



AS VENTSPILS NAFTA

(UNIFIED REGISTRATION NUMBER 50003003091)

REPORT FOR THE SIX MONTHS OF 2006

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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General information

Name	AS Ventspils nafta
Type of entity	Joint stock company
Registration	50003003091 Riga, 9 May 1991 Registered in Commercial Register on 5 August 2004
Legal address	75 Talsu street, LV-3600, Ventspils, Republic of Latvia From 22 January 2004: Ostas street 23, LV-3600, Ventspils, Republic of Latvia
Subsidiaries of AS Ventspils nafta	SIA LatRosTrans (66%) 7 Balvu street, LV-5043, Daugavpils SIA Ventspils nafta termināls (100%) 75 Talsu street, LV-3600, Ventspils AS Preses nams (92.99%) 3 Balasta dambis, LV-1081, Riga SIA Mediju nams (99.31%) 3 Balasta dambis, LV-1081, Riga SIA Rīgas Līcis VN (100%) 51 Dubultu prospekts, LV-2015, Jūrmala SIA Nekustamie īpašumi VN (100%) 3 Balasta dambis, LV-1081, Riga
Associated entities of the Group	AS Latvijas kuģniecība (49.94%) 2 Basteja bulvāris, LV-1807, Riga SIA Mediji un Poligrāfija (32.70%) 3 Balasta dambis, LV-1081, Riga SIA Ventshoes (21.44%) 6 I.Mičurina iela, LV-3601, Ventspils SIA Futbola klubs Ventspils (30%) 20a Dzintaru iela, LV-3602, Ventspils

Subsidiaries of SIA Nekustamie
Īpašumi VN

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

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

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

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

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

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

Council of AS Ventspils nafta

Chairman of the Council:

Mamerts Vaivads

Deputy Chairman of the Council:

Vladimirs Solomatins

Romāns Mežeckis

Vladimirs Krastiņš

Members of the Council:

Jānis Blaževics

Kārlis Boldiševics

Mārtiņš Jansons

Aivars Tiesnesis

Dans Titavs

Ivars Pāže

Uldis Pumpurs

Board of AS Ventspils nafta

Members of the Board:

Olga Pētersone

Aldis Āķis

Ilva Purēna

Guntis Tīrmanis

AS Ventspils nafta Management report for the period of the first six months of 2006

Dear shareholders, clients and cooperation partners,

The first six months of 2006 for *a/s Ventspils nafta* Group were the period for efficient operating, however, the most significant event for the period concerned were active endeavours of the Latvian state in ensuring the successful privatisation of their own interest in *a/s Ventspils nafta*. After completion of the privatisation process commenced nearly ten years, *a/s Ventspils nafta* and their subsidiaries would be provided with equal possibilities of competing with others for structural funds of the European Union that according to their conditions excludes participation in the funds distribution of *a/s Ventspils nafta* as an entity which equity capital is outstandingly influenced by the state.

As on 31 July, 2006, the registered and paid-in capital of *a/s Ventspils nafta* is made up of LVL 104,479,519 or 104,479,519 shares with nominal value of LVL 1.00 per share. The number of shares in public circulation is currently amounting to 60,598,121 as quoted on the Riga Stock Exchange in the Baltic Official list.

In the reporting period, the published financial results of *a/s Ventspils nafta* had a slight impact on the RSE price of *a/s Ventspils nafta* shares. It means that investors were guided by other suggestions, when purchasing and selling their shares which were traded mainly for the purpose of gaining profit from each share price increase over the previous period. Analysing the reporting period, it is worth mentioning that general price decrease in the market of world securities marked the first half of 2006. The 1Q2006 showed that the decrease mainly touched the Eastern Europe, however, during the 2Q2006, an outstanding share price decrease featured the markets of the USA, Western Europe and Asia. For example, the New York Stock Exchange reported that Dow Jones Industrial Average was down by 5%; DAX index, as reported by the biggest German Stock Exchange Deutsche Boerse, was down by 6%. Since January 2006, BALTIX, the common index of the three Baltic Stock Exchanges, showed decrease by 16%. During the reporting period, the lowest bid for *a/s Ventspils nafta* shares quoted on the Rīga Stock Exchange was LVL 1.80. However, it ought to be noted that, upon the reporting period, when drafting this management report, the price increase of *a/s Ventspils nafta* shares has been renewed and they are very close to their previous price level.

Totally, over the period from January to June 2006, the Rīga Stock Exchange reported 1,406 transactions, including 1.08 million shares in the amount of LVL 2.32 million. In the end of the reporting period, the capitalisation of *a/s Ventspils nafta* shares on the Rīga Stock Exchange reached LVL 188,063,134.

A/s Ventspils nafta Group for the first six months of 2006 operated successfully and, regardless of various external factors that had had an effect on the activities of the companies of the Group, ensured profit that even exceeds the forecasted amounts. The consolidated net turnover of the *Ventspils nafta* Group for this period reached LVL 38.60 million, with profit after taxes amounting to LVL 4.20 million. It exceeded budget 2006 plans for the period concerned by LVL 0.6 million or 16%. However, profit before taxes of *a/s Ventspils nafta* Group for the period above reached LVL 6.30 million and it exceeds the results for the respective period of the last year by LVL 1 million or 20%.

In the reporting period, the external circumstances beyond the Group's control continued having their impact on the activities of *SIA Ventspils nafta termināls*, a subsidiary of *a/s Ventspils nafta*. This entity, operating in the port of Ventspils in the area of crude oil and petroleum products transshipment, for the first six months of 2006

transhipped in total 3.3 million tonnes of crude oil and petroleum products delivered to the terminal by railroad and sea. The financial results of *SIA Ventspils nafta termināls* were influenced by unpredictable market situation in Europe and the USA, where motor gasoline and gas oil is exported via *SIA Ventspils nafta termināls*, as well as by railroad transportation tariffs set by Russian Federation as non-beneficial for cargo owners.

Russian tariff policy for the reporting period encouraged the transportation of cargoes to their own export outlets, but actually stopped the export of crude oil by rail road to Ventspils and other harbours located outside the territory of Russia. At the same time, the active search for additional cargoes and successful cooperation with the clients carried out by the management of *SIA Ventspils nafta termināls* for the first six months of 2006 resulted in the increase of transshipment volumes of petroleum products delivered by sea. Currently, their share in the structure of total cargo transshipment is making up of nearly 0.5 million tonnes which is by 0.4 million tonnes more than for the analogous period of the last year.

For the reporting period, *SIA Ventspils nafta termināls* improved their quality management and environment control system in accordance with the latest requirements of the environment control standard ISO 14001:2004 as confirmed by the respective certificate of compliance issued by the international certification body *Bureau Veritas Quality International*.

Within the period from January to June 2006, the financial results of *SIA LatRosTrans*, a subsidiary of *a/s Ventspils nafta* owning and operating crude oil and petroleum products pipelines on the territory of Latvia, exceeded the amounts reported for the same period of 2005 with regard to crude oil deliveries by pipeline to Lithuania, as well as well gas oil transportation to the port of Ventspils, thus making the total delivery volumes reach for the reporting period 10.4 million tonnes. At the same time, it ought to be remarked that upon the end of the reporting period, crude oil pipeline deliveries to Mažeikiai refinery in Lithuania were temporarily suspended. According to the explanations given by Russian institutions, this situation allegedly happened on their territory due to the break of the existing crude oil pipeline *Druzhba*. Meanwhile, there is no information available to *SIA LatRosTrans* and *a/s Ventspils nafta* regarding any potential changes in the crude oil volumes planned to be delivered by pipeline to Lithuania in 2006. *SIA LatRosTrans* coordinates crude oil delivery schedule for the entire year, however, their monthly and quarterly deliveries may fluctuate within the schedule concerned. As publicly reported by some Russian officials, the temporarily closure of crude oil deliveries to Lithuania may be sustained.

The increased net turnover for the above period was reported by another subsidiary of *a/s Ventspils nafta* - *a/s Preses nams*, the biggest printing and publishing group in the Baltic states. In the first six months of 2006, *a/s Preses nams* reported increase in sales proceeds by 5% or LVL 0.5 million. The main increase was reported to be in the segment of printing labels, hard-cover books and stapled publications. *A/s Preses nams* still pursue important strategic goals to move production to new modern production facilities being built on the outskirts of Riga, thus improving the production process of the company and continuing reequipping its production and manufacturing. Unfortunately, due to a sharp increase of construction costs, relocation terms had to be revised. Other companies of the group operate within the approved budget.

In the reporting period, the Managing Board for *a/s Ventspils nafta* paid particular attention to the issues relating to real estate business development of the *a/s Ventspils nafta* Group. In 2Q2006, *SIA Nekustamie īpašumi VN*, a subsidiary that 100% belongs to *a/s Ventspils nafta*, publicly invited tenders for the best sketch solution for the development of real estate located at 3 Balasta dambis in Riga. The mentioned plot of land is in the Ķīpsala district, a strategic and favourable place located not far away from the city centre. Currently, this is a home place for administration and production facilities of the *a/s Preses nams* printing group.

Based on the recommendations of the authoritative tender committee, represented by qualified architects and city planning experts widely recognised in the Latvian state, the Managing board for *a/s Ventspils nafta* awarded the

Architect Bureau *SIA Tugalev LV* as the winner of the best sketch solution. Their solution suggested laying out extensive landscaped green areas with a new park by properly selecting the building density suitable for the city infrastructure and environment. The prospective buildings are planned for hotel functions and administrative needs. The solution has been accepted as a basis for further development of the territory in the context of detailed analysis for city planning as some particular decisions about the outlook for the real estate development have been already adopted and gave impulse to commence all required preliminary arrangements for their realisation at the respective institutions of the city of Riga.

As before, *a/s Ventspils nafta* will continue operating and meeting the budget approved for 2006, as well as implementing strategic development programmes of the companies of the Group.

Chairperson of the Board for *a/s Ventspils nafta*

O.Pētersone

Income Statement

	Group	
	6 months of 2006	6 months of 2005
	EUR thousand	EUR thousand
Net sales	54 884	60 348
Cost of sales	(45 881)	(52 831)
Gross profit	9 003	7 517
Sales and distribution expense	(1 345)	(1 161)
General and administrative expense	(4 590)	(4 192)
Other operating income/(expense), net	(403)	1 248
Result from operating activities	2 665	3 411
Gain/ (loss) in subsidiaries and associated entities, net	6 049	8 485
Non-operating expense	(60)	(249)
Financial income/ (expense), net	(731)	398
Result before taxes	7 923	12 046
Corporate income tax	(908)	(78)
Other taxes	-	(401)
Net result before minority interest	7 015	11 566
Minority interest	(1 071)	(750)
Net result for the year	5 944	10 816
Earnings per share		
in EUR per share	0,057	0,104

EUR exchange rate of the Bank of Latvia on 30 June 2006 – 0.702804 LVL

On behalf of the Board:

Olga Pētersone
 Chairman of the Board

Balance Sheet

ASSETS

	Group		Reference
	30/06/2006	31/12/2005	30/06/2005
	EUR thousand	EUR thousand	EUR thousand
NON CURRENT ASSETS			
Intangible assets	42 394	42 915	(16 168)
Property, plant and equipment			
Land, buildings and networks	107 283	118 246	152 079
Investment properties	37 860	37 861	-
Machinery and equipment	79 344	72 393	80 858
Other property, plant and equipment	7 030	6 897	8 682
Construction in progress	14 650	11 219	24 486
Prepayments for property, plant and equipment	7 103	5 603	1 935
TOTAL	253 270	252 219	268 040
Investments			
Investments in subsidiaries and associated entities	168 095	162 048	140 011
Long-term loan to related parties	-	-	-
Other long-term loans to corporate entities	1 520	1 554	1 572
TOTAL	169 615	163 602	141 583
TOTAL NON CURRENT ASSETS	465 279	458 736	393 454
CURRENT ASSETS			
Inventories	11 972	11 716	13 670
Current portion of long-term receivables	60	60	60
Short-term loans to related parties	-	-	-
Trade accounts receivable	8 618	11 117	9 582
Accounts receivable from related party	-	-	31
Other accounts receivable	2 301	2 382	2 341
Prepaid expense	2 617	884	2 395
Accrued income	575	987	534
Trading investments	73	73	73
Cash and cash equivalents	24 113	22 880	18 149
TOTAL CURRENT ASSETS	50 329	50 099	46 835
TOTAL ASSETS	515 608	508 835	440 289

EUR exchange rate of the Bank of Latvia on 30 June 2006 – 0.702804 LVL

On behalf of the Board:

Olga Pētersone
 Chairman of the Board

LIABILITIES AND SHAREHOLDERS' EQUITY

	Group		Reference
	30/06/2006	31/12/2005	30/06/2005
	EUR thousand	EUR thousand	EUR thousand
SHAREHOLDERS' EQUITY			
Share capital	148 660	148 660	148 660
Share premium	60 249	60 249	60 249
Long-term assets revaluation reserve	-	-	-
Foreign currency translation reserve	6 733	6 733	(12 915)
Restricted reserves	1 017	1 017	53 917
Other reserves	214 377	214 377	91 503
Previous year unappropriated result	(30 912)	-	-
Current year unappropriated result	5 944	(30 912)	10 816
MINORITY INTEREST	60 757	59 687	63 305
TOTAL SHAREHOLDERS'EQUITY	466 825	459 811	415 535
PROVISIONS			
Other provisions	-	-	1 029
Deferred corporate income tax	22 045	21 137	3 283
TOTAL PROVISIONS	22 045	21 137	4 312
LIABILITIES			
Long-term liabilities			
Long-term portion of financial lease liability	9 364	11 258	1 998
TOTAL	9 364	11 258	1 998
Current liabilities			
Short-term portion of long-term loan	6 988	4 522	9 328
Advances from customers	600	534	528
Trade accounts payable	5 566	7 002	5 007
Accounts payable to related party	-	-	-
Taxes payable	766	637	737
Accrued liabilities	2 927	3 544	2 489
Deferred income	529	390	354
TOTAL	17 376	16 629	18 443
TOTAL LIABILITIES	26 740	27 887	20 441
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	515 608	508 835	440 289

EUR exchange rate of the Bank of Latvia on 30 June 2006 – 0.702804 LVL

On behalf of the Board:

Olga Pētersone
Chairman of the Board

Statement of Cash Flows

	<u>Group</u>	
	6 months of 2006	6 months of 2005
	EUR thousand	EUR thousand
Cash flow from/ (to) operating activities		
Net Result	5 944	10 816
Changes due to changed accounting standards	-	(1 524)
Amortisation and depreciaiton	7 392	9 061
Operating profit before changes in current assets and liabilities	13 336	18 353
Decrease in inventory	(256)	563
Decrease/ (increase) in trade accounts receivable	1 199	4 456
Increase/ (decrease) in provisions	908	1 107
Increase/ (decrease) in current liabilities	747	270
Net cash from/ (to) operating activities	15 934	24 749
Cash flow from/ (to) investment activities		
Purchase of fixed assets	(6 791)	(9 289)
(Increase)/ decrease in long-term financial investments	(6 013)	(8 459)
(Increase)/ decrease in trading investments	-	10
(Increase) in issued loans	-	-
Net cash flow from/ (to) investment activities	(12 804)	(17 738)
Cash flow from/ (to) financing activities		
Increase/ (decrease) in own shares	-	-
Lease payments received/(returned)	(1 894)	659
Net cash from/ (to) investment activities	(1 894)	659
Net (decrease) in cash	1 233	7 675
Cash at the beginning of the year	22 880	10 474
Cash at the end of the year	24 113	18 149

EUR exchange rate of the Bank of Latvia on 30 June 2006 – 0.702804 LVL

Statement of Changes in Shareholders' Equity

Group

	Share capital	Share premium	Foreign currency translation reserve	Restricted reserves	Other reserves	Current year unappro- priated result	Minority interest	Total
Balance as of 30 June 2005	148 660	60 249	(12 915)	53 917	91 503	10 816	63 305	415 535
Balance as of 31 December 2005	148 660	60 249	6 733	1 017	214 377	(30 912)	59 687	459 811
Current year consolidated profit	-	-	-	-	-	5 944	-	5 944
Minority interest	-	-	-	-	-	-	1 070	1 070
Balance as of 30 June 2006	148 660	60 249	6 733	1 017	214 377	(24 968)	60 757	466 825

EUR exchange rate of the Bank of Latvia on 30 June 2006 – 0.702804 LVL