

AS VENTSPILS NAFTA AND ITS SUBSIDIARIES

(UNIFIED REGISTRATION NUMBER 50003003091)

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**TOGETHER WITH THE REPORT OF
THE INDEPENDENT AUDITORS**

Independent auditors' report

To the shareholders
of AS Ventspils nafta

We have audited the accompanying consolidated financial statements of AS Ventspils nafta (a joint stock company registered in the Republic of Latvia) and its subsidiaries (the Group) for the year ended 31 December 2005. The financial statements, set out on pages 8 through 50, comprise the balance sheet, the statements of income, cash flows and changes in equity and the related notes. These financial statements are the responsibility of the Parent company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Group as of 31 December 2005, and the results of the Group's operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the fact that the a/s Ventspils nafta subsidiaries SIA LatRosTrans and SIA Ventspils nafta terminals have incurred substantial losses due to the decision of AK Transneft in 2002 to suspend transportation of crude oil to Ventspils terminal through the SIA LatRosTrans pipeline. Notwithstanding the efforts of the management the crude oil flow has not been resumed. As further described in Note 8 and Note 14, in line with IFRS requirements the subsidiaries have made a decision to account for impairment losses in the total amount of LVL 42 387 thousand related to SIA LatRosTrans crude oil pipeline in Ventspils direction and SIA Ventspils nafta terminals technological non-current assets.

Ernst & Young Baltic SIA
License Nr. 17

Diana Krišjāne
Personal ID code: 250873-12964
Chairman of the Board
Latvian Sworn Auditor
Certificate Nr. 124

Riga,
19 May 2006

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Council of AS Ventspils nafta

| | |
|---------------------------------|--|
| Chairman of the Council: | Mamerts Vaivads |
| Deputy Chairmen of the Council: | Vladimirs Solomatins Vladimirs Krastiņš Romāns Mežeckis |
| Members of the Council: | Jānis Blaževičs Uldis Pumpurs Ivars Pāže Aivars Tiesnesis Kārlis Boldiševics Mārtiņš Jansons Dans Titavs |

The changes in the Council during the period from 1 January 2005 to 19 May 2006 were as follows:

| Elected | Dismissed | Name | Position held |
|------------|------------|--------------------|-----------------------|
| 01/07/2005 | | Kārlis Boldiševics | Member of the Council |
| | 01/07/2005 | Eižens Cepurnieks | Member of the Council |
| | 01/07/2005 | Ansis Sormulis | Member of the Council |
| | 01/07/2005 | Voldemārs Strīķis | Member of the Council |
| 01/07/2005 | | Aivars Tiesnesis | Member of the Council |
| 01/07/2005 | | Dans Titavs | Member of the Council |

Board of AS Ventspils nafta

| | |
|---------------------------|--|
| Chairperson of the Board: | Olga Pētersone |
| Members of the Board: | Aldis Āķis Ilva Purēna Guntis Tīrmanis |

The changes in the Board during the period from 1 January 2005 to 19 May 2006 were as follows:

| Elected | Dismissed | Name | Position held |
|------------|-----------|------------|---------------------|
| 15/08/2005 | | Aldis Āķis | Member of the Board |

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 LVL 104 479 519 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 LVL 1,70 to LVL 2,73; the average share price reached LVL 2,07, which is by 57 santims more than in 2004, when the average price of AS Ventspils nafta shares constituted LVL 1,50. The total of 1 068 000 shares was traded during 2005 on Riga Stock Exchange, thus reaching the annual turnover of LVL 2 213 000. The market capitalization of AS Ventspils nafta shares as at the end of 2005 was LVL 282,1 million, with the average market capitalization having increased from LVL 156,4 million in 2004 to LVL 216,5 million in 2005, which is more by LVL 60,1 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 LVL 87 million, thus exceeding the result of 2004 by LVL 31 million, and the gross profit of AS Ventspils nafta Group has more than doubled in the reporting period, having increased from LVL 4,4 million in 2004 to LVL 9,2 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 LVL 21,8 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 LVL 8 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 LVL 21,5 million, which is by LVL 2,3 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 LVL 14,3 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 LVL 2,9 million, which is by LVL 0,2 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 LVL 1,2 million in 2004 to LVL 0,9 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

| | Note | 2005 LVL thousand | 2004 restated LVL thousand | 2004 reported LVL thousand |
|---|------|----------------------|----------------------------------|----------------------------------|
| Net sales | 4 | 87 327 | 55 947 | 55 947 |
| Cost of sales | 5 | (78 122) | (51 500) | (51 500) |
| Gross profit | | 9 205 | 4 447 | 4 447 |
| Sales and distribution expense | | (1 712) | (1 486) | (1 486) |
| General and administrative expense | 6 | (6 540) | (6 036) | (6 036) |
| Other operating income | 7 | 14 587 | 17 016 | 12 420 |
| Other operating expense | 8,14 | (45 105) | (5 130) | (5 130) |
| Result from operating activities | | (29 565) | 8 811 | 4 215 |
| Gain in associated entities, net | 17 | 7 627 | 12 821 | 12 821 |
| Financial income/ (expense), net | 10 | 188 | (431) | (431) |
| Result before taxes | | (21 750) | 21 201 | 16 605 |
| Corporate income tax | 11 | (2 316) | 636 | 1 324 |
| Net result | | (24 066) | 21 837 | 17 929 |
| including: | | | | |
| Minority interest | | 2 341 | 1 284 | 1 284 |
| Net result for the year, attributable to Parent company's shareholders | | (21 725) | 23 121 | 19 213 |
| Earnings per share | | | | |
| in lats per share | 24 | (0,21) | 0,22 | 0,18 |
| Diluted earnings per share | | | | |
| in lats per share | | (0,21) | 0,22 | 0,18 |

The accompanying notes form an integral part of these financial statements.

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

| NON CURRENT ASSETS | Note | 31/12/2005 LVL thousand | 31/12/2004 restated LVL thousand | 31/12/2004 reported LVL thousand |
|---|-------|----------------------------|--|--|
| Intangible assets | 12 | 30 161 | (11 858) | (11 858) |
| Property, plant and equipment | | | | |
| Land, buildings and networks | 12,13 | 83 104 | 116 937 | 117 039 |
| Machinery and equipment | 13 | 50 878 | 43 944 | 43 944 |
| Other property, plant and equipment | 13 | 4 847 | 6 117 | 6 117 |
| Construction in progress | 13,15 | 7 885 | 15 009 | 15 009 |
| Prepayments for property, plant and equipment | | 3 938 | 2 478 | 2 478 |
| TOTAL | | 150 652 | 184 485 | 184 587 |
| Investment properties | 16 | 26 609 | 13 920 | 2 580 |
| Investments | | | | |
| Investments in associated entities | 17 | 113 888 | 92 437 | 92 437 |
| Other long-term loans | 18 | 1 092 | 1 124 | 1 124 |
| TOTAL | | 114 980 | 93 561 | 93 561 |
| TOTAL NON CURRENT ASSETS | | 322 402 | 280 108 | 268 870 |
| CURRENT ASSETS | | | | |
| Inventories | 19 | 8 234 | 10 003 | 10 003 |
| Current portion of long-term loan | 18 | 42 | 42 | 42 |
| Short-term loans to related parties | | - | 2 350 | 2 350 |
| Trade accounts receivable | 20 | 7 813 | 6 306 | 6 306 |
| Corporate income tax receivable | | 265 | 19 | 19 |
| Other accounts receivable | 21 | 1 409 | 3 684 | 3 684 |
| Prepaid expense | 22 | 621 | 739 | 739 |
| Accrued income | | 694 | 494 | 494 |
| Other financial assets | | 51 | 58 | 58 |
| Cash and cash equivalents | 23 | 16 080 | 7 361 | 7 361 |
| TOTAL CURRENT ASSETS | | 35 209 | 31 056 | 31 056 |
| TOTAL ASSETS | | 357 611 | 311 164 | 299 926 |

The accompanying notes from an integral part of these financial statements.

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

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | 31/12/2005 | 31/12/2004 | 31/12/2004 |
|---|-----------------------------------|----------------|----------------|----------------|
| | | | restated | reported |
| SHAREHOLDERS' EQUITY | Note | LVL thousand | LVL thousand | LVL thousand |
| Share capital | 24 | 104 479 | 104 479 | 104 479 |
| Share premium | | 42 343 | 42 343 | 42 343 |
| Legal reserves | | 715 | - | - |
| Foreign currency translation reserve | | 4 732 | (9 077) | (9 077) |
| Restricted reserves | | - | - | 11 866 |
| Other reserves | | 150 665 | 88 635 | 71 123 |
| Current year unappropriated result | | (21 725) | 23 121 | 19 213 |
| | TOTAL | 281 209 | 249 501 | 239 947 |
| Minority Interest | | 41 948 | 44 013 | 44 013 |
| | TOTAL SHAREHOLDERS' EQUITY | 323 157 | 293 514 | 283 960 |
| LIABILITIES | | | | |
| Long-term liabilities | | | | |
| Deferred corporate income tax | 11 | 14 855 | 3 936 | 2 252 |
| Long-term portion of financial lease liability | 26 | 1 537 | 941 | 941 |
| Long-term loan from credit institution | 25 | 6 375 | - | - |
| | TOTAL | 22 767 | 4 877 | 3 193 |
| Current liabilities | | | | |
| Short-term portion of long-term loan | 25 | 2 183 | 4 608 | 4 608 |
| Financial lease liabilities | 26 | 995 | 754 | 754 |
| Advances from customers | | 375 | 48 | 48 |
| Trade accounts payable | | 4 921 | 4 322 | 4 322 |
| Taxes payable | 27 | 448 | 550 | 550 |
| Other liabilities | 28 | 569 | 563 | 563 |
| Accrued liabilities | 29 | 1 922 | 1 477 | 1 477 |
| Deferred income | | 274 | 451 | 451 |
| | TOTAL | 11 687 | 12 773 | 12 773 |
| | TOTAL LIABILITIES | 34 454 | 17 650 | 15 966 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 357 611 | 311 164 | 299 926 |

The accompanying notes form an integral part of these financial statements.

On behalf of the Council:

On behalf of the Board:

 Mamerts Vaivads
 Chairman of the Council

 Olga Pētersone
 Chairperson of the Board

Consolidated Statement of Cash Flows

| | 2005 | 2004 | 2004 |
|---|-----------------|--------------------------|--------------------------|
| | LVL thousand | restated LVL thousand | reported LVL thousand |
| Cash flow from/ (to) operating activities | | | |
| Result before taxes | (21 750) | 21 201 | 16 605 |
| Adjustments | | | |
| Gain in associated entities, net | (7 641) | (12 821) | (12 821) |
| Decrease in provisions | - | (80) | (80) |
| Negative goodwill | - | (5 358) | (5 358) |
| Amortisation and depreciatoin | 12 155 | 12 822 | 12 822 |
| Impairment loss | 42 387 | - | - |
| Interest income | (310) | (307) | (307) |
| Interest expense | 435 | 238 | 238 |
| (Gain)/ loss on disposals of tangible assets | (370) | (186) | (186) |
| Gain from revaluation of investment properties | (12 689) | (4 596) | - |
| Cash flow effect of the title change for technological reserves of crude oil and oil products | - | (2 554) | (2 554) |
| Operating profit before changes in current assets and liabilities | 12 217 | 8 359 | 8 359 |
| Decrease in inventory | 1 769 | 2 577 | 2 577 |
| (Increase)/ decrease in trade accounts receivable | (1 507) | 271 | 271 |
| (Increase)/ decrease in other accounts receivable | 2 203 | 303 | 303 |
| Increase in current liabilities | 1 396 | 501 | 501 |
| Net cash from/ (to) operating activities before taxes paid | 16 078 | 12 011 | 12 011 |
| Taxes paid | (250) | (295) | (295) |
| Net cash from/ (to) operating activities | 15 828 | 11 716 | 11 716 |
| Cash flow from/ (to) investment activities | | | |
| Purchase of fixed assets | (15 036) | (18 218) | (18 218) |
| Proceeds from sale of fixed assets | 905 | 460 | 460 |
| Interest received | 310 | 307 | 307 |
| Received repayment of short-term loan | 2 382 | 3 497 | 3 497 |
| Net cash flow from/ (to) investment activities | (11 439) | (13 954) | (13 954) |
| Cash flow from/ (to) financing activities | | | |
| Increase/ (decrease) in own shares | - | 90 | 90 |
| Borrowings (paid) | (5 362) | (1 890) | (1 890) |
| Borrowings received | 10 127 | 3 307 | 3 307 |
| Interest payments | (435) | (238) | (238) |
| Net cash from/ (to) investment activities | 4 330 | 1 269 | 1 269 |
| Net increase/ (decrease) in cash | 8 719 | (969) | (969) |
| Cash at the beginning of the year | 7 361 | 8 330 | 8 330 |
| Cash at the end of the year | 16 080 | 7 361 | 7 361 |

The accompanying notes from an integral part of these financial statements.

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 * | 104 479 | 42 343 | - | - | 11 210 | 81 221 | (9 442) | 229 811 | 45 318 | 275 129 |
| Impact of change of accounting policy for investment properties (Note 2) | - | - | - | - | - | 5 646 | - | 5 646 | - | 5 646 |
| Adjustment of reserves due to change in accounting policy** | - | - | - | - | (11 210) | 11 210 | - | - | - | - |
| Balance as of 31 December 2003, restated | 104 479 | 42 343 | - | - | - | 98 077 | (9 442) | 235 457 | 45 318 | 280 775 |
| Transfer of 2003 net result | - | - | - | - | - | (9 442) | 9 442 | - | - | - |
| Foreign currency translation | - | - | (9 077) | - | - | - | - | (9 077) | (21) | (9 098) |
| Current year result, restated | - | - | - | - | - | - | 23 121 | 23 121 | (1 284) | 21 837 |
| Balance as of 31 December 2004, restated | 104 479 | 42 343 | (9 077) | - | - | 88 635 | 23 121 | 249 501 | 44 013 | 293 514 |
| Transfer of 2004 net result | - | - | - | - | - | 23 121 | (23 121) | - | - | - |
| Transfer of legal reserves*** | - | - | - | 715 | - | (715) | - | - | - | - |
| Derecognition of negative goodwill (Note 2) | - | - | - | - | - | 48 227 | - | 48 227 | - | 48 227 |
| Foreign currency translation | - | - | 13 809 | - | - | - | - | 13 809 | 276 | 14 085 |
| Effect of deferred tax arising from derecognition of negative goodwill | - | - | - | - | - | (8 603) | - | (8 603) | - | (8 603) |
| Current year result | - | - | - | - | - | - | (21 725) | (21 725) | (2 341) | (24 066) |
| Balance as of 31 December 2005 | 104 479 | 42 343 | 4 732 | 715 | - | 150 665 | (21 725) | 281 209 | 41 948 | 323 157 |

* 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*.

Notes to the financial statements

1. Corporate information

AS Ventspils nafta (hereinafter also – the Company or the Parent company) is a public joint stock company organized under the laws of the Republic of Latvia. The Parent Company was first registered in the Enterprise Register on 9 May 1991, and then re-registered in the Commercial Register on 5 August 2004 (under the number 50003003091). Since 20 October 1998 AS Ventspils nafta is listed on the Riga Stock Exchange main list. Since 22 January 2004 legal address of the Parent company is Ostas street 23, LV-3601, Ventspils, Republic of Latvia.

AS Ventspils nafta is a holding company dealing mainly with investment management in AS Ventspils nafta Group companies and transactions with own crude oil and oil products. Previously AS Ventspils nafta was involved in reloading of crude oil and oil products, however, as a result of AS Ventspils nafta Group restructuring in 2003 all reloading activities were transferred to the daughter company SIA Ventspils nafta termināls. Initially, the Parent company's assets used in reloading transactions were partly invested in, partly sold to and partly rented to SIA Ventspils nafta termināls. During 2004 the restructuring process was completed with AS Ventspils nafta selling all non-current assets previously used in reloading activities to SIA Ventspils nafta termināls. However, AS Ventspils nafta still holds the stock of crude oil and oil products necessary for technological needs of SIA Ventspils nafta termināls.

AS Ventspils nafta Group consisting of AS Ventspils nafta and its subsidiaries (hereinafter also – the Group) is a multi-industrial holding. The following table summarizes ownership of the Group in subsidiaries:

| Ownership (%) | 31/12/2005 | 31/12/2004 | Legal address |
|---|------------|------------|--|
| <u>Subsidiaries</u> | | | |
| SIA LatRosTrans | 66.00 | 66.00 | Balvu street 7, LV-5043, Daugavpils, Latvia |
| AS Preses nams | 92.99 | 92.92 | Balasta dambis 3, LV-1081, Riga, Latvia |
| SIA Rīgas līcis VN | 100.00 | 100.00 | Dubultu prospekts 51, LV-2015, Jurmala, Latvia |
| SIA Nekustamie ģīpašumi VN ^{a)} | 100.00 | 100.00 | Balasta dambis 3, LV-1081, Riga, Latvia |
| SIA Mediju nams ^{b)} | 99.31 | 99.31 | Balasta dambis 3, LV-1081, Riga, Latvia |
| BSIA Ventspils nafta termināls | 100.00 | 100.00 | Talsu street 75, LV-3602, Ventspils, Latvia |
| <u>Subsidiaries of SIA Nekustamie ģīpašumi VN</u> | | | |
| SIA Darījumu centrs Daugava | 100.00 | 100.00 | Balasta dambis 3, LV-1081, Riga, Latvia |
| SIA Ventspils biznesa centrs | 100.00 | 100.00 | Balasta dambis 3, LV-1081, Riga, Latvia |
| SIA Namserviss VN | 100.00 | 100.00 | Balasta dambis 3, LV-1081, Riga, Latvia |
| Liquidated SIA Maikapara nams | - | 100.00 | Balasta dambis 3, LV-1081, Riga, Latvia |
| SIA Lejastiezumi | 100.00 | 100.00 | Balasta dambis 3, LV-1081, Riga, Latvia |
| SIA Pārventas sporta centrs | 100.00 | 100.00 | Balasta dambis 3, LV-1081, Riga, Latvia |

a) SIA Nekustamie ģīpašumi VN is a parent company controlling six 100% owned subsidiaries. SIA Nekustamie ģīpašumi VN has prepared consolidated annual report, which was further incorporated in the Group's consolidated accounts.

b) As of 31 December 2005, AS Ventspils nafta has a 90.21% shareholding of SIA Mediju nams. At the same time, AS Preses nams owns 9.79% of the share capital of SIA Mediju nams. As such, the Group's ownership share is 99.31%.

1. Corporate information (cont'd)

The main activities carried out by the subsidiaries are as follows:

- SIA LatRosTrans – transporting crude oil and oil products via pipelines;
- SIA Ventspils nafta termināls – reloading and storage of crude oil and oil products;
- AS Preses nams – providing printing services;
- SIA Mediju nams – publishing;
- SIA Nekustamie īpašumi VN – a real estate holding company;
- SIA Darījumu centrs Daugava – a real estate development company;
- SIA Namserviss VN – a real estate management company;
- SIA Ventspils biznesa centrs – a real estate development company;
- Liquidated SIA Maikapara nams – real estate management;
- SIA Lejastiezumi – a real estate development company;
- SIA Pārventas sporta centrs – a real estate development company;
- SIA Rīgas Līcis VN – a real estate development company.

In addition, the Parent company holds 49.94% stake in associated public company Latvian Shipping Company (AS Latvijas kuģniecība), the main activity of which is marine shipping business.

The consolidated financial statements of the Group were authorized for issue in accordance with resolution of the Board of Directors on 24 April 2006 and resolution of the Council on 19 May 2006. The Group's shareholders have the power to amend the financial statements after issue.

2. Significant accounting policies

The following is a summary of significant accounting policies followed in the preparation of Group's financial statements.

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements are prepared on a historical cost basis, except for investment properties that have been measured at fair value.

Reporting currency and units of measurement

The accompanying financial statements are presented in thousands of lats (LVL 000's), unless otherwise stated. Lat (LVL) is the monetary unit of the Republic of Latvia.

Basis of consolidation

The consolidated financial statements comprise the financial statements of AS Ventspils nafta and its subsidiaries SIA Ventspils nafta termināls, SIA LatRosTrans, AS Preses nams, SIA Mediju nams, SIA Rīgas Līcis VN and SIA Nekustamie īpašumi VN, the later of which includes SIA Namserviss VN, SIA Maikapara Nams (liquidated during 2005), SIA Ventspils biznesa centrs, SIA Lejastiezumi, SIA Pārventas sporta centrs and SIA Darījumu centrs Daugava. The financial statements of subsidiaries are prepared for the same reporting year as the Parent company, using consistent accounting policies.

The consolidated financial statements include 100 percent of the assets, liabilities, revenues, expenses, income, loss and cash flows of AS Ventspils nafta and companies in which AS Ventspils nafta has a controlling interest (subsidiaries), as if AS Ventspils nafta and its subsidiaries were a single company. For the purposes of consolidation, unrealized internal profit, inter-group balances, internal shareholdings, internal dividends and other significant internal transactions are eliminated in the Group's financial statements. Minority interest is calculated for entities fully consolidated but not wholly owned. The components of net income and equity attributable to the minority shareholders are presented in the minority interest line items included in the Group's consolidated income statement and Group's consolidated balance sheet.

2. Significant accounting policies (cont'd)

Investments in associated entities

Investments in associates (i.e. where the Group has significant influence, but less than a controlling interest, which is presumed to exist with 20 to 50% interest of the share capital of the entity) are stated in accordance with the equity method, so that the Group includes its proportionate post-acquisition share of the results of operations of such entities in its statements of income. Further, the investment in associates is adjusted for Group's proportionate share of post-acquisition movements in the associated company's equity by a charge to the Group's equity. As a result, the recorded value of the investment corresponds to the Group's proportionate share of the equity of the associated companies.

Other investments

Investments in non-public companies in which the Group does not have a controlling interest, or an ownership and voting interest sufficiently large to exert significant influence, are initially measured at cost, which is subsequently adjusted for impairment upon permanent increase or reduction of their fair value. The changes of fair value are included in the respective income statement caption.

Changes in accounting policies

Adoption of IFRSs during the year

In 2005 the Group adopted those IFRS standards that were amended in 2004 and are mandatory for financial years beginning on or after 1 January 2005. The adoption of those standards did not result in substantial changes to the Group's accounting policies, except for:

- IFRS 3 and IAS 38 had affected the treatment of negative goodwill,
- IAS 27 and IAS 28 had changed the measurement of investments in subsidiaries and associates in the Parent company,

The principal effects of this decision are discussed below.

In 2005 the Company adopted the new IFRS 3 *Business Combinations*, and revised IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*. IFRS 3 applies to the accounting for business combinations for which the agreement date is on or after 31 March 2004. Those revised standards are required to be applied from the date from which IFRS 3 is first applied.

The adoption of IFRS 3 and related IAS 36 (revised 2004) and IAS 38 (revised 2004) has resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill had been:

- Amortized on a straight-line basis over a 25 year period; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of IFRS 3:

- The Company ceased amortization of goodwill from 1 January 2005;
- Accumulated amortization as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

The carrying amount of negative goodwill in amount of LVL 48 227 thousand has been derecognized on 1 January 2005 to the opening balance of retained earnings.

IAS 40 Investment property

Until 31 December 2004, investment properties of the Group were stated at cost less accumulated depreciation. In order to eliminate the differences between carrying amounts and fair values of investment properties, from 1 January 2004 onwards, investment properties are stated at fair value. Fair values of investment properties for the previous periods have been adjusted to the opening balance of retained earnings.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2. Significant accounting policies (cont'd)**Changes in estimates**

As of 1 January 2005, the Group has changed the basis for calculating depreciation to comply with requirements of component accounting as set in International Accounting Standard 16 Property, Plant and Equipment. During 2005 the Group reassessed the useful life of tangible assets for each individually significant part of these assets.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty for subsidiaries Ventspils Nafta Terminals and LatRosTrans at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of asset and liabilities are discussed below.

Useful lives of non-current assets

The subsidiaries Ventspils nafta terminals and LatRosTrans review the useful lives of its non-current assets at least on an annual basis. The assessment of useful lives for some the assets of Ventspils nafta terminals requires a detailed study of asset's technical condition including comprehensive technological methods as well as management judgment. The last time involving change of useful lives occurred in 2004 when there has been a change of the useful lives of the tanks and technological equipment based on the evaluation performed by independent valuers from AS *Izstrādājumu bīstamības novērtēšanas aģentūra* involving analysis of technical condition of the respective assets. As a result, the useful lives of the assets were extended, and depreciation charge in 2004 decreased by LVL 507 thousand and LVL 1 777 thousand (correspondingly Ventspils nafta terminals and LatRosTrans) if compared to depreciation charge calculated using previously established useful lives.

Further, according to evaluation performed by AS *Izstrādājumu bīstamības novērtēšanas aģentūra*, dated 2 May 2005, the technological equipment of subsidiary LatRosTrans is considered separate units not integrated with the main pipeline. Taking into account constant repairs of the main pipelines resulting in extension of their useful lives, the LatRosTrans' management believes that there is no need for adjusting depreciating charge should the remaining useful life of a particular technological equipment extend the remaining useful life of the main pipeline it is attached to.

Impairment of non-current assets

The subsidiaries SIA Ventspils nafta terminals and SIA LatRosTrans determine whether non-current assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details are given in Note 14.

Foreign currency transactions

The functional and presentation currency of the Company is Latvian lats (LVL), except for the associate entity AS Latvijas kuģniecība, the functional currency of which is United States Dollar (USD).

A significant part of the Parent company's and the Group's revenues are denominated in USD.

Transactions in foreign currency are initially recorded in the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the income statement accounts. The translation of the investment in AS Latvijas kuģniecība from the applicable functional currency into the Group's reporting currency is performed for balance sheet accounts using exchange rate in effect at the balance sheet date, and for income statement accounts using average rate of exchange prevailing during the year. The resulting translation adjustments are excluded from the determination of net gain on investments and are accumulated as foreign currency translation reserve until the entity is sold or substantially liquidated.

| | 31/12/2005 | 31/12/2004 | 31/12/2003 |
|---------|------------|------------|------------|
| USD/LVL | 0.593000 | 0.516000 | 0.541000 |
| GBP/LVL | 1.021000 | 0.996000 | 0.960000 |
| EUR/LVL | 0.702804 | 0.703000 | 0.674000 |
| SEK/LVL | 0.074700 | 0.078200 | 0.074000 |

2. Significant accounting policies (cont'd)

Intangible assets

Intangible non-current assets are stated at cost and amortized over their estimated useful lives on a straight-line basis. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Losses from impairment are recognized where the carrying value of intangible non-current assets exceeds their recoverable amount.

Intangible assets consist of land use rights, goodwill, and other intangible assets related to the business of the Parent company and its subsidiaries.

Land use rights are stated at contributed value as agreed by the subsidiary's SIA LatRosTrans founders less accumulated amortization. The estimated period of useful life is 47 years.

Other intangible assets are stated at cost value and amortized over their useful life using the straight-line method. Amortization rates for those intangible fixed assets vary between 10% and 35% per annum.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

| | |
|-------------------------------------|----------------------|
| Buildings | - over 5 to 87 years |
| Machinery and equipment | - over 2 to 20 years |
| Other property, plant and equipment | - over 2 to 10 years |

Depreciation is calculated starting with the following month after the tangible non-current asset is put into operation or engaged in commercial activity. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Group depreciates separately some parts of plant, property and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset's fair value less cost to sell and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement as other operating expense.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

Expenses related to leasehold improvements are capitalized as tangible non-current assets and depreciated over the lease period on a straight-line basis.

Construction in progress represents tangible non-current assets under construction and is stated at historical cost. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Subsidiary's SIA LatRosTrans property, plant and equipment are stated at contributed values as agreed by the subsidiary's founders in 1995, and subsequent additions are stated at cost. The useful lives and residual values of an asset are reviewed at least at each financial year end.

2. Significant accounting policies (cont'd)

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use the estimated future cash flows are discounted to their present value. Impairment losses are recognized in the income statement as other operating expense.

Investment properties

Investment properties consist of investments in land and buildings that are held to earn rentals or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Investment properties are derecognized when either they have been disposed of or when an investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

All investment property is measured at fair value at the balance sheet date, with gains and losses arising from changes in the fair value recognized in the income statement, as part of operating profit. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms' length transaction.

Borrowing costs

Borrowing costs are recognized as an expense when incurred in accordance with the benchmark accounting treatment under International Accounting Standard 23.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, by respective charge to current and non-current liabilities. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term on a straight-line basis.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. The commitments undertaken by the Group with respect to operating lease contracts are recorded as off-balance sheet liabilities.

2. Significant accounting policies (cont'd)

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Crude oil and oil products

Crude oil and oil products held for technological needs are stated at purchase cost on a weighed average cost basis.

Materials

The cost of materials and supplies in the Parent company and in the subsidiaries are determined using the weighed average cost method. These materials are recorded as inventory when purchased and then expensed or capitalized to long-term assets, as appropriate, when installed. The Group writes off unrealizable inventory and records allowance for obsolete inventory as such items are identified.

Unfinished inventory

Unfinished goods are stated at direct cost with addition of indirect costs related to production, including raw materials and remuneration for work.

Finished inventory

Finished goods are stated at direct cost with addition of indirect costs related to production. Indirect production costs consist of labor, energy, depreciation and other production costs.

Finished goods are stated at the lower of cost or net realizable value. Provisions for slow moving items are established on the basis of individual evaluation of each inventory item.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Trade and other receivables

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when recovery is deemed impossible.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

Loans and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. All loans and borrowings are recognized at fair value of the consideration received less directly attributable transaction costs.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

2. Significant accounting policies (cont'd)

Accruals and deferrals

Accruals and deferrals are recorded to recognize revenues and costs as they are earned or incurred.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Rendering of services

The principal services rendered by the Group comprise pipeline transportation of crude oil and oil products. Revenue is recognized by reference to the stage of completion. Revenue is recognized in the period when the services are provided.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the revenue can be reliably measured.

Interest

Revenue is recognized as the interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends

Revenue is recognized when the shareholders' right to receive the payment is established.

Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

Taxes

Current corporate income tax

In accordance with Latvian tax legislation current corporate income tax is applied at the rate of 15% on taxable income generated by the Parent company and its subsidiaries during the taxation period ending 31 December 2005

Deferred corporate income tax

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary differences arise from differing rates of accounting and tax depreciation on the Group's property, plant and equipment, as well as the treatment of temporary non-taxable allowances and reserves and tax losses carried forward for the subsequent five years. Deferred corporate income tax assets are recognized only when their recoverability is certain.

VAT proportion

A part of revenues of the subsidiary AS Preses nams are exempted from VAT (newspaper sales). As a result, the subsidiary's purchase VAT is recoverable proportionally to the sales subject to VAT.

Large investment tax rebate

Pursuant to the decision of the Latvian Cabinet of Ministers, the subsidiary SIA LatRosTrans was granted a large investment tax rebate, and current corporate income tax is applied at the rate of 25% on taxable income generated by the subsidiary during the taxation period. 25% corporate income tax rate (instead of nominal rate 15%) will be applicable during the SIA LatRosTrans eligibility period for tax rebate.

2. Significant accounting policies (cont'd)

Taxes (cont'd)

Ventspils Free Port

On 19 December 1996, the Parliament (*Saeima*) adopted the Law on Ventspils Free Port, effective from 1 January 1997. This Law provides for exemption from direct and indirect taxes for the companies operating within the territory of Ventspils Free Port. The subsidiary SIA Ventspils nafta termināls is operating in the territory of Ventspils Free Port, having obtained all the required permits.

According to the Law on the Application of Taxes in Free Ports and Special Economic Zones, effective from 1 January 2002, subsidiary SIA Ventspils nafta termināls has the right to receive 80% tax rebate on real estate tax and corporate income tax. The total amount of tax rebates can not exceed 50% from the amount of investments made in the Ventspils Freeport, made according to the special agreement between the subsidiary and Ventspils Freeport Authority.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Related parties

Related parties are defined as subsidiaries and associated entities of the Parent company as well as shareholders that may exercise control or significant influence over the Parent company's operations, Council and Board members, their close members of the families and entities over which these persons exercise significant influence or control.

Earnings per share

Earnings per share are calculated by dividing the net result after taxation for the year by the average number of shares in issue during the year. The average number of the shares in issue during the year has been weighted to take into account the timing of the issue of new shares.

Adoption of IFRSs during the year

The Group has adopted the following revised standards during the year. Adoption of revised standards does not have any effect on equity as at 1 January 2004.

- IAS 1 Presentation of Financial Statements;
- IAS 2 Inventories;
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- IAS 10 Events after the Balance Sheet Date;
- IAS 16 Property, Plant and Equipment;
- IAS 24 Related Party Disclosures;
- IAS 27 Consolidated and Separate Financial Statements;
- IAS 28 Investments in Associates;
- IAS 33 Earnings per Share;

The Group has not applied the following IFRSs and IFRIC Interpretations relevant for the Group that have been issued but are not yet effective:

- IFRS 7 Financial Investments: Disclosures (effective 1 January 2007)
- IFRIC 4 Determining whether an Arrangement contains a Lease (effective from 1 January 2006);
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006);
- Amendments to the Basis for Conclusions of IFRS 7 - Financial Instruments: Disclosures (effective from 27 January 2006);
- Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 27 January 2006);
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantee Contracts (effective from 27 January 2006);

2. Significant accounting policies (cont'd)

- Amendment to IAS 39: Fair value option (effective 1 January 2006);
- Amendment to IAS 39: Cash Flow Hedge Accounting (effective 1 January 2006);
- And amendment to IAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective 1 January 2006);
- IFRIC Interpretation 9 Reassessment of Embedded Derivatives (effective from 1 June 2006).

The Group believes that none of these amendments will have a material impact on the financial statements of the Group.

Subsequent events

Post-year-end events that provide additional information about the Groups position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Segment information

The Group has presented the information by each separate business segment.

The below table presents the breakdown of income statement item, as well as assets and liabilities by business segments:

| | Crude oil and oil products | | Publishing and printing | | Real estate management | | Shipping | | Other | | Consolidated | |
|---------------------------------------|----------------------------|--------------|-------------------------|------------|------------------------|---------------|--------------|---------------|----------------|----------------|-----------------|----------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 restated | 2005 | 2004 restated | 2005 | 2004 restated | 2005 | 2004 restated |
| Net sales | 63 728 | 34 309 | 23 057 | 20 738 | 542 | 900 | - | - | - | - | 87 327 | 55 947 |
| Cost of sales | (55 889) | (31 752) | (21 503) | (18 173) | (730) | (1 575) | - | - | - | - | (78 122) | (51 500) |
| Sales and distribution expense | - | - | (1 712) | (1 486) | - | - | - | - | - | - | (1 712) | (1 486) |
| General and administrative expense | (3 471) | (3 499) | (845) | (847) | (281) | (221) | - | - | (1 943) | (1 469) | (6 540) | (6 036) |
| Other operating income/ (expense) | (43 601) ^{a)} | 4 325 | 499 | 84 | 12 457 | 4 598 | - | 5 358 | 127 | (2 479) | (30 518) | 11 886 |
| Segment result | (39 233) | 3 383 | (504) | 316 | 11 988 | 3 702 | - | 5 358 | (1 816) | (3 948) | (29 565) | 8 811 |
| Gain in associates | - | - | - | - | - | - | 7 730 | 12 846 | (89) | (25) | 7 627 | 12 821 |
| Financial expense, net | - | - | - | - | - | - | - | - | - | - | 188 | (431) |
| Corporate income tax | - | - | - | - | - | - | - | - | - | - | (2 316) | 636 |
| Minority interest | - | - | - | - | - | - | - | - | - | - | 2 341 | 1 284 |
| Net result | (39 233) | 3 383 | (504) | 316 | 11 988 | 3 702 | 8 718 | 18 204 | (1 823) | (3 973) | (21 725) | 23 121 |
| Segment assets | 180 274 | 220 064 | 19 727 | 16 933 | 31 170 | 26 608 | 100 030 | 44 073 | 24 360 | 1 101 | 355 561 | 308 779 |
| Unallocated assets | - | - | - | - | - | - | - | - | - | - | 2 050 | 2 385 |
| Total consolidated assets | - | - | - | - | - | - | - | - | - | - | 357 611 | 311 164 |
| Segment liabilities | 3 698 | 4 082 | 2 861 | 2 778 | 191 | 194 | - | - | 198 | 357 | 6 948 | 7 411 |
| Unallocated segment liabilities | - | - | - | - | - | - | - | - | - | - | 27 506 | 10 239 |
| Total consolidated liabilities | - | - | - | - | - | - | - | - | - | - | 34 454 | 17 650 |
| Capital expenditure | 9 356 | 18 900 | 4 177 | 1 498 | 9 | 26 | - | - | 22 | 78 | 13 564 | 20 502 |
| Amortization and depreciation | 9 578 | 10 291 | 1 914 | 1 882 | 369 | 556 | - | - | 294 | 62 | 12 155 | 12 791 |

a) Including LVL 42 387 thousands impairment losses. See also Note 8 and Note 14.

3. Segment information (cont'd)

The management considers that the preparation of business segment cash flow is not practical.

Since all the operations as well as all the material assets of the group are located in Latvia the management considers irrelevant to prepare the secondary segment reporting format according to geographical locations.

The descriptions of the segments:

Crude oil and oil products:

The revenues in crude oil and oil product business segment mainly come from the transporting, storage and reloading of oil and oil products in Latvia.

Publishing and printing:

The revenues in this business segment make charge for printing service to Latvian residents and non-residents, as well as, income from newspaper publishing and advertising services related to it.

Real estate management:

Collected rent charges and other income related to real estate management make the revenues in this business segment.

Shipping:

The business represents investment in cargo shipping business.

4. Net sales

| | 2005 | 2004 |
|--|---------------|---------------|
| Railway services ^{a)} | 24 136 | - |
| Printing services | 17 899 | 17 795 |
| Reloading of crude oil and oil products | 17 353 | 15 998 |
| Transportation of crude oil | 9 497 | 6 428 |
| Transportation of oil products | 8 761 | 7 182 |
| Income from sale of crude oil and oil products | 3 981 | 4 701 |
| Newspaper sales | 1 910 | 1 759 |
| Sale of paper and materials | 1 896 | 60 |
| Rental income and real estate management | 916 | 607 |
| Advertisements | 415 | 454 |
| Income from sale of non-current assets | - | 450 |
| Other | 563 | 513 |
| TOTAL: | 87 327 | 55 947 |

a) Starting from 2005, the structure of crude oil and oil product transportation services provided by subsidiary SIA Ventspils nafta terminals has been changed. In the result of these changes, the subsidiary SIA Ventspils nafta terminals receives invoices for railway services provided, which are thereafter billed to the customers.

b) 45% of the net turnover comprises of sales to ks Ventspils ekspedicija logistika KS (2004: 18%). 12% % of the net turnover comprises of sales to SIA Ventspils ekspedicija (2004: 22%).

5. Cost of sales

| | 2005 | 2004 |
|--|---------------|---------------|
| Railway charges ^{a)} | 25 800 | 788 |
| Raw materials | 12 183 | 10 210 |
| Amortization and depreciation | 11 489 | 12 009 |
| Remuneration for work | 8 637 | 8 919 |
| Cost of sold oil and oil products | 2 627 | 3 777 |
| Materials and spare parts | 2 090 | 1 700 |
| Utilities | 2 014 | 1 976 |
| Social security contributions | 1 988 | 1 963 |
| Insurance expenses | 1 764 | 2 519 |
| Transit development | 1 450 | 1 092 |
| Environment protection expense | 1 124 | 830 |
| Security | 927 | 888 |
| Processing works | 796 | 465 |
| Utilization of piers | 758 | 743 |
| Pipeline maintenance expense | 730 | 247 |
| Land rent | 713 | 680 |
| Real estate tax | 588 | 540 |
| Treatment of technological waste water | 392 | 430 |
| Communication expense | 316 | 341 |
| Helicopter services | 264 | 249 |
| Provision for expense on environmental pollution elimination | 260 | - |
| Repair works done by other companies | 172 | 242 |
| Changes in inventory | (248) | (143) |
| Book value of non-current assets sold | - | 284 |
| Non-deductible VAT | - | 33 |
| Other | 1 288 | 718 |
| TOTAL: | 78 122 | 51 500 |

a) Include also railway services, which are thereafter billed to the customers by subsidiary SIA Ventspils nafta terminals.

6. General and administrative expense

| | 2005 | 2004 |
|--|--------------|--------------|
| Remuneration for work | 2 232 | 2 064 |
| Professional charges and legal costs | 1 242 | 1 287 |
| Amortization and depreciation | 569 | 392 |
| Social security contributions | 436 | 417 |
| Sports advertising expenses a) | 413 | 288 |
| Insurance | 180 | 175 |
| Bank charges | 168 | 73 |
| Accruals for bonuses | 139 | - |
| Advertising and marketing | 124 | 306 |
| Vehicle maintenance expense | 122 | 105 |
| Communications expense | 83 | 66 |
| Rent of premises | 81 | 126 |
| Representation expense | 72 | 107 |
| Social infrastructure expense | 64 | 59 |
| Conferences, seminars and training | 36 | 21 |
| Allowance for doubtful and bad debts | 20 | 114 |
| Other personnel expense | 10 | 12 |
| Business trips | 4 | 99 |
| Release of fair value adjustment for long-term advance | - | (229) |
| Other expense | 545 | 554 |
| TOTAL: | 6 540 | 6 036 |

a) Includes mainly payments by subsidiaries SIA Ventspils nafta terminals and SIA LatRosTrans to the sport's clubs for the total amount of LVL 410 thousand

7. Other operating income

| | 2005 | 2004 restated |
|---|---------------|------------------|
| Gain from revaluation of investment properties at fair value ^{a)} | 12 689 | 4 590 |
| Income from oil extracted from waste waters | 743 | 429 |
| Gain from sale of non-current assets | 370 | 20 |
| The effect of title change for technological reserves of crude oil and oil products | - | 5 535 |
| Granting of lease rights on premises | 170 | - |
| Penalties received | 137 | - |
| Co-operation bonus | 95 | - |
| Recovered VAT and excise tax penalty | 7 | 790 |
| Income from rent of fixed assets | 2 | 2 |
| Amortization of AS Latvijas kuģniecība negative goodwill | - | 5 358 |
| Other income | 374 | 292 |
| TOTAL: | 14 587 | 17 016 |

a) See also Note 2 on changes in accounting policy for investment properties.

8. Other operating expense

| | 2005 | 2004 |
|---|---------------|--------------|
| Impairment loss for land use rights and property, plant and equipment ^{a)} | 42 387 | - |
| Payments to local municipality ^{b)} | 850 | 850 |
| Oil product losses ^{c)} | 608 | 1 973 |
| Personnel expenses | 344 | 291 |
| Sponsorship | 147 | 384 |
| Real estate tax | 80 | 127 |
| Depreciation | 79 | 210 |
| Provision for expenses arising from oil product theft ^{d)} | 77 | 76 |
| Maintenance of transport vehicles | 47 | 68 |
| Penalties paid | 3 | 16 |
| VAT and excise tax according to the ruling of the court | - | 481 |
| Cost of converted Board and reserve shares | - | 300 |
| Amortization of goodwill | - | 143 |
| Disposal of investment | - | 24 |
| Other expenses | 483 | 187 |
| TOTAL: | 45 105 | 5 130 |

a) See also Note 14 (Impairment of non – current assets).

b) According to the agreement concluded between SIA Ventspils nafta termināls and Ventspils City Council, SIA Ventspils nafta termināls pays Ventspils City Council a fixed amount of LVL 700 thousand annually for transportation of crude oil and oil products through the Ventspils City territory plus a variable amount, which does not exceed 1% of the subsidiary's net turnover, for development of the Ventspils social infrastructure.

c) In 2005, the subsidiary SIA LatRosTrans incurred losses of oil products, which exceeded the rate for wastages agreed on with the clients (until 1 February 2004 – 0.15%, and from 1 February 2004 - 0.1% of total transported volume) by 6.1 thousand tons (2004: 19.5 thousand tons). According to the Council resolutions, dated 28 April 2005 and 23 March 2006, SIA LatRosTrans wrote off the above excessive physical losses of oil products for 2005 of 6.0 thousand tons amounting to LVL 608 thousand (for 2004: LVL 1 973 thousand) according to the average weighed cost of oil products (see also Note 19).

d) Based on the court ruling precedents (see Note 31 Contingent liabilities), the subsidiary's SIA LatRosTrans management estimated the potential taxes payable on physical losses due to thefts of oil products for 2005 amounting to 0.262 thousand tons and established provisions for excise tax and VAT in amount of LVL 43 thousand and LVL 34 thousand, respectively.

9. Personnel expenses

| | 2005 | 2004 |
|-----------------------------|-------|-------|
| Average number of employees | 2 121 | 2 357 |

Remuneration for work and social security expense

| | 2005 | 2004 |
|-------------------------------|--------|--------|
| Remuneration for work | 10 408 | 10 609 |
| Social security contributions | 2 394 | 2 351 |
| Other personnel expense | 129 | 105 |

Management and the Board of Directors

| | | |
|-------------------------------|-----|-----|
| Remuneration for work | 515 | 574 |
| Social security contributions | 59 | 79 |
| Other personnel expense | 9 | 17 |

Members of the Council

| | | |
|-------------------------------|-----|-----|
| Remuneration for work | 602 | 522 |
| Social security contributions | 115 | 119 |
| Other personnel expense | 11 | 4 |

TOTAL: 14 242 14 380

Personnel expense is included in the following captions of the balance sheet and statement of income:

| | 2005 | 2004 |
|-------------------------------------|---------------|---------------|
| Cost of sales | 10 660 | 10 915 |
| Selling expenses | 560 | 599 |
| General and administrative expenses | 2 678 | 2 494 |
| Other operating expenses | 344 | 372 |
| TOTAL: | 14 242 | 14 380 |

10. Financial income/ (expense), net

| | 2005 | 2004 |
|---|------------|--------------|
| Foreign currency exchange gain/ (loss), net | 306 | (562) |
| Interest income from bank account balances and deposits | 268 | 104 |
| Interest income on loans | 42 | 203 |
| Income from trading investments | 10 | 62 |
| Interest expense | (435) | (238) |
| Penalties paid | (10) | - |
| Other | 7 | - |
| TOTAL: | 188 | (431) |

11. Corporate income tax

| | 2005 | 2004 restated |
|---|--------------|------------------|
| <u>Current income tax</u> | | |
| Current income tax | (36) | 275 |
| <u>Deferred tax</u> | | |
| Relating to origination and reversal of temporary differences | 2 352 | 537 |
| Relating to change in income tax rates ^{a)} | - | (1 448) |
| Income tax reported in income statement | 2 316 | (636) |

a) In 2004, the subsidiary SIA Ventspils nafta termināls applied 5% corporate income tax rate (previously – 15 %) for the calculation of deferred tax liability based on the management's assumption that the subsidiary SIA Ventspils nafta termināls will benefit from 80% corporate income tax rebate applied to subsidiary's operating in accordance with the law of the Republic of Latvia On Tax Application in Free Ports and Special Economic Zones.

Deferred corporate income tax:

| <u>Deferred income tax liability</u> | 31/12/2005 | 31/12/2004 restated |
|--|------------------------|------------------------|
| Accelerated depreciation for tax purposes | (12 339) | (11 437) |
| Revaluation of AS Latvijas Kuģniecība investment | (9 763) | - |
| Decrease in deferred income tax due to changes in corporate income tax rate | - | 1 448 |
| Unrecorded release of deferred tax liability | - | (12) |
| Gross deferred tax liability | <u>(22 102)</u> | <u>(10 001)</u> |
| <u>Deferred income tax asset</u> | | |
| Differences between net carrying values of tangible assets for financial and corporate income tax purposes | 678 | - |
| Tax losses carried forward | 5 274 | 3 739 |
| Deferred tax assets related to other temporary differences | 46 | 101 |
| Tax rebate on investment projects above LVL 10 000 thousand ^{a)} | 4 166 | 4 166 |
| Less valuation allowance for tax asset | <u>(2 917)</u> | <u>(1 941)</u> |
| Gross deferred tax asset | <u>7 247</u> | <u>6 065</u> |
| Net deferred income tax liability | <u>(14 855)</u> | <u>(3 936)</u> |

a) According to the decision of the Cabinet of Ministers No. 613, dated 30 October 2002, subsidiary SIA LatRosTrans has been granted a tax rebate of 40% of the planned investment value or LVL 4 166 thousand to reduce corporate income tax for the purpose of supporting the investment projects amounting to LVL 10 415 thousand. The subsidiary SIA LatRosTrans can use the rebate against future taxable profit during 10 years, if it fulfils the above mentioned investment plan within the period 17 July 2000 through 31 December 2004. The above mentioned investment plan had been fulfilled by the end of the year 2003. Upon applying the above tax rebate, the subsidiary SIA LatRosTrans calculates the corporate income tax at 25%.

11. Corporate income tax (cont'd)

Group tax losses carried forward, mainly consisting of tax losses of subsidiary SIA LatRosTrans (to be utilized at a rate of 25%) expire as follows:

Tax loss carried forward may be utilised as follows:

| | Tax losses | Expiry year |
|--------------------|----------------------|-------------|
| Tax losses of 2002 | 1 242 | 2007 |
| Tax losses of 2003 | 8 895 | 2008 |
| Tax losses of 2004 | 4 746 | 2009 |
| Tax losses of 2005 | 5 173 | 2010 |
| TOTAL: | <u>20 056</u> | |

Actual corporate income tax charge for the reporting year, if compared with theoretical calculations:

| | 2005 | 2004 |
|---|---------------------|---------------------|
| Income before corporate income tax | (21 750) | 21 201 |
| Corporate income tax at 15% | (3 263) | 3 180 |
| Permanent differences | 2 105 | (2 299) |
| Change in valuation allowance for deferred tax asset | 975 | - |
| The effect of different tax rates within Group | 2 503 | - |
| Adjustment of deferred corporate income tax liability recorded in the reporting year | 33 | - |
| Corporate income tax asset recognized in the reporting year which had not been recognized in the previous years | (34) | - |
| Effect of corporate income tax rate change on the deferred corporate income tax charge | - | (1 448) |
| Other | (3) | (69) |
| Corporate income tax included in the income statement | <u>2 316</u> | <u>(636)</u> |

12. Intangible assets

| | Land use rights | Goodwill | Negative goodwill | Other intangible assets | Total |
|-------------------------------------|-----------------|--------------|-------------------|-------------------------|-----------------|
| Cost value as at 31/12/2003 | 49 659 | 2 740 | - | 27 | 52 426 |
| 2004 Additions | - | - | (53 585) | 18 | (53 567) |
| 2004 Disposals | - | (1 288) | - | - | (1 288) |
| Cost value as at 31/12/2004 | 49 659 | 1 452 | (53 585) | 45 | (2 429) |
| Accumulated amortisation 31/12/2003 | 13 617 | 1 298 | - | 6 | 14 921 |
| 2004 Amortisation for the year | 997 | 146 | (5 358) | 11 | (4 204) |
| 2004 Disposals | - | (1 288) | - | - | (1 288) |
| Balance as at 31/12/2004 | 14 614 | 156 | (5 358) | 17 | 9 429 |
| Net book value 01/01/2004 | 36 042 | 1 442 | - | 21 | 37 505 |
| Net book value 31/12/2004 | 35 045 | 1 296 | (48 227) | 28 | (11 858) |

12. Intangible assets (cont'd)

| | | Land use rights ^{b)} | Goodwill | Negative goodwill ^{c)} | Other intangible assets | Total |
|--|---|-------------------------------|--------------|---------------------------------|-------------------------|-----------------|
| Cost value as at 31/12/2004 | | 49 659 | 1 452 | (53 585) | 45 | (2 429) |
| 2005 | Additions | - | - | - | 12 | 12 |
| | Impairment | - | (1 424) | - | - | (1 424) |
| | Effect of change of accounting policy ^{a)} | - | - | 53 585 | - | 53 585 |
| Cost value as at 31/12/2005 | | 49 659 | 28 | - | 57 | 49 744 |
| Accumulated amortisation 31/12/2004 | | 14 614 | 156 | (5 358) | 17 | 9 429 |
| 2005 | Amortisation for the year | 997 | 3 | - | 11 | 1 011 |
| | Impairment | 3 927 | (142) | - | - | 3 785 |
| | Effect of change of accounting policy ^{a)} | - | - | 5 358 | - | 5 358 |
| Balance as at 31/12/2005 | | 19 538 | 17 | - | 28 | 19 583 |
| Net book value 31/12/2004 | | 35 045 | 1 296 | (48 227) | 28 | (11 858) |
| Net book value 31/12/2005 | | 30 121 | 11 | - | 29 | 30 161 |
| Amortisation rate (straight line method) | | 2.5-4% | 6.67-10% | | 10-35% | |

a) Following the requirements of newly adopted IFRS 3, the Group has derecognized negative goodwill. See also Note 2 for change of accounting policy.

b) Upon the subsidiary's SIA LatRosTrans foundation, the Republic of Latvia, represented by AS *LaSam*, contributed use rights to the land, where the subsidiary's transmission pipelines were located at the value of LVL 49 659 thousand. The contribution value was agreed on by the founders of the subsidiary according to the agreement dated 29 September 1995.

SIA LatRosTrans right to the contributed land use rights is based on the Law on Restriction Zones dated 5 February 1997 and Latvian Civil Law, according to which SIA *LatRosTrans* has use rights to the land where the existing pipelines are located. In case of repairs or similar activities on the pipelines, any damage to the land must be compensated to the owners. Further, use of land for new pipelines must be compensated to the owners, new pipelines being defined as pipelines established after the law came into force.

The land owners and boundaries of the respective land plots have been identified, and cadastral register statements have been received. SIA LatRosTrans has obtained all respective documents. The work on registration of title to the land and encumbrances has been performed by the land owners. As at the year end, the registration of easements has been accomplished by 70%.

In 2005 impairment loss for land use rights was booked in the amount of LVL 3 927 thousand. More details are given in Note 14.

c) On 25 June 2002 the Parent company took part in the auction of AS Latvijas kuģniecība shares. The Parent company acquired 62 538 261 shares of JSC Latvian shipping company for LVL 0.35 per share and 1 493 694 Global depository receipts (GDR) (1 GDR = 25 shares) for USD 14.30 per GDR. In 2004 following the requirements of IAS 22 the negative goodwill in the amount of LVL 53 585 thousand was recognized in the financial statements and respective amortization calculated starting from 25 June 2002. The negative goodwill has been derecognized as income on a systematic basis over the remaining weighted average useful life of the identifiable depreciable assets. The carrying amount of negative goodwill in amount of LVL 48 227 thousand has been derecognized on 1 January 2005 to the opening balance of retained earnings.

12. Intangible assets (cont'd)

Amortization expenses have been included in the following captions of the statements of income:

| | 2005 | 2004 |
|-------------------------------------|--------------|----------------|
| Cost of sales | 1 006 | 1 005 |
| General and administrative expenses | 3 | 4 |
| Sales and distribution expenses | 2 | 2 |
| Other operating expenses | - | 143 |
| Other operating income | - | (5 358) |
| TOTAL: | 1 011 | (4 204) |

13. Property, plant and equipment

| | | Land, buildings and networks | Machinery and equipment | Other property, plant and equipment | Construction in progress | Total, excluding prepayments for property, plant and equipment |
|------|--|---------------------------------|----------------------------|---|-----------------------------|---|
| | Cost value as at 31/12/2003, reported | 214 618 | 76 870 | 24 760 | 12 554 | 328 802 |
| | Transferred from investment properties | 2 057 | - | - | - | 2 057 |
| | Transferred to investment properties | (2 054) | - | - | - | (2 054) |
| | Cost value as at 31/12/2003, restated | 214 621 | 76 870 | 24 760 | 12 554 | 328 805 |
| 2004 | Additions | 324 | 752 | 1 854 | 17 572 | 20 502 |
| | Disposals | (298) | (392) | (132) | (684) | (1 506) |
| | Transfers | 10 857 | 4 578 | (1 002) | (14 433) | - |
| | Cost value as at 31/12/2004, restated | 225 504 | 81 808 | 25 480 | 15 009 | 347 801 |
| | Accumulated depreciation as at 31/12/2003 | 104 111 | 33 297 | 17 099 | - | 154 507 |
| | Transfer from investment properties | 105 | - | - | - | 105 |
| | Accumulated depreciation as at 31/12/2004, | 104 216 | 33 297 | 17 099 | - | 154 612 |
| 2004 | Depreciation for the year | 4 362 | 4 790 | 2 485 | - | 11 637 |
| | Disposals | (11) | (320) | (124) | - | (455) |
| | Transfers | - | 97 | (97) | - | - |
| | Accumulated depreciation as at 31/12/2004 | 108 567 | 37 864 | 19 363 | - | 165 794 |
| | Net book value as at 31/12/2003, reported | 110 507 | 43 573 | 7 661 | 12 554 | 174 295 |
| | Net book value as at 31/12/2003, restated | 110 405 | 43 573 | 7 661 | 12 554 | 174 193 |
| | Net book value as at 31/12/2004, restated | 116 937 | 43 944 | 6 117 | 15 009 | 182 007 |
| | | | | | | |
| | | | | | | |

13. Property, plant and equipment (cont'd)

| | | Land, buildings and networks | Machinery and equipment | Other property, plant and equipment | Construction in progress | Total, excluding prepayments for property, plant and equipment |
|--|---------------------------|---------------------------------|----------------------------|---|-----------------------------|---|
| Cost value as at 31/12/2004 | | 225 506 | 81 808 | 25 480 | 15 009 | 347 803 |
| 2005 | Additions | 111 | 2 932 | 449 | 10 072 | 13 564 |
| | Disposals | (338) | (567) | (165) | (11) | (1 081) |
| | Transfers | 3 001 | 13 682 | 502 | (17 185) | - |
| Cost value as at 31/12/2005 | | 228 280 | 97 855 | 26 266 | 7 885 | 360 286 |
| Accumulated depreciation as at 31/12/2004 | | 108 569 | 37 864 | 19 363 | - | 165 796 |
| 2005 | Depreciation for the year | 4 530 | 4 747 | 1 867 | - | 11 144 |
| | Impairment, net | 32 152 | 4 677 | 349 | - | 37 178 |
| | Disposals | (68) | (318) | (160) | - | (546) |
| | Transfers | (7) | 7 | - | - | - |
| Accumulated depreciation and impairment as at 31/12/2005 | | 145 176 | 46 977 | 21 419 | - | 213 572 |
| Net book value as at 31/12/2004 | | 116 937 | 43 944 | 6 117 | 15 009 | 182 007 |
| Net book value as at 31/12/2005 | | 83 104 | 50 878 | 4 847 | 7 885 | 146 714 |
| Depreciation rate (straight-line) | | 1-10% | 5%-50% | 10-50% | | |

As disclosed in Note 25 the subsidiary's SIA Ventspils nafta terminals real estate located in Ventspils, Talsu iela 75E, is pledged as a security for the credit line granted by AS SEB Latvijas Unibanka. As at 31 December 2005, the net carrying amount of SIA Ventspils nafta terminals real estate in Ventspils, Talsu iela 75E, was LVL 5 682 thousand. As credit line was repaid in 2006 pledge was canceled.

As at 31 December 2005, the subsidiary AS Preses nams had pledged all its movable property as an aggregation of property including any future parts thereof for the total commercial pledge amount of LVL 6 900 thousand, as well as its real estate in *Jāņsilī* for the total mortgage amount of LVL 1 000 thousand, in order to secure the loans received from Nordea Bank Finland Plc (see Note 25).

As at 31 December 2005, the net book value of tangible assets of subsidiary's AS Preses nams acquired under financial lease contracts amounted to LVL 3 836 thousand (2004: LVL 3 451 thousand) (see Note 26).

13. Property, plant and equipment (cont'd)

Depreciation expenses have been included in the following captions of income statement:

| | 2005 | 2004 |
|-------------------------------------|---------------|---------------|
| Cost of sales | 10 483 | 11 004 |
| Selling and distribution expenses | 16 | 15 |
| General and administrative expenses | 566 | 388 |
| Other operating expenses | 79 | 210 |
| TOTAL: | 11 144 | 11 637 |

14. Impairment of non-current assets

In 2002, transportation of crude oil through the pipeline of subsidiary SIA LatRosTrans in the Ventspils direction was ceased. The management of subsidiaries SIA LatRosTrans and SIA Ventspils nafta terminals has been taking measures to resume crude oil transportation in the Ventspils direction. Notwithstanding the efforts of the management, the crude oil flow has not been resumed and, in line with IFRS requirements, the management of the subsidiaries has made a decision to account for impairment loss related to technological equipment used for oil reloading from the pipeline.

The aggregate value of idle tangible assets owned by SIA LatRosTrans accounted as for impaired in 2005 is LVL 4 654 thousand. The amount of impaired land use rights related to crude oil transportation in Ventspils direction is LVL 3 293 thousand

Other non-current assets, except the above mentioned SIA LatRosTrans idle tangible assets and land use rights, are considered one cash generating unit for the operating activities of the subsidiaries. The recoverable amount has been determined based on the value in use calculation using cash flow projections approved by the management covering a twenty-year period. Since the value in use was smaller than carrying amount of non-current assets under impairment test, the subsidiary of AS Ventspils nafta SIA Ventspils nafta terminals recognized additional impairment loss in the amount of LVL 35 645 thousand and attributed it to technological equipment used for oil reloading from the pipeline, while SIA LatRosTrans recognized additional impairment loss in the amount of LVL 634 thousand and attributed it to land use rights.

The total impairment loss for subsidiaries SIA Ventspils Nafta Terminals and SIA LatRosTrans is LVL 44 226 thousand, whilst the total impairment loss for the Group, excluding mutual transactions in 2005 is LVL 42 387 thousand, which is presented under other operating expense.

The following describes each key assumption on which the management of subsidiaries' SIA Ventspils Nafta Terminals and SIA LatRosTrans has based its cash flow projections to undertake impairment testing of non-current assets:

- a. The discount rate applied to the cash flow projections is 12%.
- b. The growth rate used to extrapolate the cash flows of the Company is 1.5%.
- c. The inflation rate used is 3%.

15. Construction in progress and prepayments for property, plant and equipment

| | 31/12/2005 | 31/12/2004 |
|--|--------------|---------------|
| Construction of new facilities for Preses nams outskirts of Riga ^{a)} | 1 979 | - |
| Construction of new pipeline corridor ^{b)} | 1 826 | 1 866 |
| Reconstruction of real estate Rīgas līcis VN in Jūrmala ^{c)} | 1 770 | 1 770 |
| Projection and construction of looping (pipeline) ^{d)} | 1 623 | 1 623 |
| Reconstruction of tank filling platform No. 1 ^{e)} | 410 | 410 |
| Other objects | 277 | 572 |
| Communication system reconstruction | - | 4 732 |
| Projection of main pump station at Ilūkste | - | 2 134 |
| Reconstruction of oil product controlling point at Ventspils | - | 1 902 |
| TOTAL: | 7 885 | 15 009 |

a) The subsidiary AS Preses nams has started construction of 2 new production facilities on the outskirts of Riga, near airport Riga.

b) The subsidiary SIA Ventspils nafta terminals has started construction of a new pipeline passage from its tanks to piers of Ventspils Free port. In 2003, SIA Ventspils nafta terminals temporarily ceased construction works, and the management plans to re-start construction in 2006 as this project is included in the long-term investment plan for SIA Ventspils nafta termināls.

c) In 2003, the subsidiary SIA Rīgas līcis VN temporarily ceased the construction of the planned hotel in Jūrmala. The subsidiary SIA Rīgas līcis VN intends to continue the construction works in future, and therefore this hotel building is stated in these financial statements as construction in progress.

d) In 2003, the subsidiary SIA LatRosTrans carried out designing to perform construction of looping in several stages. In 2004, the first stage of pipeline looping construction was completed, as a result of the subsidiary can ensure oil product transportation up to 8 000 thousand tons per year. As no rapid growth in the volume of loaded oil products is planned in the next few years, SIA LarRosTrans resolved to temporarily suspend further construction works of the looping. However, the management believes that the investments in designing of looping should not be written off as SIA LatRosTrans continuously engaged in preparing an effective development strategy and the looping construction will be renewed in the future.

e) The subsidiary SIA Ventspils nafta terminals will have to reconstruct railway elevation No.1. SIA Ventspils nafta terminals has ordered preparation of technical documentation for the planned reconstruction works. However, the management does not plan any works before 2006 since the subsidiary has received a permission to use the existing elevation until 2006.

Please see Note 31 Contingent liabilities for commitments for capital expenditure.

16. Investment properties

| | Total investment properties |
|--|--|
| Balance as at 31 December 2003 | 2 612 |
| Effect of change in the accounting policy: | |
| Reclassified from investment properties to property, plant and equipment | (1 978) |
| Reclassified from property, plant and equipment to investment properties | 2 054 |
| Fair value adjustment | 6 642 |
| Balance as at 31 December 2003, adjusted | 9 330 |
| 2004 Fair value adjustment | 4 590 |
| Balance as at 31 December 2004 | 13 920 |
| 2005 Fair value adjustment | 12 689 |
| Balance as at 31 December 2005 | 26 609 |

Fair value of the investment properties of the Group is determined on the basis of independent valuator SIA Biznesa Konsultatnu Grupa, Reg. No. 40003394250. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in a arm's length transaction at the date of valuation, in accordance with International Valuation Standards.

17. Investments in associated entities

The following table summarizes ownership of the Group in associated entities:

| | Ownership (%) | | Legal address |
|-----------------------------|---------------|------------|---|
| | 31/12/2005 | 31/12/2004 | |
| Associated entities | | | |
| AS Latvijas kuģniecība | 49.94 | 49.94 | Basteja bulvāris 2, LV-1807, Riga, Latvia |
| SIA Mediji un Poligrāfija | 32.70 | 32.70 | Balasta dambis 3, LV-1081, Riga, Latvia |
| SIA Ventshoes | 21.44 | 21.44 | I. Mičurina iela 6, LV-3601, Ventspils, Latvia |
| SIA Futbola klubs Ventspils | 30.00 | 30.00 | Dzintaru street 20a, LV-3602, Ventspils, Latvia |

17. Investments in associated entities (cont'd)

The following table presents carrying values of investments in associated entities:

| | 31/12/2005 | 31/12/2004 |
|---|----------------|----------------|
| <i>Associated entities</i> | | |
| AS Latvijas Kuģniecība | 113 840 | 92 300 |
| SIA Mediji un Poligrāfija | 48 | 56 |
| SIA Ventshoes | - | 81 |
| TOTAL: | 113 888 | 92 437 |
| | 31/12/2005 | 31/12/2004 |
| Balance at the beginning of the year | 92 437 | 162 |
| <i>Acquisitions</i> | | |
| Reclassification of investment in AS Latvijas kuģniecība | - | 34 946 |
| Recognition of negative goodwill from acquisition of AS Latvijas Kuģniecība | - | 53 585 |
| <i>Total acquisitions:</i> | <i>92 437</i> | <i>88 531</i> |
| <i>Foreign currency translation</i> | | |
| AS Latvijas kuģniecība – for years 2002 and 2003 | - | (4 854) |
| AS Latvijas kuģniecība – for the year 2004 | - | (4 223) |
| AS Latvijas kuģniecība – for the year 2005 | 13 810 | - |
| <i>Total foreign currency translation:</i> | <i>13 810</i> | <i>(9 077)</i> |
| <i>Proportional share of profit/ (loss)</i> | | |
| AS Latvijas kuģniecība – for years 2002 and 2003 | - | (6 406) |
| AS Latvijas kuģniecība – for the year 2004 | - | 19 252 |
| AS Latvijas kuģniecība – for the year 2005 | 7 730 | - |
| SIA Mediji un Poligrāfija | (9) | (10) |
| SIA Ventshoes | (80) | (15) |
| <i>Total proportional share of profit</i> | <i>7 634</i> | <i>12 821</i> |
| Balance at the end of year | 113 888 | 92 437 |

According to the Auditor's Report on the consolidated financial statements of AS Latvijas kuģniecība for the year ended 31 December 2005, dated 10 May 2006, AS Latvijas kuģniecība overseas subsidiaries entered into time charter agreements at rates below market value but with possible future profit share clause for some of these agreements. Based on the estimates made by the experts the difference between the agreed time charter rates and market values for 2005 approximates to USD 19 million (LVL 11 million) and for 2004 – USD 30 million (LVL 15 million), whereas the amount of the final profit share payment remains uncertain.

AS Latvijas Kugnieciba profit for 2005 was LVL 15 479 thousands, equity as at 31 December 2005 was LVL 227 953 thousands and total assets as at 31 December 2005 was 333 070 LVL thousands. Share price in Riga's Stock Exchange was LVL 1.30 per share. Market value of AS Latvijas Kugnieciba shares owned by AS Ventspils Nafta as at 31 December 2005 was LVL 129 844 thousands.

18. Other long-term loans

| | 31/12/2005 | 31/12/2004 |
|-------------------------------------|--------------|--------------|
| Non-current: | | |
| Advance to SIA Pārventas Siltums a) | 1 092 | 1 124 |
| TOTAL: | 1 092 | 1 124 |
| Current: | | |
| Advance to SIA Pārventas Siltums a) | 42 | 42 |
| TOTAL: | 42 | 42 |

a) In 2004, the subsidiary SIA Ventspils Nafta Terminals acquired from AS Ventspils nafta a non-current advance payment to SIA Pārventas siltums amounting to LVL 1 134 262 as at 31 December 2005. This amount will be repaid by SIA Pārventas siltums through heat supplies at the rate of 3.65 LVL/Mwh. The current portion of this loan is estimated based on budgeted use of heat in 2006 and amounts to LVL 42 000. As it is agreed on with SIA Pārventas siltums, interest on this loan will be paid in 2006.

19. Inventories

| | 31/12/2005 | 31/12/2004 |
|--|--------------|---------------|
| Materials: | | |
| Materials, spare parts and low value items | 3 051 | 1 943 |
| Raw materials | 11 | 972 |
| Other | 2 | - |
| Allowance for obsolete materials | (81) | (298) |
| | <u>2 983</u> | <u>2 617</u> |
| Oil and oil products | 4 938 | 6 976 |
| Finished inventory and goods for sale | 39 | 94 |
| Unfinished inventory | 230 | 265 |
| Prepayments for materials | 44 | 51 |
| TOTAL: | 8 234 | 10 003 |

The value of oil and oil products included in the inventory caption includes the oil and oil products held in the technological facilities and pipeline of the Parent company and its subsidiaries SIA Ventspils nafta termināls and SIA LatRosTrans, used to ensure oil and oil product transportation process and not intended for sale.

The subsidiary's SIA LatRosTrans management has decided to write off excess losses of oil product incurred during the years 2002, through 2005 from the subsidiary's inventory at the weighted average cost of oil products (see also Note 8).

20. Trade accounts receivable

| | 31/12/2005 | 31/12/2004 |
|--|--------------|--------------|
| For printing services | 4 195 | 2 979 |
| For reloading services | 2 336 | 1 644 |
| For transporting of oil and oil products | 850 | 1 101 |
| For newspapers | 419 | 560 |
| For other services | 13 | 22 |
| Doubtful debts | 1 083 | 1 069 |
| Allowance for doubtful debts | (1 083) | (1 069) |
| TOTAL: | 7 813 | 6 306 |

21. Other accounts receivable

| | 31/12/2005 | 31/12/2004 |
|--------------------------------------|--------------|--------------|
| VAT receivable | 730 | 833 |
| Granting of lease right of premises | 200 | - |
| Social security contributions | 146 | 150 |
| Cooperation bonus | 95 | - |
| Personal income tax | 84 | 75 |
| Other accounts receivable | 24 | 18 |
| Deferred VAT | 19 | 146 |
| Advances for services to be provided | 18 | 191 |
| VAT and excise tax due from state | - | 2 212 |
| Nature resource tax | - | 4 |
| Real estate tax | - | 3 |
| Doubtful debts | 5 242 | 6 190 |
| Allowances for doubtful debts | (5 149) | (6 138) |
| TOTAL: | 1 409 | 3 684 |

22. Prepaid expense

| | 31/12/2005 | 31/12/2004 |
|-----------------------|------------|------------|
| Insurance | 393 | 610 |
| Other prepaid expense | 228 | 129 |
| TOTAL: | 621 | 739 |

23. Cash and cash equivalents

| | 31/12/2005 | 31/12/2004 |
|-----------------------------|---------------|--------------|
| Term deposits ^{a)} | 12 358 | 5 437 |
| Current bank accounts | 3 719 | 1 897 |
| Cash on hand | 3 | 27 |
| TOTAL: | 16 080 | 7 361 |

a) The interest on bank account balances is accrued on the basis of floating rates established by respective banks. Short-term deposits are made for various periods ranging from one day to one month, depending on the Group's cash requirements. Interest on short-term deposits is calculated on the basis of the respective interest rates applicable to short-term deposits.

| | | | Effective interest rate (%) | Maturity | 31/12/2005 |
|----------------------|--------|--------------|-----------------------------|---------------------------|---------------|
| AS SEB Unibanka | 11 240 | USD thousand | 2.80 - 4.16% | 2 January - 7 June 2006 | 6 665 |
| AS Baltic Trust Bank | 5 100 | LVL thousand | 4.00% | 6 January – 18 March 2006 | 5 100 |
| AS Baltic Trust Bank | 1 000 | USD thousand | 3.70% | 6 January 2006 | 593 |
| TOTAL: | | | | | 12 358 |

24. Share capital, reserves and earnings per share

Movements in share capital and number of shares among shareholders may be specified as follows:

| | Closed emission shares, in thousands | | | Public offering shares, in thousands ^{a)} | | Total |
|--|--------------------------------------|----------------------------|------------|--|--------|----------------|
| | AS Latvijas naftas tranzīts shares | Board of Directors' shares | Own shares | State shares | Other | |
| 31 December 2003 | 43 881 | 210 | 90 | 40 346 | 19 952 | 104 479 |
| Shares purchased by the Board members | - | 60 | (60) | - | - | - |
| Shares purchased from the former and current Board members | - | (180) | 180 | - | - | - |
| Own shares and shares of the Board of Directors conversion to public offering shares | - | (90) | (210) | - | 300 | - |
| 31 December 2004 | 43 881 | - | - | 40 346 | 19 952 | 104 479 |
| 31 December 2005 | 43 881 | - | - | 40 346 | 20 252 | 104 479 |
| 31.12.2004. | 42.00% | - | - | 38,62% | 19,28% | 100.0% |
| 31.12.2005 | 42.00% | - | - | 38,62% | 19,28% | 100.0% |

a) Public offering shares includes 40 346 thousand shares hold by the State and intended to be privatized accordingly these shares are not available in public market.

All shares are authorized issued and fully paid.

According to the Statutes net result after restricted reserves and dividends is allocated to other reserves and used for further development of the Group.

24. Share capital, reserves and earnings per share (cont'd)

The Annual General Meeting of AS Ventspils nafta shareholders in 1 July 2005 decided to transfer profit for 2004 to the other reserves.

Earnings per share for Group are calculated by dividing the net result for the year of LVL (21 725) thousand (adjusted for 2004: LVL 23 121 thousand) by weighted average number of shares during the year of 104 479 thousand (2004: 104 479 thousand).

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

The nominal value of each share is LVL 1.

In accordance with decision by Cabinet of Ministers of the Republic of Latvia *Privatization of joint stock company AS Ventspils Nafta*, dated June 28, 2005, 38.62 % of shares of AS Ventspils Nafta was decided to be sold in public auction on the stock exchange for the price not less than stock market price as of June 28, 2005.

25. Loans from credit institutions

| Non-current: | Loan amount (thousand) | Effective interest rate (%) | Maturity | 31/12/2005 | 31/12/2004 |
|---|---------------------------|--------------------------------|------------|--------------|--------------|
| <u>SIA Ventspils Nafta Termināls^{a)}</u> | | | | | |
| Loan from AS Hansabanka | LVL 8 330 | 6 months USD LIBOR + 0.79% | 25/10/2008 | 4 375 | - |
| <u>AS Preses nams^{b)}</u> | | | | | |
| Loan from Nordea Bank Finland Plc | LVL 4 000 | 3 month Rigibor + 1.2% | 28/09/2012 | 2 000 | - |
| TOTAL: | | | | 6 375 | - |
| Current: | Loan amount (thousand) | Effective interest rate (%) | Maturity | 31/12/2005 | 31/12/2004 |
| <u>SIA Ventspils Nafta Termināls^{a)}</u> | | | | | |
| Loan from AS Hansabanka | LVL 8 330 | 6 months USD LIBOR + 0.79% | 25/10/2008 | 565 | - |
| AS Hansabanka credit line | - | 6 months USD LIBOR + 2% | 13/12/2005 | - | 2 661 |
| AS SEB Latvijas Unibanka creditline | - | 3 months USD LIBOR+ 0.79% | 17/02/2006 | - | 1 857 |
| <u>AS Preses nams^{b)}</u> | | | | | |
| Loan from Nordea Bank Finland Plc | LVL 1 618 | 12 month Rigibor+ 0.95% | 29/09/2006 | 1 618 | - |
| Loan from AS SEB Latvijas Unibanka | - | 3 month Unibor + 2.4% | 28/02/2006 | - | 90 |
| TOTAL: | | | | 2 183 | 4 608 |

a) According to the agreement signed between AS Hansabanka and subsidiary SIA Ventspils Nafta Terminals on 13 December 2004 the credit line with the total limit of USD 7 600 thousand granted was repaid in December 2005.

According to the agreement concluded with AS Hansabanka on 25 October 2005 a non-current loan was issued to the subsidiary SIA Ventspils Nafta Terminals in the amount of USD 8 330 thousand. As a security for the loan SIA Rīgas līcis VN, a subsidiary of AS Ventspils nafta, has pledged the real estate in Jūrmala Dubultu prospekts 51.

According to the agreement of 18 December 2003 and the additional agreement of 14 December 2004 signed with AS Latvijas Unibanka the bank granted to the subsidiary SIA Ventspils Nafta Terminals a credit line with the total limit of USD 3 600 thousand. As a security for the aforementioned credit line SIA Ventspils Nafta Terminals has pledged its real estate located in Ventspils Talsu iela 75E. As credit line was repaid in 2006 pledge was canceled. See also Note 13.

25. Loans from credit institution (cont'd)

b) The loan has been secured by a commercial pledge of the subsidiary's AS Preses nams all movable property as an aggregation of property including any future parts, thereof for the total amount of LVL 6 900 thousand as well as inventory, debtors and a mortgage of its real estate in *Jāņsilī* for the total amount of LVL 1 000 thousand. Amount repayable after 5 years is LVL 571 thousand.

As at 31 December 2005 the AS Ventspils nafta subsidiary SIA Ventspils nafta terminals had not used a credit line in amount of LVL 1 382 thousand (2004: LVL 1 000 thousand).

26. Financial lease liabilities

| | Date of maturity | Lease amount | Effective interest rate (%) | Non-current portion | Current portion | Net book value of lease items |
|-------------------------------|------------------|--------------|-----------------------------|---------------------|-----------------|-------------------------------|
| SIA NORD/LB Līzings | 28/05/2010 | 696 | 3 month Euribor + 1% | 547 | 149 | 822 |
| SIA Unilīzings | 25/08/2008 | 319 | 3 month Unibor + 1.95% | 199 | 120 | 468 |
| SIA NORD/LB Līzings | 28/05/2010 | 287 | 3 month Euribor + 1% | 259 | 68 | 351 |
| SIA NORD/LB Līzings | 28/01/2008 | 276 | 3 month Euribor + 1.2% | 146 | 130 | 378 |
| SIA Unilīzings | 15/01/2007 | 253 | 3 month Unibor + 1.95% | 19 | 234 | 922 |
| SIA Unilīzings | 25/08/2008 | 225 | 3 month Unibor + 1.95% | 141 | 84 | 293 |
| SIA NORD/LB Līzings | 28/04/2010 | 138 | 3 month Euribor + 1.2% | 108 | 30 | 159 |
| SIA Nordea Finance Latvia | 29/08/2008 | 83 | 3 month Euribor + 1.19% | 51 | 32 | 83 |
| SIA Nordea Finance Latvia | 30/05/2008 | 70 | 3 month Euribor + 1.19% | 41 | 29 | 62 |
| SIA Unilīzings | 25/07/2006 | 69 | 3 month Unibor + 1.95% | - | 69 | 220 |
| SIA Nordea Finance Latvia | 30/11/2007 | 52 | 3 month Rigibor + 1.75% | 26 | 26 | 74 |
| SIA Nordea Finance Latvia | 30/11/2006 | 2 | 3 month Rigibor + 1.75% | - | 2 | 4 |
| Other | | | | - | 22 | - |
| Total as at 31/12/2005 | | | | 1 537 | 995 | 3 836 |
| Total as at 31/12/2004 | | | | 941 | 754 | 3 451 |

Future minimum lease payments for the above finance leases can be specified as follows:

| | Non-current portion* | Current portion |
|--|----------------------|-----------------|
| Total minimum lease payments | 1 628 | 1 056 |
| Less amounts representing finance charge | (91) | (83) |
| Present value of minimum lease payments | 1 537 | 973 |

*There are no agreements exceeding five year maturity.

27. Taxes payable

| | 31/12/2005 | 31/12/2004 |
|-------------------------------|------------|------------|
| Social security contributions | 170 | 195 |
| Personal income tax | 159 | 221 |
| Real estate tax | 94 | 66 |
| Natural resources tax | 22 | 3 |
| VAT payable | 3 | 65 |
| TOTAL: | 448 | 550 |

28. Other liabilities

| | 31/12/2005 | 31/12/2004 |
|-----------------------|------------|------------|
| Remuneration for work | 423 | 543 |
| Other liabilities | 146 | 20 |
| TOTAL: | 569 | 563 |

29. Accrued liabilities

| | 31/12/2005 | 31/12/2004 |
|---|--------------|--------------|
| Accrued bonuses and related social security contributions | 590 | 200 |
| Accrued vacation pay reserve | 481 | 444 |
| Accrued expenses for transit development | 353 | 229 |
| Accrued expense on environmental pollution elimination | 260 | - |
| Accrued legal expenses | - | 227 |
| Other accrued liabilities | 238 | 377 |
| TOTAL: | 1 922 | 1 477 |

30. Taxes

| Parent company | 31/12/2005 | Calculated | Paid | (Refunded) | 31/12/2004 |
|------------------------------------|------------|--------------|------------|------------|-------------|
| Social security contributions | (6) | (155) | 138 | 20 | (9) |
| Personal income tax | (14) | (204) | 150 | 96 | (56) |
| Corporate income tax ^{a)} | 265 | (2) | 250 | - | 17 |
| Value added tax | 40 | (57) | 202 | (116) | 11 |
| Real estate tax | - | (77) | 107 | - | (30) |
| TOTAL: | 285 | (495) | 847 | - | (67) |

a) Pursuant to the Latvian tax legislation the corporate income tax is paid in advance. After the year end when the actual tax has been calculated corporate income tax payable or overpayment is determined.

The movement of taxes calculated/paid is prepared in accordance to Latvian legislation and the disclosure of tax movement for the Group is not relevant.

31. Contingent liabilities

Excise tax and value added tax

In 2002 the Customs Control Department performed an audit of the compliance of the transit procedure in the subsidiary SIA LatRosTrans for the years ended 31 December 2001 and 2000. As a result the authorities imposed customs duties payable in respect of the excise tax in the amount of LVL 883 thousand and LVL 325 thousand for 2001 and 2000 respectively. The claims for additional tax payments were made in respect of physical losses of oil products based on the assumption that oil products accounted for by SIA LatRosTrans as lost have to be treated as own import of oil products released for free circulation in accordance with the Customs Law. The Subsidiary believed that the above amounts would be recovered therefore they are presented in the financial statements as receivables.

SIA LatRosTrans challenged the State Revenue Service decisions in court however in 2004 the Republic of Latvia Supreme Court made an adverse decision on the additional taxes calculated for 2000. The above court resolution is final and cannot be appealed. The above mentioned receivables relating to the additionally paid taxes for 2000 were accordingly written off in the financial statements for 2003. In accordance with the prudence principle the subsidiary has established a provision for the full amount of the taxes paid for 2001.

On 6 October 2004 Riga Regional Court ruled in favor of the subsidiary regarding the additional taxes calculated for 2001 therefore the decision of the State Revenue Service should be revoked. However Riga Regional Court recognized that the transit procedure had been offended in respect to the portion of physical losses of 0.56 thousand tons considered to be stolen. SIA LatRosTrans excise tax and VAT on the above losses payable to the Customs amounted to LVL 93 thousand.

Taking into consideration the above mentioned SIA LatRosTrans has reversed the provisions for receivables related to the taxes paid for 2001 in amount of LVL 790 thousand and included the above amount in operating income in year 2004.

In 2004 the Post-clearance Division of the SRS Latgale Regional Office Customs Board performed an audit of the compliance of the transit procedure in the subsidiary for the years ended 31 December 2002 and 2003. As a result SRS imposed customs duties payable in respect of the excise and value added taxes for 2002 in amount of LVL 757 thousand and LVL 305 thousand respectively as well as 100% penalties in amount of LVL 1 062 thousand and the excise and value added taxes for 2003 in amount of LVL 520 thousand and LVL 204 thousand respectively as well as 100% penalties in amount of LVL 724 thousand. SIA LatRosTrans has paid all the above amounts to the state budget meanwhile submitting a claim to a superior instance of the State Revenue Service to review the above decision. According to the resolution of the General Director of SRS Latgale Regional Office based on the prior ruling of Riga Regional Court on revoking debts for 2001 the above customs duty surcharges for 2002 and 2003 were revoked.

However the General Director of SRS Latgale Regional Office recognized that the transit procedure had been offended in respect to the portion of physical losses of 1.275 thousand tons in 2002 and 0.17 thousand tons in 2003 which had been considered to be stolen. Therefore the State Revenue Service calculated excise and VAT payable for 2002 in amount of LVL 151 thousand and LVL 61 thousand respectively as well as 100% penalties in amount of LVL 212 thousand and for 2003 – LVL 20 thousand and LVL 8 thousand respectively as well as 100% penalties in amount of LVL 28 thousand.

Based on the above mentioned court ruling precedents SIA LatRosTrans management estimated the potential taxes payable on physical losses due to thefts for 2004 amounting to 0.268 thousand tons and established provisions for excise tax and VAT in amount of LVL 45 thousand and LVL 31 thousand respectively. The potential taxes payable on physical losses due to thefts for 2005 amounting to 0.262 thousand tons were estimated and provisions established for excise tax and VAT in amount of LVL 43 thousand and LVL 34 thousand respectively. Provisions for excise tax and VAT payable on physical losses due to thefts for 2004 and 2005 in these financial statements were disclosed under accrued liabilities caption.

On 21 August 2003, the Cabinet Regulations regarding allowable rate for wastages of transported oil products were amended to further define the rate at 0.16%, starting from 1 February 2004 through 30 August 2005 – 0.1%, and starting from 1 September 2005 – 0.2%. Considering that at the moment of effectiveness of the aforementioned amendments the actual wastages of the subsidiary substantially exceeded the rates defined by the Cabinet and namely for the period 21 August 2003 through 31 January 2004 the wastages reached 0.75% for the period 1 February 2004 through 31 December 2004 – 0.43% and for the period 1 January through 31 December 2005 – 0.21% the subsidiary might incur additional tax liabilities regardless of the favorable court rulings. The subsidiary's management believes that the risk related to potential tax liabilities is low due to favorable court rulings.

31. Contingent liabilities (cont'd)***Environmental commitments***

The subsidiary SIA LatRosTrans is mainly engaged in transportation of crude oil and oil products which is exposed to a major ecological risk – unexpected leakage of crude oil and oil products both as a result of technical damages of pipelines and unauthorized connections. Since 1997 SIA VentEko performs liquidation of the consequences of unexpected leakages from crude oil and oil product pipelines *Polotsk – Ventspils* and *Polotsk – Mažeikā* in the territory of the Republic of Latvia on behalf of SIA LatRosTrans. To ensure qualitative services compliant with environment protection requirements and to minimize ecological risk related not only to the pollution of environment but also to considerable financial losses in form of penalties SIA VentEko has developed an investment plan envisaging an implementation of such environmental strategy which would ensure that SIA LatRosTrans operations comply with all the standards stated in the Latvian environmental legislation and the adverse impact on environment caused by oil product leakages is limited to the extent possible. The plan also foresees that SIA LatRosTrans makes investments in improving environment of pumping stations thus considerably reducing potential losses including unexpected natural resource taxes expense related to solving unexpected environmental issues and minimizing ecological risks in all objects. According to SIA VentEko estimates performed in 2004 the implementation of such investment plan would cost LVL 1 392 thousand which would include liquidation of the consequences of unexpected leakages in the main oil product pipeline network monitoring and recovery of the historical pollution of *LRDS Ilūkste* caused by various technical problems as well as identification and localization of more recent pollutions caused by various technical problems and general measures for minimizing and monitoring ecological risks. As at 31 December 2005 SIA LatRosTrans has established accruals for expense on environmental pollution elimination in the amount of LVL 260 thousand (see Note 29).

The subsidiary SIA Ventspils nafta termināls (previously AS Ventspils Nafta) has been reloading crude oil and oil products for more than 40 years. During this time a significant amount of leaked oil products has accumulated in the soil. The management believes that a reliable estimate can not be made for the possible amount of cleaning expense. During the last few years the subsidiary SIA Ventspils Nafta Terminal has implemented new technologies to reduce and control the pollution level in the soil. According to the environmental regulations SIA Ventspils Nafta Terminal has to clean ground-waters completely. However this could only be done by reconstructing the existing elevations No. 1 and 2 as these are comparatively old and worn-out constructions occasionally permitting leakages of crude oil and oil products. The estimated total cost of the planned reconstruction works is LVL 22 million.

Commitments for capital expenditure

The Group's existing commitments for the capital expenditure can be specified as follows:

| | 31/12/2005 | 31/12/2004 |
|---------------------|--------------|--------------|
| Concluded contracts | 8 376 | 20 331 |
| Prepayments made | - | (7 512) |
| Finished works | - | (6 336) |
| | - | (13 848) |
| TOTAL: | 8 376 | 6 483 |

SIA LatRosTrans constantly reviews its long-term investment plans to meet its possible liabilities which might arise due to excess physical losses of oil products and other circumstances.

Capital expenditure contracted by subsidiary AS Preses nams for as at the balance sheet date but not yet incurred totals LVL 4 764 thousand.

Payments to local authorities

Under the agreement between SIA Ventspils nafta termināls and Ventspils City Council dated 19 September 2003 on transportation of oil and oil products via Ventspils city and supplementary agreement thereto dated 8 December 2003 SIA Ventspils nafta termināls undertakes to transfer the following amounts to Ventspils City Council to satisfaction of the city's social infrastructure needs: in years 2005 2006 and 2007: LVL 700 thousand each year plus amount not exceeding 1% of the forecasted net turnover of SIA Ventspils nafta termināls for the respective year.

31. Contingent liabilities (cont'd)***Litigation***

The subsidiary AS Preses nams has been involved in several court cases with the total claims in amount of LVL 71 thousand (2004: LVL 243 thousand). A trial date has not yet been set and therefore it is not practicable to state the timing of any payments. The subsidiary's management believes that the action will succeed and accordingly no provisions for any liability have been made in these financial statements.

The subsidiary SIA Mediju nams is involved in several proceedings on denigration of honor and dignity in its publications, which constitutes the claims for the total amount of LVL 45 thousand. The Management of SIA Mediju Nams believes that unfavorable court ruling it is unlikely therefore no provisions for the above claims have been established in these financial statements.

Minimum technological reserve

The subsidiary SIA Ventspils Nafta Terminals has estimated that for the current volume of operations the minimum technological reserve of crude oil and oil products which should be maintained in the reloading system is 33 200 tons of crude oil 57 500 tons of diesel fuel and 25 600 tons of petrol. As at 31 December 2005 the subsidiary SIA Ventspils Nafta Terminals owned 2 236 tons of oil products and 391 tons of crude oil that are to be utilized to settle the subsidiary's liabilities to AS Ventspils nafta.

Therefore under the existing circumstances to ensure the minimum technological reserve required for the reloading system oil products belonging to SIA Ventspils nafta terminals customers and AS Ventspils nafta are partly used. The portion of the minimum technological reserve owned by non Group persons comprises approximately 45 240 tons of diesel fuel and 23 410 tons of petrol. The approximate cost of establishing the minimal technological reserve of oil products to ensure proper maintenance of the reloading system only on the own resources is estimated in the amount of LVL 18 660 thousand.

The subsidiary SIA LatRosTrans has calculated that the minimum technological reserve of oil products needed for the oil product transportation network amounts to 87 400 tons. Taking into the account the Council decisions on the write-offs of stolen oil products, SIA LarRosTrans owns 15 916 tons of oil product as at 31 December 2005 (2004: 21 933). Thus, currently products owned by the subsidiary's clients are used as a remaining part of minimum technological reserve of oil products needed for transportation network amounting to 71 484 tons (2004: 65 467 tons). The approximate cost of restoring the minimal reserve of oil products used as technological reserve for the oil product transportation network entirely on the own resources is estimated in the amount of LVL 23 999 thousand using average market price of LVL 335.73 per ton (USD 570 per ton) effective as at 3 March 2006.

32. Pledged assets

The subsidiary SIA Rīgas līcis VN has pledged its real estate in Jūrmala Dubultu prospekts 51 for the benefit of AS Hansabanka as a security for the loan issued to subsidiary SIA Ventspils nafta termināls in 2004.

The subsidiary SIA Ventspils Nafta Terminals has pledged its real estate located in Ventspils, Talsu iel 75 E for the benefit of AS SEB Latvijas Unibanka as a security for the credit line issued for USD 3 600 thousand in accordance to 18 December 2003 agreement. As credit line was repaid in 2006 pledge was canceled.

The subsidiary AS Preses nams has pledged all its movable property including any future parts in order to secure the loans received from Nordea Bank Finland Plc. See also Note 25.

33. Off balance sheet assets

Pipe-fill of SIA LatRosTrans pipeline

For technological needs of the crude oil transportation process, 150 thousand tons of crude oil are kept in the subsidiary's LatRosTrans crude oil pipelines (36 thousand tons in the pipeline *Polotsk – Mažeikai* and 114 thousand tons in the pipeline *Polotsk – Ventspils*). This crude oil amount is not accounted for by the Group.

34. Related party transactions

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables and payables. For the year ended 31 December 2005, the Group has not made any provisions for doubtful debts relating to amounts owed by related parties.

For the purpose of these financial statements the entities that are part of the AS Ventspils nafta Group i.e. SIA Ventspils nafta termināls, SIA LatRosTrans, AS Preses nams, SIA Mediju nams, SIA Rīgas līcis VN and SIA Nekustamie īpašumi VN and its subsidiaries SIA Darījumu centrs Daugava, SIA Namserviss VN, SIA Ventspils Biznesa Centrs, liquidated SIA Maikapara nams, SIA Pārventas Sporta Centrs and SIA Lejastiežumi, associated companies AS Latvijas Kuģniecība, SIA Mediji un Poligrāfija, SIA Ventshoes are considered to be related entities of the Parent company. In addition, significant shareholders of AS Ventspils nafta i.e. AS Latvijas naftas tranzīts and its significant shareholder AS Ventbunkers including its subsidiaries and associated entities and the state of Latvia are considered related parties to the Group.

Based on a co-operation agreement concluded between subsidiary SIA Ventspils nafta termināls AS Ventbunkers and SIA LatRosTrans on reloading diesel fuel revenues were generated for SIA Ventspils nafta termināls in the amount of LVL 1 559 thousand (2004: LVL 1 102 thousand).

During the reporting year subsidiary SIA Ventspils nafta termināls has been charged LVL 392 thousand (2004: LVL 430 thousand) by AS Ventbunkers for treatment of technological waste water.

During the reporting period subsidiary SIA Ventspils nafta termināls has been charged LVL 758 thousand (2004: LVL 743 thousand) by AS Ventbunkers for utilization of piers rented by AS Ventbunkers. Accounts payable to AS Ventbunkers in SIA Ventspils nafta termināls accounts as of 31 December 2005 amounted to LVL 109 thousand (2004: no account payable as of the year end).

During the year there were no transactions made with Ventbunkers loģistika k/s for railway and information services (2004: LVL 788 thousand). No accounts payable to ks Ventbunkers loģistika k/s per subsidiary's SIA Ventspils nafta termināls accounts as of 31 December 2005 (2004: LVL 77 thousand).

During the year subsidiary SIA Ventspils nafta termināls has been charged LVL 305 thousand (2004: LVL 355 thousand) by SIA Vats for electricity. Accounts payable to SIA Vats per subsidiary's SIA Ventspils nafta termināls accounts as of 31 December 2005 amounted to LVL 30 thousand (2004: LVL 21 thousand).

Based on the security agreement concluded between the subsidiary SIA LatRosTrans and SIA Āpsardzes DienestsVenta the subsidiary SIA LatRosTrans has been charged for security services rendered by SIA Āpsardzes dienestsVenta in the amount of LVL 850 thousand in 2005 (2004: LVL 850 thousand).

During the year subsidiary SIA LatRosTrans has been charged LVL 40 thousand (2004: LVL 60 thousand) by AS Futbola Klubs for marketing services.

35. Financial instruments

The main financial instruments of the Group are issued/ received short-term loans, cash and short-term deposits, finance leases. The main purpose of these financial instruments is to ensure the financing of the operations of the Group. The Group also deals with several other financial instruments which are a result of its operations, for example, trade accounts receivable, other debtors, trade payables and other payables.

Financial risks

The main financial risks related to the financial instruments of the Group are credit risk, currency risk, interest rate risk and liquidity risk.

35. Financial instrument (cont'd)

Credit risk

The Parent company and the Group is exposed to credit risk through trade receivables, long-term and short-term loans and cash and cash equivalents. The Group's cash equivalents have been invested in highly secure financial institutions.

As at 31 December 2005 the subsidiary SIA Ventspils nafta termināls credit risk concentration to single customer amounted to 98% of the total trade receivables (2004: 100%). This is due to the fact that in the result of the long cooperation that stable partner relations with one customer has been developed as confirmed by adequate and systematic fulfillment of all contractual liabilities.

As of 31 December 2005 the subsidiary's SIA LatRosTrans credit risk concentration to a single customer – related party amounted to 100% of total trade receivables (2004: 100%).

The subsidiaries SIA Mediju nams, SIA Rīgas līcis VN and SIA Nekustamie īpašumi VN manage the credit risk by continuously assessing the credit history of customers and assigning credit terms on individual basis. In addition receivable balances are monitored on an ongoing basis to ensure that the subsidiaries' SIA Mediju nams, SIA Rīgas līcis VN and SIA Nekustamie īpašumi VN exposure to bad debts is minimized. The subsidiaries SIA Mediju nams, SIA Rīgas līcis VN and SIA Nekustamie īpašumi VN have no significant concentration of credit risk with any single customer or group of customers having similar characteristics.

Foreign currency risk

The Group's financial assets and liabilities exposed to foreign currency risk comprise cash and cash equivalents, trade receivables, short-term loans, trade payables, long term loans payable to financial institutions and leasing companies.

A significant part of the revenues of the oil and oil products segment are derived in U.S. dollars whilst the major part of expenses is in Latvian Lats. In order to manage its foreign currency risk the subsidiaries balances the currencies of short-term and long-term borrowings with the currencies of future cash flows from operations and enters into contracts on substantial capital investments and services in U.S. dollars.

The Group does not use any financial instruments to manage their exposure to foreign currency risk.

Interest rate risk

The Group is exposed to the interest rate risk mainly through its liabilities to financial institutions and leasing companies and short term loan issued to significant shareholder of the Parent company.

The management believes that the exposure to interest rate risk of financial assets and liabilities as of 31 December 2005 was minimal as their deviation from their respective fair values was not significant.

Liquidity risk

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks and parent company planning of terms of payment of trade payables developing and analyzing future cash flows comprising both the existing and planned loans and interest on such loans. The budgeting system which is being successfully applied by the Group is of great use for liquidity risk management and control.

To prevent and minimize the liquidity risk the Group is planning permanent cost reduction by modifying the Group's structure as appropriate. Besides the issue of re-financing of current liabilities into non-current liabilities is being solved.

Risk analysis and designing of risk management plans are conducted at the top management level.

35 Financial instruments (cont'd)

Fair value

The carrying amounts of the Group's financial assets and financial liabilities not carried at fair value – cash, accounts receivable, other accounts receivable, loans issued and received, trade accounts payable and other payables are carried at amortized cost which approximate to their fair value.

36. Going concern of the subsidiaries

The subsidiary SIA Nekustamie Īpašumi VN closed the reporting year with loss of LVL 335 952. As at 31 December 2005 the current liabilities of SIA Nekustamie Īpašumi VN did not exceed its current assets. Based on the estimates of the subsidiary's management in 2006 positive operating cash flow will be sufficient to ensure adequate financing for the subsidiary SIA Nekustamie Īpašumi VN to continue operating as a going concern.

The subsidiary SIA Rīgas Īcis VN closed the reporting year with loss of LVL 117 383. As at 31 December 2005 the subsidiary's SIA Rīgas Īcis VN current liabilities exceeded its current assets by LVL 665 475. On 30 December 2003 a loan agreement was signed with the parent company AS Ventspils nafta whereby a current loan was granted in the amount of LVL 600 thousand bearing interest at 6% per annum. The loan is repayable on demand. The management of SIA Rīgas Īcis VN believes that the above loan will be sufficient for resolving the liquidity problems. In addition the parent company AS Ventspils nafta will provide financial support to the extent that is required for the subsidiary SIA Rīgas Īcis VN to meet its obligations as they fall due. After the year-end the subsidiary SIA Rīgas Īcis VN has obtained loans required for continuation of its operations.

The subsidiary SIA Mediju nams closed the year 2005 with a loss of LVL 949 thousand moreover in 2005 SIA Mediju nams had a negative operating cash flow (as in 2004). The subsidiary SIA Mediju nams as also budgeted considerable losses for the year 2006.

The management of SIA Mediju nams believes that the cash flow for 2006 will be improved by further developing the subsidiary's operations improving the existing periodicals and developing new ones. However the above mentioned factors require additional financing.

Based on the estimates of the subsidiary's management SIA Mediju nams requires considerable additional financing for ensuring its future operations. The major shareholder AS Ventspils nafta provided a letter of financial support dated 27 March 2006 to the extent that is required for the SIA Mediju nams to continue as a going concern at least until 30 June 2007.

37. Subsequent events

The subsidiary SIA Ventspils Nafta Terminals has repaid the credit line of USD 3 600 thousand, that has been granted in accordance with loan agreement as of 18 December 2003 with AS SEB Latvijas Unibanka and amendment dated 14 December 2004. As the credit line was repaid, the pledge for real estate located in Talsu 75 E, Ventspils was canceled.

Except for the above as of the last day of the reporting year through the date of signing these financial statements there have been no significant events requiring adjustment of or disclosure in the financial statements or notes thereto.