

AS VENTSPILS NAFTA AND ITS SUBSIDIARIES

(UNIFIED REGISTRATION NUMBER 50003003091)

**CONDENSED ANNUAL REPORT FOR THE YEAR
ENDED 31 DECEMBER 2005**

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

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General information

Name of the Parent company	AS Ventspils nafta
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	50003003091 Riga, 9 May 1991 Registered with the Commercial Register on 5 August 2004
Registered office	Talsu iela 75, LV-3600, Ventspils, Republic of Latvia
Subsidiaries	SIA LatRosTrans (66%) Balvu iela 7, LV-5043, Daugavpils SIA Ventspils nafta termināls (100%) Talsu iela 75, LV-3600, Ventspils AS Preses nams (92.92%) Balasta dambis 3, LV-1081, Riga SIA Mediju nams (99.31%) Balasta dambis 3, LV-1081, Riga SIA Rīgas līcis VN (100%) Dubultu prospekts 51, LV-2015, Jūrmala SIA Nekustamie īpašumi VN (100%) Balasta dambis 3, LV-1081, Riga
Associated entities	AS Latvijas kuģniecība (49.94%) Basteja bulvāris 2, LV-1807, Riga SIA Mediji un Poligrāfija (32.70%) Balasta dambis 3, LV-1081, Riga SIA Ventshoes (21.44%) I.Mičurina iela 6, LV-3601, Ventspils SIA Futbola klubs Ventspils (30%) Dzintaru iela 20a, LV-3602, Ventspils

General information (cont'd)

Subsidiaries of SIA Nekustamie
Īpašumi VN

SIA Darījumu centrs Daugava (100%)
Balasta dambis 3, LV-1081, Rīga

SIA Namserviss VN (100%)
Balasta dambis 3, LV-1081, Rīga

SIA Ventspils biznesa centrs (100%)
Balasta dambis 3, LV-1081, Rīga

SIA Maikapara nams under liquidation (100%)
Balasta dambis 3, LV-1081, Rīga

SIA Lejastiezumi (100%)
Balasta dambis 3, LV-1081, Rīga

SIA Pārventas sporta centrs (100%)
Balasta dambis 3, LV-1081, Rīga

Financial year

1 January – 31 December 2005

Management report

Dear shareholders, clients and cooperation partners,

The year 2005 was marked for joint stock company AS Ventspils nafta both with improvement of the Group's financial figures and growth of the AS Ventspils nafta share price on Riga Stock Exchange, thus clearly demonstrating the overall growth of AS Ventspils nafta Group's value.

In the reporting period the registered and paid-up share capital of AS Ventspils nafta was EUR 148 600 thous. and consisted of 104 479 519 shares. The par value of each share was LVL 1. 60 598 121 shares are listed on Riga Stock Exchange (i.e. publicly traded).

In 2005 the price of AS Ventspils nafta shares on Riga Stock Exchange ranged from EUR 2,42 to EUR 3,88; the average share price reached EUR 2,94, which is by EUR 0,81 more than in 2004, when the average price of AS Ventspils nafta shares constituted EUR 2,13. The total of 1 068 000 shares was traded during 2005 on Riga Stock Exchange, thus reaching the annual turnover of EUR 3 149 thous. The market capitalization of AS Ventspils nafta shares as at the end of 2005 was EUR 401,4 million, with the average market capitalization having increased from EUR 222,5 million in 2004 to EUR 308,1 million in 2005, which is more by EUR 85,6 million or 38,4% in accordance with the share price growth.

In our opinion, such results of AS Ventspils nafta share quotation in 2005 clearly show the impact of the improved performance of AS Ventspils nafta Group in the reporting period. Pursuant to the consolidated financial statements of AS Ventspils nafta for the year ended 31 December 2005 prepared in accordance with International Financial Reporting Standards, the net turnover of AS Ventspils nafta Group for the reporting period has reached EUR 124 million, thus exceeding the result of 2004 by EUR 44 million, and the gross profit of AS Ventspils nafta Group has more than doubled in the reporting period, having increased from EUR 6,3 million in 2004 to EUR 13 million in 2005.

For comparability and consistency purposes, certain items of the prior year income statement and balance sheet were adjusted considering changes in the accounting policies made in 2005. Such adjustment of prior financial statements is contemplated by Latvian and International Financial Reporting Standards. The adjusted financial statements for the year ended 31 December 2004 were presented together with the audited financial statements for the year ended 31 December 2005.

In view of the requirements of International Financial Reporting Standards, AS Ventspils nafta has recorded in its consolidated financial statements for the year ended 31 December 2005 non-recurrent expense related to partial impairment of technological assets of subsidiaries SIA LatRosTrans and SIA Ventspils nafta termināls due to the three years long idleness of the oil pipeline. Although the financial figures of AS Ventspils nafta Group were positive in 2005 considering the aforementioned material increase of consolidated net turnover and gross profit, the negative financial result of EUR 30,9 million is recorded in the consolidated financial statements of AS Ventspils nafta for the year ended 31 December 2005 to account for the aforementioned impairment. Since this expense is non-recurrent, future financial results of AS Ventspils nafta will not be affected thereby.

Regardless of the advantages and high quality of the Ventspils oil transit corridor admitted by Russian oil exporters, oil transportation via the pipeline to Ventspils port was ceased in January 2003 in the result of the economically unreasonable decision taken by Russian state authorities without consulting other parties. Since 2003 the auditors of AS Ventspils nafta have been repeatedly stressing in their prior year reports the potential necessity to record impairment of the assets of the Group companies engaged in oil piping due to ceased oil transportation to ensure compliance with the requirements of International Financial Reporting Standards.

Since oil has not been transported via the pipeline for three years already, the auditors of AS Ventspils nafta indicate that this period is sufficient for the impairment recognition to be mandatory. After the oil pipeline in the Ventspils direction had been closed, AS Ventspils nafta Council and Board were actively working both at the local and international level to ensure equal possibilities for Russian oil export and renewal of oil transit via the pipeline to Ventspils. However, observing the political status of the Russian authorities which took this decision, solution of the problem was not possible due to limited influence of AS Ventspils nafta. At the same time, the management of AS Ventspils nafta believes that oil transportation via the pipeline in the Ventspils direction would be the most optimal and advantageous route for Russian oil export to North Western Europe and is still confident that oil transportation in this direction may be renewed.

During the reporting period SIA Ventspils nafta termināls, a subsidiary of AS Ventspils nafta, displayed its ability to quickly adapt to the actual situation and market conditions. Regardless of the ceased crude oil transit via the pipeline, SIA Ventspils nafta termināls managed to substantially increase the amount of reloaded oil products received by railway, i.e. petrol of various grades and diesel fuel with different sulphur content. Compared to the year 2004, the amount of petrol and diesel fuel reloaded by the terminal has increased by 1,2 million tons and 0,3 million tons respectively.

Management report (cont'd)

The reloading volumes of SIA Ventspils nafta termināls have increased owing to the active work for attraction of customers, and introduction of new and beneficial kinds of services, including petrol loading into tankers having the deadweight of up to 100 thousand tons. No competitor of SIA Ventspils nafta termināls currently supplies this kind of service. The same refers also to standing oil storage in tanks. In the reloading structure of SIA Ventspils nafta termināls, the decrease by 1,8 million tons compared to the previous year may be observed only with regard to crude oil transported by railway. Being affected by high oil prices prevailing in the world markets, Russia substantially increased import tax on oil in 2005. As a result, oil export by railway became unprofitable, and the export volumes diminished almost in all Russian oil transit routes.

In 2006 SIA Ventspils nafta termināls aims at increasing the amount of reloaded oil and oil products received by railway, meanwhile retaining its market share in reloading of oil and oil products exported from Russia and other CIS countries by railway. SIA Ventspils nafta termināls plans to continue cooperation with existing business partners and attract new clients by offering a competitive tariff policy, a beneficial assortment of services and high-quality servicing. In competition with other companies, the technological advantages of SIA Ventspils nafta termināls enable it to extend the assortment of reloaded products depending on the specific market conditions, as well as to offer tank lease and oil storage services. In 2006, under the company's investment programme, SIA Ventspils nafta termināls plans to commence the first stage of new pipeline corridor construction to join together the terminal and piers.

During the reporting period SIA LatRosTrans, a subsidiary of AS Ventspils nafta owning and operating oil and oil products pipelines, recorded 20,3 million tons of transported oil and oil products, which is by 0,8 million tons more than in 2004. Continuing implementation of the development program, SIA LatRosTrans invested more than EUR 11 million in the construction of the main pumping station, modernization of the communication system and other technical upgrading projects. The purposeful work done by the management of SIA LatRosTrans in 2005 resulted in a significant decrease of excess physical losses of oil products caused by unauthorized actions.

In the result of technological solutions implemented in the reporting period, the capacity of the oil products pipeline belonging to SIA LatRosTrans has already reached 8 million tons per annum, and this will permit SIA LatRosTrans to increase diesel fuel transportation volumes and improve its profitability in the upcoming year. In 2006 SIA LatRosTrans plans to increase the total amount of transported oil and oil products and use the pipeline capacity to the maximum extent possible, ensuring transportation of diesel fuel to Ventspils and oil transportation to Mažeikiai oil refinery and Butinge oil terminal. Within the framework of the investment program, in 2006 SIA LatRosTrans intends to make investments in construction of the oil product accounting point in Skrudaliena and modernization of the communication system. In addition, SIA LatRosTrans will continue the active work for reduction and, if possible, prevention of excess physical losses of diesel fuel above the limits set by Latvian laws.

The reporting period was crucial for another subsidiary of AS Ventspils nafta - the largest Baltic printing group AS Preses nams. The company continued successful optimization of its organizational and functional structure which was commenced in 2004. In 2005 the construction of two new and modern production facilities of AS Preses nams was commenced. One of the facilities is intended for printing of newspapers and magazines, and the other for book printing. In the reporting period AS Preses nams managed to retain its leading position in the Baltic printing market. The net turnover of the company has reached EUR 30,6 million, which is by EUR 3,3 million more than in 2004. The increase in the sales volume in 2005 constitutes 13% compared to 2004. The proportion of intra-Community exports by AS Preses nams is 30%. The amount of investments made by AS Preses nams in modernization and development projects in 2005 reached EUR 20,3 million.

The strategic goals of AS Preses nams set for 2006 comprise maintaining and strengthening of its position in the printing market and increase of the company's value, by expanding its market share and ensuring growth of the sales volume, optimizing the management and production structure, as well as continuing upgrading of production equipment. AS Preses nams plans to commence production in the new printing facilities in the second half of 2006.

The year 2005 was a period of positive changes for AS Latvijas kuģniecība, an associated entity to AS Ventspils nafta. Ensuring equality of shareholders' rights and transparency of the management functions, the new Council and Board of AS Latvijas kuģniecība started working in 2005. While strengthening its competitiveness, AS Latvijas kuģniecība continued implementation of the tanker upgrading programme. Within the framework of this programme, 14 new tankers were ordered from Croatian and Korean shipyards. The first tanker is to be launched into operation in the middle of 2006.

Business risk diversification policy pursued by AS Ventspils nafta over past few years has resulted in a number of liquid financial investments in real estates, several of which are located in the centre of Riga and Jūrmala. The market value of these estates has already substantially exceeded initial investments. According to International Financial Reporting Standards and changes of Latvian laws whereby part of real estates may be reclassified as investment properties since 2005, and therefore estates may be recorded at their fair value not acquisition cost, AS Ventspils nafta restated as investment properties three estates: the land plot at Balasta dambis 3 on which the building of AS Preses nams is located, the land plot and building in Old Riga, Palasta iela 10, the land plot and buildings in Jūrmala, Dubultu prospekts 51. These changes in the accounting policies affected the financial statements of AS Ventspils nafta for the year ended 31 December 2004, where the balances disclosed in the income statement and balance sheet will be adjusted according to the requirements of International Financial Reporting Standards and Latvian laws.

Management report (cont'd)

In the reporting period favorable changes were observed in the operations of one more subsidiary of AS Ventspils nafta - SIA Mediju nams, one of the leading Latvian publishing houses. In 2005 SIA Mediju nams issued three newspapers and four magazines addressing different reader categories; its net turnover has reached EUR 4,1 million, which is by EUR 0,3 more than in 2004. Regardless of the tough competition in all segments of Latvian printed media market, SIA Mediju nams succeeded in diminishing the expected loss from EUR 1,7 million in 2004 to EUR 1,3 million in 2005. The increase in revenues, optimization of production processes and introduction of new products account for this success.

The year 2006 marked the 45th anniversary of the Ventspils port terminal where oil and oil products reloading operations were commenced in September 1961. Over the last years, the company has turned from a transit enterprise into a world famous group operating and scoring success in different business areas, and it is known today as AS Ventspils nafta. The year 2006 will be also important for further development of AS Ventspils nafta Group, as 38,6% of AS Ventspils nafta stock held by the state are to be sold according to government's decision, thus causing changes in the current shareholding structure. In 2006, in the same manner as previously, the management of the central holding company of AS Ventspils nafta Group will continue working to add the Group's value, facilitating successful development of and creation of added value for each business structure separately and the whole Group.

19 May 2006

On behalf of the Council:

On behalf of the Board:

Mamerts Vaivads
Chairman of the Council

Olga Pētersone
Chairperson of the Board

Consolidated Income Statement

	2005	2004	restated 2004	reported
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Net sales	124 255	79 605	79 605	79 605
Cost of sales	(111 158)	(73 278)	(73 278)	(73 278)
Gross profit	13 097	6 327	6 327	6 327
Sales and distribution expense	(2 436)	(2 114)	(2 114)	(2 114)
General and administrative expense	(9 306)	(8 588)	(8 588)	(8 588)
Other operating income	20 755	24 212	24 212	17 672
Other operating expense	(64 179)	(7 299)	(7 299)	(7 299)
Result from operating activities	(42 069)	12 538	12 538	5 998
Gain in associated entities, net	10 852	18 243	18 243	18 243
Financial income/ (expense), net	267	(613)	(613)	(613)
Result before taxes	(30 950)	30 168	30 168	23 628
Corporate income tax	(3 295)	905	905	1 884
Net result	(34 245)	31 073	31 073	25 512
including:				
Minority interest	3 331	1 827	1 827	1 827
Net result for the year, attributable to Parent company's shareholders	(30 914)	32 900	32 900	27 339
Earnings per share				
in EUR per share	(0,30)	0,31	0,31	0,26
Diluted earnings per share				
in EUR per share	(0,30)	0,31	0,31	0,26

EUR exchange rate of the Bank of Latvia on 31 December 2005 – 0.702804 LVL

On behalf of the Council:

On behalf of the Board:

 Mamerts Vaivads
 Chairman of the Council

 Olga Pētersone
 Chairperson of the Board

Consolidated Balance Sheet

ASSETS

	31/12/2005	31/12/2004	31/12/2004
	EUR thousand	restated EUR thousand	reported EUR thousand
NON CURRENT ASSETS			
Intangible assets	42 915	(16 872)	(16 872)
Property, plant and equipment			
Land, buildings and networks	118 246	166 386	166 531
Machinery and equipment	72 393	62 527	62 527
Other property, plant and equipment	6 897	8 704	8 704
Construction in progress	11 219	21 356	21 356
Prepayments for property, plant and equipment	5 603	3 526	3 526
TOTAL	214 358	262 499	262 644
Investment properties	37 861	19 806	3 671
Investments			
Investments in associated entities	162 048	131 526	131 526
Other long-term loans	1 554	1 599	1 599
TOTAL	163 602	133 125	133 125
TOTAL NON CURRENT ASSETS	458 736	398 558	382 568
CURRENT ASSETS			
Inventories	11 716	14 233	14 233
Current portion of long-term loan	60	60	60
Short-term loans to related parties	-	3 344	3 344
Trade accounts receivable	11 117	8 973	8 973
Corporate income tax receivable	377	27	27
Other accounts receivable	2 005	5 242	5 242
Prepaid expense	884	1 052	1 052
Accrued income	987	703	703
Other financial assets	73	83	83
Cash and cash equivalents	22 880	10 474	10 474
TOTAL CURRENT ASSETS	50 099	44 191	44 191
TOTAL ASSETS	508 835	442 749	426 759

EUR exchange rate of the Bank of Latvia on 31 December 2005 – 0.702804 LVL

On behalf of the Council:

On behalf of the Board:

 Mamerts Vaivads
 Chairman of the Council

 Olga Pētersonē
 Chairperson of the Board

Consolidated Balance Sheet

LIABILITIES AND SHAREHOLDERS' EQUITY

	31/12/2005	31/12/2004	31/12/2004
	EUR thousand	restated	reported
	EUR thousand	EUR thousand	EUR thousand
SHAREHOLDERS' EQUITY			
Share capital	148 660	148 660	148 660
Share premium	60 249	60 249	60 249
Legal reserves	1 017	-	-
Foreign currency translation reserve	6 733	(12 915)	(12 915)
Restricted reserves	-	-	16 884
Other reserves	214 377	126 116	101 199
Current year unappropriated result	(30 914)	32 900	27 339
TOTAL	400 122	355 010	341 416
Minority Interest	59 687	62 625	62 625
TOTAL SHAREHOLDERS' EQUITY	459 809	417 635	404 041
LIABILITIES			
Long-term liabilities			
Deferred corporate income tax	21 137	5 600	3 204
Long-term portion of financial lease liability	2 187	1 339	1 339
Long-term loan from credit institution	9 071	-	-
TOTAL	32 395	6 939	4 543
Current liabilities			
Short-term portion of long-term loan	3 106	6 557	6 557
Financial lease liabilities	1 416	1 073	1 073
Advances from customers	534	68	68
Trade accounts payable	7 002	6 150	6 150
Taxes payable	637	783	783
Other liabilities	810	801	801
Accrued liabilities	2 735	2 102	2 102
Deferred income	390	642	642
TOTAL	16 630	18 176	18 176
TOTAL LIABILITIES	49 025	25 115	22 719
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	508 835	442 749	426 759

EUR exchange rate of the Bank of Latvia on 31 December 2005 – 0.702804 LVL

On behalf of the Council:

On behalf of the Board:

 Mamerts Vaivads
 Chairman of the Council

 Olga Pētersonē
 Chairperson of the Board

Consolidated Statement of Cash Flows

	2005	2004	2004
	EUR thousand	restated EUR thousand	reported EUR thousand
Cash flow from/ (to) operating activities			
Result before taxes	(30 950)	30 168	23 628
Adjustments			
Gain in associated entities, net	(10 872)	(18 243)	(18 243)
Decrease in provisions	-	(114)	(114)
Negative goodwill	-	(7 624)	(7 624)
Amortisation and depreciaiton	17 295	18 244	18 244
Impairment loss	60 311	-	-
Interest income	(441)	(437)	(437)
Interest expense	619	339	339
(Gain)/ loss on disposals of tangible assets	(526)	(265)	(265)
Gain from revaluation of investment properties	(18 055)	(6 540)	-
Cash flow effect of the title change for technological reserves of crude oil and oil products	-	(3 634)	(3 634)
Operating profit before changes in current assets and liabilities	17 381	11 894	11 894
Decrease in inventory	2 517	3 667	3 667
(Increase)/ decrease in trade accounts receivable	(2 144)	386	386
(Increase)/ decrease in other accounts receivable	3 135	431	431
Increase in current liabilities	1 986	713	713
Net cash from/ (to) operating activities before taxes paid	22 875	17 091	17 091
Taxes paid	(356)	(420)	(420)
Net cash from/ (to) operating activities	22 519	16 671	16 671
Cash flow from/ (to) investment activities			
Purchase of fixed assets	(21 394)	(25 922)	(25 922)
Proceeds from sale of fixed assets	1 288	655	655
Interest received	441	437	437
Received repayment of short-term loan	3 389	4 976	4 976
Net cash flow from/ (to) investment activities	(16 276)	(19 854)	(19 854)
Cash flow from/ (to) financing activities			
Increase/ (decrease) in own shares	-	128	128
Borrowings (paid)	(7 629)	(2 689)	(2 689)
Borrowings received	14 409	4 705	4 705
Interest payments	(619)	(339)	(339)
Net cash from/ (to) investment activities	6 161	1 805	1 805
Net increase/ (decrease) in cash	12 404	(1 378)	(1 378)
Cash at the beginning of the year	10 474	11 853	11 853
Cash at the end of the year	22 880	10 474	10 474

EUR exchange rate of the Bank of Latvia on 31 December 2005 – 0.702804 LVL

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Foreign currency translation reserve	Legal reserves	Restricted reserves	Other reserves	Current years unappropriated result	Total	Minority interest	Total shareholders' equity
Balance as of 31 December 2003 *	148 660	60 249	-	-	15 950	115 567	(13 435)	326 992	64 482	391 473
Impact of change of accounting policy for investment properties	-	-	-	-	-	8 034	-	8 034	-	8 034
Adjustment of reserves due to change in accounting policy**	-	-	-	-	(15 950)	15 950	-	-	-	-
Balance as of 31 December 2003, restated	148 660	60 249	-	-	-	139 551	(13 435)	335 025	64 482	399 507
Transfer of 2003 net result	-	-	-	-	-	(13 435)	13 435	-	-	-
Foreign currency translation	-	-	(12 915)	-	-	-	-	(12 915)	(30)	(12 945)
Current year result, restated	-	-	-	-	-	-	32 900	32 900	(1 827)	31 073
Balance as of 31 December 2004, restated	148 660	60 249	(12 915)	-	-	126 116	32 900	355 010	62 625	417 635
Transfer of 2004 net result	-	-	-	-	-	32 900	(32 900)	-	-	-
Transfer of legal reserves***	-	-	-	1 017	-	(1 017)	-	-	-	-
Derecognition of negative goodwill	-	-	-	-	-	68 619	-	68 619	-	68 619
Foreign currency translation	-	-	19 648	-	-	-	-	19 648	393	20 041
Effect of deferred tax arising from derecognition of negative goodwill	-	-	-	-	-	(12 241)	-	(12 241)	-	(12 241)
Current year result	-	-	-	-	-	-	(30 914)	(30 914)	(3 331)	(34 245)
Balance as of 31 December 2005	148 660	60 249	6 733	1 017	-	214 377	(30 914)	400 122	59 687	459 809

EUR exchange rate of the Bank of Latvia on 31 December 2005 – 0.702804 LVL

* As disclosed in the financial statements for the year 2004.

** Pursuant to the amendments to the law of the Republic of Latvia on Financial Statements of Companies, dated 10 June 2005, AS Ventspils nafta has introduced changes in the measurement of investments in subsidiaries, where the subsidiaries are accounted for under the cost method instead of the equity method. The restricted reserves, previously representing the excess of proportional share of profits over dividends received from subsidiaries, have been adjusted accordingly.

*** Legal reserves represent the Group's share of subsidiary's SIA LatRosTrans legal reserve which were previously provided for in accordance with the law of the Republic of Latvia on Limited Liability Companies in amount of 5% of the prior years' profits. Pursuant to the Commercial Law of the Republic of Latvia, formation of such reserves is no longer required

In some of the subsidiaries unappropriated result has been included in the balance sheet caption *Other reserves*.