



Joint Stock Company "Latvijas Gaze"

Unaudited Financial Report of the first quarter of 2006.

Prepared According to the Requirements of International
Accounting Standards.

**Joint Stock Company “Latvijas Gaze”
First quarter, 2006**

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**Joint Stock Company “Latvijas Gaze”
First quarter, 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
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

**Joint Stock Company “Latvijas Gaze”
First quarter, 2006**

Report on JSC “Latvijas Gaze” performance in the first quarter of 2006

Economic and Financial Operations

During the first quarter of 2006 JSC “Latvijas Gaze” sold to consumers 756,1 mio.nm³ of natural gas. In comparison with corresponding period in 2005 exceeding the indicators by 13,2% or 88,2 mio nm³.

Growth of natural gas sales was largely secured by unplanned frost in January when the average temperature was by 5,7⁰C lower than in corresponding period in 2005.

Gas injection season at Incukalna UGS was commenced on April 6 of this year. 1950 mio nm³ have to be injected into IUGS during 2006.

During three months of 2006 natural gas sold and services rendered to the consumers for LVL 70,0 mio and the profit of LVL 6,0 mio gained, which is for LVL 2,5 mio lower than in 2005.

In the framework of the Capital Investment program during the first three months of 2006, LVL 3 632,4 thousands have been used. Works planned in the budget take place according to approved time schedules.

LVL 1 022,3 thousands have been used in construction of distribution pipelines and connecting pipelines, 16, 58 km of pipelines have been constructed and put into operation.

Main activities

On 22 March 2006 PUC approved new natural gas tariffs for the year 2006. In accordance with PUC resolution Nr. 73 “On JSC “Latvijas Gaze” natural gas tariffs in 2006” new tariffs have to be applied from 1 May 2006.

Work on development of normative documentation to ensure new tariff implementation.

Participation at different working groups, which are developing legal acts.

Presentation of the report about possibilities to utilize potential of underground gas storages in Latvia to increase safety of supplies to European countries by the representative of LG at the conference “Flame 2006” in Amsterdam.

E.ON Ruhrgas, Eesti Gas, Lietuvos Dujos and Latvijas Gaze specialist annual meeting about issues related to natural gas sales and marketing.

**Joint Stock Company "Latvijas Gaze"
First quarter, 2006**

Shares and shareholders

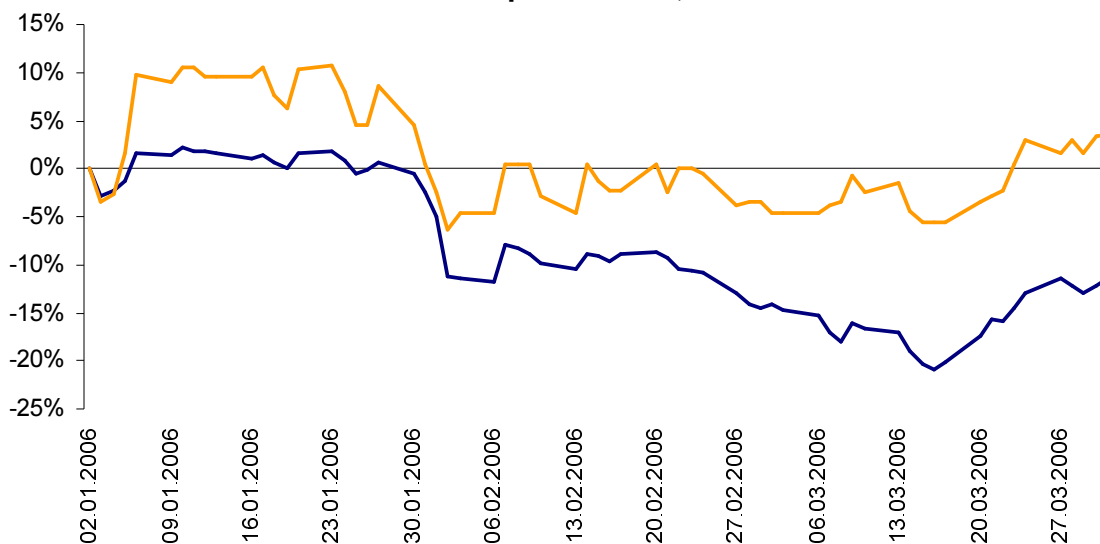
Shareholders¹ of JSC "Latvijas Gaze" as of December 31 2005.

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

JSC "Latvijas Gaze" share price and OMX Riga Index development in 1Q, 2006



Source: RSE

— OMX Riga Index

— Latvijas Gaze shares

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

Joint Stock Company “Latvijas Gaze”
First quarter, 2006

Profit or loss account

		31.03.2006.			31.03.2005.			31.03.2006.			31.03.2005.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change	0.7028	0.671				
Appendix													
Sales		69 997	49 403	20 594		99 597	70 295	29 302					
Cost of sales	1	(52 161)	(34 313)	(17 848)		(74 219)	(48 823)	(25 396)					
Gross profit		<u>17 836</u>	<u>15 090</u>	<u>2 746</u>		<u>25 378</u>	<u>21 472</u>	<u>3 906</u>					
Administrative expenses	2	(1 838)	(4 000)	2 162		(2 615)	(5 692)	3 077					
Other operating income	3	238	201	37		339	286	53					
Other operating expense	4	(8 061)	(77)	(7 984)		(11 470)	(111)	(11 359)					
Operating profit		<u>8 175</u>	<u>11 214</u>	<u>(3 039)</u>		<u>11 632</u>	<u>15 955</u>	<u>(4 323)</u>					
Loss on available for sale investments		0	0	0		0	0	0					
Financial income	5	448	100	348		637	142	495					
Financial expense	5	0	(272)	272		0	(387)	387					
Profit before tax		<u>8 623</u>	<u>11 042</u>	<u>(2 419)</u>		<u>12 269</u>	<u>15 710</u>	<u>(3 441)</u>					
Tax		2 611	2 517	94		3 715	3 581	134					
Net profit		<u>6 012</u>	<u>8 525</u>	<u>(2 513)</u>		<u>8 554</u>	<u>12 129</u>	<u>(3 575)</u>					
Earnings per share		0.151	0.214	(0.063)		0.214	0.304	(0.090)					

Joint Stock Company “Latvijas Gaze”
First quarter, 2006

Balance Sheet

	31.03.2006.			31.03.2005.			31.03.2006.			31.03.2005.		
	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	1 314	1 187	127	1 870	1 689	181						
Property, plant and equipment	214 763	200 550	14 213	305 582	285 359	20 223						
Available-for-sale investments	4	9	(5)	6	13	(7)						
Trade accounts receivable	184	226	(42)	262	322	(60)						
Total non-current assets	216 265	201 972	14 293	307 720	287 383	20 337						
<u>Current assets</u>												
Inventories	6	3 649	6 882	(3 233)	5 192	9 792	(4 600)					
Trade accounts receivable		18 937	13 684	5 253	26 945	19 471	7 474					
Other current assets		3 299	1 246	2 053	4 694	1 773	2 921					
Corporate income tax			706	(706)	0	1 005	(1 005)					
Cash and cash equivalents		47 238	43 936	3 302	67 214	62 516	4 698					
Total current assets		73 123	66 454	6 669	104 045	94 557	9 488					
Total assets		289 388	268 426	20 962	411 765	381 940	29 825					
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		119 135	117 812	1 323	169 514	167 632	1 882					
Other reserves		39 061	33 237	5 824	55 579	47 292	8 287					
Retained earnings from previous years		0	10 898	(10 898)	0	15 507	(15 507)					
Retained earnings		22 757	8 526	14 231	32 381	12 131	20 250					
Total equity		235 173	224 693	10 480	334 623	319 711	14 912					
<u>Liabilities</u>												
<u>Non-current liabilities</u>												
Deferred tax liabilities		19 897	20 034	(138)	28 310	28 506	(196)					
Borrowings		18	46	(29)	25	65	(40)					
Deferred income		6 898	4 804	2 094	9 814	6 836	2 978					
Total non-current liabilities		26 812	24 884	1 928	38 149	35 407	2 742					
<u>Current liabilities</u>												
Trade accounts payable		5 421	3 387	2 034	7 713	4 820	2 894					
Other current liabilities		19 084	7 463	11 621	27 155	10 620	16 535					
Corporate income tax liability		2 611	3 408	(797)	3 715	4 849	(1 134)					
Provisions			4 386	(4 386)		6 242	(6 242)					
Borrowings		35	31	4	50	44	6					
Deferred income		254	174	80	361	248	113					
Total current liabilities		27 405	18 849	8 556	38 994	26 822	12 172					
Total liabilities		54 216	43 733	10 483	77 143	62 229	14 914					
Total equity and liabilities		289 388	268 426	20 962	411 765	381 940	29 825					

**Joint Stock Company “Latvijas Gaze”
First quarter, 2006**

Cash flow statement

	Appendix	31.03.2006. 31.03.2005.			31.03.2006. 31.03.2005.		
		LVL'000	LVL'000	Change	EUR'000	EUR'000	Change
Cash flow from operating activities					0.7028	0.7028	
Cash generated from operations	7	28 056	26 959	1 097	39 920	38 359	1 561
Interest received		211	102	109	300	145	155
Corporate income tax paid		(1 264)	(706)	(558)	(1 799)	(1 005)	(794)
Net cash from operating activities		<u>27 003</u>	<u>26 355</u>	<u>648</u>	<u>38 421</u>	<u>37 499</u>	<u>922</u>
Cash flow from investing activities							
Purchase of property, plant and equipment		(3 632)	(2 621)	(1 011)	(5 168)	(3 729)	(1 439)
Purchase of intangible assets			(9)	9		(13)	13
Proceeds from sales of securities							
Proceeds from sale of property, plant and equipment		0	9	(9)	0	13	(13)
Net cash used in investing activities		<u>(3 632)</u>	<u>(2 621)</u>	<u>(1 011)</u>	<u>(5 168)</u>	<u>(3 729)</u>	<u>(1 439)</u>
Cash flow from financing activities							
Payments on long term borrowings		0	0	0	0	0	0
Service charge on borrowings		0	0	0	0	0	0
Dividends paid		0	0	0	0	0	0
Net cash used in financing activities		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(Decrease) / increase in cash and cash equivalents		23 371	23 734	(363)	33 253	33 770	(517)
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		23 371	23 734	(363)	33 254	33 771	(517)
At the end of the year		<u>47 239</u>	<u>43 936</u>	<u>3 303</u>	<u>67 215</u>	<u>62 516</u>	<u>4 699</u>

Joint Stock Company "Latvijas Gaze"
First quarter, 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>
31.12.2005.	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

Deferred tax on disposal of revalued property, plant and equipment

Transfer to reserves

Profits for the Period

			(15)		6 012	6 012
31.03.2006.	39 900	14 320	119 135	39 061	22 757	235 173

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	169 536	55 579	23 826	326 090

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

Deferred tax on disposal of revalued property, plant and equipment

Transfer to reserves

Profits for the Period

			(22)		8 555	8 555
31.03.2006.	56 773	20 376	169 514	55 579	32 381	334 623

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Appendices

	31.03.2006.	31.03.2005.	31.03.2006.	31.03.2005.
	LVL'000	LVL'000	EUR'000	EUR'000
1 COST OF SALES				0.7028
Purchase of natural gas	45 838	28 924	65 221	41 156
Salaries	1 620	135	2 306	192
Social insurance contributions	380	319	541	454
Life, health and pension insurance	121	113	172	160
Materials and spare parts	606	407	862	579
Depreciation and amortisation and impairment charge of property, plant and equipment	2 924	2 751	4 160	3 915
Other	672	1 664	957	2 368
	52 161	34 313	74 219	48 823
2 ADMINISTRATIVE EXPENSES				
Salaries	713	477	1 014	678
Social insurance contributions	132	97	187	139
Life, health and pension insurance	22	27	31	38
Maintenance and utilities	214	159	304	226
Real estate tax	325		462	
Depreciation and amortisation and impairment charge of property, plant and equipment	151	139	216	198
Bank charges	37	36	53	51
Provisions for impairment of bad and doubtful debts, net	(0)	2 882	(1)	4 101
Other expenses	245	183	349	261
	1 838	4 000	2 615	5 692
3 OTHER OPERATING INCOME				
Penalties from customers	38	64	54	91
Income from contribution to financing of construction works	84	66	119	93
Gain from disposal of property plant and equipment	15	12	21	17
Provisions for slow moving and obsolete inventories impairment	1	4	1	6
Other income	101	56	144	79
	238	201	339	286

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	31.12.2005.	31.12.2004.	31.12.2005.	31.12.2004.
	LVL'000	LVL'000	EUR'000	EUR'000
4 OTHER OPERATING EXPENSE				
Materials expenses	2	3	3	5
Salaries	21	28	29	39
Social insurance contributions	2	2	3	3
Depreciation, amortisation and impairment charge for property, plant and equipment	5	5	7	6
Sponsorship	13	37	18	52
Loss on disposal of property, plant and equipment				
Provisions for slow moving and obsolete inventories impairment				
Other expense	8 019	3	11 410	5
	<u>8 061</u>	<u>77</u>	<u>11 470</u>	<u>111</u>
5 FINANCE INCOME				
Finance income				
- Interest income	175	100	249	142
- Net foreign exchange gains	273		388	0
	<u>448</u>	<u>100</u>	<u>637</u>	<u>142</u>
Finance expenses			0	0
- Net foreign exchange loses		(272)		(387)
- Service charge for borrowings				
	<u>0</u>	<u>(272)</u>	<u>0</u>	<u>(387)</u>
			0	0
Finance income, net	<u>448</u>	<u>-172</u>	<u>637</u>	<u>-244</u>
6 INVENTORIES				
Materials and spare parts (at net realisable value)	1 710	1 391	2 433	1 979
Gas and fuel (at cost value)	1 866	5 409	2 655	7 696
Other (at cost value)	73	82	105	117
	<u>3 649</u>	<u>6 882</u>	<u>5 193</u>	<u>9 792</u>

**Joint Stock Company “Latvijas Gaze”
First quarter, 2006**

	31.03.2006.	31.03.2005.	31.03.2006.	31.03.2005.
	LVL'000	LVL'000	EUR'000	EUR'000
7 CASH GENERATED FROM OPERATIONS				
Profit before tax	8 623	11 043	12 269	15 713
<i>Adjustments for:</i>				
Depreciation	2 971	2 795	4 227	3 976
Amortisation	109	100	155	142
Gains on available-for-sale-investments				
Provision for impairment of slow moving inventories	(1)	(4)	(1)	(6)
Accrual for bonuses	(408)	(207)	(580)	(295)
Accrual for unused annual leave	(51)	(62)	(72)	(88)
Provision charge	8 000	3 000	11 383	4 269
Interest income	(175)	(100)	(249)	(142)
Service charge for borrowings				
Loss on disposal of property plant and equipment	16	10	22	15
 <i>Changes in working capital</i>				
- trade and other receivables	(5 884)	(3 759)	(8 373)	(5 349)
- inventories	39 954	20 517	56 849	29 193
- trade and other payables	(25 097)	(6 374)	(35 710)	(9 069)
	<u>28 056</u>	<u>26 959</u>	<u>39 920</u>	<u>38 359</u>

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