LVL'000	EUR'000	EUR'000
1 COST OF SALES				0.7028
Purchase of natural gas	83 179	53 442	118 354	76 042
Salaries	5 470	4 672	7 782	6 648
Social insurance contributions	1 275	1 100	1 814	1 566
Life, health and pension insurance	401	371	571	528
Materials and spare parts	3 569	2 534	5 078	3 605
Depreciation and amortisation and impairment charge of property, plant and equipment	8 881	8 311	12 636	11 825
Other	2 711	1 922	3 858	2 735
	105 485	72 352	150 092	102 948
2 ADMINISTRATIVE EXPENSES				
Salaries	2 093	1 701	2 978	2 421
Social insurance contributions	324	282	461	402
Life, health and pension insurance	111	83	159	118
Maintenance and utilities	537	414	764	589
Real estate tax	975	948	1 388	1 349
Depreciation and amortisation and impairment charge of property, plant and equipment	453	416	644	592
Bank charges	126	128	180	181
Provisions for impairment of bad and doubtful debts, net	(253)	2 743	(361)	3 902
Other expenses	850	722	1 209	1 028
	5 216	7 437	7 422	10 582
3 OTHER OPERATING INCOME				
Penalties from customers	254	229	361	326
Income from contribution to financing of construction works	240	179	341	255
Gain from disposal of property plant and equipment	13	13	19	18
Provisions for slow moving and obsolete inventories impairment	10	18	14	25
Other income	146	169	207	240
	662	608	942	866

Joint Stock Company “Latvijas Gaze”
Nine months, 2006

	30.09.2006.	30.09.2005.	30.09.2006.	30.09.2005.
	LVL'000	LVL'000	EUR'000	EUR'000
4 OTHER OPERATING EXPENSE				
Materials expenses	6	8	9	11
Salaries	63	71	90	102
Social insurance contributions	6	6	8	8
Depreciation, amortisation and impairment charge for property, plant and equipment	16	14	23	20
Sponsorship	56	22	80	31
Loss on disposal of property, plant and equipment		0		
Provisions for slow moving and obsolete inventories impairment		0		
Other expense	5 195	104	7 392	147
	<u>5 343</u>	<u>224</u>	<u>7 602</u>	<u>320</u>
5 FINANCE INCOME				
Finance income				
- Interest income	866	746	1 232	1 061
- Net foreign exchange gains	595		847	
	<u>1 461</u>	<u>746</u>	<u>2 079</u>	<u>1 061</u>
Finance expenses				
- Net foreign exchange loses		(56)		(80)
- Service charge for borrowings	(1)	(1)	(1)	(1)
	<u>(1)</u>	<u>(56)</u>	<u>(1)</u>	<u>(80)</u>
Finance income, net	<u>1 461</u>	<u>690</u>	<u>2 078</u>	<u>982</u>
6 INVENTORIES				
Materials and spare parts (at net realizable value)	2 552	1 497	3 632	2 130
Gas and fuel (at cost value)	40 618	30 318	57 794	43 138
Other (at cost value)	66	112	95	160
	<u>43 237</u>	<u>31 927</u>	<u>61 521</u>	<u>45 428</u>

**Joint Stock Company "Latvijas Gaze"
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	30.09.2006.	30.09.2005.	30.09.2006.	30.09.2005.
	LVL'000	LVL'000	EUR'000	EUR'000
7 CASH GENERATED FROM OPERATIONS				
Profit before tax	11 305	9 309	16 086	13 246
<i>Adjustments for:</i>				
Depreciation	8 999	8 412	12 805	11 970
Amortization	346	308	492	438
Gains on available-for-sale-investments				
Provision for impairment of slow moving inventories	(10)	(17)	(14)	(25)
Accrual for bonuses	690	868	981	1 235
Accrual for unused annual leave	(178)	(139)	(253)	(197)
Provision charge	5 000	3 000	7 114	4 269
Interest income	(866)	(746)	(1 232)	(1 062)
Service charge for borrowings	1	(1)	1	(1)
Loss on disposal of property plant and equipment	13	13	19	19
 <i>Changes in working capital</i>				
- trade and other receivables	7 478	4 267	10 641	6 071
- inventories	375	(4 516)	534	(6 425)
- trade and other payables	13 278	19 134	18 894	27 225
	<u>46 432</u>	<u>39 892</u>	<u>66 067</u>	<u>56 762</u>

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