



AS VENTSPILS NAFTA

(UNIFIED REGISTRATION NUMBER 50003003091)

UNAUDITED CONSOLIDATED FINANCIAL REPORT FOR 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 (93.01%) 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 Lejastiezumi (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

Dennis Crema

Vladimirs Krastiņš

Members of the Council:

Māris Gailis

Gints Laiviņš - Laivenieks

Jeffrey Scott Martz

Paul Edward Mulholland

Ashley John Neale

Ansis Sormulis

Andris Vilcmeiers

Board of AS Ventspils nafta

Members of the Board:

Olga Pētersone

Aldis Āķis

Ilva Purēna

Guntis Tīrmanis

AS Ventspils nafta Management report

Dear shareholders, customers and cooperation partners,

The reporting period for the holding company public JSC “*Ventspils Nafta*” was a year of changes aimed towards future development. State-owned portfolio of shares (38.6%) of JSC “*Ventspils Nafta*” was sold on the Riga Stock Exchange in a public auction organized by the Latvian government in 2006. From the viewpoint of management effectiveness and long-term future development of JSC “*Ventspils Nafta*”, this certainly is the most important event for last ten years in the holding company’s history enabling participation of international high-level professionals in administration of JSC “*Ventspils Nafta*” and providing JSC “*Ventspils Nafta*” and its subsidiaries an opportunity to be more competitive when applying for European Union’s co-financing for implementation of modernization projects.

The chosen model of selling state-owned shares in a public auction while using the modern commercial infrastructure of the Riga Stock Exchange ensured total transparency and equal conditions for all participants. As a result JSC “*Ventspils Nafta*” obtained a new shareholder with 34.75% interest in the share capital of JSC “*Ventspils Nafta*” – *Euromin Holdings (Cyprus) Limited*, a subsidiary of the international oil and gas transit company *Vitol*. The first publicly announced intentions of the new shareholder with respect to business development of JSC “*Ventspils Nafta*” were related to facilitating growth of the holding company’s transit business.

During the reporting period, registered and paid-up share capital of JSC “*Ventspils Nafta*” was LVL 104,479,519 consisting of 104,479,519 shares with a nominal value of LVL 1 for 1 share. 60,598,121 shares listed on the Riga Stock Exchange and included in its official list are public. During 2006, share price of JSC “*Ventspils Nafta*” varied from LVL 1.73 to LVL 2.91 with the average price of LVL 2.19, which is 12 santims more than in 2005 when the average price of JSC “*Ventspils Nafta*” shares was LVL 2.07. During the reporting period, 3,007,647 shares were sold at the Riga Stock Exchange with the annual turnover of 6,601,182 LVL, that is three times more than in the previous year both in terms to number of sold shares and in monetary terms. At the end of 2006, the market capitalization of JSC “*Ventspils Nafta*” was 245.5 million LVL.

During the reporting period, a new Supervisory Board of JSC “*Ventspils Nafta*”, which now represents also the interests of *Vitol* Group, was elected for a period of three years under the decision of shareholders’ extraordinary meeting on 25 October 2006 in compliance with changes in the shareholders’ structure of JSC “*Ventspils Nafta*”. The following persons were elected to the Supervisory Board: Māris Gailis, Gints Laiviņš-Laivenieks, Ansis Sormulis, Andris Vilcmeiers, Ashley Neale, Jeffrey Martz and Paul Mulholland. Mamerts Vaivads, the former chairman of the Supervisory Board, was reelected unanimously as the new chairperson of the Supervisory Board of JSC “*Ventspils Nafta*”. Vladimirs Krastiņš and Vladimirs Solomatins, who performed these functions in the Supervisory Board also before, were reelected as the deputy chairmen of the Supervisory Board. Dennis Crema, the newly elected representative of *Vitol*, became the third deputy chairman of the Supervisory Board.

In 2006, companies of JSC “*Ventspils Nafta*” Group continued active work in the following principal business areas – transshipment of crude oil and petroleum products (“*Ventspils Nafta* Terminals” Ltd); transport of crude oil and petroleum products by pipelines (“*LatRosTrans*” Ltd); printing (JSC “*Preses nams*”), as well as real estate management and development (companies of “*Nekustamie Īpašumi VN*” Ltd, “*Rīgas Īcis VN*” Ltd) and publishing (“*Mediju Nams*” Ltd). JSC “*Ventspils Nafta*” has also a significant shareholding (49.9%) in its associated company – the sea cargo transport company JSC “*Latvian Shipping Company*”, whose shares are also listed in the official list of Riga Stock Exchange.

Considerable changes in the global energy sector had unexpected and major impact on the consolidated operating results of JSC "Ventspils Nafta" for the reporting period due to sizeable proportion of transit businesses in JSC "Ventspils Nafta" Group. The net turnover of JSC "Ventspils Nafta" Group reached LVL 69.2 million in 2006, but the net profit despite negative market development trends – LVL 7.4 million, which is LVL 1.6 million more than planned.

Turnover of JSC "Ventspils Nafta" was lower than planned because of unstable and practically unpredictable situation in the railway transport sector. "Ventspils Nafta" Terminals Ltd, the subsidiary of JSC "Ventspils Nafta" engaged in crude oil and petroleum product transshipment, operations are directly influenced by high railway tariffs politically set by the Russian Federation outside ports of Russia and high oil product import duty as well as general market situation. Although "Ventspils Nafta" Terminals Ltd has operated successfully during the reporting period making profit of more than LVL 0.6 million, we expect that company's results for 2007 will be highly dependent on the difficult situation in the sector of oil product railway transport.

At the same time we would like to point out that due to efforts of management of "Ventspils Nafta" Terminals Ltd to introduce new kinds of services have resulted in receiving crude oil and petroleum products by sea. During 2006 "Ventspils Nafta" Terminals Ltd transshipped 5.7 million tons of crude oil and petroleum products of which 1.24 million tons of crude oil and petroleum products were delivered to the terminal by sea. Transshipment volumes during 2006 were almost one million tons more compared to 2005. The international consortium Vitol being new shareholder of JSC "Ventspils Nafta" has also confirmed strategy to deliver crude oil and petroleum products by the sea on tankers. Due to operations of Vitol, the terminal received a substantial amount of oil product cargos from sea already in the autumn of 2006. This cooperation continues also after the end of reporting period.

Already after the reporting period, "Ventspils Nafta" Terminals has successfully started transshipment of gas oil transported by petroleum product pipelines. It is planned that this kind of operations will comprise an significant position of terminal's activities in the future.

"LatRosTrans" Ltd, another transit company of JSC "Ventspils Nafta" Group and owner and operator of crude oil and petroleum products pipeline system in the territory of Latvia, operated successfully during the reporting period transporting more than 14.5 million tons of crude oil and petroleum products that represent 6.3% increase over results of 2005. Meanwhile "LatRosTrans" Ltd became aware of were influenced by significant and concerning changes outside geography of operations of the company also having an impact on JSC "Ventspils Nafta" financial results. Disposal of shares of the Lithuanian company "Mazeikiai Oil" to the Polish company Orlen clearly marked the importance of geopolitical factors in this industry and is continuing to have major influence effected by political and economic decisions in this area for oil transport from Russia to Mazeikiai oil refinery in Lithuania which was stopped in July of 2006.

In accordance to information provided by the Russian Federation authorities, such situation has been caused by damage of the oil pipeline *Druzhba* located in Russia's territory. Management of the Russian oil pipeline monopoly *Transneftj* have already announced that oil supply to Lithuania possibly will not be resumed if repair costs will be too large. Because oil transport to Lithuania is partly provided through the pipeline owned by "LatRosTrans" Ltd, the company in the reporting period has reflected extraordinary cost of LVL 3.6 million in respect to partial decrease in value of technological assets due to stoppage of oil transit to Mazeikiai. This cost will not impact operational results of "LatRosTrans" Ltd and JSC "Ventspils Nafta" in the following years.

During the reporting period, decrease in USD currency exchange rate against LVL negatively influenced revenues of the subsidiaries of JSC "Ventspils Nafta" Group who receive their income in USD, as well as consolidated currency revaluation reserves, especially valuation of JSC "Latvian Shipping Company", the associated company of JSC "Ventspils Nafta".

JSC "Preses Nams", the largest printing concern of the Baltic States and subsidiary of JSC "Ventspils Nafta", during the reporting period continued introduction of considerable organizational and functional changes started in 2005 in order to reach company's business goals and ensure maximum operational effectiveness. Total production restructuring moving production units from Riga, the capital city of Latvia, to the suburbs unfortunately was impossible in the reporting period for the company had to introduce changes in the technical project of the production unit not only caused by reasonable increase of costs in building industry because of general inflation and the one in particular field, but also additional requirements in the abovementioned industry, which not always were motivated.

During the reporting period, services of JSC "Preses nams" to Latvian customers accounted for 73% of the total amount of services rendered by the company, but export and supply in the European Union reached 27%. The net turnover of JSC "Preses Nams" during the reporting period was negatively influenced by the increasing competition in global printing market – mostly in the segment of book, brochure and image production. However there was a growth in the magazine production segment – amounting to 3% for stapled editions and 8% for magazines with soft cover.

Anticipating further development of the company, a strategic development program of JSC "Preses Nams" was worked out in the reporting period and after that for a period until 2011 planning to double company's operating results in this period. In the next five years, JSC "Preses Nams" is planning to invest several tens of millions of lats in creation of new production units, restoration of the existing technological equipment and purchase of new production equipment.

During the reporting period, the Management Board of JSC "Ventspils Nafta" devoted special attention to issues related to the development of concern's real estate business sphere becoming familiar with opinions of professionals about potential development prospects of real estate owned by the concern at 3, Balasta Dambis in Riga. The abovementioned piece of land is situated in the city centre at a strategically important place in Ķīpsala where administrative and production premises of a printing concern JSC "Preses Nams", a subsidiary of JSC "Ventspils Nafta", are located at the moment. These opinions will form a basis, which is planned to be improved in the context of deep city planning analysis of the territory, already making concrete decisions about further prospects of this property and starting all the necessary preparatory harmonization works for their implementation in the corresponding institutions in Riga.

In 2007, JSC „Ventspils Nafta” and its subsidiaries, as before, will continue to operate in order to reach goals established by the shareholders, as well as to ensure increase in holding company value.

O. Pētersone

Chairperson of the Management Board of
JSC „Ventspils Nafta”

Income Statement

	Group	
	2006	2005
	EUR thousand	EUR thousand
Net sales	98 463	124 255
Cost of sales	(89 100)	(111 158)
Gross profit	9 363	13 097
Sales and distribution expense	(2 665)	(2 436)
General and administrative expense	(10 895)	(9 306)
Other operating income/(expense), net	987	(43 214)
Result from operating activities	(3 210)	(41 860)
Gain/ (loss) in subsidiaries and associated entities, net	13 615	10 852
Non-operating expense	(152)	(209)
Financial income/ (expense), net	(1 295)	267
Result before taxes	8 958	(30 949)
Corporate income tax	(1 013)	(3 295)
Other taxes	-	-
Net result before minority interest	7 945	(34 245)
Minority interest	2 620	3 331
Net result for the year	10 565	(30 914)
Earnings per share		
in EUR per share	0,101	(0,299)

EUR exchange rate of the Bank of Latvia on 31 December 2006 – 0.702804 LVL

On behalf of the Board:

Olga Pētersone
 Chairman of the Board

Balance Sheet

ASSETS

	Group	
	31/12/2006	31/12/2005
	EUR thousand	EUR thousand
NON CURRENT ASSETS		
Intangible assets	41 606	42 915
Property, plant and equipment		
Land, buildings and networks	103 000	118 246
Investment properties	45 087	37 861
Machinery and equipment	74 641	72 393
Other property, plant and equipment	6 534	6 897
Construction in progress	17 747	11 219
Prepayments for property, plant and equipment	4 852	5 603
TOTAL	251 861	252 219
Investments		
Investments in subsidiaries and associated entities	159 833	162 048
Long-term loan to related parties	-	-
Other long-term loans to corporate entities	1 501	1 554
TOTAL	161 334	163 602
TOTAL NON CURRENT ASSETS	454 801	458 736
CURRENT ASSETS		
Inventories	8 569	11 716
Current portion of long-term receivables	60	60
Short-term loans to related parties	-	-
Trade accounts receivable	10 499	11 117
Accounts receivable from related party	-	-
Other accounts receivable	1 531	2 382
Prepaid expense	1 646	884
Accrued income	553	987
Trading investments	73	73
Cash and cash equivalents	21 697	22 880
TOTAL CURRENT ASSETS	44 628	50 099
TOTAL ASSETS	499 429	508 835

EUR exchange rate of the Bank of Latvia on 31 December 2006 – 0.702804 LVL

On behalf of the Board:

Olga Pētersone
 Chairman of the Board

LIABILITIES AND SHAREHOLDERS' EQUITY

	Group	
	31/12/2006	31/12/2005
	EUR thousand	EUR thousand
SHAREHOLDERS' EQUITY		
Share capital	148 660	148 660
Share premium	60 249	60 249
Long-term assets revaluation reserve	-	-
Foreign currency translation reserve	(9 095)	6 733
Restricted reserves	1 017	1 017
Other reserves	228 268	214 377
Previous year unappropriated result	(30 912)	-
Current year unappropriated result	10 565	(30 912)
MINORITY INTEREST	57 131	59 687
TOTAL SHAREHOLDERS'EQUITY	465 883	459 811
PROVISIONS		
Other provisions	-	-
Deferred corporate income tax	8 257	21 137
TOTAL PROVISIONS	8 257	21 137
LIABILITIES		
Long-term liabilities		
Long-term portion of financial lease liability	5 240	11 258
TOTAL	5 240	11 258
Current liabilities		
Short-term portion of long-term loan	8 399	4 522
Advances from customers	411	534
Trade accounts payable	6 626	7 002
Accounts payable to related party	-	-
Taxes payable	737	637
Accrued liabilities	3 509	3 544
Deferred income	367	390
TOTAL	20 049	16 629
TOTAL LIABILITIES	25 289	27 887
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	499 429	508 835

EUR exchange rate of the Bank of Latvia on 31 December 2006 – 0.702804 LVL

On behalf of the Board:

 Olga Pētersone
 Chairman of the Board

Statement of Cash Flows

	Group	
	2006	2005
	EUR thousand	EUR thousand
Cash flow from/ (to) operating activities		
Net Result	10 565	(30 948)
Adjustments	(9 096)	30 680
Amortisation and depreciaiton	15 118	17 295
Operating profit before changes in current assets and liabilities	16 587	17 027
Decrease in inventory	3 147	2 517
Decrease/ (increase) in trade accounts receivable	1 080	(2 144)
Increase/ (decrease) in provisions	(12 880)	3 135
Increase/ (decrease) in current liabilities	3 421	1 986
Net cash from/ (to) operating activities	11 355	22 521
Cash flow from/ (to) investment activities		
Purchase of fixed assets	(8 788)	(20 107)
(Increase)/ decrease in long-term financial investments	2 268	-
(Increase)/ decrease in trading investments	-	-
(Increase) in issued loans	-	3 830
Net cash flow from/ (to) investment activities	(6 520)	(16 277)
Cash flow from/ (to) financing activities		
Increase/ (decrease) in own shares	-	-
Lease payments received/(returned)	(6 017)	6 161
Net cash from/ (to) investment activities	(6 017)	6 161
Net (decrease) in cash	(1 183)	12 406
Cash at the beginning of the year	22 880	10 474
Cash at the end of the year	21 697	22 880

EUR exchange rate of the Bank of Latvia on 31 December 2006 – 0.702804 LVL

Statement of Changes in Shareholders' Equity

Group (EUR thousand)

	Share capital	Share premium	Foreign currency translation reserve	Restricted reserves	Other reserves	Current year unappropriated result	Minority interest	Total
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	-	-	-	-	-	10 565	-	10 565
Correction of reserves			(15 828)		13 891			(1 937)
Minority interest	-	-	-	-	-	-	(2 556)	(2 556)
Balance as of 31 December 2006	148 660	60 249	(9 095)	1 017	228 268	(20 347)	57 131	465 883

EUR exchange rate of the Bank of Latvia on 31 December 2006 – 0.702804 LVL