

**JSC VENTSPILS NAFTA AND ITS SUBSIDIARIES**

(UNIFIED REGISTRATION NUMBER 50003003091)

**ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007**

PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS

TOGETHER WITH  
THE INDEPENDENT AUDITORS' REPORT

## Independent Auditors' Report

To the shareholders of AS *Ventspils nafta*

### Report on the Financial Statements

We have audited 2007 consolidated financial statements of AS *Ventspils nafta* and its subsidiaries (the "Group"), which are set out on pages 9 through 57 of the accompanying 2007 Annual Report and which comprise the consolidated balance sheet as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## Independent Auditors' Report (continued)

### Emphasis of Matter

Without qualifying our opinion, we would like to draw your attention to the fact that transportation of crude oil through the AS Ventspils nafta subsidiary's SIA LatRosTrans pipeline Polotsk–Mažeikiai ceased in July 2006 and since then the only SIA LatRosTrans source of income has been transportation of oil products through the pipeline Polotsk–Ventspils. Thus, a part of SIA LatRosTrans assets is currently not in operation and the remaining part is operating with a loss. As of 31 December 2007 the carrying amount of the respective property, plant and equipment and the construction in progress amounts to LVL 96 million (31 December 2006: LVL 101 million). The management of SIA LatRosTrans believes that the current economic situation is temporary and is taking measures to resume the crude oil flow. However, it remains unclear whether these measures will result in any improvement of the situation. As discussed in Note 14, no impairment loss has been recognized in 2007 (2006: impairment loss of LVL 3.8 million) based on the assessed value in use of the SIA LatRosTrans property, plant and equipment calculated using estimates of future cash flows. If future events occur which cause a change in the assumptions used in arriving at the estimates of future cash flows in an unfavourable manner substantial impairment losses in relation to property, plant and equipment and construction in progress will have to be realized. The effect of any changes in the estimates will be recorded in the financial statements, when determinable.

Without qualifying our opinion, we would like to draw your attention to the fact that the major part of segment 'publishing and printing' operated by the AS Ventspils nafta subsidiary AS Preses nams has operated with losses in 2006 and 2007 (see Note 3). This situation may in future periods lead to material impairment losses to the equipment and construction in progress of this subsidiary. As of 31 December 2007 the carrying amount of the respective equipment and construction in progress amounts to LVL 27 million (31 December 2006: LVL 12 million). The management of AS Preses nams has assessed the fair value less costs to sell for equipment and construction in progress as at 31 December 2007, and, if this would be used as a basis for assessing the recoverable amount of the aforementioned assets, an impairment loss would amount to approximately LVL 2.5 million. Since AS Preses nams management believes that the situation is temporary as significant restructuring plans are approved for implementation in the forthcoming years and the restructuring process has started in 2007, it prepared also a value in use calculation which is based on the estimated net present value of future cash flows from the cash generating unit AS Preses nams at the end of fiscal year 2007 and, based on these cash flow projections no impairment of the subsidiary's equipment and construction in progress appears to be currently required. However, it remains unclear whether the restructuring measures initiated in 2007 will result in the cash flows expected by the management. If the actual results in future years are significantly worse than budgeted, substantial impairment losses in relation to property, plant and equipment and construction in progress will have to be realized. The effect of any changes in the estimates will be recorded in the financial statements, when determinable. Reference is also made to Notes 13 and 14 to the financial statements.

No adjustments have been made in the accompanying financial statements that may be required as the outcome of the two uncertainties described above.

Without qualifying our opinion, we further draw your attention to two significant transactions disclosed in Note 7 to the financial statements, which includes disclosure of gain of the Group's sale of minority share of the subsidiary SIA Ventspils nafta terminals in the amount of LVL 26.7 million and a reversal of the previously recognized impairment loss amounting to approximately LVL 30.7 million, which both have a significant effect on the financial performance of the Group in 2007.

### **Report on Compliance of the Management Report**

Furthermore, we have read the Management Report for the year ended 31 December 2007 (included on pages 6 through 8 of the accompanying 2007 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

SIA Ernst & Young Baltic  
License No. 17

Diāna Krišjāne  
Personal ID code: 250873-12964  
Chairperson of the Board

Iveta Vimba  
Latvian Sworn Auditor  
Certificate No. 153

Riga, 15 April 2008

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### **Council of JSC *Ventspils nafta***

Chairman of the Council:	Vladimirs Solomatins
Deputy Chairmen of the Council:	Dennis Crema Andris Vilcmeiers Jeffrey Scott Martz
Members of the Council:	Māris Gailis Gints Laiviņš -Laivenieks Mamerts Vaivads Paul Edward Mulholland Ashley John Neale Ansis Sormulis Vladimirs Krastiņš

The changes in the Council during the period from 1 January 2007 to 1 March 2008 were as follows:

Elected	Dismissed	Name	Position held
20/07/2007		Vladimirs Solomatins	Chairman of the Council
20/07/2007		Andris Vilcmeiers	Deputy Chairman of the Council
20/07/2007		Jeffrey Scott Martz	Deputy Chairman of the Council
20/07/2007		Mamerts Vaivads	Member of the Council
20/07/2007		Vladimirs Krastiņš	Member of the Council
	20/07/2007	Mamerts Vaivads	Chairman of the Council
	20/07/2007	Vladimirs Solomatins	Deputy Chairman of the Council
	20/07/2007	Vladimirs Krastiņš	Deputy Chairman of the Council
	20/07/2007	Andris Vilcmeiers	Member of the Council
	20/07/2007	Jeffrey Scott Martz	Member of the Council

### **Board of JSC *Ventspils nafta***

Chairperson of the Board:	Olga Pētersone
Members of the Board:	Normunds Staņēvičs Ilva Purēna Guntis Tīrmanis

The changes in the Board during the period from 1 January to 1 March 2008 were as follows:

Elected	Dismissed	Name	Position held
26/02/2008		Normunds Staņēvičs	Member of the Board
	26/02/2008	Aldis Āķis	Member of the Board

## Management report

### Dear shareholders, customers and cooperation partners,

The reporting period for the public holding *JSC Ventspils nafta* can be particularly characterized by continuity of the positive changes related to involvement of the co-owner of *JSC Ventspils nafta* – international oil and gas transport consortium *Vitol Group* in the management and development of the holding company since public auction organized by Latvian government in autumn 2006 of the state-owned shares of *JSC Ventspils nafta*. The reporting period for the holding company of *JSC Ventspils nafta* has resulted in a year of changes aimed to the future with development areas of *JSC Ventspils nafta* being defined, presence of seasoned international professionals ensured at the management bodies of *JSC Ventspils nafta*, and the transit arm of the holding obtaining a new spirit.

During the reporting period, the 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 per share. *JSC Ventspils nafta* shares listed on the Riga Stock Exchange are included in its official list. In 2007, the price of *JSC Ventspils nafta* shares ranged from LVL 1.77 to LVL 3.31 with the average price of LVL 2.61, which is 42 santims more than in 2006. During the reporting period, 2,833,000 shares were sold at the Riga Stock Exchange in total reaching the annual turnover of 7,393,000 lats, which is 12% more than in the previous year. The average market capitalization of *JSC Ventspils nafta* has increased from 229.3 million lats in 2006 to 272.6 million lats in 2007.

During the reporting period, companies of *JSC Ventspils nafta* Group continued active work in the following principal areas of business – transshipment of crude oil and petroleum products (*Ventspils nafta termināls Ltd*); transport of crude oil and petroleum products via pipelines (*LatRosTrans Ltd*); printing (*JSC Preses nams*); real estate management and development (companies of *Nekustamie īpašumi VN Ltd*, *Rīgas līcis VN Ltd*), and publishing (*Mediju nams Ltd*). *JSC Ventspils nafta* has also a significant shareholding (49.9%) in its associated sea cargo transport company *JSC Latvijas kuģniecība* (Latvian Shipping Company), whose shares are also listed on the official list of Riga Stock Exchange like the shares of *JSC Ventspils nafta*.

The net turnover of *JSC Ventspils nafta* Group has exceeded 82 million lats during the reporting period, which is 12 million lats more than in 2006. The net profit of *JSC Ventspils nafta* Group was 49.6 million lats during the reporting period – 42.8 million lats or seven times more than in 2006. Financial results of *JSC Ventspils nafta* Group during the reporting period were favourably influenced by the activities in the transit area of the Group when a new co-owner joined and good results of the associated company *JSC Latvijas kuģniecība*, as well as the stable results of other Group companies reaching set budgets. At the same time it must be highlighted that complicated foreign policy aspects still had an impact on activity of *JSC Ventspils nafta* Group affecting results of its subsidiary and Latvian - Russian joint company *LatRosTrans Ltd* being owner and operator of crude oil and petroleum products pipelines in the territory of Latvia. Exchange rate fluctuations also effected the financial results of *JSC Ventspils nafta* Group resulting in respective loss of 6.4 million lats.

In April 2007, *Euromin Holdings (Cyprus) Limited*, which is a company of *Vitol Group*, announced about increasing its influence at *JSC Ventspils nafta* to 47.89% thereby becoming the major and strategic investor of *JSC Ventspils nafta*. In line with previously publicly announced strategy, the major shareholder of *JSC Ventspils nafta* actively participated in the management and development of the transit area of the Group hence most significant events of *JSC Ventspils nafta* in 2007 are related to development in this business field.

On February 21, 2007, the Competition Council of the Republic of Latvia announced that there are no obstacles for *Euromin Holdings (Cyprus) Limited* and *JSC Ventspils nafta* to obtain controlling interest in the *JSC Ventspils nafta* subsidiary – crude oil and petroleum product transshipment company *Ventspils nafta termināls Ltd*. Taking into account the aforementioned resolution, *Euromin Holdings (Cyprus) Limited* purchased 49% of *Ventspils nafta termināls Ltd* shares. After conclusion of this transaction, *JSC Ventspils nafta* continued to hold controlling interest in the terminal. As a result of strategic cooperation between the major crude oil and petroleum products transshipment terminal in the Baltic region and globally influential oil and gas sector company *Vitol* regionally significant joint venture is established.

## Management report (cont'd)

The transaction between *JSC Ventspils nafta* and *Euromin Holdings (Cyprus) Limited* provides that 90 million USA dollars are paid for 49% of *Ventspils nafta termināls Ltd* shares. *Vitol Group* on their part also guarantees delivery of cargoes to the terminal or financial compensation if the terminal load is not ensured in the necessary amount, through fixed annual payments irrespective of the specific transshipment volumes. That means stable activity of *Ventspils nafta termināls Ltd* is ensured, income flow and workplaces are guaranteed in long term, thereby enabling the company to implement its development and modernization plans. In accordance with the agreement between *Vitol* and *JSC Ventspils nafta* on financing the transaction, the payment will be executed maximum within ten years, aligning this transaction with *Vitol* undertaking to guarantee amount of cargoes at *Ventspils nafta termināls Ltd* and to retain the role of significant investor at *JSC Ventspils nafta* holding company.

*Ventspils nafta termināls Ltd* is the largest of such companies in the region. Its crude oil and petroleum product shore-tank farm reaches 1.2 million cubic meters, and it has no analogues among similar companies in the nearest countries. *Ventspils nafta termināls Ltd* comprises 48.3% of the total amount of cargoes handled through the port of Ventspils in 2007. During the reporting period, operating results of *Ventspils nafta termināls Ltd* have more than doubled due to activity of the new co-owner with the transshipment amount exceeding 10 million tons for the first time since 2003. The transshipment volume of *Ventspils nafta termināls Ltd* increased by 133.3% last year compared to year 2006, reaching 13.3 million tons of crude oil and petroleum products transported through the terminal by railway, sea and diesel pipeline.

The amount of the handled diesel has increased considerably in 2007 since *Ventspils nafta termināls Ltd* successfully resumed receiving it via pipeline. Handling amount of diesel transported to the terminal by railway and pipeline exceeded 9.5 million tons in 2007, which is 7.4 million tons more than in 2006.

The amount of cargoes delivered by sea also increased significantly – by 0.6 million tons – in comparison to 2006, reaching 1.8 million tons in 2007. Crude oil (1 million tons) accounts for the highest proportion of sea cargoes. *Ventspils nafta termināls Ltd* also handled 1.7 million tons of fuels of various grades in 2007. Transshipment increase trend for *Ventspils nafta termināls Ltd* is continuing also after the end of the reporting period – increase of crude oil and petroleum product cargoes handled continues in January 2008.

During the reporting period, *Ventspils nafta termināls Ltd* received the latest certificates corresponding to the requirements of the Quality Management Standard ISO 9001:2000 and the Environment Management Control Standard ISO 14001:2004. Affirmation of conformity of the terminal to the aforementioned standards became effective on March 1, 2007 and it was issued by the international certification organization *Bureau Veritas Certification*.

*LatRosTrans Ltd*, a transit company of *JSC Ventspils nafta* Group and owner and operator of crude oil and petroleum products pipelines in the territory of Latvia, operated under influence of pressure of negative external circumstances related to Russian oil transshipment interruption to the Lithuanian Mažeiki oil-processing plant. Oil transshipment in the direction of Lithuania was partially ensured by *LatRosTrans Ltd*. Tension in the relations between Russia and Lithuania, unfortunately affected also activity of *LatRosTrans Ltd* and *JSC Ventspils nafta* Group in the global transit system, started already in 2006 when the shares of Lithuanian company *Mažeikų nafta* were sold to a Polish oil company *Orlen*. As a result, business resources of *LatRosTrans Ltd* were focused only on petroleum product transshipment with the total amount reaching 6.5 million tons in 2007. At the same time *LatRosTrans Ltd* was focused on reducing running costs ensuring balanced relationship between income and expenditures without monetary losses with positive earnings before interest, taxes, depreciation and amortization (EBITDA).

During the reporting period, *LatRosTrans Ltd* launched NPS *Skrudaliena* commercial registration and control facility of petroleum product, thereby ensuring automatic and more precise control of petroleum product flow in the pipeline. The total investments of *LatRosTrans Ltd* in construction of new registration and control facility have reached more than 6 million US dollars. *LatRosTrans Ltd* has operated actively on elimination of supernormative loss of petroleum products resulting from illegal activities by hiring a security company, regularly inspecting the pipeline, collaborating with the police, allocating considerable resources in recovery of the environment, as well as informing and trying to involve other state authorities in dealing with this issue. No supernormative loss of petroleum products were established at *LatRosTrans Ltd* in 2007, affirming effectiveness of the measures implemented by the company.

## Management report (cont'd)

During the reporting period, *JSC Ventspils nafta* subsidiary *JSC Preses nams*, which is the largest printing company in Latvia and the Baltic States, continued implementation of large-scale organizational and functional changes in order to achieve company's business objectives and to ensure maximum operational efficiency by planning to reallocate a printing complex in new production plants outside the central part of Riga and by optimizing the production process. *JSC Preses nams* has defined milestones as to when construction work of the new production units of printing house for magazines, newspapers and books will be finished. It is planned that the modern book production plant of the *JSC Preses nams* printing complex located at *Jāņsilī, Silakrogs* at *Ropaži* civil parish will start working already in summer 2008, and the new production plant for newspapers and magazines in the territory of the technology park of the Riga International Airport in 2009.

In 2007, *JSC Preses nams* put intense work into introduction of the latest technical and technological solutions meeting the up-to-date requirements for execution of customer orders, therefore offering its customers the utmost advantageous services, allowing to both increase production efficiency and decrease costs. The most up-to-date book printing equipment is used at the *JSC Preses nams* printing house, for example, for particularly precise production of carton book covers and integrated binding, as well as for offset sheet printing. Complete introduction of new technologies and operation of equipment in the new printing plants is planned in 2008.

The amount of services provided by *JSC Preses nams* to Latvian customers increased during the reporting period, reaching 83% of the total amount of services provided by the company. The wide range of printing services and advantageous geographical location of *JSC Preses nams* has allowed to maintain its positions in the newspaper and journal production segment, continuing stable operation in the book and sheet production and labeling segment in a highly competitive market conditions.

The positive operating results achieved by *JSC Latvijas kuģniecība*, the associated company of *JSC Ventspils nafta*, during the reporting period attests the company's ability to compete successfully in the global shipping market in line with the objectives set by its shareholders. By active work on modernizing the company's fleet and increasing competitiveness, *JSC Latvijas kuģniecība* has received already 11 new constructions of tankers from Croatian and Korean shipyards *3.Maj* and *Hyundai Mipo Dockyard Co., Ltd.* (HMD) since July 7, 2006. Execution of the mentioned tanker fleet restoration program is planned to be finished in 2008, and 14 new tankers meeting the requirements of navigation safety field of European Union and international conventions will be added to the fleet of *JSC Latvijas kuģniecība* within the framework of this program thereby obtaining a wider geographic coverage of the fleet and presenting a considerable competitive advantage combined with the company's existing considerable experience.

In order to ensure most efficient work of the Supervisory Council of *JSC Ventspils nafta*, the Supervisory Council of *JSC Ventspils nafta* adopted a resolution on changes in leadership of the Supervisory Council. The long-term Vice-Chairman of the Supervisory Council of *JSC Ventspils nafta*, Doctor of Economic Science, specialist and professional in the area of crude oil and petroleum product transit *Vladimirs Solomatins* was elected the Chairman by the Supervisory Council of *JSC Ventspils nafta*. In accordance with the resolution of the Supervisory Council, the *JSC Ventspils nafta* international shareholder *Vitol Group* Company increased its influence on this supervisory institution of *JSC Ventspils nafta* in 2007 upon its representatives additionally taking one of the three positions of Deputy Chairmen of the Supervisory Council. As from July 20, 2007 the elected Chairmen of the Supervisory Council of *JSC Ventspils nafta* are the representatives of *Vitol Group* *Dennis Crema* and *Jeffrey Martz*, as well as *Andris Vilcmeiers* who supervises the internal audit of *JSC Ventspils nafta* on behalf of the Supervisory Council.

In 2008, *JSC Ventspils nafta* and its subsidiaries are determined to continue implementation of the growth and development plans, by continuing to operate in order to reach goals established by the shareholders, as well as to ensure increase in Group value.

On behalf of the Council:

On behalf of the Board:

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*Vladimirs Solomatins*  
Deputy Chairman of the Council

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*Olga Pētersone*  
Chairperson of the Board

**Consolidated Income Statement**

	Note	2007 EUR thousand	2006 EUR thousand
Revenues	4	116 680	99 581
Cost of sales	5	(102 710)	(90 116)
<b>Gross profit</b>		<b>13 970</b>	<b>9 465</b>
Sales and distribution expense		(2 269)	(2 671)
General and administrative expense	6	(11 357)	(10 183)
Other operating income	7	82 386	8 685
Other operating expense	8,14	(8 018)	(8 783)
<b>Result from operating activities</b>		<b>74 711</b>	<b>(3 487)</b>
Share of profit of in associate	17	24 382	13 502
Financial income	10	4 893	1 081
Financial expense	10	(10 751)	(2 982)
<b>Result before taxes</b>		<b>93 235</b>	<b>8 114</b>
Corporate income tax	11	(1 895)	(1 033)
<b>Net profit</b>		<b>91 340</b>	<b>7 081</b>
Attributable to:			
Minority interest		20 764	(2 662)
<b>Parent company's shareholders</b>		<b>70 576</b>	<b>9 742</b>
		<b>91 340</b>	<b>7 080</b>
<b>Earnings per share</b>			
in EUR per share	25	<b>0,67</b>	<b>0,10</b>
<b>Diluted earnings per share</b>			
in EUR per share	25	<b>0,67</b>	<b>0,10</b>

EUR exchange rate of the Bank of Latvia on 31.December 2007 – 0.702804 LVL

On behalf of the Council:

On behalf of the Board:

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 Vladimirs Solomatins  
Deputy Chairman of the Council

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 Olga Pētersone  
Chairperson of the Board

## Consolidated Balance Sheet

### ASSETS

<b>NON CURRENT ASSETS</b>	Note	<b>31/12/2007</b> EUR thousand	<b>31/12/2006</b> EUR thousand
<b>Intangible assets</b>	12	<b>40 525</b>	<b>41 608</b>
<b>Property, plant and equipment</b>			
Land, buildings and pipeline networks	13	143 505	109 868
Machinery and equipment	13	78 262	67 833
Other property, plant and equipment	13	6 946	6 510
Construction in progress	13,15	29 510	17 504
Prepayments for property, plant and equipment		1 248	4 330
TOTAL		<b>259 471</b>	<b>206 045</b>
<b>Investment properties</b>	16	<b>45 149</b>	<b>45 087</b>
<b>Investments</b>			
Investments in associated entities	17	167 744	159 655
Loan note	18	61 980	-
Other non-current assets	19	484	1 501
TOTAL		<b>230 208</b>	<b>161 156</b>
<b>TOTAL NON CURRENT ASSETS</b>		<b>575 353</b>	<b>453 896</b>
<b>CURRENT ASSETS</b>			
Inventories	20	6 201	8 553
Trade accounts receivable	21	6 185	10 290
Other accounts receivable	22	4 663	3 744
Deposits	23	-	13 984
Available for sale financial assets		73	73
Cash and cash equivalents	24	27 907	7 732
<b>TOTAL CURRENT ASSETS</b>		<b>45 029</b>	<b>44 374</b>
<b>TOTAL ASSETS</b>		<b>620 382</b>	<b>498 270</b>

EUR exchange rate of the Bank of Latvia on 31.December 2007 – 0.702804 LVL

On behalf of the Council:

On behalf of the Board:

\_\_\_\_\_  
 Vladimirs Solomatins  
 Deputy Chairman of the Council

\_\_\_\_\_  
 Olga Pētersonē  
 Chairperson of the Board

## Consolidated Balance Sheet

### LIABILITIES AND SHAREHOLDERS' EQUITY

		31/12/2007	31/12/2006
	Note	EUR thousand	EUR thousand
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	25	148 660	148 660
Share premium		60 249	60 249
Legal reserves		1 017	1 017
Foreign currency translation resulting from investment in associates	25	(25 454)	(9 089)
Other reserves	25	207 102	197 359
Profit for the period		70 576	9 742
<b>EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT</b>		<b>462 150</b>	<b>407 938</b>
Minority Interest		107 933	57 024
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>570 083</b>	<b>464 962</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liability	11	10 034	8 277
Non-current portion of financial lease liability	27	20 016	1 554
Non-current loan from credit institution	26	-	2 624
TOTAL		<b>30 050</b>	<b>12 455</b>
<b>Current liabilities</b>			
Current loan from credit institution	26	4 348	8 261
Finance lease liabilities	27	2 837	1 202
Advances from customers		916	88
Trade accounts payable		5 561	6 720
Taxes payable	28	1 049	741
Other liabilities	29	1 342	1 308
Accrued liabilities	30	2 406	2 248
Provisions	31	1 790	283
TOTAL		<b>20 249</b>	<b>20 851</b>
<b>TOTAL LIABILITIES</b>		<b>50 299</b>	<b>33 308</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>620 382</b>	<b>498 270</b>

EUR exchange rate of the Bank of Latvia on 31.December 2007 – 0.702804 LVL

On behalf of the Council:

On behalf of the Board:

\_\_\_\_\_  
 Vladimirs Solomatins  
 Deputy Chairman of the Council

\_\_\_\_\_  
 Olga Pētersonē  
 Chairperson of the Board

**Consolidated Cash Flow Statement**

	2007	2006
	EUR thousand	EUR thousand
<b>Cash flow from/ (to) operating activities</b>		
Result before taxes	93 235	8 114
Adjustments		
Gain from sale of subsidiary	(37 982)	-
Gain in associated entities, net	(24 461)	(13 429)
Amortisation and depreciaiton	14 088	14 836
Long term loan impairment	1 017	-
Impairment loss	2 537	5 398
Change in bad debt allowance	(70)	965
Interest income	(4 893)	(1 080)
Impairment reversed	(43 782)	-
Interest expense	1 574	1 504
Loss on disposals of tangible assets	6 040	701
Foreign exchange loss	9 178	-
Gain from revaluation of investment properties	(63)	(7 225)
<b>Operating profit before changes in current assets and liabilities</b>	<b>16 418</b>	<b>9 784</b>
Decrease in inventory	2 352	3 163
Decrease/ (Increase) in trade accounts receivable	95	(13 254)
Increase/ (decrease) in current liabilities	1 675	(748)
<b>Net cash from/ (to) operating activities before taxes paid</b>	<b>20 540</b>	<b>(1 055)</b>
Corporate income tax paid	(1)	(299)
<b>Net cash from/ (to) operating activities</b>	<b>20 539</b>	<b>(1 354)</b>
<b>Cash flow from/ (to) investment activities</b>		
Purchase of fixed assets	(11 053)	(11 362)
Proceeds from sale of fixed assets	-	47
Purchases of shares in associate	(78)	-
Received back placed deposits	13 984	-
Interest received	4 893	1 080
Received repayment of short-term loan	-	53
<b>Net cash flow from/ (to) investment activities</b>	<b>7 746</b>	<b>(10 182)</b>
<b>Cash flow from/ (to) financing activities</b>		
Repayment of borrowings and financial lease liabilities	(6 537)	(4 522)
Proceeds from borrowings	-	2 415
Interest payments	(1 574)	(1 504)
<b>Net cash from/ (to) financing activities</b>	<b>(8 111)</b>	<b>(3 611)</b>
<b>Net increase/ (decrease) in cash</b>	<b>20 175</b>	<b>(15 148)</b>
<b>Cash at the beginning of the year</b>	<b>7 732</b>	<b>22 880</b>
<b>Cash at the end of the year</b>	<b>27 907</b>	<b>7 732</b>

EUR exchange rate of the Bank of Latvia on 31.December 2007 – 0.702804 LVL

## Consolidated Statement of Changes in Shareholders' Equity

	Attributable to the equity holders of the parent									Total shareholders' equity
	Share capital	Share premium	Legal reserves*	Foreign currency translation resulting from investment in associate	Other reserves**	Current year's unappropriated result	Total	Minority interest		
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand		
<b>Balance as of 31 December 2005, adjusted</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>6 733</b>	<b>228 271</b>	<b>(30 912)</b>	<b>414 019</b>	<b>59 687</b>	<b>473 705</b>	
Foreign currency translation directly recognised in equity	-	-	-	(15 822)	-	-	(15 822)	-	(15 822)	
Profit for the period	-	-	-	-	-	9 742	9 742	(2 662)	7 080	
Total income and expenses for the year	-	-	-	(15 822)	-	9 742	(6 080)	(2 662)	(8 742)	
Transfer of 2005 net result	-	-	-	-	(30 912)	30 912	-	-	-	
<b>Balance as of 31 December 2006</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(9 089)</b>	<b>197 359</b>	<b>9 742</b>	<b>407 939</b>	<b>57 025</b>	<b>464 962</b>	
Foreign currency translation directly recognised in equity	-	-	-	(16 364)	-	-	(16 364)	-	(16 364)	
Profit for the period	-	-	-	-	-	70 576	70 576	20 764	91 340	
Total income and expenses for the year	-	-	-	(16 364)	-	70 576	54 212	20 764	74 976	
Transfer of 2006 net result	-	-	-	-	9 742	(9 742)	-	-	-	
Effect of sale of 49% shares in SIA <i>Ventspils nafta</i> terminals	-	-	-	-	-	-	-	30 145	30 145	
<b>Balance as of 31 December 2007</b>	<b>148 660</b>	<b>60 249</b>	<b>1 017</b>	<b>(25 454)</b>	<b>207 102</b>	<b>70 576</b>	<b>462 150</b>	<b>107 933</b>	<b>570 083</b>	

EUR exchange rate of the Bank of Latvia on 31. December 2007 – 0.702804 LVL

\* Legal reserves represent the Group's share of subsidiary's *LatRosTrans Ltd* legal reserve which was 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*.

## Statement of Management Responsibility

The Management of JSC *Ventspils nafta* (hereinafter – the Company) is responsible for preparation of consolidated financial statements of the Company.

The financial statements set out on pages 9 to 13 are prepared in accordance with source documents and fairly present the financial position of the Company and operating results, changes in shareholders' equity and cash flows in 2006 and 2007.

The aforementioned financial statements are prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board on on-going concern basis. During the reporting period, appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management of JSC *Ventspils nafta* is responsible for maintenance of proper accounting records, safeguarding of the Company's assets and prevention and detection of fraud and other irregularities in the Company.

On behalf of the Council:

On behalf of the Board:

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Vladimirs Solomatins  
Chairman of the Council

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Olga Pētersonē  
Chairperson of the Board