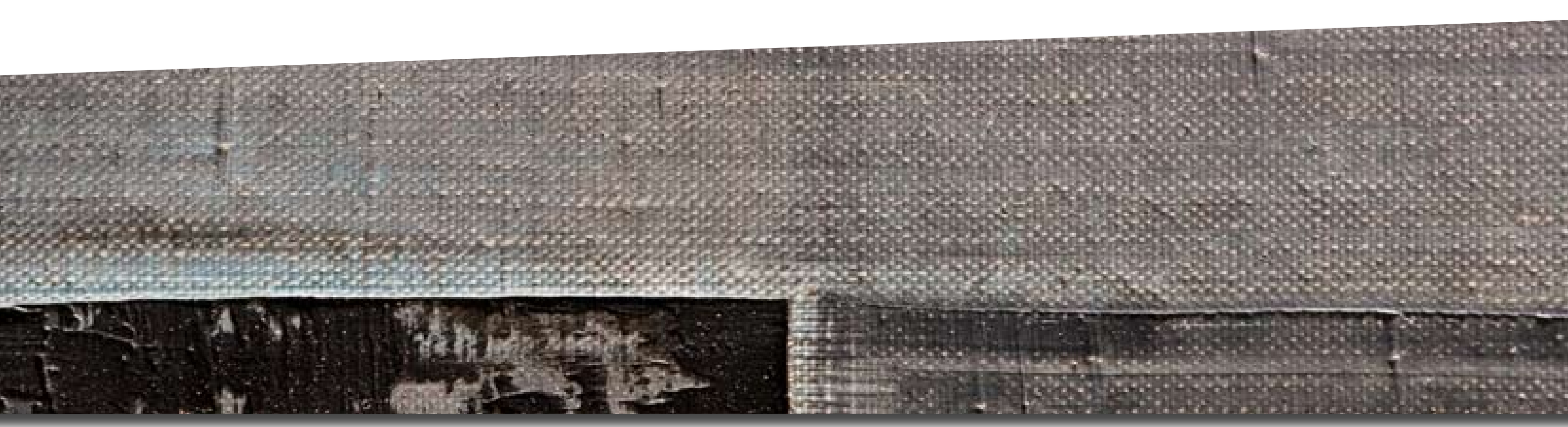
JSC Ventspils nafta concern

ANNUAL REPORT 2007

VENTSPILS NAFTA



JSC *Ventspils nafta* concern

ANNUAL REPORT 2007

Business that sets an example –
our investment in Latvia's development

The annual report is illustrated with reproductions from the art collection of JSC Ventspils nafta.
Authors: Vija Zariņa, Vita Merca, Jāzeps Pīgoznis, Gunārs Krollis, Ilze Dilāne, Signe Vanadziņa, Elizabete Melbārzde, Andrejs Ameļkovičs.

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JSC *Ventspils nafta* values

The strength of Joint stock company JSC *Ventspils nafta* lies with its people. In people who have found themselves in the companies of our concern and are able to feel responsible not only for themselves, for also for those around them. People not looking for the easy way out, but for satisfaction in a job well done. And this satisfaction manifests itself in the particular results of our work – not only among our shareholders, clients and cooperation partners, but also Ventspils and all of Latvia.

Initiative

It all begins with initiative. Initiative seeks new thoughts, new possibilities and new discoveries. Initiative makes possible changes within us and continues to uphold our accomplishments

Responsibility

Every step we take affects the world and the people around us. For this reason we seek to take these steps responsibly. We care about long-term development. We believe that today's accomplishments are possible whilst preserving the world for our children and grandchildren.

Harmony

We seek harmony in everything – both in the interaction among our various fields of activity, as well as in striking a balance between business and involvement in events of importance to the public. Harmony becomes a foundation for our good reputation.

The future and energy

An active vision of the future and positive energy – these are the values upon which we base our long-term vision for development.

The vision of JSC *Ventspils nafta*

JSC *Ventspils nafta* plans to become one of the leading investment and holding companies in Latvia and the Baltic region, offering management solutions in various spheres of business, including transit, handling and consignment of oil and petroleum products, as well as in publishing.

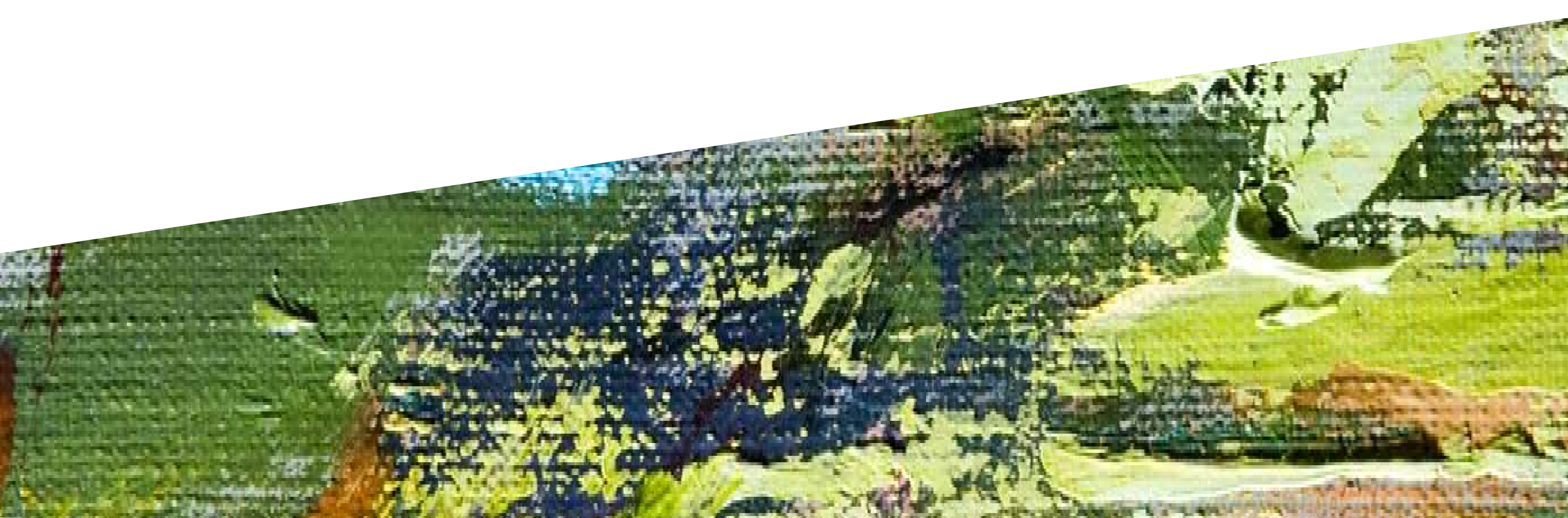
From the chairperson of the Managment board for JSC *Ventspils nafta*

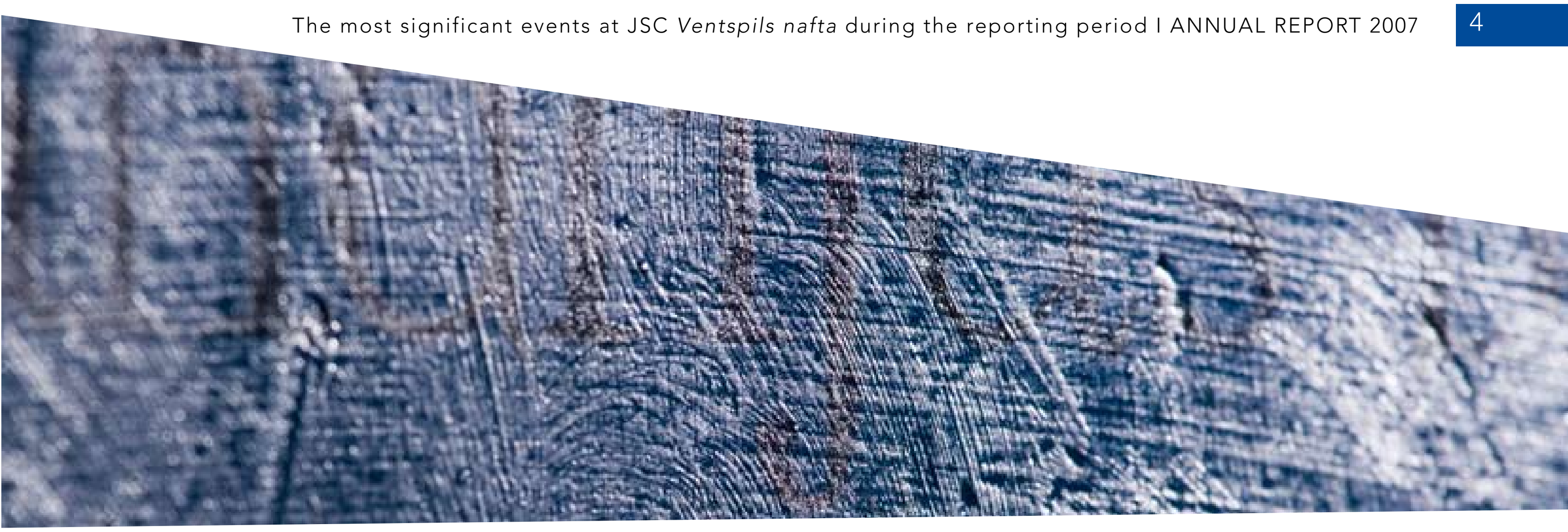
With a new breath…

Dear shareholders, customers, cooperation partners and interested persons,

We address you during a time when activity of the public holding JSC *Ventspils nafta* can be particularly characterized by a period of positive changes, which will express itself in future by more effective wok of the Group companies, more optimal management system of the holding company, more professional and motivated employees… The dynamic activities of JSC *Ventspils nafta*, numerous significant events forwarding the business and the positive financially economic results in 2007 are showing a new breath in the way of growth of the holding company. We are planning to implement even more successful development plans of JSC *Ventspils nafta* continuing to realize the goals set by shareholders and to ensure increase in Group value.

Chairperson of the Management Board for JSC *Ventspils nafta* Olga Pētersone





The most significant events at JSC *Ventspils nafta* during the reporting period

- Sale of 49% of shares in *Ventspils nafta termināls* Ltd to international oil and gas corporation *Vitol's* wholly owned subsidiary *Euromin Holdings (Cyprus) Limited*, guaranteeing favourable terms for future operations of the terminal and stable income;

- As a result of the cooperation with our new joint owner, *Ventspils nafta* termināls Ltd more than doubled its transshipment volume in 2007, increasing it by over 130% and reaching 13,300,000 tons of oil and petroleum products;

- *Ventspils nafta termināls* Ltd has been certified in accordance with the requirements of the most current quality management standard ISO 9001:2000 and environmental management standard ISO-14001:2004;

- *LatRosTrans* Ltd commercial inventory network for petroleum products, NPS *Skrudaliena*, has successfully completed, ensuring automatic regulation of the flow of petroleum products far more accurately than previously;

- Modernisation of JSC *Preses nams* with a focus on initiating production in two new JSC *Preses nams* publishing facilities, the successful completion of which is anticipated in 2008, thus ensuring realisation of its long-term development potential;

- The positive operational results of associated company JSC *Latvijas kuğniecība* at the end of the reporting period, which affirms the company's ability successfully to compete in the international shipping market by purposefully implementing modernisation and increased competitiveness of the company's fleet. Since mid-2006 JSC *Latvijas kuğniecība* has already secured 11 new tankers.

Profile of the business environment

Activities in various business fields of the companies in the concern JSC *Ventspils nafta*

The subsidiaries and associated companies of JSC *Ventspils nafta* essentially operate in five different business fields, the most significant of which are:
1) transit of oil and petroleum products (*Ventspils nafta termināls* Ltd and *LatRosTrans* Ltd),
2) publishing (JSC *Preses nams*),
3) media operations (*Mediju nams* Ltd),
4) real estate (*Nekustamie īpašumi VN* Ltd and *Rīgas līcis VN* Ltd),
5) shipping (JSC *Latvijas kuģniecība*).

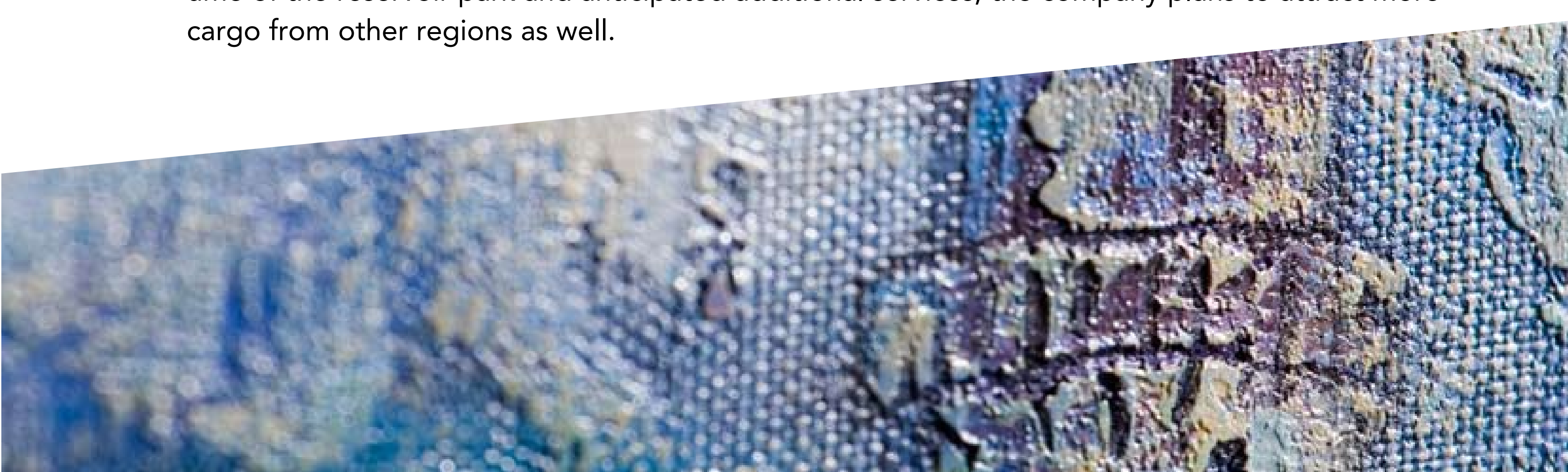
Transit of oil and petroleum products

Services provided by the companies operating in the transit business:

- transport of oil and petroleum products through pipelines in Latvia in the direction of Ventspils port,
- transport of oil through pipelines in Latvia in the direction of Mazeiku oil refinery and Butinge terminal in Lithuania,
- unloading of oil and petroleum products into pipelines and railcars, and from tankers; storage and loading onto tankers in Ventspils port.

The activity of *LatRosTrans* Ltd did not change significantly, with the scope of diesel fuel transport reaching 6.5 million tons, an indicator in line with 2006 levels. Owing to the company's focused, active steps in preventing loss of diesel fuel in excess of legal limits, in 2007 such loss was significantly lessened, consistent with legal requirements.

In 2007 *Ventspils nafta termināls* Ltd, in cooperation with its new shareholder, international oil and gas corporation *Vitol* Group's wholly owned subsidiary *Euromin Holdings (Cyprus) Ltd*, significantly improved its business indicators. Total quantity of oil and oil products transshipped in the reporting period increased by more than two times, reaching 13.3 million tons. This increased was ensured by reinstatement in early 2007 of unloading of diesel fuel via pipeline, as well as by an increase in volume shipped by rail and sea. In 2007 cargo was shipped to the terminal chiefly from Russia and other CIS countries. However, in future, taking into consideration the great volume of the reservoir park and anticipated additional services, the company plans to attract more cargo from other regions as well.



Publishing

JSC *Preses nams* is one of the largest publishing companies in Latvia and the Baltics, one that, depending on the specifics of client orders, can print and publish newspapers, magazines, books, paper products and labels. During the reporting period the company's production totalled 13.9 million lats and, regardless of an increase in competition in this field, it has maintained leading positions in the Latvian market, as well as attracted significant orders from other EU member states and Russia. In implementation of the development plan of JSC *Preses nams* in reaching the long-term goals set by the shareholders, in the near future the company plans to locate a publishing complex in a new production facility outside of Riga's centre, optimising the production process and continuing the transformation of JSC *Preses nams* into the largest publishing concern in the Baltic States. The new and modernised publishing facility of the JSC *Preses nams* publishing complex for books, newspapers and magazines is planned to be successfully completed in 2008, ensuring company growth and fulfilment of the strategic objective of bolstering its position as quality leader in the Baltics, and increasing market share in European Union member states and the CIS.

Media activity

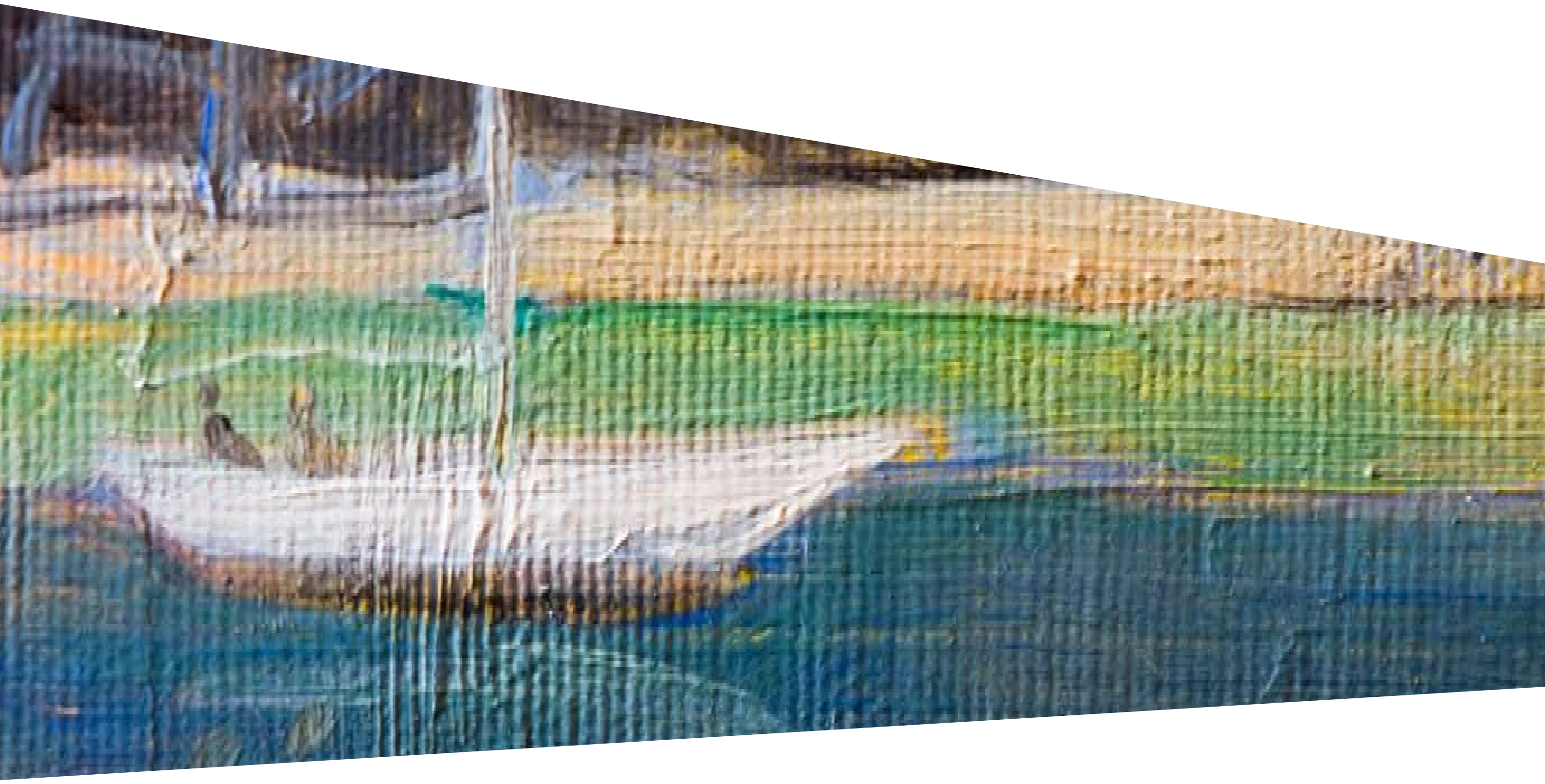
One of the largest publishing houses in Latvia, *Mediju nams* Ltd is engaged in publishing of printed media (newspapers and magazines), as well as development of internet portal projects. In 2007 *Mediju nams* Ltd published two newspapers and six magazines, the total monthly readership of which exceeded 730,000, thus ensuring a significant place among publishers in Latvia. Taking market tendencies into account, during the reporting period the company has been actively engaged in formation and development of its internet portals which are partially tied to existing printed publications, as well as development of a new market segment, lifestyle magazines.

Real estate

The operations of the companies in this field deal with management of real estate owned by the various companies in the concern and drafting of development projects. In 2007 the company *Namserviss VN* Ltd, of the concern *Nekustamie īpašumi VN* Ltd, and *Rīgas līcis VN* Ltd managed a total of seven properties in Riga, Jurmala, Ventspils and Kuldiga region, which were utilised both for the needs of the concern's companies, as well as for business purposes.

Shipping business

A company associated with the publicly traded JSC *Ventspils nafta*, JSC *Latvijas kuğniecība*, the shares of which, just like JSC *Ventspils nafta*, are officially listed on the Riga Stock Exchange, provides shipment of various sea cargos throughout the world, specialising in consignment of oil products. The company is one of the largest ship owners in the world in the handy, or mid-sized, tanker segment, and in terms of scope of consignment of petroleum products is one of the leaders among analogous companies in northern Europe. Altogether at the end of the reporting period, the company had over 40 ships at its disposal, among which are tankers, gas tankers, refrigerated ships and a dry-weight vessel. In 2007 the company successfully continued its fleet-renewal program by which it obtained eight new tankers, permitting it to strengthen its market position in the segment for midsized tankers.



External factors influencing the JSC *Ventspils nafta* concern's operations

During the reporting period JSC *Ventspils nafta* concern's operations were dependent upon numerous external factors that had a direct or indirect influence on its development results and financial indicators.

The most significant external factors were the following:

- inflation: the average consumption price level in Latvia in 2007 increased by 10.1%, increasing companies' expenses in numerous regards, incl. energy, fuel, utilities and construction;
- exchange rate: in accordance with the steep rise in the EUR/USD exchange rate in 2007 of 9.7%, the exchange rate of the USD/LVL decreased (from 0,536 to 0,484), causing a drop in the income of the transit companies, which is traditionally received in US dollars;
- interest rates: in 2007 applicable variable interest rates increased with regard to bank lending products (including an increase in the 3-month RIGIBOR rate for lats from 4.2% to 10.5%),which was affected by both an increase in price for foreign cash resources, as well as the Bank of Latvia's operations in this field, as a result of which expenses for the concern's companies rose;
- international stock market: in the last months of 2007 a decrease in the share-price index took place in almost all of the largest stock markets in the world, which were greatly affected by prob lems in the US economy and mortgage credit market, causing a general drop in prices in the Riga Stock Exchange as well, as a result of which at the end of the year the share prices of the concern companies quoted on the Exchange (JSC *Ventspils nafta* and JSC *Latvijas kuģniecība*) dropped sharply;
- operations in a unified EU zone: comparatively free flow of goods, services and labour in the common market of EU member states created certain pressure on prices for goods and services, as well as employees' wages, bringing them closer to the average European level, which increased personnel and other expenses among the concern's companies;
- EU external policy: in 2007 talks took place between the EU and Russia regarding the terms for Russia joining the World Trade Organisation, during which time the issue regarding the possibility of termination of Russia's discriminatory railway tariff policy was also discussed, an issue that negatively influences also Latvia's competitiveness in the oil transit corridor. The EU-Russian energy dialogue continued, the results of which could positively influence the concern's operations;
- Relations between Latvia and Russia: The agreement reached in 2007 regarding conclusion of a border treaty between Latvia and Russia has improved the climate for mutual relations between these countries, which in the near future cold also foster economic cooperation between both countries and possibly influence operations of the concern's companies, particularly in transit.

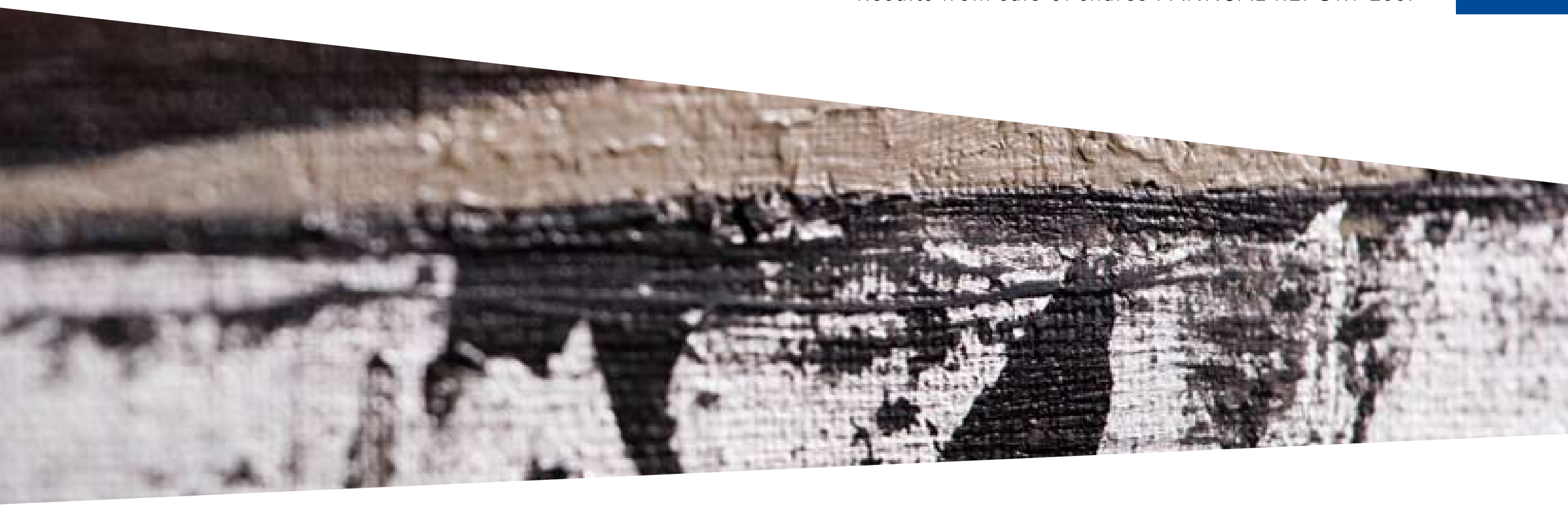
Results from sale of shares

In 2007 the price of shares of JSC *Ventspils nafta* in the Riga Stock Exchange fluctuated between LVL 1.77 and LVL 3.31, with an average share price of LVL 2.61. Altogether during the reporting period, in 3201 transactions 2,833,000 shares were traded, reaching an annual turnover of LVL 7,393,000, 12% more than in 2006. The market capitalisation of JSC *Ventspils nafta* reached LVL 231,900,000 at the end of 2007.

The average price per share of JSC *Ventspils nafta* in 2007 was LVL 0.42 greater than in 2006 (the average share price in 2006 was LVL 2.19). In turn, the average market capitalisation of JSC Ventspils nafta increased from LVL 229,300,000 in 2006 to LVL 272,600,000 in 2007, i.e. by LVL 43,300,000 or 18.9% in accordance with the average price increase per share.

From 2003 to 2007 there is visible an increase in the average share price of JSC *Ventspils nafta* (from LVL 0.80 to LVL 2.61 per share) and a corresponding increase in market capitalisation (from LVL 83,600,000 to LVL 272,600,000). In the past five years 12,800 transactions were conducted in the Riga Stock Exchange with 24,900,000 shares, and the total turnover of these transactions reached LVL 34,000,000.

Changes in the share price of JSC *Ventspils nafta* from 2003 – 2007 in the Riga Stock Exchange



Turnover in trade of JSC *Ventspils nafta* shares from 2003 – 2007 in the Riga Stock Exchange

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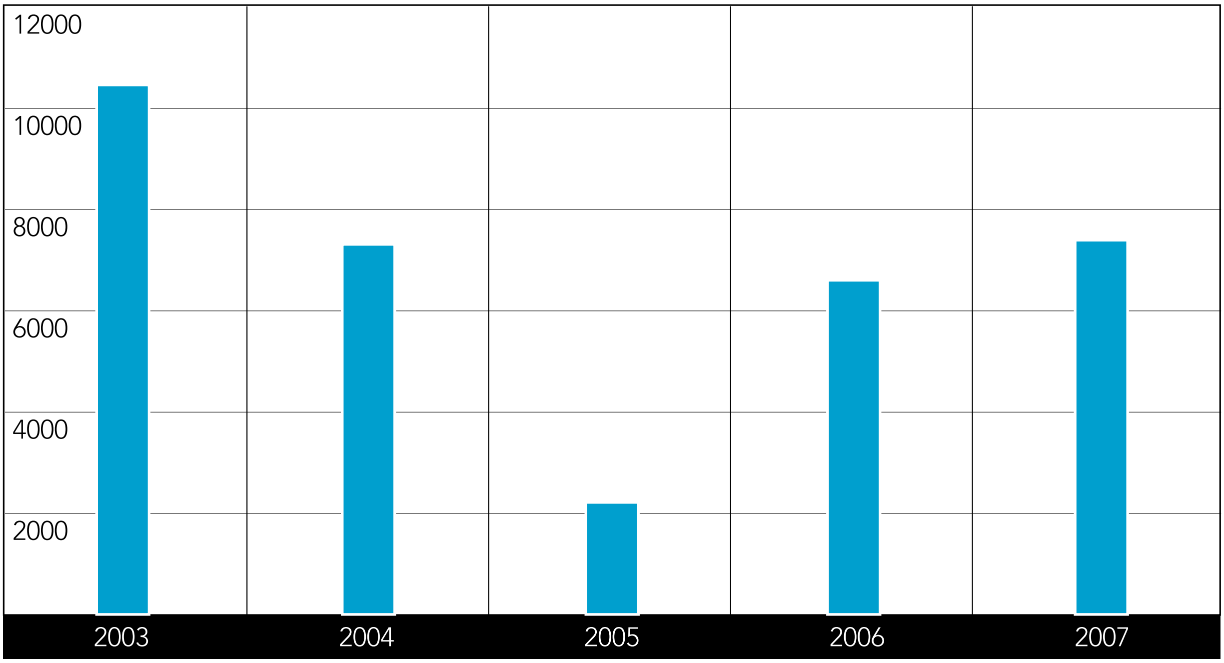


Environmental protection

JSC *Ventspils nafta's* experience over many years in the transit business attests to the fact that cooperation is capable of uniting effective business with concerns about the environment. When expanding cooperation in the framework of the European Union and especially since the Republic of Latvia becoming a full-fledged member state of it, international certification and own initiative in order to insure responsible attitude towards the environment are certainly one of the most important factors for wholesome partnership on a global scale.

Ecological stewardship

JSC *Ventspils nafta* has undertaken the fostering of various initiatives supporting responsible environmental policy, including: assessing and managing unfavourable effects on the environment from companies in the concern; achieving compliance of the companies' activities with the highest environmental standards; educating and encouraging involvement by employees in implementation of environmental policies; appealing to cooperation partners to utilise environmentally friendly technologies, goods and services; as well as informing the public of the company's environmental policy and its achievements in the course of implementation.

Transit of oil and petroleum products

As a result of a focused initiative by JSC *Ventspils nafta*, the transit terminal for oil and petroleum products in Ventspils has been organised in accordance with the best international practices in environmental protection, as international auditing companies in the field of environmental protection have recognised. For example, already in 1999, one such company, Dames & Moore, upon the initiative expressed by the shareholders and management of JSC *Ventspils nafta*, assessed the company's ecological risk and concluded that "control of ecological risk at the terminal is at the highest level among all companies operating in the petroleum business among former countries of the Soviet Union", and that "in almost all aspects, measures for the prevention of ecological risk at the terminal are comparable to the standards of similar companies in Western European countries and the USA".

By initiating a series of measures to ensure effective environmental management, JSC *Ventspils nafta* was the first company in Latvia to publish an environmental report and to take action to become ISO certified, affirming compliance with international environmental management standards.

In 2000 JSC *Ventspils nafta* received its ISO 14001 certificate for compliance with the requirements of international environmental management standards with regard to transshipment of oil and petroleum products. In 2003, 2005 and 2007 the terminal obtained respective certificates for meeting the newest versions of ISO 14001 environmental management standards.

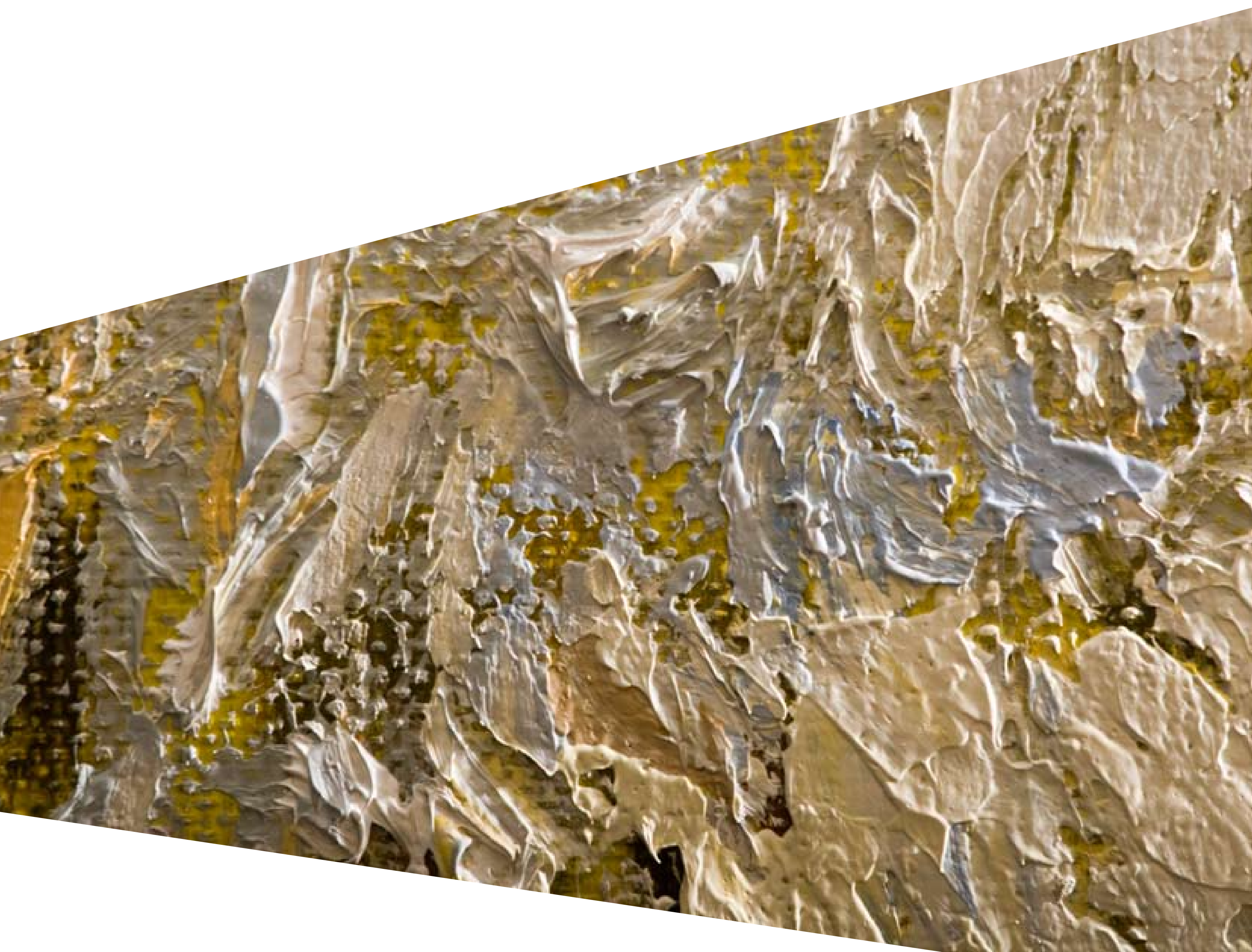
Printing and publishing

In 2007 JSC *Ventspils nafta* subsidiary joint stock company *Preses nams*, the largest printing and publishing concern in the Baltics, undertook a project for international Forest Stewardship Council (FSC) certification. Completion of certification is anticipated in 2008.

FSC certification provides international recognition to companies supporting responsible utilisation of forest resources. FSC certification is granted separately for raw material use – paper – and for printing and publishing. Receipt of this certification will affirm the efforts of JSC *Preses nams* and the entire JSC *Ventspils nafta* concern in fostering sustainable development and simultaneously will permit more favourable positioning of JSC *Preses nams* services in the Nordic region, Western Europe and other markets where demand for ecologically responsible printing and publishing services is continuously increasing.

Corporate governance

In 2008 JSC *Ventspils nafta* plans to continue improving its system of corporate governance by advancing implementation of the concern's common values, strongly supporting compliance with international bookkeeping standards in the concern's companies, expanding and streamlining internal audit activity, improving relations with investors, and strengthening its reputation as a socially responsible company, which will serve to ensure the long-term development of the concern.



Social responsibility

JSC *Ventspils nafta* has always been a socially active company and shaper of public life, one that has set itself on the path of long-term development. JSC *Ventspils nafta's* socially responsible policy is essentially focused in two directions: support of sporting and cultural events and structures of national significance, as well as development of sporting, cultural and educational institutions in Ventspils and localities throughout Kurzeme province. Through its support JSC *Ventspils nafta* expresses the values important to the company – responsibility, harmony, initiative, a long-term future vision, and the possibilities this vision provides.

The aims of JSC *Ventspils nafta*

Our chief aims in future years are:

- to ensure a suitable return to shareholders while implementing management solutions at the highest level for existing investments whilst seeking new ones;
- to employ and retain leading specialists, as well as to foster and provide for consistent training and development in an open, professional and creative work environment;
- to foster client satisfaction in local and world markets, offering products and services of the highest level, thus bolstering both the reputation of the companies in the concern, as well as the trust of clients and cooperation partners in our companies;
- to ensure that the companies operate without interruption on the basis of the highest standards in the world with regard to the environment, protection of health, quality and safety.

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

Ventspils, 2008

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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.

ERNST & YOUNG

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. The estimates of future cash flows include the expectation that the transportation through the pipeline Polotsk - Mažeikiai could be resumed in 2009. 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 cargos to the terminal or in case when the terminal load is not ensured in the necessary amount – financial compensation through fixed annual payments based on reserved 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 cargos 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 cargos 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 cargos. *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 cargos 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 Mažeiķi 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 *Mažeiķu 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 *Jāņsili*, 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 labelling 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:

Vladimirs Solomatins
Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairperson of the Board

Consolidated Income Statement

	Note	2007 LVL thousand	2006 LVL thousand
Revenues	4	82 003	69 986
Cost of sales	5	(72 185)	(63 334)
Gross profit		**9 818**	**6 652**
Sales and distribution expense		(1 595)	(1 877)
General and administrative expense	6	(7 982)	(7 157)
Other operating income	7	57 901	6 104
Other operating expense	8,14	(5 635)	(6 173)
Result from operating activities		**52 507**	**(2 451)**
Share of profit in associate	17	17 136	9 489
Financial income	10	3 439	760
Financial expense	10	(7 556)	(2 096)
Result before taxes		**65 526**	**5 702**
Corporate income tax	11	(1 332)	(726)
Net profit		**64 194**	**4 976**
Attributable to:			
Minority interest		14 593	(1 871)
Parent company's shareholders		**49 601**	**6 847**
		64 194	**4 976**
Earnings per share			
in lats per share	24	**0,47**	**0.07**
Diluted earnings per share			
in lats per share	24	**0,47**	**0.07**

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

On behalf of the Council:

Vladimirs Solomatins
Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairperson of the Board

Consolidated Balance Sheet

ASSETS

NON CURRENT ASSETS	Note	31/12/2007 LVL thousand	31/12/2006 LVL thousand
Intangible assets	12	**28 481**	**29 242**
Property, plant and equipment			
Land, buildings and pipeline networks	13	100 856	77 216
Machinery and equipment	13	55 003	47 673
Other property, plant and equipment	13	4 882	4 575
Construction in progress	13,15	20 740	12 302
Prepayments for property, plant and equipment		877	3 043
TOTAL		**182 358**	**144 809**
Investment properties	16	**31 731**	**31 687**
Investments			
Investments in associated entities	17	117 891	112 206
Loan note	18	43 560	-
Other non-current assets		340	1 055
TOTAL		**161 791**	**113 261**
TOTAL NON CURRENT ASSETS		**404 361**	**318 999**
CURRENT ASSETS			
Inventories	19	4 358	6 011
Trade accounts receivable	20	4 347	7 232
Other current assets	21	3 277	2 631
Deposits	22	-	9 828
Available for sale financial assets		51	51
Cash and cash equivalents	23	19 613	5 434
TOTAL CURRENT ASSETS		**31 646**	**31 187**
TOTAL ASSETS		**436 007**	**350 186**

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

On behalf of the Council:

Vladimirs Solomatins
Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairperson of the Board

Consolidated Balance Sheet

LIABILITIES AND SHAREHOLDERS' EQUITY

	Note	31/12/2007 LVL thousand	31/12/2006 LVL thousand
SHAREHOLDERS' EQUITY			
Share capital	24	104 479	104 479
Share premium		42 343	42 343
Legal reserves		715	715
Foreign currency translation resulting from investment in associates	24	(17 889)	(6 388)
Other reserves	24	145 552	138 705
Profit for the period		49 601	6 847
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		**324 801**	**286 701**
Minority Interest		75 856	40 077
TOTAL SHAREHOLDERS' EQUITY		**400 657**	**326 778**
LIABILITIES			
Non-current liabilities			
Deferred tax liability	11	7 052	5 817
Non-current portion of financial lease liability	26	14 067	1 092
Non-current loan from credit institution	25	-	1 844
TOTAL		**21 119**	**8 753**
Current liabilities			
Current loan from credit institution	25	3 056	5 806
Finance lease liabilities	26	1 994	845
Advances from customers		644	62
Trade accounts payable		3 908	4 723
Taxes payable	27	737	521
Other liabilities	28	943	919
Accrued liabilities	29	1 691	1 580
Provisions	30	1 258	199
TOTAL		**14 231**	**14 655**
TOTAL LIABILITIES		**35 350**	**23 408**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**436 007**	**350 186**

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

On behalf of the Council:

Vladimirs Solomatins
Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairperson of the Board

Consolidated Cash Flow Statement

	2007	2006
	LVL thousand	LVL thousand
Cash flow from/ (to) operating activities		
Result before taxes	65 526	5 702
Adjustments		
Gain from sale of subsidiary	(26 694)	-
Gain in associated entities, net	(17 191)	(9 438)
Amortisation and depreciaiton	9 901	10 427
Long term loan impairment	715	-
Impairment loss	1 783	3 794
Change in bad debt allowance	(49)	678
Interest income	(3 439)	(759)
Impairment reversed	(30 770)	-
Interest expense	1 106	1 057
Loss on disposals of tangible assets	4 245	493
Foreign exchange loss	6 450	-
Gain from revaluation of investment properties	(44)	(5 078)
Operating profit before changes in current assets and liabilities	***11 539***	***6 876***
Decrease in inventory	1 653	2 223
Decrease/ (Increase) in trade accounts receivable	67	(9 315)
Increase/ (decrease) in current liabilities	1 177	(526)
Net cash from/ (to) operating activitiesbefore taxes paid	***14 436***	***(742)***
Corporate income tax paid	(1)	(210)
Net cash from/ (to) operating activities	**14 435**	**(952)**
Cash flow from/ (to) investment activities		
Purchase of intangible and fixed assets	(7 768)	(7 985)
Proceeds from sale of fixed assets	-	33
Purchases of shares in associate	(55)	-
Received back placed deposits	9 828	-
Interest received	3 439	759
Received repayment of short-term loan	-	37
Net cash flow from/ (to) investment activities	**5 444**	**(7 156)**
Cash flow from/ (to) financing activities		
Repayment of borrowings and financial lease liabilities	(4 594)	(3 178)
Proceeds from borrowings	-	1 697
Interest payments	(1 106)	(1 057)
Net cash from/ (to) financing activities	**(5 700)**	**(2 538)**
Net increase/ (decrease) in cash	**14 179**	**(10 646)**
Cash at the beginning of the year	**5 434**	**16 080**
Cash at the end of the year	**19 613**	**5 434**

Consolidated Statement of Changes in Shareholders' Equity

	Attributable to the equity holders of the parent								
	Share capital	Share premium	Legal reserves*	Foreign currency translation resulting from investment in	Other reserves**	Current year's unappro-priated result	**Total**	Minority interest	**Total share-holders' equity**
	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand	LVL thousand
Balance as of 31 December 2005, as adjusted	**104 479**	**42 343**	**715**	**4 732**	**160 430**	**(21 725)**	**290 974**	**41 948**	**332 922**
	-	-	-	-	-	-	-	-	-
Foreign currency translation directly recognised in equity	-	-	-	(11 120)	-	-	(11 120)	-	(11 120)
Profit for the period	-	-	-	-	-	6 847	6 847	(1 871)	4 976
Total income and expenses for the year	-	-	-	(11 120)	-	6 847	(4 273)	(1 871)	(6 144)
Transfer of 2005 net result	-	-	-	-	(21 725)	21 725	-	-	-
Balance as of 31 December 2006	**104 479**	**42 343**	**715**	**(6 388)**	**138 705**	**6 847**	**286 701**	**40 077**	**326 778**
Foreign currency translation directly recognised in equity	-	-	-	(11 501)	-	-	(11 501)	-	(11 501)
Profit for the period	-	-	-	-	-	49 601	49 601	14 593	64 194
Total income and expenses for the year	-	-	-	(11 501)	-	49 601	38 100	14 593	52 693
Transfer of 2006 net result	-	-	-	-	6 847	(6 847)	-	-	-
Effect of sale of 49% shares in *Ventspils nafta termināls* Ltd	-	-	-	-	-	-	-	21 186	21 186
Balance as of 31 December 2007	**104 479**	**42 343**	**715**	**(17 889)**	**145 552**	**49 601**	**324 801**	**75 856**	**400 657**

* 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*.

Notes to the consolidated financial statements

1. Corporate information

JSC *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 JSC *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.

JSC *Ventspils nafta* is a holding company dealing mainly with investment management in JSC *Ventspils nafta* Group companies and transactions with own crude oil and oil products. JSC *Ventspils nafta* Group consisting of JSC *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 (%)	31/12/2007	31/12/2006	**Legal address**
Subsidiaries			
LatRosTrans Ltd	66.00	66.00	Balvu iela 7, LV-5043, Daugavpils, Latvia
JSC *Preses nams*	95.39	93.01	Balasta dambis 3, LV-1081, Rīga, Latvia
Rīgas līcis VN Ltd	100.00	100.00	Dubultu prospekts 51, LV-2015, Jūrmala, Latvia
Nekustamie īpašumi VN Ltd a)	100.00	100.00	Palasta iela 10, LV-1050, Rīga, Latvia
Mediju nams Ltd b)	99.73	99.47	Cēsu iela 31/2, LV-1012, Rīga, Latvia
Ventspils nafta termināls Ltd	51.00	100.00	Talsu iela 75, LV-3602, Ventspils, Latvia
Subsidiary of JSC *Preses nams*			
Preses nams Ltd (dormant)	100.00	100.00	Russia
Subsidiary of *Mediju nams* Ltd			
4. vara Ltd c)	50.05	-	Cēsu iela 31/2, LV-1012, Rīga, Latvia
Subsidiaries of *Nekustamie īpašumi VN* Ltd			
Darījumu centrs Daugava Ltd	100.00	100.00	Palasta iela 10, LV-1050, Rīga, Latvia
Ventspils biznesa centrs Ltd	100.00	100.00	Palasta iela 10, LV-1050, Rīga, Latvia
Namserviss VN Ltd	100.00	100.00	Palasta iela 10, LV-1050, Rīga, Latvia
Lejastiezumi Ltd (dormant)	100.00	100.00	Palasta iela 10, LV-1050, Rīga, Latvia
Pārventas sporta centrs Ltd (dormant)	100.00	100.00	Palasta iela 10, LV-1050, Rīga, Latvia

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

b) As of 31 December 2006 and 2007, JSC *Ventspils nafta* has a 94.23% shareholding of *Mediju nams* Ltd. At the same time, JSC *Preses nams* owns 5.77% of the share capital of *Mediju nams* Ltd. As such, the Group's ownership share is 99.73%.

c) As at 15 January 2007 *Mediju nams* Ltd established partly owned subsidiary *4. vara* Ltd ; the establishment of this subsidiary does not represent a business combination in accordance with IFRS 3

1. Corporate information (cont'd)

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

LatRosTrans Ltd – transporting crude oil and oil products via pipelines;

Ventspils nafta termināls Ltd – reloading and storage of crude oil and oil products;

JSC *Preses nams* – providing printing services;

Mediju nams Ltd – publishing;

Nekustamie īpašumi VN Ltd – a real estate holding company;

Darījumu centrs Daugava Ltd– a real estate development company;

Namserviss VN Ltd – a real estate management company;

Ventspils biznesa centrs Ltd – a real estate development company;

Lejastiezumi Ltd – a real estate development company;

Pārventas sporta centrs Ltd – a real estate development company;

Rīgas līcis VN Ltd – a real estate development company.

In addition, the Parent company holds a 49.94% stake in the associated public company JSC *Latvijas kuģniecība* (Latvian Shipping Company), 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 15 April 2008 and resolution of the Council on 15 April 2008. 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.

Statement of compliance

The consolidated financial statements of JSC *Ventspils nafta* and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis of preparation

The consolidated 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 consolidated financial statements are presented in and rounded to the nearest 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 JSC *Ventspils nafta* and its subsidiaries *Ventspils nafta termināls* Ltd, *LatRosTrans* Ltd, JSC *Preses nams, Mediju nams* Ltd, *Rīgas līcis VN* Ltd, *Preses nams* Ltd, *4. vara* Ltd and *Nekustamie īpašumi VN* Ltd, the later of which includes *Namserviss VN* Ltd, *Ventspils biznesa centrs* Ltd, *Lejastiezumi* Ltd, *Pārventas sporta centrs* Ltd and *Darījumu centrs Daugava* Ltd. 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 JSC *Ventspils nafta* and companies in which JSC *Ventspils nafta* has a controlling interest (subsidiaries), as if JSC *Ventspils nafta* and its subsidiaries were a single company. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. For the purposes of consolidation, unrealized internal profit, inter-group balances, internal shareholdings, internal dividends and other internal transactions are eliminated in full in the Group's financial statements. Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholder's equity.

2. Significant accounting policies (cont'd)

Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill. Sales of shares in subsidiaries which do not result in a loss of control are accounted for using the same conceptual approach, whereby, the difference between the consideration received and the partial goodwill disposed-off plus the carrying amount of minority interest to be recognized as a result of the transaction is recognized as other income in the consolidated income statement.

Investments in associated entities

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The Group's investment in its associate is 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 recognized directly in the associated company's equity by a direct 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. Profits and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in the associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value and the carrying amount and recognises the amount in the income statement. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended standards and interpretations during the year. Adoption of these revised standards did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures.

IFRS 7 Financial Instruments: Disclosures.

IAS 1 Amendment – Presentation of Financial Statements.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 10 Interim Financial Reporting and Impairment.

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 35 (Financial Instruments).

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 is effective for financial years beginning on or after 1 June 2006 and establishes that the date to assess the existence of an embedded derivative is the date on which an entity first becomes party to the contract, with reassessment only if there is a change that significantly modifies the cash flows.

IFRIC 10 Interim Financial Reporting and Impairment

The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses reversed in previous interim period, the interpretation had no impact on the financial position or performance of the Group.

The following new interpretations, which became effective in 2007 were not applicable to the Group and as such did not have any impact on the accounting policies: IFRIC 7, and IFRIC 8.

2. Significant accounting policies (cont'd)

Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Operating Lease Commitments–Group as Lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including a sensitivity analysis of key assumptions, are given in Note 14.

With the change in shareholder structure of *Ventspils nafta termināls* Ltd the management of the subsidiary reviewed previous business plans. New business plans were mainly influenced on a new sales contract. New business plans resulted in reversal of impairment. See Note 14.

Useful life of property, plant and equipment

Useful life of property, plant and equipment is determined based on the evaluation of the technical condition of the equipment and estimates by the management as to future plans regarding the utilization of the equipment and the development of technologies used in the production process. The remaining useful life as used in the accounting is reviewed for change at every balance sheet date.

Further, in the future the Group plans to move some production facilities, including the equipment, to new production plants. Several units of the equipment will not be transferred to new production facilities. Therefore, the useful life of the respective assets is adjusted depending on the planned date for transfer to the new premises as determined by the management.

The assessment of useful lives for some of the assets of *Ventspils nafta termināls* Ltd and *LatRosTrans* Ltd requires a detailed study of assets' technical condition including comprehensive technological methods as well as management judgment. The last change of useful lives occurred in 2004 when there was a change of the useful lives of the tanks and technological equipment based on the evaluation performed by independent valuators from JSC *Izstrādājumu bīstamības novērtēšanas aģentūra* involving analysis of technical condition of the respective assets. As a result, the useful lives of the assets were extended. In 2006, the subsidiary *LatRosTrans* Ltd has acquired a technical report from independent valuator *Inspecta Latvia* Ltd for the crude oil pipeline Polotsk – Mažeikiai (operation terminated) and the oil product pipeline Polotsk – Ventspils, which was based on the technical evaluation of pipelines and maintenance and repair works completed by *LatRosTrans* Ltd. This report re-affirmed that the previously recognized extension of the useful life of major pipelines was still appropriate. Further, according to evaluation performed by independent valuator JSC *Izstrādājumu bīstamības novērtēšanas aģentūra*, dated 2 May 2005, the technological equipment of subsidiary *LatRosTrans* Ltd was considered to be separate units not integrated with the main pipeline. Taking into account constant repairs of the main pipelines resulting in extension of their useful lives, *LatRosTrans* Ltd management believes that there is no need for adjusting depreciating charge should the remaining useful life of particular technological equipment exceed the remaining useful life of the main pipeline it is attached to.

Residual value of property, plant and equipment

The Group has determined residual value at the end of their useful life for some property, plant and equipment items. The residual value is used in the calculation of depreciation and is based on the analysis performed by the management on the potential sales value of the respective asset.

2. Significant accounting policies (cont'd)

Significant accounting judgments, estimates and assumptions (cont'd)

Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised deferred tax asset at 31 December 2007 was LVL 9 868 thousand (2006: LVL 8 460 thousand) and the unrecognised deferred tax assets at 31 December 2007 was LVL 988 thousand (2006: LVL 2 294 thousand). Further details are contained in Note 11.

Provision for Reorganization

The Group has recognised a provision for reorganisation associated with subsidiary *Ventspils nafta termināls* Ltd. In determining the amount of the provision, assumptions and estimates are required in relation to the expected cost of reorganisation. The carrying amount of the provision as at 31 December 2007 is LVL 1 050 thousand (2006: LVL 0).

Changes in estimates

In 2007 the subsidiaries *LatRosTrans* Ltd and *Ventspils nafta termināls* Ltd have changed estimate of future inflation rate and growth rate percentage that are used for estimation of future cash flows when assessing impairment of non-current assets. The inflation rate has been changed from 3% to 4.5% and the growth rate from 3% to 4.5%. Had the previous inflation rate and growth rate been used, an impairment loss of LVL 10 654 thousand larger would had been recognized.

Foreign currency transactions

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

Transactions in foreign currencies 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. 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 JSC *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.

	31/12/2007	**31/12/2006**
As at balance sheet date		
USD/LVL	0.484000	0.536000
EUR/LVL	0.702804	0.702804
Average rate per period		
USD/LVL	0.514100	0.559800
EUR/LVL	0.702804	0.702804

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. The indicators are reviewed at least once a year. 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 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 *LatRosTrans* Ltd founders less accumulated amortization and impairment. 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 accumulated impairment losses.

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 when property, plant and equipment is available for use. 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.

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 when the recognition criteria are met and depreciated over the lease period or the shorter useful life of the respective leasehold improvement 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.

The useful lives and residual values of an asset are reviewed at least at each financial year end.

Borrowing costs

Borrowing costs are recognized as an expense when incurred.

2. Significant accounting policies (cont'd)

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 measured initially at cost, including transaction costs. Subsequent to initial recognition 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. Fair value of the investment properties of the Group is determined by independent valuator certified by the Latvian Association of Independent appraisers. Methods applied in determining the fair value of investment properties by the valuator are: cost method, comparable transaction method, and expected revenue (discounted cash flow) method. The value is then determined by combining the results of the three methods and applying an estimated weight coefficient for each method.

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.

No assets held under operating lease have been classified as investment properties.

Impairment of non-financial 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 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 using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as loans and receivables and available for sale financial assets, as appropriate. There are no held to maturity financial assets and financial assets at fair value through profit or loss within the Group. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2. Significant accounting policies (cont'd)

Investments and other financial assets (cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss. Unquoted equity instruments for which fair values cannot be reliably measured are subsequently measured at cost less any impairment.

Fair value

Fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost

Loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial investments

For available-for-sale financial investments when the fair value or cost declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in profit or loss. At 31 December 2007 no impairment losses have been recognised for available-for-sale assets (2006: Nil).

Financial liabilities

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2. Significant accounting policies (cont'd)

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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 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.

Finished and unfinished inventory

The cost of finished and unfinished goods includes direct cost with addition of indirect costs related to production. Indirect production costs consist of labour, energy, depreciation and other production costs.

Finished and unfinished 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 realisable 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.

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.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

2. Significant accounting policies (cont'd)

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 finance expenses.

Restructuring

The Group recognises a provision for restructuring costs only when the general recognition criteria for provisions are met – when the Group has a detailed formal plan for the restructuring or has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Leases

Group as lessee

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 recognized as finance expenses. Contingent lease payments are recognised as an expense in the income statement in the period in which they occur. 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.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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 services rendered by the Group comprise pipeline transportation of crude oil and oil products, printing and media revenue. Revenue is recognized by reference to the stage of completion. The stage of completion is determined based on the relation between the cost incurred to date and total expected cost. 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.

2. Significant accounting policies (cont'd)

Revenue (cont'd)

Interest income

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

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

In accordance with Latvian tax legislation current corporate income tax is applied at the rate of 15% (2006: 15%) on taxable income generated by the Parent company and its subsidiaries during the taxation period ending 31 December 2007.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

VAT proportion

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

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 *Ventspils nafta termināls* Ltd 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 *Ventspils nafta termināls* Ltd 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.

2. Significant accounting policies (cont'd)

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 for the year attributable to ordinary equity holders of the parent by the average number of shares in issue during the year. The average number of the issued shares during the year has been weighted to take into account the timing of the issuance of new shares.

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.

Standards issued but not yet effective

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

- IAS 1 Revised Presentation of Financial Statements. The revised IAS 1 *Presentation of Financial Statements* was issued in September 2007 and becomes effective once adopted by EU, but not earlier than for fiscal years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

- IFRS 2 Share-based Payments – Vesting Conditions and Cancellations. This amendment to IFRS 2 *Share-based payment*s was published in January 2008 and becomes effective once adopted by EU, but not earlier than for fiscal years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

- IFRS 3 (Revised) Business Combinations (issued in January 2008, effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 July 2009). The Standard introduces a number of changes in the accounting of business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The Group expects that the adoption of the revised Standard will have no significant impact on the Group's financial statements in the period of initial application.

- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting. The standard introduces management approach for segment reporting.

- Amendments to IAS 23 Borrowing cost (effective periods on or after 1 January 2009). This amendment establishes that all borrowing costs must be capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

2. Significant accounting policies (cont'd)

Standards issues but not yet effective (cont'd)

- IAS 27 (Revised) Consolidated and Separate Financial Statements (issued in January 2008, effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 July 2009) required that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The Group expects that the adoption of the revised Standard will have no significant impact on the Group's financial statements in the period of initial application.
- Amendment to IAS 32 (issued in February 2008, effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2009) requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The Group expects that the adoption of the amendment to the Standard will have no significant impact on the Group's financial statements in the period of initial application.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 July 2008). The Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.
- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2008). This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group as all defined benefit schemes are currently in deficit.

IAS 1 (Revised) will have an impact on presentation and IAS 27 (Revised) will have an impact on future acquisitions of minority interests. The Group expects that the adoption of the other pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for IAS 23 where the impact of capitalization of loan interest is not assessed yet. Under the condition that the standards and interpretations have been endorsed by the European Commission, the Group intends to adopt these IFRSs and IFRIC in the period they become effective.

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		Holding and other activities		**Consolidated**	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Third party revenue	66 259	48 647	15 492	20 292	252	371	-	-	-	-	82 003	69 310
Intersegment revenue	330	1 151	1 621	1 473	1 138	1 073	-	-	(3 089)	(3 697)	-	-
Cost of sales	(55 906)	(42 178)	(14 823)	(19 585)	(1 456)	(1 941)	-	-	-	-	(72 185)	(63 334)
Intersegment cost of sales	(330)	(1 395)	(2 332)	(2 005)	(247)	(185)	-	-	2 909	3 585	-	-
Of which amortisation and depreciation	(7 206)	(7 381)	(1 748)	(2 048)	(381)	(334)	-	-	-	-	(9 335)	(9 763)
Sales and distribution expense	-	-	(1 595)	(1 877)	-	-	-	-	-	-	(1 595)	(1 877)
General and administrative expense	(3 794)	(3 340)	(1 516)	(1 681)	(141)	(180)	-	-	(2 531)	(1 956)	(7 982)	(7 157)
Of which amortisation and depreciation	(187)	(182)	(82)	(92)	(4)	(2)	-	-	(220)	(297)	(493)	(573)
Other operating income/ (expense), net	26 770	(4 096)	(371)	(77)	(17) a)	- a)	-	-	25 884	4 780	52 266	607
Of which (impairment)/ impairment reversal	30 770	-	-	-	-	-	-	-	-	-	30 770	-
Of which gain on selling minority shares	-	-	-	-	-	-	-	-	26 694	-	26 694	-
Segment result	**33 329**	**(1 211)**	**(3 524)**	**(3 460)**	**(471)**	**(492)**	**-**	**-**	**39 732**	**(2 395)**	**52 507**	**(2 451)**
Gain in associates	-	-	-	-	-	-	17 191	9 438	(55)	51	17 136	9 489
Financial expense, net	(1 018)	(629)	(1 059)	(665)	(27)	(165)	-	-	(2 013)	123	(4 117)	(1 336)
Corporate income tax	(1 204)	-	(8)	69	(11)	(15)	-	-	(109)	(780)	(1 332)	(726)
Minority interest	(14 819)	1 655	226	216	-	-	-	-	-	-	(14 593)	1 871
Net result	**16 288**	**(185)**	**(4 365)**	**(3 840)**	**(509)**	**(672)**	**17 191**	**9 438**	**37 555**	**(3 001)**	**49 601**	**6 847**
Segment assets	195 464	170 274	36 971	22 872	12 300	12 774	117 843	112 158	73 429	30 747	436 007	350 186
Total consolidated assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**436 007**	**350 186**
Segment liabilities	7 357	9 409	23 637	10 062	1 301	2 525	-	-	3 055	1 412	35 350	23 408
Total consolidated liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**35 350**	**23 408**
Capital expenditure	3 405	4 886	20 586	3 657	10	50	-	-	11	244	**24 012**	**8 837**

a) Including gain from revaluation of investment properties at fair value LVL 44 thousand (2006: LVL 5 078 thousand). See also Note 7.

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 are generated from printing service to Latvian residents and non-residents, as well as, income from newspaper publishing and advertising services related to it. The situation in this business segment has deteriorated in 2006 and 2007 mainly due to negative results in the subsidiary JSC *Preses nams*.

In 2007, the management and the Council of the subsidiary JSC *Preses nams* resolved to approve its strategic development programme for 2007 - 2011. The approved programme aims at maintaining and expanding the company's share in the printing market by developing the existing activities – printing of periodicals, books and sheet products; completion of the new periodicals printing facility in the territory of Riga International Airport and book printing facility in Jāņsili, Silakrogs at Ropaži.

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 marine cargo shipping business.

4. Revenues

	2007	2006
Reloading of crude oil and oil products	27 558	14 063
Railway services	22 964	13 670
Printing services	12 091	16 672
Transportation of oil products	9 850	10 674
Income from sale of crude oil and oil products	5 493	5 071
Newspaper sales	2 060	2 140
Advertisements	1 054	927
Oil and oil product storage services	395	-
Transportation of crude oil [a)]	-	5 837
Other	538	932
TOTAL:	**82 003**	**69 986**

a) Transportation of crude oil by subsidiary *LatRosTrans* Ltd in direction Polotsk – Mažeikiai ceased in July 2006 due to technical problems with Russian pipeline Družba that was directly related to oil transportation to Mažeikiai.

5. Cost of sales

	2007	2006
Railway charges	23 007	14 175
Remuneration for work	10 274	8 755
Amortization and depreciation	9 335	9 763
Raw materials	8 090	10 788
Cost of sold oil and oil products	2 573	2 702
Social security contributions	2 326	1 969
Insurance expenses	2 084	2 230
Utilization of piers	1 785	797
Treatment of technological waste water	1 516	420
Utilities	1 381	2 328
Environment protection expense	1 309	688
Materials and spare parts	1 220	2 088
Security	1 083	921
Electricity	989	913
Repair works done by other companies	798	177
Land rent	740	737
Other	3 675	3 883
TOTAL:	**72 185**	**63 334**

6. General and administrative expense

	2007	2006
Remuneration for work	3 140	2 415
Professional charges and legal costs	1 124	766
Advertising and marketing expense	740	644
Social security contributions	523	506
Amortization and depreciation	493	573
Vehicle maintenance expense	187	161
Accruals for non-current assets impairment	166	-
Rent of premises	127	90
Social infrastructure expense	116	116
Bank charges	102	71
Communication expense	102	84
Insurance fees	101	197
Other expense	1 061	1 534
TOTAL:	**7 982**	**7 157**

7. Other operating income

		2007	2006
Reversal of impairment loss for property, plant and equipment [a)]		30 770	-
Gain on disposal of 49% shares in *Ventspils nafta termināls* Ltd [b)]		26 694	-
Income from oil extracted from groundwater and waste waters		94	552
Gain from revaluation of investment properties at fair value		44	5 078
Penalties received		3	168
Other income		296	306
	TOTAL:	**57 901**	**6 104**

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

b)) On 15 March 2007, the Enterprise Register of the Republic of Latvia has registered sale of 49% shares in *Ventspils nafta termināls* Ltd. The gain represents the difference between sales price for the shares of LVL 47 880 thousands and the minority interests which are to be recognized due to the sale of these shares of LVL 21 186 thousands (see also Note 18).

8. Other operating expense

		2007	2006
Impairment for Construction in progress object [a)]		1 728	-
Payments to local municipality [b)]		865	850
Impairment of non current other assets		678	-
Cost of non-current assets written-off		514	12
Cost of written off Construction in progress object		441	485
Personnel expenses		425	335
Sponsorship		180	161
Depreciation		61	75
Provision for expenses arising from oil product theft [c)]		44	41
Impairment loss for land use rights and property, plant and equipment [d)]		-	3 778
Other expenses		699	436
	TOTAL:	**5 635**	**6 173**

a) Impairment for Construction in progress object relates to subsidiary *Ventspils nafta termināls* Ltd. Technical documentation which have been prepared for a construction project. As the management of *Ventspils nafta termināls* Ltd is not aware when and if the construction project will be continued an impairment was recognised.

b) According to the agreement concluded between subsidiary *Ventspils nafta termināls* Ltd and Ventspils City Council, *Ventspils nafta termināls* Ltd 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 Ventspils social infrastructure. Starting with 2007 and in the coming years the fixed portion of the payment will be adjusted for the Harmonised Consumer Price Index (HICP) published by the EU statistics office. In 2007 HICP is 2.1%.

c) Based on the court ruling precedents (see Note 31), the subsidiary' *LatRosTrans* Ltd management estimated the potential taxes payable on physical losses due to thefts of oil products for 2007 amounting to 0.112 thousand tons (for 2006: 0.116 thousand tons) and established provisions for excise tax and VAT in the amount of LVL 26 thousand and LVL 18 thousand, respectively (for 2006: LVL 22 thousand and LVL 19 thousand, respectively).

d) See Note 14.

9. Personnel expenses

	2007	2006
Average number of employees	1 683	1 901

Remuneration for work and social security expense

		2007	2006
Remuneration for work		12 555	10 629
Social security contributions		2 898	2 432
Other personnel expense		80	120
Management and the Board of Directors			
Remuneration for work		786	486
Social security contributions		95	52
Other personnel expense		9	5
Members of the Council			
Remuneration for work		705	672
Social security contributions		104	125
Other personnel expense		12	8
	TOTAL:	**17 244**	**14 529**

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

		2007	2006
Cost of sales		12 600	10 762
Selling expenses		556	511
General and administrative expenses		3 663	2 921
Other operating expenses		425	335
	TOTAL:	**17 244**	**14 529**

10. Financial income and (expense)

	2007	2006
Interest income from loan note	2 511	62
Interest income from bank account balances and deposits	928	697
Other income	-	1
Total financial income:	**3 439**	**760**
Of which: from financial instruments relating to financial instrument categories:		
Loans and receivables and cash	3 439	760

	2007	2006
Foreign currency exchange loss, net	(6 450)	(1 034)
Interest expense	(1 106)	(1 057)
Penalties paid	-	(5)
Total financial expenses:	**(7 556)**	**(2 096)**
Of which: from financial instruments relating to financial instrument categories:		
Loans and receivables	(4 320)	-
Financial liabilities measured at amortised cost	(1 106)	(1 057)

11. Corporate income tax

	2007	2006
Current income tax		
Current income tax	97	-
Deferred tax		
Relating to origination and reversal of temporary differences	1 235	726
Income tax reported in income statement	**1 332**	**726**

Deferred tax liability:

Deferred tax liability	31/12/2007	31/12/2006
Accelerated depreciation for tax purposes	(16 920)	(14 277)
Gross deferred tax liability	(16 920)	(14 277)
Deferred tax asset		
Differences between net carrying values of tangible assets for financial and corporate income tax purposes	-	389
Tax losses carried forward	6 485	6 046
Deferred tax assets related to other temporary differences	205	153
Tax rebate on investment projects above LVL 10 000 thousand [a)]	4 166	4 166
Less valuation allowance for tax asset	(988)	(2 294)
Gross deferred tax asset	9 868	8 460
Net deferred tax liability	**(7 052)**	**(5 817)**

11. Corporate income tax (cont'd)

a) According to the decision of the Cabinet of Ministers No. 613, dated 30 October 2002, subsidiary *LatRosTrans* Ltd in 2002 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 *LatRosTrans* Ltd 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 *LatRosTrans* Ltd calculates the corporate income tax at 25%.

In 2007 and 2006, the subsidiary *Ventspils nafta terminājs* Ltd applied 5% corporate income tax rate (previously – 15 %) for calculation of the deferred income tax liability based on the management's assumption that the subsidiary will benefit from 80% corporate income tax discount applied to companies operating in accordance with the Law of the Republic of Latvia on Tax Application in Free Ports and Special Economic Zones.

Group tax losses carried forward expire as follows:

	Tax losses	Expiry year
Tax losses of 2003	8 567	2008
Tax losses of 2004	4 627	2009
Tax losses of 2005	4 214	2010
Tax losses of 2006	8 222	2011
Tax losses of 2007	5 026	2012
TOTAL:	**30 656**	

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

	2007	2006
Income before corporate income tax	65 256	5 702
Corporate income tax at 15%	9 788	855
The effect of different tax rates and tax rebates within Group	(4 095)	552
Permanent differences including the non-taxable income from revaluation of associate	994	(70)
Reversal of impairment	(5 517)	-
Change in valuation allowance for deferred tax asset	1 127	(623)
Corporate income tax asset recognized in the reporting year which had not been recognized in the previous years	(1 339)	-
Other	374	12
Corporate income tax included in the income statement	**1 332**	**726**

		Land use rights [a)]	Other intangible assets	**Total**
Cost value as at 31/12/2005		49 659	85	49 744
2006	Additions	-	43	43
Cost value as at 31/12/2006		49 659	128	49 787
Accumulated amortisation and impairment 31/12/2005		19 538	45	19 583
2006	Amortisation for the year	793	16	809
	Impairment	153	-	153
Balance as at 31/12/2006		20 484	61	20 545
Net book value 31/12/2005		**30 121**	**40**	**30 161**
Net book value 31/12/2006		**29 175**	**67**	**29 242**

12. Intangible assets

		Land use rights [a)]	Other intangible assets	**Total**
Cost value as at 31/12/2006		49 659	128	49 787
2007	Additions	-	46	46
Cost value as at 31/12/2007		49 659	174	49 833
Accumulated amortisation and impairment 31/12/2006		20 484	61	20 545
2007	Amortisation for the year	788	19	807
Balance as at 31/12/2007		21 272	80	21 352
Net book value 31/12/2006		**29 175**	**67**	**29 242**
Net book value 31/12/2007		**28 387**	**94**	**28 481**
Amortisation rate (straight line method)		2.5-4%	10-35%	

a) Upon the foundation of subsidiary *LatRosTrans* Ltd, the Republic of Latvia, represented by JSC *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 *LatRosTrans* Ltd according to the agreement dated 29 September 1995.

The subsidiary's *LatRosTrans* Ltd 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 *LatRosTrans* Ltd has use rights to the land where the subsidiary's *LatRosTrans* Ltd 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. The subsidiary *LatRosTrans* Ltd 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 75%.

In 2006 impairment loss for land use rights was booked in the amount of LVL 153 thousand. In 2007 no additional impairment loss have been recognized. More details are given in Note 14.

12. Intangible assets (cont'd)

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

	2007	2006
Cost of sales	802	803
Selling and distribution expenses	3	3
General and administrative expenses	2	3
TOTAL:	**807**	**809**

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 31/12/2005		228 280	97 855	26 266	7 885	360 286
	Additions	205	2 047	1 052	5 533	8 837
2006	Disposals	(1)	(554)	(277)	(485)	(1 317)
	Transfers	252	286	77	(615)	-
Cost value as at 31/12/2006		228 736	99 634	27 118	12 318	367 806
Accumulated depreciation as at 31/12/2005		145 176	46 977	21 419	-	213 572
	Depreciation for the year	3 180	5 073	1 365		9 618
2006	Impairment	3 165	460	-	16	3 641
	Disposals	(1)	(549)	(241)	-	(791)
Accumulated depreciation and impairment as at 31/12/2006		151 520	51 961	22 543	16	226 040
Net book value as at 31/12/2005		**83 104**	**50 878**	**4 847**	**7 885**	**146 714**
Net book value as at 31/12/2006		**77 216**	**47 673**	**4 575**	**12 302**	**141 766**
Cost value as at 31/12/2006		228 736	99 634	27 118	12 318	367 806
	Additions	285	4 064	691	18 972	24 012
2007	Disposals	(41)	(353)	(228)	(4 126)	(4 748)
	Transfers	1 619	3 233	(172)	(4 680)	-
	Impairment	-	-	-	(1 728)	(1 728)
Cost value as at 31/12/2007		230 599	106 578	27 409	20 756	385 342
Accumulated depreciation as at 31/12/2006		151 520	51 961	22 543	16	226 040
	Depreciation for the year	3 050	4 804	1 240	-	9 094
2007	Disposals	(35)	(259)	(209)	-	(503)
	Impairment reversal	(24 792)	(4 931)	(1 047)	-	(30 770)
Accumulated depreciation and impairment as at 31/12/2007		129 743	51 575	22 527	16	203 861
Net book value as at 31/12/2006		**77 216**	**47 673**	**4 575**	**12 302**	**141 766**
Net book value as at 31/12/2007		**100 856**	**55 003**	**4 882**	**20 740**	**181 481**
Depreciation rate (straight-line)		1-20%	5%-50%	10-50%		

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

As at 31 December 2007, the subsidiary JSC *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, and has also pledged its real estate in *Jāņsili*, Ropaži region, Riga district, 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 2007, the net book value of tangible assets of subsidiary's JSC *Preses nams* acquired under financial lease contracts amounted to LVL 18 570 thousand (2006: LVL 4 008 thousand) (see Note 26). Leased assets are pledged as a security for related finance lease liabilities.

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

	2007	2006
Cost of sales	8 533	8 960
General and administrative expenses	491	570
Selling and distribution expenses	9	13
Other operating expenses	61	75
TOTAL:	**9 094**	**9 618**

14. Impairment of non-current assets

In 2002, transportation of crude oil through the pipeline of subsidiary *LatRosTrans* Ltd in the Ventspils direction ceased. This resulted in loss of significant income for the Group's subsidiaries *Ventspils nafta termināls* Ltd and *LatRosTrans* Ltd, and in 2005 the Group has recognized respective impairment loss in the total amount of LVL 42 387 thousand.

The Group's companies consider all non-current assets at each company as one cash generating unit and test them for impairment when impairment indications exist. The recoverable amount is determined based on a value in use calculation using cash flow projections approved by management and covering a twenty-year period. During 2006 the Group has recognized impairment loss in the amount of LVL 3 778 thousand representing excess of the carrying amount of *LatRosTrans* Ltd non-current assets over its value in use. The testing carried out in 2007 did not reveal any additional impairment for *LatRosTrans* Ltd.

In 2007, due to new 5 year contract with related party Ventspils Tank Services SA for reserved throughout capacities, the situation with deliveries of oil products by rail improved considerably (see also Note 34). Further a new contract for transportation of oil products through the pipeline has been concluded. This resulted in changes in the cash flow projections by the management of subsidiary *Ventspils nafta termināls* Ltd. The subsidiary tested the assets for impairment in 2007. Based on the test results, it was determined that there was no longer a reason for impairment of assets, therefore it was reversed. As at 31 December 2007, gain from reversal of impairment of non-current assets has been included in the income statement for 2007 as other operating income. See Note 7.

The total net carry value of the non-current assets of the Group tested for impairment was LVL 181 354 thousand (2006: LVL 143 662 thousand).

The following describes each key assumption on which the management of subsidiaries' *Ventspils nafta termināls* Ltd and *LatRosTrans* Ltd have based their cash flow projections to undertake impairment testing of non-current assets:

a. The discount rate applied to the cash flow projections is 12%. (2006: 12%)
b. The growth rate used to extrapolate the cash flows of the subsidiary *LatRosTrans* Ltd is 4.5% (2006: 3%) For subsidiary *Ventspils nafta termināls* Ltd the projected revenue from the long-term agreement signed on reloading of crude oil and oil products has been taken in consideration.
c. The inflation rate used is 4.5% until 2010 inclusive and 2.5% onwards (2006: 4.5%).
d. *LatRosTrans* Ltd has also used assumption that, annual transportation volume of crude oil to Mažeikiai will be 6 000 tons in 2009 (increasing to 14 000 tons in 2012).

In 2007 the subsidiary JSC *Preses nams* did not recognise any loss from impairment of property, plant and equipment based on the future cash flow projections. The following are the key assumptions used by the subsidiary's JSC *Preses nams* management for estimating future cash flows for the purpose of testing non-current assets for impairment:

a. The discount rate applied to cash flow projections is 10%;
b. The annual growth of the number of units sold by the company is 3%;
c. The annual growth of the unit sale price is 4.5% until 2010 inclusive and 2.5% onwards;
d. The applied inflation rate is 4.5% until 2010 inclusive and 2.5% thereafter.

14. Impairment of non-current assets (cont'd)

Additionally to the value in use calculation the fair values less cost to sell of the property, plant and equipment of JSC *Preses Nams* as of 31 December 2007 have been determined as follows:

- In January 2008, an independent valuator assessed the market value of the buildings owned by JSC *Preses nams*. The total market value determined as a result of this valuation was LVL 6 816 thousand, or higher than the carrying amount of the respective buildings as at 31 December 2007.
- Two independent suppliers, *Heidelberg Latvija* Ltd and *Print Finishing Sales & Services GmbH*, carried out a valuation of the repurchase price for the used production equipment owned by JSC *Preses nams* on 16 January 2008 and on 14 March 2008 respectively. The total market value determined as a result of this valuation was LVL 4 196 thousand or by LVL 1 025 thousand less than the carrying amount of the relevant equipment as at 31 December 2007.
- In 2008 an independent supplier, *Heidelberg Druckmaschinen GmbH*, carried out a valuation of the repurchase price for the new production equipment owned by JSC *Preses nams*. This equipment is disclosed in the balance sheet as construction in progress. The total market value of the equipment determined as a result of this valuation was LVL 13 649 thousand, or by LVL 1 517 thousand less than the carrying amount of the relevant equipment as at 31 December 2007.

All in all, the market value of the new and used equipment owned by JSC *Preses nams* is by approximately LVL 2.5 million lower than the carrying amount of the relevant equipment as at 31 December 2007.

However, as the value in use as of 31 December 2007 which is based on the positive future cash flow projections of this cash generating unit was assessed to be higher than the carrying amount of the respective tangible assets, the lower fair values less cost to sell of these assets did not lead to an impairment.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the property, plant and equipment in *Ventspils nafta termināls* Ltd, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount. For the subsidiaries *LatRosTrans* Ltd and JSC *Preses nams*, there are reasonably possible changes in key assumptions, which could cause the carrying value of the unit to exceed its recoverable amount. The actual recoverable amount for non-current assets of LVL 69 558 thousand *LatRosTrans* Ltd exceeds its carrying amount by LVL 1 617 thousand (2006: LVL 0). The actual recoverable amount for non-current assets of JSC *Preses nams* exceeds its carrying amount of LVL31 630 thousand by LVL 1 862 thousand (2006: not determined).

The implications of changes the main key assumptions on the recoverable amount of these two cash generating units are discussed below:

• *Inflation* – Management has considered the possibility of greater than budgeted increases in raw material price inflation. Budgeted price inflation lies within a range of 2.5% to 4.5%. Should the Group be unable to pass on or absorb through efficiency improvements additional cost increases of an average of 4%, the value in use non-current assets of *LatRosTrans* Ltd would be reduced to its carrying value. Should the Group be unable to pass on or absorb through efficiency improvements additional cost increases of an average of 1.5%, the value in use non-current assets of JSC *Preses nams* would be reduced to its carrying value.

• *Growth rate assumptions* – Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions in the subsidiary JSC *Preses nams*. The effect of new entrants is not expected to impact adversely on forecasts included in the budget. A reduction of 1.7 percentage points in this growth rate would give a value in use equal to the carrying amount of JSC *Preses nams*.

15. Construction in progress

	31/12/2007	31/12/2006
Printing equipment not installed	12 211	26
Construction of new printing facilities for the subsidiary JSC *Preses nams*	5 609	4 639
Oil product measurement station Skrudaliena	-	2 236
Construction of new pipeline corridor	172	1 900
Reconstruction of real estate property *Rīgas līcis VN* Ltd in Jurmala	1 616	1 621
Projection and construction of looping (pipeline)	899	1 224
Reconstruction of railway tank filling platform No. 1	-	410
Construction of railway tank filling/reloading platform Nr. 4	59	59
Other objects	174	187
TOTAL:	**20 740**	**12 302**

Please see Note 31 Commitments and Contingencies for Commitments for capital expenditure.

16. Investment properties

		Total investment properties
Balance as at 31 December 2005		**26 609**
2006	Fair value adjustment	5 078
Balance as at 31 December 2006		**31 687**
2007	Fair value adjustment	44
Balance as at 31 December 2007		**31 731**

Fair value of the investment properties of the Group is determined by independent valuator certified by the Latvian Association of Independent appraisers. 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 (%) 31/12/2007	Ownership (%) 31/12/2006	Legal address
Associated entities			
JSC *Latvijas kuģniecība*	49.94	49.94	Elizabetes iela 1, LV-1807, Riga, Latvia
Mediji un poligrāfija Ltd	32.70	32.70	Balasta dambis 3, LV-1081, Riga, Latvia
Ventshoes Ltd under liquidation	-	21.44	I. Mičurina iela 6, LV-3601, Ventspils, Latvia
Futbola klubs Ventspils Ltd	42.50	30.00	Dzintaru iela 20a, LV-3602, Ventspils, Latvia

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

Associated entities	31/12/2007	31/12/2006
JSC *Latvijas kuģniecība*	117 843	112 158
Mediji un poligrāfija Ltd	48	48
Futbola klubs Ventspils Ltd	-	-
TOTAL:	**117 891**	**112 206**

	31/12/2007	31/12/2006
Balance at the beginning of the year	**112 206**	**113 888**
Foreign currency translation		
JSC *Latvijas kuģniecība* – for the year 2006	-	(11 120)
JSC *Latvijas kuģniecība* – for the year 2007	(11 506)	-
Total foreign currency translation:	**(11 506)**	**(11 120)**
Reversal of previously recognized impairment		
Ventshoes Ltd under liquidation	-	*(51)*
Investments		
Increased share capital in *Futbola klubs Ventspils* Ltd	*55*	-
Impairment recognised in *Futbola klubs Ventspils* Ltd	*(55)*	-
	-	-
Proportional share of profit/ (loss)		
JSC *Latvijas kuģniecība* – for the year 2006	-	9 438
JSC *Latvijas kuģniecība* – for the year 2007	17 191	-
Ventshoes Ltd under liquidation (liquidation quota)	-	51
Balance at the end of year	**117 891**	**112 206**
Total proportional share of profit	**17 191**	**9 489**
Impairment recognised in *Futbola klubs Ventspils* Ltd	*(55)*	-
Total share of profit of associate recognised in income statement	**17 136**	**9 489**

17. Investments in associated entities (cont'd)

The functional currency of JSC *Latvijas kuģniecība*is US dollar. JSC *Latvijas kuģniecība* profit for 2007 was USD 67 009 thousand (2006: USD 33 735 thousand), total revenues for 2007 were USD 239 864 thousand (2006: USD 216 292 thousand), equity as at 31 December 2007 was USD 487 590 thousand (2006: USD 419 005 thousand), total assets as at 31 December 2007 were USD 857 027 thousand (2006: USD 665 612 thousand) and total liabilities were USD 369 437 thousand (2006: USD 246 607 thousand). The share price in Riga Stock Exchange at the end of the year was LVL 1.31 (2006: 1.07) per share.

Market value of JSC *Latvijas kuģniecība* shares owned by JSC *Ventspils nafta* as at 31 December 2007 was LVL 130 843 thousand (2006: LVL 106 872 thousand). Impairment test for investment in associate *Futbola klubs Ventspils* Ltd was performed, as a result impairment of *Futbola klubs Ventspils* Ltd in amount of LVL 55 thousand was recognised.

18. Loan note

Pursuant to the decision of the JSC *Ventspils nafta* Council dated 26 October 2006, an Option agreement on sale of 49% of shares in the subsidiary *Ventspils nafta termināls* Ltd has been concluded with *Euromin Holdings (Cyprus) Limited* (a subsidiary of *Vitol SA*). The other party had the right to call the shares over one year period at the exercise price which is based on fair value of shares. The option has been exercised in March 2007 when a share sale agreement was signed after the necessary permit was obtained from the Latvian Competition Council. The change of shareholders in the subsidiary has been registered on 15 March 2007. The Group has received a loan note in the amount of USD 90 million (LVL 47.880 thousand) bearing interest rate of LIBOR + 1% or 9.99% (whichever is the lower). The loan note is repayable at the earliest of 15 October 2016 or the date when *Euromin Holdings (Cyprus) Limited* receives payment for its *Ventspils nafta termināls* Ltd shares should it decide to dispose its shareholding in *Ventspils nafta termināls* Ltd.

19. Inventories

	31/12/2007	31/12/2006
Materials:		
Materials, spare parts and low value items	1 811	2 282
Allowance for obsolete materials	(230)	(30)
	1 581	*2 252*
Oil and oil products	2 577	3 529
Unfinished inventory	67	122
Finished inventory and goods for sale	51	82
Prepayments for materials	82	26
TOTAL:	**4 358**	**6 011**

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 *Ventspils nafta termināls* Ltd and *LatRosTrans* Ltd, used to ensure oil and oil product transportation process.

There are no inventories carried at net realizable value as at 31 December 2007 and 2006. The amount of inventories recognized as an expense is disclosed in Note 5.

20. Trade accounts receivable

	31/12/2007	31/12/2006
For printing services	2 376	2 633
For reloading services	1 290	2 097
For newspapers	496	455
For transporting of oil and oil products	171	9
For other services	14	5
For oil sold	-	2 033
Doubtful debts	1 544	1 592
Allowance for doubtful debts	(1 544)	(1 592)
TOTAL:	**4 347**	**7 232**

Movements in the provision for impairment of receivables were as follows:

	Individually impaired
As at 1 January 2006	1 084
Charge for the year	515
Unused amounts reversed	(7)
As at 31 December 2006	1 592
Charge for the year	(48)
Unused amounts reversed	(1)
As at 31 December 2007	**1 544**

All provisions are individually assessed. No collective assessment has been done.

As at 31 December, the ageing analysis of trade receivables is as follows:

			Past due				
	Total	Neither past due nor impaired	up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days
31/12/2006	**7 232**	6 206	461	216	145	164	40
31/12/2007	**4 347**	2 821	568	112	141	448	257

21. Other current assets

	31/12/2007	31/12/2006
VAT receivable	1 268	478
Prepaid insurance expense	1 178	951
Accrued income	252	389
Other prepaid expense	201	205
Other current assets	378	608
TOTAL:	**3 277**	**2 631**

22. Deposits

Deposits are short-term deposits that are placed for periods ranging from three month to one year depending on the immediate cash requirements of the subsidiary *LatRosTrans* Ltd and earn interest at the respective short-term deposit rates.

			Effective interest rate (%)	*Maturity*	31/12/2007	31/12/2006
HYPOSWISS Private Bank Ltd.	16 800	USD thousand	5.41 – 5.44%	18 June 2007	-	9 273
JSC *Latvijas Biznesa Banka*	1 000	USD thousand	5.00%	21 April 2007	-	555
				TOTAL:	-	**9 828**

23. Cash and cash equivalents

	31/12/2007	31/12/2006
Current bank accounts	10 229	2 333
Term deposits [a)]	9 329	3 092
Accumulated interest on term deposits	51	-
Cash on hand	4	9
TOTAL:	**19 613**	**5 434**

a) As at the year end, all short-term deposits with banks can be specified as follows:

			Effective interest rate (%)	*Maturity*	31/12/2007
JSC *Latvijas Biznesa Banka*	6 755	EUR thousand	5,45%	28 Februay 2008	4 748
HYPOSWISS Private Bank Ltd.	6 085	USD thousand	4,70%	15 February 2008	2 945
JSC *Latvijas Biznesa Banka*"	2 000	USD thousand	6,10%	14 February 2008	968
JSC *SEB Unibanka*	1 300	USD thousand	4.84%	3 January 2008	629
Other deposits					39
				KOPĀ:	**9 329**

24. Share capital, reserves and earnings per share

The following table represents the distribution between holders shares, being in public offering and name shares:

	Name shares	Holders shares	**Total**
31 December 2006	43 881 398	60 598 121	**104 479 519**
31 December 2007	43 881 398	60 598 121	**104 479 519**

Information on shareholders' equity participation is summarized shortly before shareholders' general meeting. As on 20 July 2007 when the last shareholders' general meeting of JSC *Ventspils nafta* took place, *Euromin Holdings (Cyprus) Limited*, was registered as the largest shareholder by owning 47,89% of Parent company's share capital. The next general share holders' meeting, registering the shareholders' part in the equity, will take place on 30 April 2008.

On 5 October 2006 all JSC *Ventspils nafta* shares (38.62% of total share capital) owned by the State, were sold in a the public auction. During the auction, 34.75% of JSC *Ventspils nafta* shares were acquired by *Euromin Holdings (Cyprus) Limited*, a company of *Vitol Group*.

All shares issued are authorized and fully paid.

Earnings per share for Group are calculated by dividing the net result for the year of LVL 49 601 thousand (for 2006: LVL 6 847 thousand) by weighted average number of shares during the year of 104 479 thousand (2006: 104 479 thousand).

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

The nominal value of each share is LVL 1.

25. Loans from credit institutions

Non-current portion:	Loan amount (thousand)	Effective interest rate (%)	Maturity	31/12/2007	31/12/2006
Ventspils nafta termināls Ltd [a)]					
Loan from JSC *Hansabanka*	USD 8 330	6 month USD LIBOR + 0.79%	25/10/2008	-	1 844
			TOTAL:	**-**	**1 844**
Current portion:	Loan amount (thousand)	Effective interest rate (%)	Maturity		
Ventspils nafta termināls Ltd [a)]					
Loan from JSC *Hansabanka*	USD 8 330	6 month USD LIBOR + 0.79%	25/10/2008	-	2 110
JSC *Preses nams*					
Loan from *Nordea Bank Finland Plc* [b)]	LVL 2 950	12 month Rigibor + 0.95%	27/05/2007	2 833	2 950
Loan from *Nordea Bank Finland Plc* [c)]	LVL 2 746	3 month Rigibor + 1.2%	28/09/2012	223	746
			TOTAL:	**3 056**	**5 806**

a) According to the agreement concluded with JSC *Hansabanka* on 25 October 2005, a non-current loan was issued to the Group in the amount of USD 8 330 thousand. As a security for the loan, *Rīgas līcis VN* Ltd, a subsidiary of JSC *Ventspils nafta*, has pledged the real estate in Jūrmala, Dubultu prospekts 51. In 18 May 2007 the Group made loan repayment in full, and the pledge was cancelled.

b) As at 31 December 2007, the subsidiary JSC *Preses nams* had not used a credit line in the amount of LVL 167 thousand (2006: LVL 50 thousand).

c) Based on the agreement with the bank, the subsidiary JSC *Preses nams* after the year end made full loan repayment.

26. Finance lease liabilities

	Date of maturity	Currency	Lease Amount (in thous. LVL)	Actual interest rate (%)	Non-current portion (in thous. LVL)	Current portion (in thous. LVL)	Net book value of lease item (in thous. LVL)
Nord/LB līzings Ltd	28.07.2012.	EUR	6 273	6 m Euribor + 1,20%	5 011	1 262	7 269
Nordea Finance Latvia Ltd	22.09.2012.	EUR	3 283	6 m Euribor + 1,20%	3 283	16	3 130
Nordea Finance Latvia Ltd	01.12.2014.	EUR	2 220	6 m Euribor + 4,75%	2 220	-	2 522
JSC *Norvik banka*	12.03.2014.	EUR	2 070	6 m Euribor + 2,00%	2 070	-	2 016
JSC *Norvik banka*	12.03.2014.	EUR	388	6 m Euribor + 2,00%	356	32	381
Nord/LB līzings Ltd	28.05.2010.	EUR	393	6 m Euribor + 1%	234	159	685
JSC *Norvik banka*	12.03.2014.	EUR	276	6 m Euribor + 2,00%	276	-	270
Nord/LB līzings Ltd	28.05.2010.	EUR	265	6 m Euribor + 1%	158	107	502
JSC *Norvik banka*	12.03.2014.	EUR	142	6 m Euribor + 2,00%	128	14	131
Nord/LB līzings Ltd	28.05.2010.	EUR	177	6 m Euribor + 1%	106	71	298
JSC *Norvik banka*	12.03.2014.	EUR	107	6 m Euribor + 2,00%	97	93	101
JSC *Norvik banka*	12.03.2014.	EUR	92	6 m Euribor + 2,00%	83	9	86
Nord/LB līzings Ltd	28.04.2010.	EUR	77	6 m Euribor + 1,20%	45	32	145
Unilīzings Ltd	25.07.2008.	EUR	80	3 m Unibor + 1,95%	-	80	396
Unilīzings Ltd	25.07.2008.	EUR	57	3 m Unibor + 1,95%	-	57	246
Nordea Finance Latvia Ltd	29.08.2008.	EUR	25	6 m Euribor + 1,19%	-	25	58
Nordea Finance Latvia Ltd	30.05.2008.	EUR	15	6 m Euribor + 1,19%	-	15	56
Nord/LB līzings Ltd	28.01.2008.	EUR	11	6 m Euribor + 1,20%	-	11	278
Nordea Finance Latvia Ltd (accrued interest payments)					-	11	-
				TOTAL AS AT 31/12/2007.:	**14 067**	**1 994**	**18 570**
				TOTAL AS AT 31/12/2006.:	**1 092**	**845**	**4 008**

Financial lease liabilities relate to acquisition of production equipment and machinery for the subsidiary JSC *Preses nams.*

26. Finance lease liabilities (cont'd)

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

	31/12/2007		31/12/2006	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	2 316	1 994	877	845
Between one and five years	11 668	11 630	1 142	1 092
More than five years	2 515	2 437	-	-
Total minimum lease payments	16 499	16 061	2 019	1 937
Less amounts representing finance charges	(438)	-	(82)	-
Present value of minimum lease payments	**16 061**	**16 061**	**1 937**	**1 937**

27. Taxes payable

	31/12/2007	31/12/2006
Social security contributions	382	297
Personal income tax	259	155
Corporate income tax	81	-
Natural resources tax	3	12
VAT payable	-	34
Real estate tax	-	4
Other	12	19
TOTAL:	**737**	**521**

28. Other liabilities

	31/12/2007	31/12/2006
Remuneration for work	514	432
Deferred income	207	258
Other	222	229
TOTAL:	**943**	**919**

29. Accrued liabilities

	31/12/2007	31/12/2006
Accrued bonuses and related social security contributions	501	627
Accrued vacation pay reserve	532	405
Accrued expenses for transit development	73	82
Accrued legal expenses	-	77
Other	585	389
TOTAL:	**1 691**	**1 580**

30. Provisions

	31/12/2007	31/12/2006
Restructuring expense	1 051	-
Environmental pollution elimination	207	199
TOTAL:	**1 258**	**199**

Restructuring expense

The provision on restructuring expense relates to restructuring provision of the subsidiary *Ventspils nafta termināls* Ltd. The restructuring plan of *Ventspils nafta termināls* Ltd was drawn up and announced to the employees of the subsidiary. The restructuring is expected to be completed in 2008. Restructuring provision has been recorded relating to optimizing activities of the terminal.

Environmental pollution elimination

Environmental pollution elimination relates to cleaning works for past leakages of oil products from *LatRosTrans* Ltd pipeline.

Movements in the provisions were as follows:

	Restructuring expenses	Environmental pollution elimination	Total
As at 1 January 2006	-	260	260
Charge for the year	-	199	199
Utilised	-	(260)	(260)
As at 31 December 2006	-	199	199
Charge for the year	1 051	207	1 258
Utilised	-	(199)	(199)
As at 31 December 2007	**1 051**	**207**	**1 258**

31. Commitments and Contingencies

Excise tax and value added tax

The subsidiary *LatRosTrans* Ltd might have tax liabilities due to wastages of oil products during the transportation. On 21 August 2003, the Cabinet Regulations regarding the allowable rate for wastages of transported oil products were amended to further define the rate at 0.16%, starting from 1 February 2004 – 0.1%, and starting from 1 September 2005 – 0.2%. The actual wastages of *LatRosTrans* Ltd in the respective periods 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 2005 through 31 December 2005 – 0.21%. In the periods 1 January 2006 through 31 December 2006 and 1 January 2007 through 31 December 2007, the amount of actual wastages was below the set rate of 0.2%.

Based on positive court rulings in the past (2002 through 2004) in relation to additional tax charges calculated by the State Revenue Service using the aforementioned Cabinet Regulations, the subsidiary did not calculate tax liabilities for wastages in 2003, 2004 and 2005 above rates stipulated in the Cabinet Regulations. Instead, the subsidiary calculates physical losses of oil products due to thefts applying methodology approved by the State authorities. The subsidiary's management believes that the risk related to potential tax liabilities is low due to favourable court rulings and it is possible to prevent potential tax consequences related to this tax risk.

The tax liabilities are calculated based on the specific amount of oil products lost due to thefts. The subsidiary's *LatRosTrans* Ltd management estimated the potential taxes payable on physical losses due to thefts for 2007 amounting to 0.112 thousand tons (2006: 0.116 thousand tons) and established provisions for excise tax and VAT in the amount of LVL 26 thousand and LVL 18 thousand respectively (2006: LVL 22 thousand and LVL 19 thousand respectively). The provisions for excise tax and VAT payable on physical losses due to thefts for 2006 and 2007 are disclosed in these financial statements under accrued liabilities.

31. Contingent liabilities (cont'd)

Environmental commitments

The subsidiary *LatRosTrans* Ltd 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 *VentEko* Ltd performs liquidation of the consequences of unexpected leakages from crude oil and oil product pipelines Polotsk – Ventspils and Polotsk – Mažeikai in the territory of the Republic of Latvia on behalf of *LatRosTrans* Ltd. To ensure quality 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 *VentEko* Ltd has developed an investment plan envisaging an implementation of such environmental strategy which would ensure that *LatRosTrans* Ltd 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 *LatRosTrans* Ltd 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 *VentEko* Ltd 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 2007 *LatRosTrans* Ltd has established accruals for expense on environmental pollution elimination in the amount of LVL 207 thousand (2006: LVL 199 thousand) (see Note 31).

The subsidiary *Ventspils nafta termināls* Ltd (previously JSC *Ventspils nafta*) have 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. During the last few years, the subsidiary has implemented new technologies to reduce and control the pollution level in the soil and ground waters, as well as performed all required monitoring and treatment operations which resulted in reducing the historical pollution.

In 2007, the subsidiary *Ventspils nafta termināls* Ltd has developed the action plan for 2007 – 2011 for soil and ground water monitoring and further reduction of the historical pollution. The plan was approved by the State Environment Service of the Republic of Latvia. Based on the subs diary's estimates, the implementation of this plan will require LVL 2 million. Future expenses related to the complete environmental recovery cannot be estimated, as these are dependent on the intensity of the subsidiary's operations, effectiveness of the environmental recovery measures taken, potential changes in laws, as well as reconstruction of existing elevations No. 1 and No. 2, which are comparatively old and worn-out constructions occasionally permitting leakages of crude oil and oil products. The estimated amount does not relate to a third party obligation.

Commitments for capital expenditure

The Group's existing commitments for the capital expenditure as at 31 December 2007 amounts to LVL 5 271 thousand (2006: LVL 3 429 thousand).

Included in the Group's total commitments is capital expenditure contracted by subsidiary JSC *Preses nams* for at the balance sheet date but not yet fully incurred totals LVL 5 271 thousand (2006: LVL 2 250 thousand). This contract has been concluded for the construction of the facility located in Jansili, Ropazu region, Riga district.

Commitments under operating leases

The subsidiary JSC *Preses nams* as a lessee has entered into property lease agreements. The total amount of annual lease expenses was LVL 14 thousand in 2007 (2006: LVL 29 thousand). As at 31 December 2007, the future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	2007	2006
Less than one year	12	14
Between one and five years	8	8
TOTAL:	**20**	**22**

31. Contingent liabilities (cont'd)

Payments to local authorities

Under the agreement signed between the subsidiary *Ventspils nafta termināls* Ltd and the Ventspils City Council, every year *Ventspils nafta termināls* Ltd has to pay to the Ventspils City Council for transportation of crude oil and oil products through the Ventspils city territory a fixed amount of LVL 700 thousand plus a variable amount not exceeding 1% of the subsidiary's net turnover for development of the social infrastructure in Ventspils. In 2007, the agreement with the Ventspils City Council was renewed for the period till 2032. Starting with 2007 and in the coming years the fixed portion of the payment will be adjusted for the Harmonised Consumer Price Index (HICP) published by the EU statistics office. In 2007, HICP is 2.1%.

Assuming that the variable amount will remain on the 2007 level and the HICP determined by the EU statistics office will be 2.1% each year, the subsidiary has estimated the total amount of contingency payable to the Ventspils City Council which was LVL 27 million as at 31 December 2007.

Litigation

In 2007 the subsidiary JSC *Preses nams* has been involved in several court cases with the total claims in the amount of LVL 165 thousand (2006: LVL 139 thousand). Of these, several claims (totalling LVL 103 thousand) have been dismissed as unsubstantiated and the court rulings have taken effect. The subsidiary's management believes that the proceedings will not result in any additional liabilities and accordingly no provisions for any liability have been made in these financial statements.

Minimum technological reserve

The subsidiary *Ventspils nafta termināls* Ltd 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 as at 31 December 2007 is 25 286 tons of crude oil, 84 330 tons of diesel fuel and 30 200 tons of petrol; as at 31 December 2006 it was 30 300 tons of crude oil, 74 500 tons of diesel fuel, and 30 200 tons of petrol. As at 31 December 2007, the *Ventspils nafta termināls* Ltd owned 2 683 tons of oil products and 221 tons of crude oil; as at 31 December 2006 it was 2 683 tons of oil products and 194 tons of crude oil that are to be utilised to settle the Company's liabilities to JSC *Ventspils nafta* for borrowed oil.

Therefore, under the existing circumstances, to ensure the minimum technological reserve required for the reloading system, oil products belonging to *Ventspils nafta termināls* Ltd customers and JSC *Ventspils nafta* are partly used. The portion of the minimum technological reserve owned by other persons, excluding JSC *Ventspils nafta*, comprises approximately 23 886 tons of crude oil, 71 172 tons of diesel fuel, and 23 376 tons of petrol; as at 31 December 2006 it was 9 942 tons of crude oil, 62 263 tons of diesel fuel, and 27 527 tons of petrol. The approximate cost of establishing the minimum 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 52 536 thousand (2006: LVL 29 177 thousand).

The subsidiary *LatRosTrans* Ltd 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 surplus oil products, the *LatRosTrans* Ltd had in its possession 19 235 tons of oil products as at 31 December 2007 (2006: 18 112 tons). Thus, currently products owned by the subsidiary's clients are used as a remaining part of the minimum technological reserve of oil products needed for the transportation network in the amount of 68 165 tons (2006: 69 288 tons). The approximate cost of restoring the minimum reserve of oil products used as the technological reserve for the oil product transportation network entirely on the own resources is estimated in the amount of LVL 30 417 thousand, using the average market price of LVL 446.22 per ton (USD 1 002.75 per ton) effective as at 31 March 2008.

32. Pledges and other restrictions on title

As at 31 December 2007, the subsidiary JSC *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, and has also pledged its real estate in Jāņsili, Ropaži region, Riga district, for the total mortgage amount of LVL 1 000 thousand in order to secure the loans received from *Nordea Bank Finland Plc*.

As at 31 December 2007, the net book value of tangible assets acquired under financial lease contracts for the subsidiary JSC *Preses nams* amounted to LVL 18 570 thousand (2006: LVL 4 008 thousand). Leased assets are pledged as a security for related finance lease liabilities.

33. Off balance sheet assets

Technological amount of oil

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

Surplus oil products

The agreements with clients provide for the rate of allowed wastages that could be incurred as a result of transportation activities. Currently, the rate is 0.1% of total transported volume. In 2007 and 2006, losses of oil products were below the stated rate of wastages. As a result, the subsidiary *LatRosTrans* Ltd has acquired in its possession 1 123 and 1 939 tons of oil products respectively. These volumes will be held in the subsidiary's possession until legal title of these oil products is established.

34. Related party transactions

For the purpose of these financial statements the entities that are part of the JSC *Ventspils nafta* Group i.e. *Ventspils nafta termināls* Ltd, *LatRosTrans* Ltd, JSC *Preses nams, Mediju nams* Ltd, *Rīgas līcis VN* Ltd and *Nekustamie īpašumi VN* Ltd and its subsidiaries *Darījumu centrs Daugava* Ltd, *Namserviss VN* Ltd, *Ventspils biznesa centrs* Ltd, *Pārventas sporta centrs* Ltd and *Lejastiezumi* Ltd, associated companies JSC *Latvijas kuģniecība, Mediji un poligrāfija* Ltd, *Ventshoes* Ltd under liquidation, *Futbola klubs Ventspils* Ltd are considered to be related entities of the Parent company. In addition, significant shareholders of JSC *Ventspils nafta* i.e. JSC *Latvijas naftas tranzīts* and its significant shareholder JSC *Ventbunkers* including its subsidiaries and associated entities and *Euromin Holdings (Cyprus) Limited*, a company of *Vitol Group* are considered related parties to the Group.

The related party transactions performed by the Group during the reporting year can be seen in the table below:

Related party	Nature of services	Year	Income from related parties	Payments to related parties	Amounts owed by related parties	Amounts owed to related parties
Euromin Holdings' (Cyprus) Limited	Interest income	2007	2 200	-	-	-
Euromin Holdings' (Cyprus) Limited *	Sale of shares	2007	47 880	-	43 560	-
*Ventspils Tank Services SA***	Agent	2007	29 610	-	1 099	-
AK Transnefteprodukt	Transit services	2007	-	254	-	72
		2006	-	443	-	-
JSC *AD Ventspils* (established in 2006)	Security services	2007	-	990	-	-
Apsardzes dienests Venta Ltd (liquidated in 2007)	Security services	2007	-	-	-	-
		2006	-	850	-	-
Futbola klubs Ventspils Ltd	Marketing services	2007	-	70	-	-
		2006	-	70	-	-
Vats Ltd	Electricity supply	2007	-	7	-	1
		2006	-	5	-	-
4. vara Ltd	Marketing services	2007	26	-	-	36
		2006	-	-	-	-
Preses nams Ltd	Agent printing	2007	74	-	-	-
		2006	69	-	-	-
JSC *Latvijas kuģniecība*	Lease of premises	2007	4	-	-	-
		2006	-	-	-	-
		TOTAL 2007:	**79 794**	**1 321**	**44 659**	**109**
		TOTAL 2006:	**69**	**1 368**	**-**	**-**

* See Note 18.

** *Ventspils nafta termināls* Ltd has concluded a contract with *Ventspils Tank Services* SA, a subsidiary of *Euromin Holdings (Cyprus) Limited* which commenced on 1 March, 2007 and continues through 31 December 2011 regarding terminal services. This contract has an option of prolongation for further 5 years which could be exercised by *Ventspils Tank Services* SA. According to the current contract *Ventspils Tank Services* SA is obliged to pay monthly fixed fees for terminal services which are based on reserved terminal capacities. The monthly fees are due even if the agreed capacities are not fully utilised by *Ventspils Tank Services* SA.

Terms and conditions of transactions with related parties

For terms and conditions for Loan note from *Euromin Holdings' (Cyprus) Limited* see Note 18. Other receivable/ payable balances 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 2007, the Group has not made any provisions for doubtful debts relating to amounts owed by related parties (2006: 0).

35. Financial instruments

The main financial instruments of the Group are issued/ received current and non-current loans, held-to-maturity financial assets, 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.

	31.12.2007			
Financial assets	**Loans and receivables measured at amortised cost**	**Available for sale financial assets measured at cost**	**Financial liabilities measured at amortized cost**	**Total**
Non-current portion of loan	43 560	-	-	**43 560**
Trade accounts receivables	4 599	-	-	**4 599**
Available for sale financial assets	-	51	-	**51**
Cash and cash equivalents	19 613	-	-	**19 613**
Total Financial assets:	**67 772**	**51**	**-**	**67 823**
Non-current portion Financial lease liability	-	-	14 067	**14 067**
Current portion Financial lease liability	-	-	1 994	**1 994**
Current portion Loans from credit institutions	-	-	3 056	**3 056**
Trade accounts payable	-	-	3 908	**3 908**
Other liabilities	-	-	192	**192**
Total Financial liabilities:	**-**	**-**	**23 217**	**23 217**

	31/12/2006			
Financial assets	**Loans and receivables measured at amortised cost**	**Available for sale financial assets measured at cost**	**Financial liabilities measured at amortized cost**	**Total**
Trade accounts receivables	7 621	-	-	**7 621**
Available for sale financial assets	-	51	-	**51**
Cash and cash equivalents	5 434	-	-	**5 434**
Deposits	9 828	-	-	**9 828**
Total Financial assets:	**22 883**	**51**	**-**	**22 934**
Non-current portion Financial lease liability	-	-	1 092	**1 092**
Non-current portion Loans from credit institutions	-	-	1 844	**1 844**
Current portion Financial lease liability	-	-	845	**845**
Current portion Loans from credit institutions	-	-	5 806	**5 806**
Trade accounts payable	-	-	4 723	**4 723**
Other liabilities	-	-	229	**229**
Total Financial liabilities :	**-**	**-**	**14 539**	**14 539**

35. Financial instruments (cont'd)

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk, cash flow interest rate risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Credit risk

The Parent company and the Group are 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 secure financial institutions.

As at 31 December 2007 the subsidiary *Ventspils nafta termināls* Ltd credit risk concentration to single customer amounted to 85% of the total trade receivables (1 099 thousand LVL) (2006: 91%). This is due to the fact that in the result of the long cooperation that stable partner relations with two customers have been developed as confirmed by adequate and systematic fulfilment of all contractual liabilities.

As of 31 December 2007 the subsidiary's *LatRosTrans* Ltd credit risk concentration to a single customer amounted to 100% of total trade receivables (171 thousand LVL) (2006: 100%; 9 thousand LVL).

The subsidiaries JSC *Preses nams*, *Mediju nams* Ltd, *Rīgas līcis VN* Ltd and *Nekustamie īpašumi VN* Ltd 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' JSC *Preses nams*, *Mediju nams* Ltd, *Rīgas līcis VN* Ltd and *Nekustamie īpašumi VN* Ltd exposure to bad debts is minimized. The subsidiaries JSC *Preses nams*, *Mediju nams* Ltd, *Rīgas līcis VN* Ltd and *Nekustamie īpašumi VN* Ltd have no significant concentration of credit risk with any single customer or group of customers having similar characteristics.
Maximum exposure to Credit risk as at 31 December 2007 regarding financial assets amounts to thousand LVL 67 823 (31 December 2006: thousand 22 934 LVL).

Foreign currency risk

The Group's financial assets and liabilities exposed to foreign currency risk comprise long-term loan, 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 US. 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 US dollars.

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of investment in associate company JSC *Latvijas kuģniecība* the functional currency of which is US Dollar).

	Increase/ decrease in US Dollar rate	Effect on profit before tax (LVL thousand)	Effect on equity (LVL thousand)
2007	+5%	2 914	5 892
	-5%	(2 914)	(5 892)
2006	+5%	665	5 609
	-15%	(1 996)	(16 823)

35. Financial instruments (cont'd)

Interest rate risk

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

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

Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	2007		2006	
	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)	Increase/ decrease in basis points	Effect on profit before tax (LVL thousand)
Euro - EURIBOR	+0.25%	40	+1.0%	16
	-1.0%	(158)	-0.05%	(1)
US dollar - LIBOR	+0.25%	109	+0.25%	30
	-1.0%	(436)	-0.75%	(90)
Latvian Lats - RIGIBOR	+1.0%	1	+8.0%	361
	-3.0%	(4)	-0.5%	(23)

Liquidity risk

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks and Parent company and planning terms of payments and receivables by analyzing future cash flows. The budgeting system which is being successfully applied by the Group is of great use for liquidity risk management and control.

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted payments.

Year ended 31 December 2007	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans	-	261	2 850	-	-	3 111
Finance lease liabilities	-	598	1 719	11 668	2 515	16 500
Trade accounts payable	2 742	1 124	42	-	-	3 908
Other financial liabilities at amortized cost	21	99	-	-	-	120
TOTAL:	**2 763**	**2 082**	**4 611**	**11 668**	**2 515**	**23 639**

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2006 based on contractual undiscounted payments.

Year ended 31 December 2006	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans	194	878	4 528	2 576	-	8 176
Finance lease liabilities	-	250	676	1 191	-	2 117
Trade accounts payable	2 137	2 066	520	-	-	4 723
Other financial liabilities at amortized cost	9	82	-	-	-	91
TOTAL:	**2 340**	**3 276**	**5 724**	**3 767**	**-**	**15 107**

35. Financial instruments (cont'd)

Fair value

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments:

	Carrying amount		Fair value	
	2007	2006	2007	2006
Financial assets	67 823	22 934	67 823	22 934
Cash	19 613	5 434	19 613	5 434
Loan note (loans and receivables)	43 560	-	43 560	-
Available-for-sale investments	51	51	Not determined	Not determined
Deposits (loans and receivables)	-	9 828	-	9 828
Other loans and receivables	6 585	9 762	6 585	9 050
Financial liabilities	*23 217*	*14 539*	*23 217*	*14 539*
Interest bearing loans (floating rate)	3 056	7 650	3 056	7 650
Finance lease liabilities	16 060	1 937	16 060	1 937
Other financial liabilities at amortized cost	4 101	4 952	4 101	4 952

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of loan notes and other financial assets have been calculated using market interest rates.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy debt to equity ratio in order to support its business growth in line with strategic development guidelines, ensure continuity of operations, maintain low credit risk and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions in Latvia and the European Union, the capital market trends and interest rate fluctuations. To maintain optimum capital structure, the Group may use share capital increase or decrease, distribution of dividends or various forms of borrowed capital. The Group's capital management objectives, policies and procedures have not been changed in 2006 and 2007.

The Group manages its capital structure by using the gearing ratio of net debt against total capital. Total capital is the sum of net debt and equity. Net debt is calculated as the sum of interest-bearing loans and other non-current liabilities less cash and cash equivalents. Equity includes share capital with share premium, reserves and retained earnings or accumulated deficit. The Group's policy is to maintain the gearing ratio not exceeding 25% in medium term.

	2007	2006
Interest bearing loans and leases	19 117	9 587
Trade and other payables	3 908	4 723
Less cash and cash equivalents	(19 613)	(5 434)
Net debt	*3 412*	*8 876*
Equity	324 484	286 701
Total capital	327 896	295 577
GEARING RATIO:	**1.04%**	**3.00%**

36. Going concern assumption for subsidiaries

Rīgas līcis VN Ltd

The subsidiary *Rīgas līcis VN* Ltd closed the reporting year with loss of LVL 143 thousand (2006: LVL 163 thousand). On 14 January 2008, the *Rīgas līcis VN* Ltd signed a loan agreement with the parent company JSC *Ventspils nafta* whereby a loan was granted to the subsidiary in the amount of LVL 150 thousand bearing interest at 7% per annum. The subsidiary's management believes that the above loan will be sufficient for solving the liquidity issues. Moreover, as soon as such necessity arises, the parent company JSC *Ventspils nafta* will provide financial support by extending the loan maturity. The subsidiary's management believes that the *Rīgas līcis VN* Ltd is not exposed to any going-concern risk, as the liquidity risk arises from liabilities to related companies.

Mediju nams Ltd

The subsidiary *Mediju nams* Ltd closed the year 2007 with a loss of LVL 1 362 thousand (2006: LVL 996). In 2007 *Mediju nams* Ltd had a negative operating cash flow (as in 2006). As at 31 December 2007 the subsidiary's *Mediju nams* Ltd current liabilities exceeded its current assets by LVL 113 thousand lats. As for the 2008 the company has budgeted losses as well.

The management of *Mediju nams* Ltd believes that the cash flow for 2008 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 *Mediju nams* Ltd requires additional financing for ensuring its future operations. The major shareholder JSC *Ventspils nafta* provided a letter of financial support dated 13 March 2008 to the extent that is required for the *Mediju nams* Ltd to continue as a going concern at least until 13 March 2009.

JSC *Preses nams*

The subsidiary JSC *Preses nams* closed the reporting year with net loss of LVL 3 228 thousand (2006: LVL 3 109 thousand). As at 31 December 2007, the subsidiary's current liabilities exceeded its current assets by LVL 1 436 thousand (2006: LVL 3 594 thousand).

As the subsidiary JSC *Preses nams* expects its results to improve after putting into operations the new production facilities, it has projected loss also for 2008. The subsidiary expects significant increase of production upon opening of the new book production facility. While operating at a planned loss, the subsidiary in its everyday business ensures balance between operating income and operating expense, keeping its operating cash flow positive.

The subsidiary's major shareholder JSC *Ventspils nafta* provided also a letter of financial support dated 13 March 2008 to the extent that is required for the subsidiary to meet its obligations as they fall due.

37. Subsequent events

JSC *Preses nams*

Subsequent to the balance sheet date the JSC *Preses nams* on 18 January 2008 signed a loan agreement for a loan in the amount of EUR 9 700 thousand which will be used to complete the construction of the new book production facility in Jāņsili, Ropaži region, Riga district.

Ventspils nafta termināls Ltd

After the year end, the meeting of *Ventspils nafta termināls* Ltd shareholders passed a decision about changes in the management structure to ensure maximum efficiency of *Ventspils nafta termināls* Ltd management. The supervisory functions at *Ventspils nafta termināls* Ltd will be performed by the Council consisting of four members but the Company's business operations will be run by the Board Member, who will also be serving as the Director General of *Ventspils nafta termināls* Ltd. The changes in the key management personnel were registered with the Republic of Latvia Enterprise Register on 7 February 2008.

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 57 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:

Vladimirs Solomatins
Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairperson of the Board