



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 Riga 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 Riga 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 Riga 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 temporary 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
	LVL thousand	LVL thousand
Net sales	38 573	42 413
Cost of sales	(32 245)	(37 130)
Gross profit	6 328	5 283
Sales and distribution expense	(945)	(816)
General and administrative expense	(3 226)	(2 946)
Other operating income/(expense), net	(283)	877
Result from operating activities	1 874	2 398
Gain/ (loss) in subsidiaries and associated entities, net	4 251	5 963
Non-operating expense	(42)	(175)
Financial income/ (expense), net	(514)	280
Result before taxes	5 569	8 465
Corporate income tax	(638)	(55)
Other taxes	-	(282)
Net result before minority interest	4 931	8 128
Minority interest	(753)	(527)
Net result for the year	4 178	7 602
Earnings per share		
in lats per share	0,040	0,073

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
	LVL thousand	LVL thousand	LVL thousand
NON CURRENT ASSETS			
Intangible assets	29 795	30 161	-11 363
Property, plant and equipment			
Land, buildings and networks	75 399	83 104	106 882
Investment properties	26 608	26 609	0
Machinery and equipment	55 763	50 878	56 827
Other property, plant and equipment	4 941	4 847	6 102
Construction in progress	10 296	7 885	17 209
Prepayments for property, plant and equipment	4 992	3 938	1 360
TOTAL	177 999	177 261	188 380
Investments			
Investments in subsidiaries and associated entities	118 138	113 888	98 400
Long-term loan to related parties	-	-	-
Other long-term loans to corporate entities	1 068	1 092	1 105
TOTAL	119 206	114 980	99 505
TOTAL NON CURRENT ASSETS	327 001	322 402	276 522
CURRENT ASSETS			
Inventories	8 414	8 234	9 607
Current portion of long-term receivables	42	42	42
Short-term loans to related parties	-	-	-
Trade accounts receivable	6 057	7 813	6 734
Accounts receivable from related party	-	-	22
Other accounts receivable	1 617	1 674	1 645
Prepaid expense	1 839	621	1 683
Accrued income	404	694	375
Trading investments	51	51	51
Cash and cash equivalents	16 947	16 080	12 755
TOTAL CURRENT ASSETS	35 371	35 209	32 914
TOTAL ASSETS	362 372	357 611	309 436

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
	LVL thousand	LVL thousand	LVL thousand
SHAREHOLDERS' EQUITY			
Share capital	104 479	104 479	104 479
Share premium	42 343	42 343	42 343
Long-term assets revaluation reserve	-	-	-
Foreign currency translation reserve	4 732	4 732	(9 077)
Restricted reserves	715	715	37 893
Other reserves	150 665	150 665	64 309
Previous year unappropriated result	(21 725)	-	-
Current year unappropriated result	4 178	(21 725)	7 602
MINORITY INTEREST	42 700	41 948	44 491
TOTAL SHAREHOLDERS'EQUITY	328 086	323 157	292 040
PROVISIONS			
Other provisions	-	-	723
Deferred corporate income tax	15 493	14 855	2 307
TOTAL PROVISIONS	15 493	14 855	3 030
LIABILITIES			
Long-term liabilities			
Long-term portion of financial lease liability	6 581	7 912	1 404
TOTAL	6 581	7 912	1 404
Current liabilities			
Short-term portion of long-term loan	4 911	3 178	6 556
Advances from customers	422	375	371
Trade accounts payable	3 912	4 921	3 519
Accounts payable to related party	-	-	-
Taxes payable	538	448	518
Accrued liabilities	2 057	2 491	1 749
Deferred income	372	274	249
TOTAL	12 212	11 687	12 962
TOTAL LIABILITIES	18 793	19 599	14 366
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	362 372	357 611	309 436

On behalf of the Board:

 Olga Pētersone
 Chairman of the Board

Statement of Cash Flows

	Group	
	6 months of 2006	6 months of 2005
	LVL thousand	LVL thousand
Cash flow from/ (to) operating activities		
Net Result	4 178	7 602
Changes due to changed accounting standards	-	(1 071)
Amortisation and depreciaiton	5 195	6 368
Operating profit before changes in current assets and liabilities	9 372	12 899
Decrease in inventory	(180)	396
Decrease/ (increase) in trade accounts receivable	843	3 132
Increase/ (decrease) in provisions	638	778
Increase/ (decrease) in current liabilities	525	190
Net cash from/ (to) operating activities	11 198	17 395
Cash flow from/ (to) investment activities		
Purchase of fixed assets	(4 773)	(6 528)
(Increase)/ decrease in long-term financial investments	(4 226)	(5 945)
(Increase)/ decrease in trading investments	-	7
(Increase) in issued loans	-	-
Net cash flow from/ (to) investment activities	(8 999)	(12 466)
Cash flow from/ (to) financing activities		
Increase/ (decrease) in own shares	-	-
Lease payments received/(returned)	(1 331)	463
Net cash from/ (to) investment activities	(1 331)	463
Net (decrease) in cash	867	5 394
Cash at the beginning of the year	16 080	7 361
Cash at the end of the year	16 947	12 755

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	104 479	42 343	(9 077)	37 893	64 309	7 602	44 491	292 040
Balance as of 31 December 2005	104 479	42 343	4 732	715	150 665	(21 725)	41 948	323 157
Current year consolidated profit	-	-	-	-	-	4 178	-	4 178
Minority interest	-	-	-	-	-	-	752	752
Balance as of 30 June 2006	104 479	42 343	4 732	715	150 665	(17 547)	42 700	328 086

Attachments (LVL thousand)

1. Net sales

	<u>Group</u>	
	<u>6 months of 2006</u>	<u>6 months of 2005</u>
Reloading services	6 677	8 936
Railway services	8 418	13 914
Printing services	9 012	9 029
Storage services	1 748	
Transportation of oil	5 212	3 939
Transportation of oil products	5 601	4 507
Rental income	238	342
Other services	1 666	1 746
Total	<u>19 861</u>	<u>21 527</u>

2. Cost of sales

	<u>Group</u>	
	<u>6 months of 2006</u>	<u>6 months of 2005</u>
Amortization and depreciation	-4 474	-5 491
Amortization of intangible assets	-396	-499
Raw materials	-5 939	-5 401
Remuneration of work	-4 227	-3 797
Utilities	-779	-516
Insurance expenses	-1 119	-730
Social security contributions	-959	-889
Materials and spare parts	-621	-690
Transit development	-734	-429
Electricity	-492	-369
Treatment of technological waste water	-769	-189
Utilisation of piers	-404	-404
Land and fixed assets' rent	-379	-362
Services received from other companies	-329	-311
Security	-437	-463
Repair works done by other companies	-108	-85
Railway charges	-8 682	-14 769
Environment protection expense	-289	-322
Work safety expense	-21	-18
Communication expense	-81	-111
Helicopter services	-130	-130
Changes in inventory	79	164
Transport expenses	-116	-107
Other expenses	-839	-1 213
Total	<u>-32 245</u>	<u>-37 130</u>

3. Sales and distribution expense

Group

	<u>6 months of</u> <u>2006</u>	<u>6 months of</u> <u>2005</u>
Sales and distribution expense	-945	-816
Total	<u>-945</u>	<u>-816</u>

4. General and administrative expense

Group

	<u>6 months of</u> <u>2006</u>	<u>6 months of</u> <u>2005</u>
Remuneration of work	-1 228	-1 094
Advertising and marketing	-315	-220
Social security contributions	-276	-229
Depreciation	-289	-266
Insurance	-82	-84
Professional charges and legal costs	-224	-370
Business trips	-52	-63
Communication expense	-50	-38
Rent of premises	-44	-85
Vehicle maintenance expense (incl. rent of vehicles)	-62	-56
Conferences, seminars and training	-23	-22
Security	-13	-13
Representation expense	-63	-55
Secondary costs of cash turnover	-34	-97
Social infrastructure expense	-77	-49
Other	<u>-393</u>	<u>-207</u>
Total	<u>-3 226</u>	<u>-2 946</u>

	<u>Group</u>	
	<u>6 months of 2006</u>	<u>6 months of 2005</u>
5. Other operating income/ (expense), (net)		
Other income	410	1 732
Release of allowance for doubtful and bad debt	2	1
Income from realised fixed assets	4	19
Income from realised current assets	0	1 358
Payments to local municipalities	-350	-388
Depreciation	-36	-41
Remuneration of work	-104	-119
Social security contributions	-22	-24
Vehicle maintenance expense	-23	-24
Accruals	-	-686
Other expense	<u>-164</u>	<u>-950</u>
Total	<u>-283</u>	<u>877</u>

	<u>Group</u>	
	<u>6 months of 2006</u>	<u>6 months of 2005</u>
6. Non-operation expense		
Sponsorships	-4	-73
Amortization of intangible assets	0	-71
Other expense	<u>-38</u>	<u>-31</u>
Total	<u>-42</u>	<u>-175</u>

	<u>Group</u>	
	<u>6 months of 2006</u>	<u>6 months of 2005</u>
7. Financial income/(expense), net		
Foreign currency exchange gain	1 080	1 368
Interest income on loans	1	44
Interest income from bank account balances and deposits	250	71
Foreign currency exchange loss	-1 589	-1 044
Interest expense	-297	-163
Other income	<u>42</u>	<u>4</u>
Total	<u>-513</u>	<u>280</u>

8. Taxes

	<u>Group</u>	
	<u>6 months of</u> <u>2006</u>	<u>6 months of</u> <u>2005</u>
Incorporate income tax	-638	-55
Real estate income	-	-282

9. Investments in subsidiaries and associated entities

The following table summarizes ownership of the Parent company and the Group in subsidiaries and associated entities:

<u>Ownership (%)</u>	<u>30.06.2006.</u>	<u>30.06.2005.</u>	<u>Legal address</u>
<u>Subsidiaries</u>			
SIA "Ventspils nafta" termināls"	100	100	Talsu street 75, LV-3602, Ventspils, Latvia
SIA "LatRosTrans"	66	66	Balvu street 7, LV-5043, Daugavpils Latvia
AS "Preses nams"	92,99	92,99	Balasta dambis 3, LV-1081, Riga, Latvia
SIA "Mediju nams"	90,21	90,21	Balasta dambis 3, LV-1081, Riga, Latvia
SIA "Nekustamie īpašumi VN"	100	100	Balasta dambis 3, LV-1081, Riga, Latvia
SIA "Rīgas līcis VN"	100	100	Dubultu prospekts 51, LV-2015, Jurmala, Latvia
<u>Associated entities</u>			
SIA "Futbola klubs Ventspils"	30	30	Dzintaru street 20a, LV-3602, Ventspils, Latvia
SIA "Mediji un Poligrāfija"	32,7	32,7	Balasta dambis 3, LV-1081, Riga, Latvia
SIA "Ventshoes"	21,44	21,44	Mičurina street 6, LV-3601, Ventspils, Latvia
AS "Latvijas Kuģniecība"	49,94	49,94	Basteja bulvāris 2, LV 1807, Riga, Latvia