AS VENTSPILS NAFTA AND ITS SUBSIDIARIES

(UNIFIED REGISTRATION NUMBER 50003003091)

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

TOGETHER WITH
THE INDEPENDENT'S AUDITORS REPORT

Ventspils, 2007

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Ventspils nafta

Report on the Financial Statements

We have audited 2006 consolidated financial statements of AS Ventspils nafta and its subsidiaries (the "Group"), which are set out on pages 9 through 50 of the accompanying 2006 Annual Report and which comprise the consolidated balance sheet as at 31 December 2006, 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.

Basis for Qualified Opinion
As disclosed in the consolidated statement of changes in shareholders' equity, in 2006 the Group has recognized in equity caption 'Other reserves' release of the deferred tax liability arising from investment in associate in the amount of LVL 9 765 thousand. This change has resulted from reassessment of the tax position in relation to the investment in associated company AS Latvijas kuģniecība and correction of deferred income tax liability arising from application of the equity method for the investment in this associate based on the tax exemption previously not taken into the account. The Company has also considered recording this correction in the 2006 income statement, in which case the net profit for the year ended 31 December 2006 would have been by LVL 9 765 thousand larger, but in the end decided to adjust it through shareholders' equity as described above. In accordance with the provisions of International accounting standard no. 8 'Accounting policies, changes in accounting estimates and errors' such corrections shall be made retrospectively. Accordingly, the balance of other reserves and deferred tax liability shall be reduced by LVL 9 765 thousand as at 31 December 2005 and by LVL 8 603 thousand as at 1 January 2005, respectively, and corporate income tax expenses in the 2005 income statement shall be reduced by LVL 1 162 thousand.

Qualified Opinion
In our opinion, except for the effect on the financial statements of the matter referred to in section "Basis for Qualified Opinion", the financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

INDEPENDENT AUDITORS' REPORT (continued)

Emphasis of Matter

Without qualifying our opinion, we would like to draw your attention to the fact that transportation of crude oil through the AS Ventspils nafta subsidiary's SIA LatRosTrans pipeline Polotsk–Mažeikiai ceased in July 2006 and since then the only SIA LatRosTrans source of income has been transportation of oil products through the pipeline Polotsk–Ventspils. Thus, a significant part of SIA LatRosTrans assets is no longer in operation and the remaining part is operating with a significant loss. The management of SIA LatRosTrans believes the current situation to be 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. If the situation moves from temporary to permanent, substantial impairment losses will have to be realized. As discussed in Note 14, the impairment loss amounting to LVL 3 778 thousand has been recognized in 2006 based on the assessed value in use of the SIA LatRosTrans non-current assets calculated using estimates of future cash flows. However, future events might occur which could cause the assumptions used in arriving at the estimates of future cash flows to change.

Without qualifying our opinion, we draw your attention to the fact, the AS Ventspils nafta subsidiary's AS Preses nams financial performance has significantly deteriorated in 2006, which may lead to material impairment of technological equipment and related prepayments included in the balance sheet as at 31 December 2006 (see Note 3). AS Preses nams management believes that the situation is temporary as significant restructuring plans are approved to be realised in the forthcoming years. AS Preses nams estimated net present value of future cash flows is positive and currently no impairment of non-current assets is required. However, it remains unclear whether the strategic development plan will realize as planned. If the actual result in future years is significantly worse than budgeted, substantial impairment losses in relation to property, plant and equipment will have to be realized.

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

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2006 (included on pages 6 through 8 of the accompanying 2006 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 2006.

SIA Ernst & Young Baltic
License No. 17

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

Egons Liepiņš
Latvian Sworn Auditor
Certificate No. 28

Riga, 13 April 2007

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Council of AS Ventspils nafta

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

The changes in the Council during the period from 1 January 2006 to 13 April 2007 were as follows:

Elected	Dismissed	Name	Position held
25/10/2006.		Māris Gailis	Member of the Council
25/10/2006		Gints Laiviņš - Laivenieks	Member of the Council
25/10/2006		Jeffrey Scott Martz	Member of the Council
25/10/2006		Paul Edward Mulholland	Member of the Council
25/10/2006		Ashley John Neale	Member of the Council
25/10/2006		Ansis Sormulis	Member of the Council
25/10/2006		Andris Vilcmeiers	Member of the Council
25/10/2006		Dennis Crema	Deputy Chairman of the Council
	25/10/2006	Romāns Mežeckis	Deputy Chairman of the Council
	25/10/2006	Jānis Blaževičs	Member of the Council
	25/10/2006	Uldis Pumpurs	Member of the Council
	25/10/2006	Ivars Pāže	Member of the Council
	25/10/2006	Aivars Tiesnesis	Member of the Council
	25/10/2006	Kārlis Boldiševics	Member of the Council
	25/10/2006	Mārtiņš Jansons	Member of the Council
	25/10/2006	Dans Titavs	Member of the Council

Board of AS Ventspils nafta

Chairperson of the Board:	Olga Pētersone
Members of the Board:	Aldis Āķis Ilva Purēna Guntis Tīrmanis

Management report

Dear shareholders, customers and cooperation partners,

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

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

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

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

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

Considerable changes in the global energy sector had unexpected and major impact on the consolidated operating results of AS Ventspils Nafta for the reporting period due to sizeable proportion of transit businesses in AS Ventspils Nafta Group. The net turnover of AS Ventspils Nafta Group reached LVL 69,3 million in 2006, but the net profit despite negative market development trends was LVL 6,85 million thereby exceeding anticipated Groups' net profit by more than 1,15 million LVL or 20,2%.

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

Management report (cont'd)

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

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

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

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

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

AS Preses Nams, the largest printing company in the Baltic States and subsidiary of AS Ventspils Nafta, during the reporting period continued introduction of considerable organizational and functional changes started in 2005 in order to meet company's business goals and ensure maximum operational effectiveness. Total production reorganization in respect to relocating production facilities from the center of Riga, the capital city of Latvia, to the suburbs unfortunately was impossible in the reporting period as the company had to introduce changes in the technical project of the production facilities caused by considerable increase in prices in building industry as well as responding to additional requirements in the abovementioned industry.

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

To facilitate further development of the company, a strategic development program of AS Preses Nams was amended in the reporting period covering time period from 2007 till 2011 whereby it is planned to double company's operating results. In the next five years, AS Preses Nams is planning to invest several tens of millions of lats in development of new production facilities as well as reconstruction of the existing facilities.

During the reporting period, the Management Board of AS Ventspils Nafta devoted special attention to issues related to the development of concern's real estate business collecting and analyzing opinions and views of industry professionals about further development prospects of real estate industry and specifically assets owned by the concern at 3, Balasta Dambis in Riga. The abovementioned asset is situated in the city centre at a strategically important location in Ķīpsala where administrative and production premises of a printing company AS Preses Nams are located at the moment. The Management Board of AS Ventspils Nafta will continue to devote significant efforts to develop and implement the best available development strategy for the most valuable asset to maximize value of the company for its shareholders and provide best value for its stakeholders.

Management report (cont'd)

In 2007, AS Ventspils Nafta and its subsidiaries continuing efforts of previous years will continue to operate in order to meet and exceed set goals by the shareholders, as well as to ensure increase in holding company value and facilitate value creation for stakeholders.

On behalf of the Council:

Vladimirs Solomatins
Deputy Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairperson of the Board

Consolidated Income Statement

	Note	2006 LVL thousand	2005 LVL thousand
Net sales	4	69 310	87 327
Cost of sales	5	(63 334)	(78 122)
Gross profit		5 976	9 205
Sales and distribution expense		(1 877)	(1 712)
General and administrative expense	6	(7 157)	(6 540)
Other operating income	7	6 780	14 587
Other operating expense	8,14	(6 173)	(45 105)
Result from operating activities		(2 451)	(29 565)
Gain in associated entities, net		9 489	7 627
Financial income	10	760	633
Financial expense	10	(2 096)	(445)
Result before taxes		5 702	(21 750)
Corporate income tax	11	(726)	(2 316)
Net result		**4 976**	**(24 066)**
Attributable to:			
Minority interest		(1 871)	(2 341)
Parent company's shareholders		6 847	(21 725)
		4 976	(24 066)
Earnings per share			
in lats per share	25	0.07	(0.21)
Diluted earnings per share			
in lats per share	25	0.07	(0.21)

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

On behalf of the Council:

Vladimirs Solomatins
Deputy Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairperson of the Board

Consolidated Balance Sheet

ASSETS

NON CURRENT ASSETS	Note	31/12/2006 LVL thousand	31/12/2005 LVL thousand
Intangible assets	12	29 242	30 161
Property, plant and equipment			
Land, buildings and networks	13	77 216	83 104
Machinery and equipment	13	47 673	50 878
Other property, plant and equipment	13	4 575	4 847
Construction in progress	13,15	12 302	7 885
Prepayments for property, plant and equipment		3 043	3 938
TOTAL		144 809	150 652
Investment properties	16	31 687	26 609
Investments			
Investments in associated entities	17	112 206	113 888
Non-current portion of loan	18	1 055	1 092
TOTAL		113 261	114 980
TOTAL NON CURRENT ASSETS		318 999	322 402
CURRENT ASSETS			
Inventories	19	6 011	8 234
Current portion of loan	18	42	42
Trade accounts receivables	20	7 232	7 813
Corporate income tax receivables		225	265
Other accounts receivables	21	819	1 409
Prepaid expenses	22	1 156	621
Accrued income		389	694
Held-to-maturity investments	23	9 828	-
Available for sale financial assets		51	51
Cash and cash equivalents	24	5 434	16 080
TOTAL CURRENT ASSETS		31 187	35 209
TOTAL ASSETS		350 186	357 611

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

On behalf of the Council:

Vladimirs Solomatins
Deputy Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairperson of the Board

Consolidated Balance Sheet

LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY	Note	31/12/2006 LVL thousand	31/12/2005 LVL thousand
Share capital	25	104 479	104 479
Share premium		42 343	42 343
Legal reserves		715	715
Foreign currecy translation reserve	25	(6 388)	4 732
Other reserves	25	138 705	150 665
Current year unappropriated result		6 847	(21 725)
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		286 701	281 209
Minority Interest		40 077	41 948
TOTAL SHAREHOLDERS' EQUITY		326 778	323 157
LIABILITIES			
Non-current liabilities			
Deferred tax liability	11	5 817	14 855
Non-current portion of financial lease liability	27	1 092	1 537
Non-current loan from credit institution	26	1 844	6 375
TOTAL		8 753	22 767
Current liabilities			
Current loan from credit institution	26	5 806	2 183
Financial lease liabilities	27	845	995
Advances from customers		62	375
Trade accounts payable		4 723	4 921
Taxes payable	28	521	448
Other liabilities	29	661	569
Accrued liabilities	30	1 779	1 922
Deferred income		258	274
TOTAL		14 655	11 687
TOTAL LIABILITIES		23 408	34 454
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**350 186**	**357 611**

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

On behalf of the Council:

Vladimirs Solomatins
Deputy Chairman of the Council

On behalf of the Board:

Olga Pētersone
Chairperson of the Board

Consolidated Cash Flow Statement

	2006	2005
	LVL thousand	LVL thousand
Cash flow from/ (to) operating activities		
Result before taxes	5 702	(21 750)
Adjustments		
Gain in associated entities, net	(9 438)	(7 641)
Amortisation and depreciaiton	10 427	12 155
Impairment loss	3 794	42 387
Change in bad debt allowance	678	20
Interest income	(759)	(310)
Interest expense	1 057	435
(Gain)/ loss on disposals of tangible assets	493	(370)
Gain from revaluation of investment properties	(5 078)	(12 689)
Operating profit before changes in current assets and liabilities	*6 876*	*12 237*
Decrease in inventory	2 223	1 769
(Increase)/ decrease in trade receivables other current assets and held-to maturity investments	(9 315)	676
Increase/ (decrease) in current liabilities	(526)	1 396
Net cash from/ (to) operating activitiesbefore taxes paid	*(742)*	*16 078*
Taxes paid	(210)	(250)
Net cash from/ (to) operating activities	(952)	15 828
Cash flow from/ (to) investment activities		
Purchase of fixed assets	(7 985)	(15 036)
Proceeds from sale of fixed assets	33	905
Interest received	759	310
Received repayment of short-term loan	37	2 382
Net cash flow from/ (to) investment activities	(7 156)	(11 439)
Cash flow from/ (to) financing activities		
Repayment of borrowings and financial lease liabilities	(3 178)	(5 362)
Proceeds from borrowings	1 697	10 127
Interest payments	(1 057)	(435)
Net cash from/ (to) investment activities	(2 538)	4 330
Net increase/ (decrease) in cash	(10 646)	8 719
Cash at the beginning of the year	16 080	7 361
Cash at the end of the year	**5 434**	**16 080**

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

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Legal reserves	Foreign currency translation reserve	Other reserves	Current years unappro-priated result	Equtity attributable to the equity holders of the parent	Minority interest	Total share-holders' equity
Balance as of 31 December 2004	104 479	42 343	-	(9 077)	88 635	23 121	249 501	44 013	293 514
Transfer of 2004 net result	-	-	-	-	23 121	(23 121)	-	-	-
Transfer of legal reserves*	-	-	715	-	(715)	-	-	-	-
Derecognition of negative goodwill	-	-	-	-	48 227	-	48 227	-	48 227
Foreign currency translation	-	-	-	13 809	-	-	13 809	276	14 085
Effect of deferred tax arising from derecognition of negative goodwill	-	-	-	-	(8 603)	-	(8 603)	-	(8 603)
Current year result	-	-	-	-	-	(21 725)	(21 725)	(2 341)	(24 066)
Balance as of 31 December 2005	104 479	42 343	715	4 732	150 665	(21 725)	281 209	41 948	323 157
Transfer of 2005 net result	-	-	-	-	(21 725)	21 725	-	-	-
Effect of change in deferred tax arising from investment in associate	-	-	-	-	9 765	-	9 765	-	9 765
Foreign currency translation	-	-	-	(11 120)	-	-	(11 120)	-	(11 120)
Current year result						6 847	6 847	(1 871)	4 976
Balance as of 31 December 2006	104 479	42 343	715	(6 388)	138 705	6 847	286 701	40 077	326 778

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

* Legal reserves represent the Group's share of subsidiary's SIA LatRosTrans legal reserve which were 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 financial statements

1. Corporate information

AS 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 AS 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.

AS Ventspils nafta is a holding company dealing mainly with investment management in AS Ventspils nafta Group companies and transactions with own crude oil and oil products. Previously AS Ventspils nafta was involved in reloading of crude oil and oil products, however, as a result of AS Ventspils nafta Group restructuring in 2003 all reloading activities were transferred to the daughter company SIA Ventspils nafta termināls. Initially, the Parent company's assets used in reloading transactions were partly invested in, partly sold to and partly rented to SIA Ventspils nafta termināls. During 2004 the restructuring process was completed with AS Ventspils nafta selling all non-current assets previously used in reloading activities to SIA Ventspils nafta termināls. However, AS Ventspils nafta still holds the stock of crude oil and oil products necessary for technological needs of SIA Ventspils nafta termināls.

AS Ventspils nafta Group consisting of AS 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 (%)	31/12/2006	31/12/2005	Legal address
Subsidiaries			
SIA LatRosTrans	66.00	66.00	Balvu iela 7, LV-5043, Daugavpils, Latvia
AS Preses nams	93.01	92.99	Balasta dambis 3, LV-1081, Riga, Latvia
SIA Rīgas līcis VN	100.00	100.00	Dubultu prospekts 51, LV-2015, Jurmala, Latvia
SIA Nekustamie īpašumi VN [a)]	100.00	100.00	Palasta iela 10, LV-1050, Rīga, Latvia
SIA Mediju nams [b)]	99.47	99.31	Cēsu iela 31/2, LV-1012, Rīga, Latvia
SIA Ventspils nafta termināls	100.00	100.00	Talsu iela 75, LV-3602, Ventspils, Latvia
Subsidiaries of SIA Nekustamie īpašumi VN			
SIA Darījumu centrs Daugava	100.00	100.00	Palasta iela 10, LV-1050, Rīga, Latvia
SIA Ventspils biznesa centrs	100.00	100.00	Palasta iela 10, LV-1050, Rīga, Latvia
SIA Namserviss VN	100.00	100.00	Palasta iela 10, LV-1050, Rīga, Latvia
SIA Lejastiezumi	100.00	100.00	Palasta iela 10, LV-1050, Rīga, Latvia
SIA Pārventas sporta centrs	100.00	100.00	Palasta iela 10, LV-1050, Rīga, Latvia

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

b) As of 31 December 2006, AS Ventspils nafta has a 92.37% shareholding of SIA Mediju nams. At the same time, AS Preses nams owns 7.63% of the share capital of SIA Mediju nams. As such, the Group's ownership share is 99.47%.

1. Corporate information (cont'd)

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

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

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

AS Preses nams – providing printing services;

SIA Mediju nams – publishing;

SIA Nekustamie īpašumi VN – a real estate holding company;

SIA Darījumu centrs Daugava – a real estate development company;

SIA Namserviss VN– a real estate management company;

SIA Ventspils biznesa centrs – a real estate development company;

SIA Lejastiezumi – a real estate development company;

SIA Pārventas sporta centrs – a real estate development company;

SIA Rīgas Līcis VN – a real estate development company.

In addition, the Parent company holds a 49.94% stake in the associated public company Latvian Shipping Company (AS Latvijas kuģniecība), 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 3 April 2007 and resolution of the Council on 13 April 2007. 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 Ventspils nafta and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, except for release of deferred liability related to investment in associate which is not in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Basis of preparation

The financial statements are prepared on a historical cost basis, except for investment properties and available for sale financial assets that have been measured at fair value.

Reporting currency and units of measurement

The accompanying financial statements are presented in 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 AS Ventspils nafta and its subsidiaries SIA Ventspils nafta termināls, SIA LatRosTrans, AS Preses nams, SIA Mediju nams, SIA Rīgas līcis VN and SIA Nekustamie īpašumi VN, the later of which includes SIA Namserviss VN, SIA Ventspils biznesa centrs, SIA Lejastiezumi, SIA Pārventas sporta centrs and SIA Darījumu centrs Daugava. 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 AS Ventspils nafta and companies in which AS Ventspils nafta has a controlling interest (subsidiaries), as if AS Ventspils nafta and its subsidiaries were a single company. For the purposes of consolidation, unrealized internal profit, inter-group balances, internal shareholdings, internal dividends and other significant internal transactions are eliminated in the Group's financial statements. Minority interest is calculated for entities fully consolidated but not wholly owned. The components of net income and equity attributable to the minority shareholders are presented in the minority interest line items included in the Group's consolidated income statement and Group's consolidated balance sheet.

2. Significant accounting policies (cont'd)

Investments in associated entities

Investments in associates (i.e. where the Group has significant influence, but less than a controlling interest, which is presumed to exist with 20 to 50% interest of the share capital of the entity) are 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 in the associated company's equity by a 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.

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 acquisition cost 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.

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 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.

IAS 39 Amendments -Financial Instruments: Recognition and Measurement.

IFRIC 4 Determining whether an Arrangement contains a Lease.

The principal effects of these changes are as follows:

<u>IAS 39 Financial Instruments: Recognition and Measurement</u>

Amendment for financial guarantee contracts (issued August 2005) - amended the scope of IAS 39 to require fi nancial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. This amendment did not have an effect on the financial statements.

<u>IFRIC 4 Determining Whether an Arrangement contains a Lease</u>

The Group adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

The following amended standards were not applicable to the Group and as such did not have any impact on the accounting policies: IAS 1 and IAS 19, IAS 21, IFRIC 5, IFRIC 6, IFRIC 7, IFRIC 8.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation methods, residual values and useful lives of intangibles and property, plant and equipment, allowances for bad debts and inventories, impairment evaluation, evaluation of investment properties and accruals. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable

Changes in estimates

The subsidiaries SIA LatRosTrans and SIA Ventspils nafta Terminals has changed estimate of future inflation rate and growth rate % 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 1.5% to 3%. Had the previous inflation rate and growth rate been used, the impairment loss would be LVL 10 654 thousand larger.

2. Significant accounting policies (cont'd)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty for subsidiaries Ventspils Nafta Terminals and LatrosTrans at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of asset and liabilities are discussed below.

Useful lives of non-current assets

The subsidiaries Ventspils nafta terminals and LatRosTrans review the useful lives of its non-current assets at least on an annual basis. The assessment of useful lives for some the assets of Ventspils nafta terminals and LatRosTrans requires a detailed study of asset's 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 AS Izstrādājumu bīstamības novērtēšanas aģentūra involving analysis of technical condition of the respective assets. As a result, the useful lives of the assets were extended, and depreciation charge in 2004 decreased by LVL 507 thousand and LVL 1 777 thousand (correspondingly Ventspils nafta terminals and LatRosTrans) if compared to depreciation charge calculated using previously established useful lives. In 2006, the subsidiary LatRosTrans has acquired a technical report from SIA Inspecta Latvia for crude oil pipeline Polotsk – Mažeikiai (operation terminated) and oil product pipeline Polotsk – Ventspils, which was based on the technical evaluation of pipelines and maintenance and repair works completed by LatRosTrans. This report re-affirmed the correctness of previously recognized extension of the useful life of major pipelines.

Further, according to evaluation performed by AS Izstrādājumu bīstamības novērtēšanas aģentūra, dated 2 May 2005, the technological equipment of subsidiary LatRosTrans is considered separate units not integrated with the main pipeline. Taking into account constant repairs of the main pipelines resulting in extension of their useful lives, SIA LatRosTrans management believes that there is no need for adjusting depreciating charge should the remaining useful life of a particular technological equipment exceed the remaining useful life of the main pipeline it is attached to.

Impairment of non-current assets

The subsidiaries SIA Ventspils nafta terminals and SIA LatRosTrans determine whether non-current assets are impaired when indications of impairment exist. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details are given in Note 14.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized.

2. Significant accounting policies (cont'd)

Foreign currency transactions

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

A significant part of the Parent company's and the Group's revenues are denominated in USD.

Transactions in foreign currency 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 AS 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.

	31/12/2006	31/12/2005
USD/LVL	0.536000	0.593000
GBP/LVL	1.048000	1.021000
EUR/LVL	0.702804	0.702804
SEK/LVL	0.077800	0.074700

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. 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, goodwill, 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 SIA LatRosTrans founders less accumulated amortization. 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 any impairment in value. Land is not depreciated.

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 with the following month after the tangible non-current asset is put into operation or engaged in commercial activity. 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.

2. Significant accounting policies (cont'd)

Property, plant and equipment (cont'd)

Expenses related to leasehold improvements are capitalized as tangible non-current assets and depreciated over the lease period 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.

Subsidiary's SIA LatRosTrans property, plant and equipment are stated at contributed values as agreed by the subsidiary's founders in 1995, and subsequent additions are stated at cost. The useful lives and residual values of an asset are reviewed at least at each financial year end.

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. Impairment losses are recognized in the income statement as other operating expense.

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.

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.

Borrowing costs

Borrowing costs are recognized as an expense when incurred.

Leases

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 charged directly against income.

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. The commitments undertaken by the Group with respect to operating lease contracts are recorded as off-balance sheet liabilities.

2. Significant accounting policies (cont'd)

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 in the Parent company and in the subsidiaries 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 includes are stated at direct cost with addition of indirect costs related to production. Indirect production costs consist of labor, 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.

Trade and other receivables

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when recovery is deemed impossible.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

These assets are tested for impairment when an indication exists.

Available for sales financial assets

Available for sale financial assets are those non – derivative financial assets that are designated as available for sale or are not classified in any other 3 categories of financial assets within the scope of IAS 39.

Available for sale financial assets consist of investments in non-public companies in which the Group does not have a controlling interest, or an ownership and voting interest sufficiently large to exert significant influence. These assets are initially recognized at fair value. After initial measurement, available for sales financial assets are measured at fair value with unrealized gains or losses being recognized directly in the equity in the net unrealized gains reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the income statement. Dividends earned on investments are recognized in the income statement as "Dividends received" when the right of payment has been established.

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.

2. Significant accounting policies (cont'd)

Interest bearing loans and borrowings

All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs.

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

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

These assets are tested for impairment when an indication exists.

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 borrowing cost.

Accruals and deferrals

Accruals and deferrals are recorded to recognize revenues and costs as they are earned or incurred.

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 as well as rental revenue from real estate. Revenue is recognized by reference to the stage of completion. 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.

Interest

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

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

2. Significant accounting policies (cont'd)

Taxes (cont'd)

Deferred tax liability

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. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary differences arise from differing rates of accounting and tax depreciation on the Group's property, plant and equipment, as well as the treatment of temporary non-taxable allowances and reserves and tax losses carried forward for the subsequent five years. Deferred corporate income tax assets are recognized only when their recoverability is certain.

VAT proportion

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

Large investment tax rebate

Pursuant to the decision of the Latvian Cabinet of Ministers, the subsidiary SIA LatRosTrans was granted a large investment tax rebate, and current corporate income tax is applied at the rate of 25% on taxable income generated by the subsidiary during the taxation period. 25% corporate income tax rate (instead of nominal rate 15%) will be applicable during the SIA LatRosTrans eligibility period for tax rebate.

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 SIA Ventspils nafta termināls 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 SIA Ventspils nafta termināls 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.

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 shares in issue during the year has been weighted to take into account the timing of the issue 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.

2. Summary of significant accounting policies (cont'd)

Adoption of new and/or changed IFRSs and IFRIC interpretations

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

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.
- IFRS 8 Operating Segments (effective once adopted by EU, but not earlier than 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.
- 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.
- Amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.
- IFRIC 10 Interim Financial Reporting and Impairment (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 November 2006). This interpretation establishes that entity shall 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.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by EU, but not earlier than 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.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for additional disclosures are required by IFRS 7 "Financial Instruments: Disclosures" and IAS 1 amendment "Capital Disclosures" and IAS 23 where the impact of capitalization of loan interest is not assessed yet.

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		Other		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Net sales	48 639	63 728	20 146	22 683	525	916	-	-	-	-	69 310	87 327
Cost of sales	(42 411)	(55 889)	(19 507)	(21 503)	(1 416)	(730)	-	-	-	-	(63 334)	(78 122)
Sales and distribution expense	-	-	(1 877)	(1 712)	-	-	-	-	-	-	(1 877)	(1 712)
General and administrative expense	(3 316)	(3 471)	(1 681)	(845)	(53)	(281)	-	-	(2 107)	(1 943)	(7 157)	(6 540)
Other operating income/ (expense)	(4 119)	(43 601)	(64)	499	5 078 a)	12 457 a)	-	-	(288)	127	607	(30 518)
Segment result	(1 207)	(39 233)	(2 983)	(878)	4 134	12 362	-	-	(2 395)	(1 816)	(2 451)	(29 565)
Gain in associates	-	-	-	-	-	-	9 438	7 730	51	(103)	9 489	7 627
Financial expense, net	-	-	-	-	-	-	-	-	-	-	(1 336)	188
Corporate income tax	-	-	-	-	-	-	-	-	-	-	(726)	(2 316)
Minority interest	-	-	-	-	-	-	-	-		-	1 871	2 341
Net result	(1 207)	(39 233)	(2 983)	(878)	4 134	12 362	9 438	7 730	(2 344)	(1 905)	6 847	(21 725)
Segment assets	170 184	180 274	21 438	19 727	35 492	31 170	112 206	113 976	9 605	10 959	348 925	356 106
Unallocated assets		-		-		-		-		-	1 261	1 505
Total consolidated assets		-		-		-		-		-	350 186	357 611
Segment liabilities	3 591	3 698	4 040	2 861	128	191	-	-	318	198	8 077	6 948
Unallocated segment liabilities	-	-	-	-	-	-	-	-	-	-	15 331	27 506
Total consolidated liabilities	-	-	-	-	-	-	-	-	-	-	23 408	34 454
Capital expenditure	4 886	9 356	3 657	4 177	50	9	-	-	244	22	8 837	13 564
Amortization and depreciation	7 581	9 578	2 155	1 914	394	369	-	-	297	294	10 427	12 155
Impairment losses recognized in the income statement	3 778	42 387	16	-	-	-	-	-	-	-	-	-

a) Including gain from revaluation of investment properties at fair value LVL 5 078 thousands (2005: 12 689 thousands). 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.

Pursuant to the decision of the AS Ventspils nafta Council dated 26 October 2006, an Option agreement on sale of 49% of shares in the subsidiary SIA Ventspils nafta terminals has been concluded with Euromin Holdings (Cyprus) Limited (*Vitol* - the new shareholder of the Parent company - Group's company). The other party has the right to call the shares over 1 year period at the exercise price which is based on fair value of shares. The option has been used 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. No asset nor any liability for this option has been recognized as at 31 December 2006, since the fair value of the shares is deemed to approximate the sales price due to short time period between initiation and execution of the option.

Publishing and printing:

The revenues in this business segment make charge for 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 significantly in 2006 mainly due to negative results in the subsidiary AS Preses nams.

In 2007, the management and the Council of the subsidiary AS Preses nams resolved to approve its strategical 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 modernisation of the printing-house in Cēsis.

To ensure the financing of the said strategy, AS Preses nams will use the cash flow from its operations, gradually dispose of part of the existing production equipment and real estate, as well as attract additional external financing from the shareholders and credit institutions. As disclosed in Note 37, on 25 January 2007 the shareholders' meeting resolved to increase the Preses nams share capital by LVL 4 700 thousand to LVL 13 785 thousand.

Management of AS Preses nams believes that the respective investments will help to ensure better quality of products, enhanced capacity of equipment and ability to carry out more complex orders. These factors will allow the Preses nams to increase its revenues form all the product types, especially from printing of magazines and books. A considerable increase in revenues is projected from attracting major local and international customers.

According to the Preses nams projections, the net present value of future cash flows is LVL 16 200 thousand. The post-tax discount rate used in the calculation was 10%. At this discount rate, the investments should pay off within 8 years. If a discount rate of 15% had been used in the above calculation, the net present value of the future cash flow would be LVL 6 800 thousand and the pay-off period would be 10 years.

Total net book value of AS Preses nams technological equipment and related prepayments associated to calculation of impairment, as at 31 December 2006 amounts to LVL 8 738 thousand.

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 investment in marine cargo shipping business.

4. Net sales

	2006	2005
Printing services	16 672	17 899
Reloading of crude oil and oil products	14 063	17 353
Railway services [a)]	13 670	24 136
Transportation of oil products	10 674	8 761
Transportation of crude oil [b)]	5 837	9 497
Income from sale of crude oil and oil products	4 395	3 981
Newspaper sales	2 140	1 910
Advertisements	927	415
Rental income and real estate management	525	916
Sale of paper and materials	186	1 896
Other	221	563
TOTAL:	69 310	87 327

a) The subsidiary SIA Ventspils nafta terminals receives invoices for railway services provided, which are thereafter billed to the customers.

b) Transportation of crude oil by subsidiary SIA LatRosTrans 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

	2006	2005
Railway charges [a)]	14 175	25 800
Raw materials	10 788	12 183
Amortization and depreciation	9 763	11 489
Remuneration for work	8 755	8 637
Cost of sold oil and oil products	2 702	2 627
Utilities	2 328	2 014
Insurance expenses	2 230	1 764
Materials and spare parts	2 088	2 090
Social security contributions	1 969	1 988
Transit development	1 078	1 450
Security	921	927
Utilization of piers	797	758
Land rent	737	713
Environment protection expense	688	1 124
Processing work	659	796
Real estate tax	526	588
Treatment of technological waste water	420	392
Helicopter services	264	264
Communication expense	235	316
Repair works done by other companies	177	172
Pipeline maintenance expense	410	730
Provision for expense on environmental pollution elimination	-	260
Other	1 624	1 040
TOTAL:	63 334	78 122

a) Include also railway services, which are thereafter billed to the customers by subsidiary SIA Ventspils nafta terminals.

6. General and administrative expense

	2006	2005
Remuneration for work	2 415	2 232
Professional charges and legal costs	766	1 242
Allowance for doubtful and bad debts	678	20
Amortization and depreciation	573	569
Sports advertising expenses [a)]	510	413
Social security contributions	506	436
Insurance	197	180
Vehicle maintenance expense	161	122
Accruals for bonuses	160	139
Advertising and marketing	134	124
Social infrastructure expense	116	64
Rent of premises	90	81
Communications expense	84	83
Representation expense	83	72
Bank charges	71	168
Conferences, seminars and training	23	36
Business trips	19	4
Other expense	571	555
TOTAL:	7 157	6 540

a) Includes payments by subsidiaries SIA Ventspils nafta terminals and SIA LatRosTrans to the sport's clubs for the total amount of LVL 510 thousand

7. Other operating income

	2006	2005
Gain from revaluation of investment properties at fair value	5 078	12 689
Income from oil extracted from groundwater's and waste waters	552	743
Penalties received	168	137
Granting of lease rights on premises	-	170
Co-operation bonus	-	95
Recovered VAT and excise tax penalty	-	7
Other income	982	746
TOTAL:	6 780	14 587

8. Other operating expense

	2006	2005
Impairment loss for land use rights and property, plant and equipment [a)]	3 778	42 387
Payments to local municipality [b)]	850	850
Cost of written off Construction in progress object	485	-
Personnel expenses	335	344
Sponsorship	161	147
Real estate tax	79	80
Depreciation	75	79
Maintenance of transport vehicles	47	47
Provision for expenses arising from oil product theft [c)]	41	77
Oil product losses [d)]	-	608
Other expenses	322	486
TOTAL:	6 173	45 105

a) See also Note 14.

b) According to the agreement concluded between subsidiary SIA Ventspils nafta termināls and Ventspils City Council, SIA Ventspils nafta termināls 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.

c) Based on the court ruling precedents (see Note 31), the subsidiaries' SIA LatRosTrans management estimated the potential taxes payable on physical losses due to thefts of oil products for 2006 amounting to 0.116 thousand tons (for 2005: 0.262 thousand tons) and established provisions for excise tax and VAT in the amount of LVL 22 thousand and LVL 19 thousand, respectively (for 2005: LVL 43 thousand and LVL 34 thousand, respectively).

d) In 2005, the subsidiary SIA LatRosTrans incurred losses of oil products, which exceeded the rate for wastages agreed on with the clients (0.1% of total transported volume) by 6.1 thousand tons. According to the Council resolution dated 18 May 2006, the subsidiary wrote off the above excessive physical losses of oil products for 2005 amounting to LVL 608 thousand according to the average weighed cost of oil products. In 2006, losses of oil products were below the rate for wastages stated in agreements with clients.

9. Personnel expenses

	2006	2005
Average number of employees	1 901	2 121

Remuneration for work and social security expense

		2006	2005
Remuneration for work		10 629	10 408
Social security contributions		2 432	2 394
Other personnel expense		120	129
Management and the Board of Directors			
Remuneration for work		486	515
Social security contributions		52	59
Other personnel expense		5	9
Members of the Council			
Remuneration for work		672	602
Social security contributions		125	115
Other personnel expense		8	11
	TOTAL:	14 529	14 242

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

		2006	2005
Cost of sales		10 762	10 660
Selling expenses		511	560
General and administrative expenses		2 921	2 678
Other operating expenses		335	344
	TOTAL:	14 529	14 242

10. Financial income/ (expense), net

	2006	2005
Interest income from bank account balances and deposits	697	268
Interest income on loans	62	42
Income from trading investments	-	10
Foreign currency exchange gain, net	-	306
Other	1	7
Total financial income:	*760*	*633*
Interest expense	(1 057)	(435)
Foreign currency exchange loss, net	(1 034)	-
Penalties paid	(5)	(10)
Total financial expenses:	*(2 096)*	*(445)*
TOTAL:	(1 336)	188

11. Corporate income tax

	2006	2005
Current income tax		
Current income tax	-	(36)
Deferred tax		
Relating to origination and reversal of temporary differences	726	2 352
Income tax reported in income statement	726	2 316

Deferred tax liability:

Deferred tax liability	31/12/2006	31/12/2005
Accelerated depreciation for tax purposes	(14 277)	(12 339)
Revaluation of AS Latvijas Kuģniecība investment, changed directly to equity	-	(9 763)
Gross deferred tax liability	(14 277)	(22 102)
Deferred tax asset		
Differences between net carrying values of tangible assets for financial and corporate income tax purposes	389	678
Tax losses carried forward	6 046	5 274
Deferred tax assets related to other temporary differences	153	46
Tax rebate on investment projects above LVL 10 000 thousand [a)]	4 166	4 166
Less valuation allowance for tax asset	(2 294)	(2 917)
Gross deferred tax asset	8 460	7 247
Net deferred tax liability	(5 817)	(14 855)

11. Corporate income tax (cont'd)

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

In 2005 and 2006, the subsidiary SIA Ventspils nafta termināls 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, mainly consisting of tax loses of subsidiary SIA LatRosTrans (to be utilized at a rate of 25%) expire as follows:

	Tax losses	Expiry year
Tax losses of 2002	1 241	2007
Tax losses of 2003	8 567	2008
Tax losses of 2004	4 637	2009
Tax losses of 2005	8 945	2010
Tax losses of 2006	8 609	2011
TOTAL:	31 989	

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

	2006	2005
Income before corporate income tax	5 702	(21 750)
Corporate income tax at 15%	855	(3 263)
Permanent differences including the non-taxable income from revaluation of associate	(70)	2 105
Change in valuation allowance for deferred tax asset	(623)	975
The effect of different tax rates within Group	552	2 503
Adjustment of deferred corporate income tax liability recorded in the reporting year	-	33
Corporate income tax asset recognized in the reporting year which had not been recognized in the previous years	-	(34)
Other	12	(3)
Corporate income tax included in the income statement	726	2 316

12. Intangible assets

		Land use rights a)	Negative goodwill	Other intangible assets	Total
Cost value as at 31/12/2004		49 659	(53 585)	1 497	(2 429)
	Additions	-	-	12	12
2005	Impairment	-	-	(1 424)	(1 424)
	Effect of change of accounting policy	-	53 585	-	53 585
Cost value as at 31/12/2005		49 659	-	85	49 744
Accumulated amortisation 31/12/2004		14 614	(5 358)	173	9 429
	Amortisation for the year	997	-	14	1 011
2005	Impairment	3 927	-	(142)	3 785
	Effect of change of accounting policy	-	5 358	-	5 358
Balance as at 31/12/2005		19 538	-	45	19 583
Net book value 31/12/2004		35 045	(48 227)	1 324	(11 858)
Net book value 31/12/2005		30 121	-	40	30 161

		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 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
Amortisation rate (straight line method)		2.5-4%	10-35%	

a) Upon the foundation of subsidiary's SIA LatRosTrans, the Republic of Latvia, represented by *AS 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 subsidiaries' SIA LatRosTrans according to the agreement dated 29 September 1995.

The subsidiary's SIA LatRosTrans 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 *SIA LatRosTrans* has use rights to the land where the subsidiaries' SIA LatRosTrans 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 subsidiaries' SIA LatRosTrans 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 70%.

In 2006 impairment loss for land use rights was booked in the amount of LVL 153 thousand (2005: LVL 3 927 thousand). More details are given in Note 14.

12. Intangible assets (cont'd)

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

	2006	2005
Cost of sales	803	1 006
Selling and distribution expenses	3	2
General and administrative expenses	3	3
TOTAL:	809	1 011

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 31/12/2004		225 506	81 808	25 480	15 009	347 803
2005	Additions	111	2 932	449	10 072	13 564
	Disposals	(338)	(567)	(165)	(11)	(1 081)
	Transfers	3 001	13 682	502	(17 185)	-
Cost value as at 31/12/2005		228 280	97 855	26 266	7 885	360 286
Accumulated depreciation as at 31/12/2004		108 569	37 864	19 363	-	165 796
2005	Depreciation for the year	4 530	4 747	1 867	-	11 144
	Impairment	32 152	4 677	349	-	37 178
	Disposals	(68)	(318)	(160)	-	(546)
	Transfers	(7)	7	-	-	-
Accumulated depreciation and impairment as at 31/12/2005		145 176	46 977	21 419	-	213 572
Net book value as at 31/12/2004		116 937	43 944	6 117	15 009	182 007
Net book value as at 31/12/2005		83 104	50 878	4 847	7 885	146 714

		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
2006	Additions	205	2 047	1 052	5 533	8 837
	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
2006	Depreciation for the year	3 180	5 073	1 365		9 618
	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
Depreciation rate (straight-line)		1-20%	5%-50%	10-50%		

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

As disclosed in Note 26 the subsidiary's SIA Ventspils nafta terminals real estate located in Ventspils, Talsu iela 75E, is pledged as a security for the credit line granted by AS SEB Latvijas Unibanka. As at 31 December 2005, the net carrying amount of SIA Ventspils nafta terminals real estate in Ventspils, Talsu iela 75E, was LVL 5 682 thousand. As the credit line was repaid in 2006, the pledge was canceled.

As at 31 December 2006, the subsidiary AS 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, as well as its real estate in *Jāņsili* for the total mortgage amount of LVL 1 000 thousand, in order to secure the loans received from Nordea Bank Finland Plc (see Note 26).

As at 31 December 2006, the net book value of tangible assets of subsidiary's AS Preses nams acquired under financial lease contracts amounted to LVL 4 007 thousand (2005: LVL 3 836 thousand) (see Note 27). All the tangible assets acquired under financial lease contracts are classified as machinery and equipment.

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

	2006	2005
Cost of sales	8 960	10 483
Selling and distribution expenses	13	16
General and administrative expenses	570	566
Other operating expenses	75	79
TOTAL:	9 618	11 144

14. Impairment of non-current assets

In 2002, transportation of crude oil through the pipeline of subsidiary SIA LatRosTrans in the Ventspils direction ceased. This resulted in loss of significant income for the Group's subsidiaries SIA Ventspils Nafta Terminals and SIA LatRosTrans, 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 annually. 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 SIA LatRosTrans non-current assets over its value in use. Total net book value of SIA LatRosTrans non current assets related to calculation of impairment, as at 31 December 2006 amounts to LVL 100 546 thousand.

The following describes each key assumption on which the management of subsidiaries' SIA Ventspils Nafta Terminals and SIA LatRosTrans has based its cash flow projections to undertake impairment testing of non-current assets:

a. The discount rate applied to the cash flow projections is 12%. (2005: 12%).

b. The growth rate used to extrapolate the cash flows of the Company is 3% (2005:1.5%).

c. The inflation rate used is 4.5% (2005: 3%).

15. Construction in progress

	31/12/2006	31/12/2005
Construction of new facilities for Preses nams outskirts of Riga a)	4 639	1 979
Oil product measurement station NPS "Skrudaliena"	2 236	-
Construction of new pipeline corridor b)	1 900	1 826
Reconstruction of real estate Rīgas līcis VN in Jurmala c)	1 621	1 770
Projection and construction of looping (pipeline) d)	1 224	1 623
Reconstruction of railway tank filling platform No. 1 b)	410	410
Construction of railway tank filling/reloading platform Nr. 4	59	-
Other objects	213	277
TOTAL:	12 302	7 885

a) As at 31/12/2006 the subsidiary AS Preses nams has outstanding balances in relation to construction of two new production facilities in the territory of Riga International Airport (LVL 2 357 thousand) and in Jansili, Ropazu pagasts (LVL 2 282 thousand). Currently the construction of these objects has been suspended.

b) The subsidiary SIA Ventspils nafta terminals has started construction of a new pipeline passage from its tanks to piers of Ventspils Free port. In 2003, SIA Ventspils nafta terminals temporarily ceased construction works. SIA Ventspils nafta terminals has also ordered preparation of technical documentation for the planned reconstruction works of railway filling platform No.1, however, no construction works have been started. After acquisition of state shares in the Parent company by new shareholder Vitol Group there was an increased interested in the development of terminal business. The Parent company and subsidiary SIA Ventspils nafta terminals is working on a new long term development plan which is expected to be finalized during the year 2007. Accordingly, the decision on further investments will be made after the plan is approved by the shareholders.

c) In 2003, the subsidiary SIA Rīgas Līcis VN temporarily ceased the construction of the planned hotel in Jūrmala. The subsidiary SIA Rīgas līcis VN intends to continue the construction works in the future, and therefore this hotel building is stated in these financial statements as construction in progress.

d) In 2003, the subsidiary SIA LatRosTrans carried out design to performing construction of looping in several stages. In 2004, the first stage of pipeline looping construction was completed, and now the result of the subsidiary can ensure oil product transportation up to 8 000 thousand tons per year. As no rapid growth in the volume of loaded oil products is planned in the next few years, the subsidiary SIA LatRosTrans resolved to temporarily suspend further construction works of the looping. In the current year the subsidiary SIA LatRosTrans has written-off part of the looping project amounting to LVL 325 thousand.

Please see Note 31 Contingent liabilities for commitments for capital expenditure.

16. Investment properties

		Total investment properties
Balance as at 31 December 2004		13 920
2005	Fair value adjustment	12 689
Balance as at 31 December 2005		26 609
2006	Fair value adjustment	5 078
Balance as at 31 December 2006		31 687

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 (%) 31/12/2006	Ownership (%) 31/12/2005	Legal address
Associated entities			
AS Latvijas kuģniecība	49.94	49.94	Basteja bulvāris 2, LV-1807, Riga, Latvia
SIA Mediji un Poligrāfija	32.70	32.70	Balasta dambis 3, LV-1081, Riga, Latvia
SIA under liquidation Ventshoes	21.44	21.44	I. Mičurina iela 6, LV-3601, Ventspils, Latvia
SIA Futbola klubs Ventspils	30.00	30.00	Dzintaru street 20a, LV-3602, Ventspils, Latvia

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

Associated entities	31/12/2006	31/12/2005
AS Latvijas Kuģniecība	112 158	113 840
SIA Mediji un Poligrāfija	48	48
SIA under liquidation Ventshoes	-	-
SIA Futbola klubs Ventspils	-	-
TOTAL:	112 206	113 888

17. Investments in associated entities (cont'd)

	31/12/2006	31/12/2005
Balance at the beginning of the year	113 888	92 437
Foreign currency translation		
AS Latvijas kuģniecība – for the year 2005	-	13 810
AS Latvijas kuģniecība – for the year 2006	(11 120)	-
Total foreign currency translation:	*(11 120)*	*13 810*
Reversal of previously recognized impairment		
SIA under liquidation Ventshoes	*(51)*	-
Proportional share of profit/ (loss)		
AS Latvijas kuģniecība – for the year 2005	-	7 730
AS Latvijas kuģniecība – for the year 2006	9 438	-
SIA Mediji un Poligrāfija	-	(9)
SIA under liquidation Ventshoes (liquidation quota)	51	(80)
SIA Futbola klubs Ventspils	-	-
Total proportional share of profit:	*9 489*	*7 634*
Balance at the end of year	112 206	113 888

According to the Auditor's Report on the consolidated financial statements of AS Latvijas kuģniecība for the year ended 31 December 2006, dated 11 April 2007, AS Latvijas kuģniecība overseas subsidiaries entered into time charter agreements at rates below market value but with possible future profit share clause for some of these agreements. Based on the estimates made by the experts the difference between the agreed time charter rates and market values for 2006 approximates to USD 4.3 million (LVL 2.3 million) and for 2005 – USD 19 million (LVL 11 million), whereas the amount of the final profit share payment remains uncertain.

AS Latvijas Kugnieciba profit for 2006 was LVL 18 894 thousands (2005: LVL 15 479 thousands), total revenues for 2006 was 87 080 thousands (2005: LVL 83 156 thousands), equity as at 31 December 2006 was LVL 224 586 thousands (2005: 227 953 thousands), total assets as at 31 December 2006 were 356 767 LVL thousands (2005: LVL 333 070 thousands) and total liabilities were 132 181 LVL thousands (2005: LVL 105 117 thousands). The share price in Riga's Stock Exchange was LVL 1.07 (2005: 1.30) per share. Market value of AS Latvijas Kugnieciba shares owned by AS Ventspils Nafta as at 31 December 2006 was LVL 106 872 thousands (2005: LVL 129 844 thousands). All above mentioned numbers represent 100% associates.

Impairment test was performed on investments in associates as of balance sheet date and no impairment was recognized.

18. Other loans

	31/12/2006	31/12/2005
Non-current:		
Loan to SIA Pārventas Siltums [a)]	1 055	1 092
TOTAL:	1 055	1 092
Current:		
Loan to SIA Pārventas Siltums [a)]	42	42
TOTAL:	42	42

18. Other loans (cont'd)

a) In 2004, the subsidiary SIA Ventspils Nafta Terminals acquired from AS Ventspils nafta a non-current advance payment to SIA Pārventas siltums amounting to LVL 1 096 832 as at 31 December 2006. This amount will be repaid by SIA Pārventas siltums through heat supplies at the rate of 3.65 LVL/Mwh. The current portion of this loan is estimated based on budgeted use of heat in 2007 and amounts to LVL 42 000. During 2006 the subsidiary charged 5% annual interest rate from the outstanding balance of the loan. As it is agreed on with SIA Pārventas siltums, interest of 5% on this loan will be paid in 2007.

19. Inventories

	31/12/2006	31/12/2005
Materials:		
Materials, spare parts and low value items	2 281	3 051
Raw materials	-	11
Other	1	2
Allowance for obsolete materials	(30)	(81)
	2 252	*2 983*
Oil and oil products	3 529	4 938
Unfinished inventory	122	230
Finished inventory and goods for sale	82	39
Prepayments for materials	26	44
TOTAL:	6 011	8 234

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

The subsidiary's SIA LatRosTrans management has decided to write off excess losses of oil product incurred during the years 2002, through 2005 from the subsidiary's inventory at the weighted average cost of oil products (See Note 8). In 2006, losses of oil products were below the rate for wastages stated in agreements with clients.

20. Trade accounts receivable

	31/12/2006	31/12/2005
For printing services	2 633	4 195
For reloading services	2 097	2 336
For oil sold [a)]	2 033	-
For newspapers	455	419
For transporting of oil and oil products	9	850
For other services	5	13
Doubtful debts	1 592	1 083
Allowance for doubtful debts	(1 592)	(1 083)
TOTAL:	7 232	7 813

a) Trade receivable includes sale of oil done close to the end of the reporting period.

Trade receivables are non-interest bearing and are generally on 30-90 days' terms.

21. Other accounts receivable

	31/12/2006	31/12/2005
VAT receivable	478	730
Granting of lease right of premises	200	200
Social security contributions	123	146
Personal income tax	79	84
Real estate tax	37	-
Advances for services to be provided	18	18
Other accounts receivable	17	24
Deferred VAT	9	19
Cooperation bonus	-	95
Doubtful debts	5 225	5 242
Allowances for doubtful debts	(5 149)	(5 149)
TOTAL:	819	1 409

22. Prepaid expense

	31/12/2006	31/12/2005
Insurance	951	393
Other prepaid expense	205	228
TOTAL:	1 156	621

23. Held-to-maturity investments

Held-to-maturity investments 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 SIA LatRosTrans and earn interest at the respective short-term deposit rates.

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

24. Cash and cash equivalents

		31/12/2006	31/12/2005
Term deposits [a)]		3 092	12 358
Current bank accounts		2 333	3 719
Cash on hand		9	3
	TOTAL:	5 434	16 080

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

			Effective interest rate (%)	*Maturity*	31/12/2006
A/s SEB Unibanka	5 600	USD thousand	5.01 – 5.03%	8 January 2007	3 013
Other	145	USD thousand	5.05%	Within 3 months'	79
				TOTAL:	3 092

25. 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 2005	43 881 398	60 598 121	104 479 519
31 December 2006	43 881 398	60 598 121	104 479 519

Information on sharehoders' equity participation is summarized shortly before shareholders' general meeting. As on 25 October 2006 when the last shareholders' general meeting of AS Ventspils nafta took place, AS Latvijas naftas tranzīts, was registered as the largest shareholder by owning 48,89% of Parent company's share capital. The next general share holders' meeting, registering the sahrehoder's part in the equity, will took place in 27 April 2007.

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

All shares are authorized issued and fully paid.

According to the Statutes net result after restricted reserves and dividends is allocated to other reserves and used for further development of the Group.

25. Share capital, reserves and earnings per share (cont'd)

The Annual General Meeting of AS Ventspils nafta shareholders in 2 June 2006 decided to transfer loss for 2005 to the other reserves.

Earnings per share for Group are calculated by dividing the net result for the year of LVL 6 847 thousand (for 2005: loss of LVL 21 725 thousand) by weighted average number of shares during the year of 104 479 thousand (2005: 104 479 thousand).

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

The nominal value of each share is LVL 1.

26. Loans from credit institutions

Non-current portion:	Loan amount (thousand)	Effective interest rate (%)	Maturity	31/12/2006	31/12/2005
SIA Ventspils Nafta Termināls a)					
Loan from AS Hansabanka	LVL 8 330	6 months USD LIBOR + 0.79%	25/10/2008	1 844	4 375
AS Preses nams					
Loan from Nordea Bank Finland Plc	LVL 2 746	3 month Rigibor + 1.2%	28/09/2012	-	2 000
			TOTAL:	1 844	6 375

Current portion:	Loan amount (thousand)	Effective interest rate (%)	Maturity		31/12/2005
SIA Ventspils Nafta Termināls a)					
Loan from AS Hansabanka	LVL 8 330	6 months USD LIBOR + 0.79%	25/10/2008	2 110	565
AS Preses nams b)					
Loan from Nordea Bank Finland Plc	LVL 2 950	12-month Rigibor + 0.95%	27/05/2007	2 950	1 618
Loan from Nordea Bank Finland Plc	LVL 2 746	3 month Rigibor + 1.2%	28/09/2012	746	-
			TOTAL:	5 806	2 183

a) According to the agreement concluded with AS Hansabanka on 25 October 2005 a non-current loan was issued to the subsidiary SIA Ventspils Nafta Terminals in the amount of USD 8 330 thousand. As a security for the loan SIA Rīgas līcis VN, a subsidiary of AS Ventspils nafta, has pledged the real estate in Jūrmala Dubultu prospekts 51.

b) In 2006 the loan is classified as current as the subsidiary AS Preses Nams has not met all the contractual requirements of Nordea Bank Finland Plc, and Nordea Bank Finland Plc is entitled to demand anticipatory repayment of the loan.

All the loans from credit institution has been secured by a commercial pledge of all the subsidiaries' AS Preses Nams movable property as an aggregation of property including any future parts thereof, as well as inventory and debtors for the total amount of LVL 10 600 thousand, and a mortgage of its real estate in *Jāņsili* for the total amount of LVL 1 000 thousand.
As at 31 December 2006, the subsidiary AS Preses Nams had not used a credit line in the amount of LVL 50 thousand (2005: LVL 1 382 thousand).

27. Financial lease liabilities

	Date of maturity	Lease amount (LVL thousand)	Effective interest rate (%)	Non-current portion (LVL thousand)	Current portion (LVL thousand)	Net book value of lease items (LVL thousand)
SIA NORD/LB Līzings	28/05/2010	560	6-month Euribor + 1%	393	167	767
SIA NORD/LB Līzings	28/05/2010	377	6-month Euribor + 1%	265	112	542
SIA NORD/LB Līzings	28/05/2010	247	6-month Euribor + 1%	177	69	327
SIA Unilīzings	25/08/2008	200	3-month Unibor + 1.95%	80	120	468
SIA NORD/LB Līzings	28/01/2008	157	6-month Euribor + 1.2%	11	146	367
SIA Unilīzings	25/08/2008	141	3-month Unibor + 1.95%	57	84	316
SIA NORD/LB Līzings	28/04/2010	108	6-month Euribor + 1.2%	77	31	145
SIA Nordea Finance Latvia	29/08/2008	56	6-month Euribor + 1.19%	20	36	67
SIA Nordea Finance Latvia	30/05/2008	46	6-month Euribor + 1.19%	12	34	62
SIA Nordea Finance Latvia	30/11/2007	26	3-month Rigibor + 1.5%	-	26	69
SIA Unilīzings	15/01/2007	20	3-month Unibor + 1.95%	-	20	878
Total as at 31/12/2006				1 092	845	4 007
Total as at 31/12/2005				1 537	995	3 836

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

	31/12/2006		31/12/2005	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	877	845	1 078	995
Between one and five years	1 142	1 092	1 628	1 537
Total minimum lease payments	2 019	1 937	2 706	2 532
Less amounts representing finance charges	(82)	-	(174)	-
Present value of minimum lease payments	1 937	1 937	2 532	2 532

28. Taxes payable

	31/12/2006	31/12/2005
Social security contributions	297	170
Personal income tax	155	159
VAT payable	34	3
Natural resources tax	12	22
Real estate tax	4	94
Other	19	-
TOTAL:	521	448

29. Other liabilities

	31/12/2006	31/12/2005
Remuneration for work	432	423
Other liabilities	229	146
TOTAL:	661	569

30. Accrued liabilities

	31/12/2006	31/12/2005
Accrued bonuses and related social security contributions	627	590
Accrued vacation pay reserve	405	481
Accrued expense on environmental pollution elimination	199	260
Accrued expenses for transit development	82	353
Accrued legal expenses	77	-
Other accrued liabilities	389	238
TOTAL:	1 779	1 922

31. Contingent liabilities

Excise tax and value added tax

The subsidiary SIA LatRosTrans might have tax liabilities due to wastages of oil products during the transportation. On 21 August 2003, the Cabinet of Ministers Regulations regarding allowable rate for wastages of transported oil products were amended to further define the rate at 0.16%, starting from 1 February 2004 through 30 August 2005 – 0.1%, and starting from 1 September 2005 – 0.2%. The actual wastages of the subsidiary SIA LatRosTrans 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 through 31 December 2005 – 0.21%. In the current accounting period 1 January through 31 December 2006 the amount of actual wastages were 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 specific amount of lost oil products due to thefts. The subsidiaries' SIA LatRosTrans management estimated the potential taxes payable on physical losses due to thefts for 2006 amounting to 0.116 thousand tons (2005: 0.262 thousand tons) and established provisions for excise tax and VAT in amount of LVL 22 thousand and LVL 19 thousand, respectively (2005: LVL 43 thousand and LVL 34 thousand, respectively). Provisions for excise tax and VAT payable on physical losses due to thefts for 2005 and 2006 in these financial statements were disclosed under accrued liabilities caption.

Environmental commitments

The subsidiary SIA LatRosTrans 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 SIA VentEko 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 SIA LatRosTrans. 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 SIA VentEko has developed an investment plan envisaging an implementation of such environmental strategy which would ensure that SIA LatRosTrans 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 SIA LatRosTrans 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 SIA VentEko 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 2006 SIA LatRosTrans has established accruals for expense on environmental pollution elimination in the amount of LVL 199 thousand (2005: LVL 260 thousand) (see Note 30).

The subsidiary SIA Ventspils nafta termināls (previously AS 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 SIA Ventspils nafta Terminals 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 subsdiary'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.

31.Contingent liabilities (cont'd)

Commitments for capital expenditure

The Group's existing commitments for the capital expenditure as at 31/12/2006 amounts to LVL 3 429 thousand (2005: LVL 8 376 thousand).

Subsidiary SIA LatRosTrans constantly reviews its long-term investment plans to meet its possible liabilities which might arise due to excess physical losses of oil products and other circumstances.

Included in the Group's total commitments is capital expenditure contracted by subsidiary AS Preses nams for as at the balance sheet date but not yet incurred totals LVL 2 250 thousand (2005: LVL 4 764 thousand). These contracts are concluded for the construction of the objects located in the territory of Riga International Airport and Jansili, Ropazu pagasts.

Payments to local authorities

Under the agreement between SIA Ventspils nafta termināls and Ventspils City Council dated 19 September 2003 on transportation of oil and oil products via Ventspils city and supplementary agreement thereto dated 8 December 2003 SIA Ventspils nafta termināls undertakes to transfer the following amounts to Ventspils City Council to satisfaction of the city's social infrastructure needs: in years 2006 and 2007: LVL 700 thousand each year plus amount not exceeding 1% of the forecasted net turnover of SIA Ventspils nafta termināls for the respective year. After the year end, the contract with Ventspils City Council was re-signed for the period till year 2032.

Litigation

The subsidiary AS Preses nams has been involved in several court cases with the total claims in the amount of LVL 139 thousand (2005: LVL 71 thousand). Trial dates have not yet been set and therefore it is not practicable to state the timing of any possible payments. The subsidiarie's management believes that the action will succeed and accordingly no provisions for any liability have been made in these financial statements

The subsidiary SIA Mediju nams is involved in several proceedings on denigration of honor and dignity in its publications, which constitutes the claims for the total amount of LVL 46 thousand (2005: LVL 45 thousand). The Management of SIA Mediju Nams believes that unfavorable court ruling it is unlikely therefore no provisions for the above claims have been established in these financial statements.

Minimum technological reserve

The subsidiary SIA Ventspils Nafta Terminals has a policy to operate using oil and oil products belonging to clients and it 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 is 30 300 tons (2005: 33 200 tons) of crude oil, 74 550 tons (2005: 57 500 tons) of diesel fuel and 30 200 tons (2005: 25 600 tons) of petrol.

Therefore under the existing circumstances to ensure the minimum technological reserve required for the reloading system oil products belonging to SIA Ventspils nafta terminals customers and AS Ventspils nafta are partly used. The portion of the minimum technological reserve owned by non Group persons comprises approximately 9 942 tons (2005: 0 tons) of crude oil, 62 263 tons (2005: 44 240 tons) of diesel fuel and 27 527 tons (2005: 23 410 tons) of petrol. The approximate cost of establishing the minimal 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 29 177 thousand (2005: LVL 18 660 thousand).

31.Contingent liabilities (cont'd)

Minimum technological reserve (cont'd)

The subsidiary SIA LatRosTrans 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 has in its possession 17 855 tons of oil product as at 31 December 2006 (2005: 15 916 tons). Thus, currently products owned by the subsidiary's clients are used as a remaining part of minimum technological reserve of oil products needed for transportation network amounting to 69 545 tons (2005: 71 484 tons). The approximate cost of restoring the minimal reserve of oil products used as technological reserve for the oil product transportation network entirely on the own resources is estimated in the amount of LVL 20 901 thousand (2005: LVL 23 999 thousand) using average market price of LVL 301.66 per ton (USD 570.25 per ton) effective as at 19 March 2007.

Commitments under supply agreements

In 2005, the subsidiary AS Preses Nams signed three agreements with leasing companies Nordea Finance Latvia and Nord/LB Līzings on acquisition of equipment for the total amount of LVL 12 855 thousand (excl. VAT). The respective equipment had to be imported and erected in the new production facilities by July 2006 which was not done because of the suspended construction works. The lease period for this equipment was planned to be 7 years. The first payments and part of interest paid to the leasing companies before the equipment had been delivered to Latvia are presented in the balance sheet as prepayments for tangible assets in the amount of LVL 1 656 thousand. The remaining liabilities and the respective assets have not been recognised in the financial statements for the reporting year as the subsidiary is not yet entitled to use the leased assets. In December 2006, the equipment was delivered to Latvia and stored in the warehouse. If the subsidiary AS Preses Nams wishes to terminate the said agreements, the minimum payments would amount to LVL 11 341 thousand, at the same time acquiring assets with similar value.

32. Pledged assets

The subsidiary SIA Rīgas līcis VN has pledged its real estate in Jūrmala Dubultu prospekts 51 for the benefit of AS Hansabanka as a security for the loan issued to subsidiary SIA Ventspils nafta termināls in 2004.

As at 31 December 2006, the subsidiary AS 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, as well as its real estate in *Jāņsili* for the total mortgage amount of LVL 1 000 thousand, in order to secure the loans received from Nordea Bank Finland Plc.

33. Off balance sheet assets

<u>*Technological amount of oil*</u>

For technological needs of the oil transportation process, 150 thousand tons of oil are kept in the subsidiarie's SIA LatRosTrans 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.

<u>*Surplus oil products for SIA LatRosTrans*</u>

The agreements with clients provide for 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 2006, losses of oil products were below the stated rate of wastages. As a result, the subsidiary SIA LatRosTrans has acquired in its possession 1 939 tons of oil products. These volumes will be kept in the subsidiarie's possession until legal title of these oil products will be clarified.

34. Related party transactions

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

During the reporting year Vitol Group companies have used reloading services provided by subsidiary SIA Ventspils nafta termināls through an agent.

34. Related party transactions (cont'd)

Based on a co-operation agreement concluded between subsidiary SIA Ventspils nafta termināls, AS Ventbunkers and SIA LatRosTrans on reloading diesel fuel revenues were generated for SIA Ventspils nafta termināls in the amount of LVL 1 310 thousand (2005: LVL 1 559 thousand).

During the reporting year subsidiary SIA Ventspils nafta termināls has been charged LVL 420 thousand (2005: LVL 392 thousand) by AS Ventbunkers for treatment of technological waste water.

During the reporting period subsidiary SIA Ventspils nafta termināls has been charged LVL 798 thousand (2005: LVL 758 thousand) by AS Ventbunkers for utilization of piers rented by AS Ventbunkers. Accounts payable to AS Ventbunkers in SIA Ventspils nafta termināls accounts as of 31 December 2006 amounted to LVL 121 thousand (2005: LVL 109 thousand).

During the year subsidiary SIA Ventspils nafta termināls has been charged LVL 256 thousand (2005: LVL 305 thousand) by AS Ventbunkers Group company SIA Vats for electricity. Accounts payable to SIA Vats per subsidiary's SIA Ventspils nafta termināls accounts as of 31 December 2006 amounted to LVL 29 thousand (2005: LVL 30 thousand).

Based on the security agreement concluded between the subsidiary SIA LatRosTrans and Ventbunkers Group company SIA Apsardzes dienests Venta the subsidiary SIA LatRosTrans has been charged for security services rendered by SIA Apsardzes dienests Venta in the amount of LVL 850 thousand in 2006 (2005: LVL 850 thousand).

During the year subsidiary SIA LatRosTrans has been charged LVL 70 thousand (2005: LVL 40 thousand) by AS Futbola Klubs for marketing services.

Because of short-term nature, outstanding balances at the year-end 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 2006, the Group has not made any provisions for doubtful debts relating to amounts owed by related parties.

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.

Financial risks

The main financial risks related to the financial instruments of the Group are credit risk, currency risk, interest rate risk and liquidity risk.

Credit risk

The Parent company and the Group is 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 highly secure financial institutions.

As at 31 December 2006 the subsidiary SIA Ventspils nafta termināls credit risk concentration to single customer amounted to 91% of the total trade receivables (2005: 98%). This is due to the fact that in the result of the long cooperation that stable partner relations with one customer has been developed as confirmed by adequate and systematic fulfillment of all contractual liabilities.

As of 31 December 2006 the subsidiary's SIA LatRosTrans credit risk concentration to a single customer – related party amounted to 100% of total trade receivables (2005: 100%).

The subsidiaries AS Preses Nams, SIA Mediju nams, SIA Rīgas līcis VN and SIA Nekustamie īpašumi VN 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' AS Preses Nams, SIA Mediju nams, SIA Rīgas līcis VN and SIA Nekustamie īpašumi VN exposure to bad debts is minimized. The subsidiaries AS Preses Nams, SIA Mediju nams, SIA Rīgas līcis VN and SIA Nekustamie Īpašumi VN have no significant concentration of credit risk with any single customer or group of customers having similar characteristics.

Foreign currency risk

The Group's financial assets and liabilities exposed to foreign currency risk comprise 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 U.S. 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 U.S. dollars.

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

35. Financial instrument (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 short term loan issued to significant shareholder of the Parent company.

The management believes that he exposure to interest rate risk of financial assets and liabilities as of 31 December 2006 was minimal as their deviation from their respective fair values was not significant.

Liquidity risk

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks and parent company planning of terms of payment of trade payables developing and analyzing future cash flows comprising both the existing and planned loans and interest on such loans. 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.

Fair value

The carrying amounts of the Group's financial assets and financial liabilities not carried at fair value – cash, accounts receivable, other accounts receivable, loans issued and received, trade accounts payable and other payables are carried at amortized cost which approximate to their fair value.

36. Going concern assumption for subsidiaries

The subsidiary SIA Rīgas Līcis VN closed the reporting year with loss of LVL 163 169. As at 31 December 2006, the subsidiarie's current liabilities exceeded its current assets by LVL 824 859. To solve this situation, the subsidiary SIA Rīgas Līcis VN might need a financial support. On 30 December 2003, the subsidiary signed a loan agreement with the parent company AS Ventspils nafta whereby a current loan was granted in the amount of LVL 600 000 bearing interest at 6% per annum. The loan is repayable on demand. In 2006, the subsidiarie's SIA Rīgas Līcis VN received an additional loan from the related company SIA Nekustamie īpašumi VN in the amount of LVL 130 000. The subsidiarie's management believes that the above loans will be sufficient for solving the liquidity problems. Moreover, as soon as such necessity arises, the parent company AS Ventspils nafta will provide financial support by extending the loan maturity.

The subsidiary SIA Mediju nams closed the year 2006 with a loss of LVL 996 thousand moreover in 2006 SIA Mediju nams had a negative operating cash flow (as in 2005). As at 31 December 2006 the subsidary's SIA Mediju nams current liabilities exceeded its current assets by LVL 147 thousand lats. As for the 2007 the company has budgeted significant losses as well.

The management of SIA Mediju nams believes that the cash flow for 2007 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 SIA Mediju nams requires considerable additional financing for ensuring its future operations. The major shareholder AS Ventspils nafta provided a letter of financial support dated 27 March 2007 to the extent that is required for the SIA Mediju nams to continue as a going concern at least until 30 June 2008.

The subsidiary AS Preses Nams closed the reporting year with net loss of LVL 3 109 thousand. As at 31 December 2006, the subsidiarie's current liabilities exceeded its current assets by LVL 3 594 thousand. For this reason, AS Preses Nams signed an agreement with SIA Darījumu centrs Daugava on early loan repayment. In 2007, the subsidiary AS Preses Nams received the full repayment of the loan of LVL 1 432 thousand.

Moreover, on 25 January 2007, the subsidiarie's shareholders have approved the increase in AS Preses Nams share capital by LVL 4 700 thousand. The subscription of the new emission of AS Preses nams shares is open until 5 April 2007. As at 27 March 2007 the major shareholder AS Ventspils Nafta has subscribed to 4 371 470 shares or 93.01% from total shares of the subsidiaries' new share emission.

36. Going concern assumption for subsidiaries (cont'd)

The subsidiary's AS Preses Nams major shareholder AS Ventspils Nafta provided also a letter of financial support dated 28 March 2007 to the extent that is required to meet its obligations as they fall due. The subsidiary's management believes that it will be able to ensure adequate financing for solving the liquidity problems.

37. Subsequent events

Change of shareholder's for SIA Ventspils Nafta Terminals

After the year end AS Ventspils Nafta sold 49% out of 100% shares of it's subsidiary SIA Ventspils Nafta Terminals to *Euromin Holdings'* (Cyprus) limited. The change of shareholder's have been registered in Register of Latvian Enterprise as of 13 March 2007.

AS Preses Nams

On 25 January 2007 the shareholders' meeting resolved to increase the subsidiary's AS Preses Nams share capital by LVL 4 700 thousand to LVL 13 785 thousand.

On 15 March 2007, the Council of AS Preses nams resolved to approve the strategical development plan for 2007 – 2011 prepared by the Board. The Council's of the subsidiary's decision will become effective after its approval by parent's company's AS Ventspils nafta governing institutions.

Except for the above as of the last day of the reporting year through the date of signing these financial statements there have been no significant events requiring adjustment of or disclosure in the financial statements or notes thereto.