AS VENTSPILS NAFTA

(UNIFIED REGISTRATION NUMBER 50003003091)

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

PREPARED IN ACCORDANCE WITH

THE LAW OF THE REPUBLIC OF LATVIA ON FINANCIAL STATEMENTS OF COMPANIES

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Ventspils, 2007

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Ventspils nafta

Report on the Financial Statements

We have audited the accompanying 2006 financial statements of AS Ventspils nafta (the "Company"), which are set out on pages 9 through 33 of the accompanying 2006 Annual Report and which comprise the balance sheet as at 31 December 2006, the income statement, the statement of changes in equity and the 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 the Law of the Republic of Latvia on Financial Statements of Companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion the financial statements give a true and fair view of the financial position of the Company as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Financial Statements of Companies.

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. As disclosed in Note 14 of the accompanying financial statements, in 2006 the Company's subsidiary SIA LatRosTrans has recognized impairment loss amounting to LVL 3 778 thousand based on the assessed value in use of the subsidiary's non-current assets calculated using estimates of future cash flows. 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 on the investment in the subsidiary SIA LatRosTrans will have to be realized.

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 subsidiary's balance sheet as at 31 December 2006 (see Note 14). AS Preses nams management believes that the situation is temporary as significant restructuring plans are approved to be realised in the forthcoming years. 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 the investment in the subsidiary AS Preses nams 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.

INDEPENDENT AUDITORS' REPORT (continued)

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
Licence 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

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 consortium 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 (SIA Ventspils Nafta Terminals); transport of crude oil and petroleum products via pipelines (SIA LatRosTrans); printing (AS Preses nams), as well as real estate management and development (SIA Nekustamie īpašumi VN, SIA Rīgas līcis VN) and publishing (SIA Mediju Nams). 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. Notwithstanding the above factors, AS Ventspils nafta closed the reporting year with profit of LVL 0.1 million if compared to loss for the year 2006 of LVL 35 milj.

Turnover of AS Ventspils Nafta was lower than planned because of unstable and practically unpredictable situation in the railway transport sector. SIA Ventspils Nafta Terminals, 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 SIA Ventspils Nafta Terminals has operated successfully during the reporting period making profit of more than LVL 0.6 million, we expect that company's results for 2007 will be highly dependent on the difficult situation in the sector of oil product railway transport.

At the same time we would like to point out that due to efforts of management of SIA Ventspils Nafta Terminals to diversify and introduce new kinds of services have resulted in receiving crude oil and petroleum products by sea. During 2006 SIA Ventspils Nafta Terminals 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.

Management report (cont'd)

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. SIA LatRosTrans, 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 SIA LatRosTrans 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 SIA LatRosTrans, 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 SIA LatRosTrans 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 til 2011 where by 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. These considerations will form the basis which will be elaborated within the context of more profound town planning analysis of the respective territory, when taking specific decisions on the further perspectives of the development of this property and commencing all the necessary activities for receiving the respective permits from the Riga city authorities.

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,

13 April 2007

On behalf of the Board:	On behalf of the Council:
______________________________	______________________________
Vladimirs Solomatins Deputy Chairman of the Council	Olga Pētersone Chairperson of the Board

The annual report was approved by the general shareholders' meeting on 27 April 2007.

Income statement

	Notes	2006 LVL thousand	2005 LVL thousand
Net sales	3	4 395	3 981
Cost of sales	4	(2 702)	(2 626)
Gross profit		1 693	1 355
Sales and distribution expense	5	(2 107)	(2 218)
Other operating income	6	2 123	528
Other operating expense	7	(1 672)	(319)
Result from operating activities		37	(654)
Gain in associated entities	14	51	-
Impairment loss	14	-	(35 064)
Financial income/ (expense), net	9	123	446
Result before taxes		211	(35 272)
Corporate income tax	10	(18)	(6)
Other taxes	11	(79)	(80)
Net result		**114**	**(35 358)**

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

Balance sheet

ASSETS

	Notes	31/12/2006 LVL thousand	31/12/2005 LVL thousand
NON CURRENT ASSETS			
Property, plant and equipment			
Land, buildings and networks	12	4 892	5 007
Machinery and equipment	12	28	49
Other property, plant and equipment	12	507	431
Construction in progress	12,13	-	160
Prepayments for property, plant and equipment		-	72
TOTAL		5 427	5 719
Investment properties	12	615	621
Investments			
Investments in subsidiaries and associated entities	14	185 807	182 946
Loan to related companies	15	676	1 201
TOTAL		186 483	184 147
TOTAL NON CURRENT ASSETS		192 525	190 487
CURRENT ASSETS			
Inventories	16	1 578	3 044
Account receivable			
Loans to related companies	15	1 617	2 831
Trade receivables		2 033	-
Receivables from related companies	15	92	6
Corporate income tax receivable	22	225	265
Other receivables	17	63	61
Prepaid expense	18	72	35
Shares	19	51	51
Cash and cash equivalents	20	382	1 697
TOTAL CURRENT ASSETS		6 113	7 990
TOTAL ASSETS		198 638	198 477

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

Balance sheet

LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY	Notes	31/12/2006 LVL thousand	31/12/2005 LVL thousand
Share capital	21	104 479	104 479
Share premium		42 343	42 343
Other reserves		51 036	86 394
Current year unappropriated result		114	(35 358)
TOTAL SHAREHOLDERS' EQUITY		197 972	197 858
LIABILITIES			
Long-term liabilities			
Deferred corporate income tax	10	338	321
TOTAL		338	321
Current liabilities			
Trade payables		85	59
Payables to related companies		10	9
Taxes payable	22	-	20
Other liabilities	23	27	31
Accrued liabilities	24	206	179
TOTAL		328	298
TOTAL LIABILITIES		666	619
TOTAL EQUITY AND LIABILITIES		198 638	198 477

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

Cash flow statement

	2006 LVL thousand	2005 LVL thousand
Cash flow from/ (to) operating activities		
Result before taxes	211	(35 272)
Adjustments		
Impairment loss	-	35 064
Disposal of shares	-	8
Amortisation and depreciaiton	296	327
Interest income	(185)	(156)
Interest expense	1	6
(Gain)/ loss on disposals of tangible assets	174	3
Proceeds from recovery of investments written off in previous periods	(51)	-
Operating profit before changes in current assets and liabilities	*446*	*(20)*
Decrease in inventory	1 466	1 308
(Increase)/ decrease in trade receivables	(137)	1 674
Increase/ (decrease) in current liabilities	43	(184)
Net cash from/ (to) operating activities	*1 818*	*2 778*
Taxes paid	(289)	(360)
Cash flows before extraordinary items	*1 529*	*2 418*
Net cash from/ (to) operating activities	1 529	2 418
Cash flow from/ (to) investment activities		
Purchase of tangible and intangible assets	(172)	(83)
Proceeds from recovery of investments written off in previous periods	51	-
Investment in subsidiaries	(2 861)	(867)
Interest received	139	156
Net cash flow from/ (to) investment activities	(2 843)	(794)
Cash flow from/ (to) financing activities		
Interest payments	(1)	(6)
Net cash from/ (to) investment activities	(1)	(6)
Net increase/ (decrease) in cash	(1 315)	1 618
Cash at the beginning of the year	1 697	79
Cash at the end of the year	**382**	**1 697**

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

Statement of changes in shareholders' equity

	Share capital	Share premium	Other reserves	Current years unappro-priated result	Total
Balance as of 31 December 2004	104 479	42 343	82 645	3 749	233 216
Transfer of 2004 net result	-	-	3 749	(3 749)	-
Current year result	-	-	-	(35 358)	(35 358)
Balance as of 31 December 2005	104 479	42 343	86 394	(35 358)	197 858
Transfer of 2005 net result	-	-	(35 358)	35 358	-
Current year result	-	-	-	114	114
Balance as of 31 December 2006	104 479	42 343	51 036	114	197 972

The accompanying notes form an integral part of these financial statements

Notes to the financial statements

1. Corporate information

AS Ventspils nafta (hereinafter– the Company) is a public joint stock company organized under the laws of the Republic of Latvia. The 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 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 restructuring in 2003 all reloading activities were transferred to the daughter company SIA Ventspils nafta termināls. Initially, the 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.

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

- Transporting crude oil and oil products via pipelines (SIA LatRosTrans),
- Storage and reloading of crude oil and oil products from/ to rail tank cars and vessels (SIA Ventspils nafta termināls),
- Publishing and printing (AS Preses names and SIA Mediju nams),
- Real estate management (SIA Rīgas līcis VN, SIA Nekustamie īpašumi and its subsidiaries).

In addition, the 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 financial statements of the Company 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 Company's shareholders have the power to amend the financial statements after issue.

2. Significant accounting policies

Basis of preparation

These financial statements represent only the financial situation of AS Ventspils nafta on a stand alone basis: the financial situation of AS Ventspils nafta Group companies (i.e., AS Ventspils nafta and its subsidiaries) is disclosed in the financial statements prepared in accordance with International Financial Reporting Standards.

The financial statements of the Company have been prepared in accordance with the Law of the Republic of Latvia on Financial Statements of Companies and Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance applicable in the reporting year.

The financial statements are prepared on a historical cost basis.

The financial statements cover the period 1 January 2006 through 31 December 2006.

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.

Changes in accounting policies

Following three Latvian Accounting Standards took effect in 2006:

1) LAS 3 *Events Occurring After the Balance Sheet Date*;
2) LAS 4 *Changes in Accounting Policies, Changes in Accounting Estimates and Prior Period Errors*;
3) LAS 5 *Long-term Contracts*.

The introduction of these standards did not result in any material changes in the Company's accounting policies.

2. Significant accounting policies (cont'd)

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 expense and disclosure of contingencies. 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.

Investments in subsidiaries and associates

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) and associates (i.e. where the Company 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 cost method. Following initial recognition, investments in subsidiaries and associates are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries and associates are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company recognises income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of the investment and are recognised as a reduction of the cost of the investment.

Difference between the value of the investments in subsidiary and the liquidation balance of the respective subsidiary is disclosed in the income statement.

Other investments

Investments in non-public companies in which the Company does not have a controlling interest, or an ownership and voting interest sufficiently large to exert significant influence, are initially measured at cost, which is subsequently adjusted for impairment upon permanent increase or reduction of their fair value. The changes of fair value are included in the respective income statement caption.

Foreign currency transactions

The functional currency of the Company is Latvian lats (LVL).

The major part of the Company's revenues is denominated in USD.

Invoices on goods and services issued or payable in foreign currency are translated into lats according to the exchange 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. The differences arising from foreign exchange rate fluctuations are included in the income statement for the respective period.

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

The monetary unit used in the Company's accounting is lat (LVL)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the non-current assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period when incurred.

2. Significant accounting policies (cont'd)

Property, plant and equipment (cont'd)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. When tangible non-current assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. The following depreciation rates were established and applied:

	years
Buildings and constructions	*10-100*
Machinery and equipment	*3-10*
Other tangible assets	*2-10*

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.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset's fair value less cost to sell and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement as other operating expense.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

Expenses related to leasehold improvements are capitalized as tangible non-current assets 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.

Improvements and minor purchases with an estimated useful life less than one year, as well as those with a cost value below LVL 150, are expensed directly in the income statement.

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.

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.

2. Significant accounting policies (cont'd)

Inventories

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.

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.

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.

Interest bearing loans and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

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 Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Rendering of services

The value of the services rendered by the Company comprises mainly revenue from sales of crude oil and oil products. 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.

Interest

Revenue is recognized as the interest accrues.

Dividends

Revenue is recognized when the shareholders' right to receive the payment is established.

Corporate income tax

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. 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 timing differences arise from differing rates of accounting and tax amortisation and depreciation on the Company's non-current assets, and tax losses carried forward for the subsequent five years.

2. Significant accounting policies (cont'd)

Related parties

Related parties are defined as subsidiaries and associated entities of the Company as well as shareholders that may exercise control or significant influence over the Company's operations, Council and Board members, their close members of the families and entities over which these persons exercise significant influence or control.

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.

3. Net turnover

		2006	2005
Sale of crude oil and oil products		4 395	3 981
	TOTAL:	4 395	3 981

4. Cost of sales

		2006	2005
Cost of crude oil and oil products sold		2 702	2 626
	TOTAL	2 702	2 626

5. General and administrative expense

		2006	2005
Remuneration for work		678	678
Amortisation and depreciation		297	327
Professional charges and legal costs		219	284
Lease of premises		160	152
Insurance		154	180
Statutory social insurance contributions		130	117
Accruals for bonuses		88	81
Advertising and marketing		79	51
Vehicle maintenance expense		77	75
Bank charges		61	145
Representation expense		43	26
Communications		39	38
Business trips		19	5
Conferences, seminars and training		8	10
Other expense		55	49
	TOTAL:	2 100	2 218

6. Other operating income

	2006	2005
Lease of oil and oil products to SIA Ventspils nafta termināls for ensuring technological processes *	1 151	-
Revaluation of oil and oil product stock	676	200
Assignment of property management rights	233	233
Management fee	-	50
Other income	63	45
TOTAL:	2 123	528

* In 2006, the Company changed the settlement procedure for transactions with its subsidiary SIA Ventspils nafta termināls concerning use of technological reserves of oil and oil products and storage of oil and oil products. As a result, in 2006 intra-company invoices were issued.

7. Other operating expense

	2006	2005
Storage of oil and oil products *	1 151	-
Real estate development expense	275	275
Disposal of tangible assets	160	-
Sponsorship	9	7
Penalties paid	-	3
Other expense	77	34
TOTAL:	1 672	319

* See Note 6.

8. Personnel expense

		2006	2005
Average number of employees		35	33
	TOTAL:	35	33

Remuneration for work and social security expense

		2006	2005
Remuneration for work		216	217
Statutory social insurance contributions		54	62
Board Members			
Remuneration for work		240	239
Statutory social insurance contributions		19	19
Council Members			
Remuneration for work		310	287
Statutory social insurance contributions		57	52
	TOTAL:	896	876

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

		2006	2005
General and administrative expense		896	876
	TOTAL:	896	876

9. Financial income/ (expense), net

		2006	2005
Interest income on loans		159	156
Interest income from bank account balances and deposits		26	2
Income from trading investments		-	10
Interest expense		(1)	(6)
Foreign currency exchange gain/ (loss), net		(61)	292
Other		-	(8)
	TOTAL:	123	446

10. Corporate income tax

	2006	2005
Current income tax		
Current income tax	-	-
Deferred tax		
Relating to origination and reversal of temporary differences	18	6
Income tax reported in income statement	18	6

Deferred corporate income tax:

Deferred income tax liability	31/12/2006	31/12/2005
Accelerated depreciation for tax purposes	(339)	(321)
Gross deferred tax liability	(339)	(321)
Deferred income tax asset		
Tax losses carried forward	78	33
Less valuation allowance for tax asset	(78)	(33)
Net deferred income tax liability	(339)	(321)

Tax loss carried forward may be utilised as follows:

	Tax loss	Expiry term
Tax loss for 2005	220	2010
Tax loss for 2006	303	2011
TOTAL:	523	

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

	2006	2005
Profit/ (loss) before tax	211	(35 272)
Real estate tax	(79)	(80)
Profit/ (loss) before corporate income tax	132	(35 352)
Corporate income tax at 15%	20	(5 303)
Impairment	-	5 261
Permanent differences, net	(59)	53
Other	57	(5)
Corporate income tax included in the income statement:	18	6

11. Other taxes comprise real estate tax.

12. Property, plant and equipment, and investment properties

		Investment properties	Land and buildings	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		661	5 654	290	1 754	160	8 519
	Additions	-	-	-	-	11	11
2005	Disposals	-	-	(19)	(5)	-	(24)
	Transfers	-	-	-	11	(11)	-
Cost value as at 31/12/2005		661	5 654	271	1 760	160	8 506
Accumulated depreciation as at 31/12/2004		34	531	201	1 165	-	1 931
2005	Depreciation	6	116	36	169	-	327
	Depreciation of disposals	-	-	(15)	(5)	-	(20)
Accumulated depreciation as at 31/12/2005		40	647	222	1 329	-	2 238
Net book value as at 31/12/2004		627	5 123	89	589	160	6 588
Net book value as at 31/12/2005		621	5 007	49	431	160	6 268
Cost value as at 31/12/2005		661	5 654	271	1 760	160	8 506
	Additions	-	2		227	15	244
2006	Disposals	-	-	(32)	(66)	(160)	(258)
	Transfers	-	-	-	15	(15)	-
Cost value as at 31/12/2006		661	5 656	239	1 936	-	8 492
Accumulated depreciation as at 31/12/2005		40	647	222	1 329	-	2 238
2006	Depreciation	6	117	20	153	-	296
	Depreciation of disposals	-	-	(31)	(53)	-	(84)
Accumulated depreciation as at 31/12/2006		46	764	211	1 429	-	2 450
Net book value as at 31/12/2005		621	5 007	49	431	160	6 268
Net book value as at 31/12/2006		615	4 892	28	507	-	6 042

As at 31 December 2006, cadastral value of the land owned by the Company was LVL 234 thousand (2005: LVL 234 thousand).

In the reporting year the Company retained the ownership of the building at Palasta ielā 10, Riga, and the land pertaining thereto in order to receive revenue from lease. On 22 January 2007 an independent valuation was carried out to determine fair value of the building and land. The independent valuator determined that the market value of the given building and land as at 22 January 2007 was approximately LVL 3.406 million, including building value of LVL 1.306 million and land value of LVL 1.1 million.

Depreciation costs are included in the general and administrative expense caption.

13. Construction in progress

	31/12/2006	31/12/2005
Reconstruction of real estate Rīgas līcis in Jurmala	-	160
TOTAL:	-	160

14. Investment in subsidiaries and associate entities

The following table summarizes the Company's ownership of 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, Rīga, Latvia
SIA Rīgas Līcis VN	100.00	100.00	Dubultu prospekts 51, LV-2015, Jūrmala, Latvia
SIA Nekustamie īpašumi VN	100.00	100.00	Palasta iela 10, LV-1050, Riga, Latvia
SIA Mediju nams	92.37	90.21	Cēsu iela 31/2, LV-1012, Riga, Latvia
SIA Ventspils nafta termināls	100.00	100.00	Talsu iela 75, LV-3602, Ventspils, Latvia

Core business activities of subsidiaries:

SIA LatRosTrans – crude oil and oil product transportation by pipeline;
SIA Ventspils nafta termināls – crude oil and oil product reloading and storage;
AS Preses nams – printing and publishing;
SIA Mediju nams – publishing;
SIA Nekustamie īpašumi VN – real estate management;
SIA Rīgas Līcis VN – recreation centre.

The following table summarizes the Company's ownership of associates:

Ownership (%)	31/12/2006	31/12/2005	Legal address
Associates			
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 Ventshoes under liquidation	21.44	21.44	I. Mičurina iela 6, LV-3601, Ventspils, Latvia
SIA Futbola klubs Ventspils	30.00	30.00	Dzintaru iela 20a, LV-3602, Ventspils, Latvia

14. Investment in subsidiaries and associated entities (cont'd)

The following table presents carrying values of investments in subsidiaries:

	Subsidiaries						
	SIA LatRos Trans	SIA Ventspils nafta termināls	AS Preses nams	SIA Rīgas Līcis VN	SIA Nekustamie īpašumi VN	SIA Mediju nams	TOTAL:
Net book value as at 31/12/2004	80 250	77 416	13 950	2 590	7 815	40	182 061
Acquisition value as at 31/12/2004	80 250	77 830	13 950	2 590	7 815	2 193	184 628
Additions in 2005	-	-	1	-	-	866	867
Acquisition value as at 31/12/2005	80 250	77 830	13 951	2 590	7 815	3 059	185 495
Accumulated impairment as at 31/12/2004	-	(414)	-	-	-	(2 153)	(2 567)
(Impairment) in 2005	(756)	(34 179)	-	-	-	(40)	(34 975)
Accumulated impairment as at 31/12/2005	(756)	(34 593)	-	-	-	(2 193)	(37 542)
Net book value as at 31/12/2004	80 250	77 416	13 950	2 590	7 815	40	182 061
Net book value as at 31/12/2005	79 494	43 237	13 951	2 590	7 815	866	147 953
Acquisition value as at 31/12/2005	80 250	77 830	13 951	2 590	7 815	3 059	185 495
Additions in 2006	-	-	1	-	1 900	960	2 861
Acquisition value as at 31/12/2006	80 250	77 830	13 952	2 590	9 715	4 019	188 356
Accumulated impairment as at 31/12/2005	(756)	(34 593)	-	-	-	(2 193)	(37 542)
Accumulated impairment as at 31/12/2006	(756)	(34 593)	-	-	-	(2 193)	(37 542)
Net book value as at 31/12/2005		43 237	13 951	2 590	7 815	866	147 953
Net book value as at 31/12/2006		43 237	13 952	2 590	9 715	1 826	150 814

Subsidiaries	Equity of subsidiaries		Profit/ (loss) of subsidiaries	
	31/12/2006	31/12/2005	2006	2005
SIA Nekustamie īpašumi VN	8 234	6 843	(509)	(335)
SIA LatRosTrans	115 402	120 269	(4 867)	(7 002)
SIA Ventspils nafta termināls	43 884	43 236	647	(34 879)
AS Preses Nams	11 804	14 913	(3 109)	512
SIA Mediju nams	19	55	(996)	(949)
SIA Rīgas līcis VN	1 873	2 036	(163)	(117)

14. Investment in subsidiaries and associated entities (cont'd)

Information about operations of separate subsidiaries is provided below.

SIA LatRosTrans

Transportation of crude oil through the pipeline Polotsk–Mažeikiai of SIA LatRosTrans, a subsidiary of AS Ventspils Nafta, ceased in July 2006 and since then SIA LatRosTrans only 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. SIA LatRosTrans management 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. In 2006, SIA LatRosTrans recognized impairment loss in the amount of LVL 3 778 thousand based on the assessed value in use of its non-current assets calculated using estimates of future cash flows. As at 31 December 2006, total book value of non-current investments of SIA LatRosTrans subject to calculation of impairment is LVL 100 546 thousand.

AS Preses nams

The subsidiary AS Preses Nams closed the reporting year with net loss of LVL 3 109 thousand. As at 31 December 2006, the subsidiary'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.

AS Ventspils Nafta has provided 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.

In 2007, AS Preses nams management and the Council resolved to approve the strategic development programme for 2007 - 2011. The approved programme aims at maintaining and expanding the share of AS Preses nams 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 AS Preses nams shareholders and credit institutions. On 25 January 2007 the shareholders' meeting resolved to increase AS Preses nams share capital by LVL 4 700 thousand to LVL 13 785 thousand.

AS Preses nams management 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 AS 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 projections by AS Preses nams, 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.

As at 31 December 2006, total book value of AS Preses nams technological equipment and prepayment related to its acquisition subject to calculation of impairment is LVL 8 738 thousand.

SIA Rīgas Līcis VN

The subsidiary SIA Rīgas Līcis VN closed the reporting year with loss of LVL 163 169. As at 31 December 2006, the subsidiary'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 Company 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, SIA Rīgas Līcis VN received an additional loan from the related company SIA Nekustamie īpašumi VN in the amount of LVL 130 000. SIA Rīgas Līcis VN management believes that the above loans will be sufficient for solving the liquidity problems. Moreover, as soon as such necessity arises, the Company will provide financial support by extending the loan maturity.

14. Investment in subsidiaries and associate entities (cont'd)

SIA Mediju nams

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). The subsidiary SIA Mediju nams has also budgeted considerable losses for the year 2006. As at 31 December 2006, SIA Rīgas līcis VN current liabilities exceeded its current assets by LVL 147 thousand lats. As for the 2007, SIA Mediju nams 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 its operations, improving the existing periodicals and developing new ones. However, the above mentioned factors require additional financing.

Based on the estimates of the management, SIA Mediju nams requires considerable additional financing for ensuring its future operations. The Company has 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 following table presents carrying values of investments in associated entities:

		Associated entities			
	AS Latvijas Kuģniecība	SIA Mediji un Poligrāfija	SIA Ventshoes under liquidation	SIA Futbola klubs Ventspils	TOTAL:
Acquisition value as at 31/12/2004	34 945	66	96	-	35 107
Additions in 2005	-	-	-	-	-
Acquisition value as at 31/12/2005	34 945	66	96	-	35 107
Accumulated impairment as at 31/12/2004	-	(9)	(17)	(30)	(56)
(Impairment) in 2005	-	(9)	(80)	-	(89)
Accumulated impairment as at 31/12/2005	-	(18)	(97)	(30)	(145)
Net book value as at 31/12/2004	34 945	57	80	-	35 082
Net book value as at 31/12/2005	34 945	48	-	-	34 993
Acquisition value as at 31/12/2005	34 945	66	96	-	35 107
Additions in 2006	-	-	-	-	-
Acquisition value as at 31/12/2006	34 945	66	96	-	35 107
Accumulated impairment as at 31/12/2005	-	(18)	(97)	(30)	(145)
Accumulated impairment as at 31/12/2006	-	(18)	(97)	(30)	(145)
Net book value as at 31/12/2005	34 945	48	-	-	34 993
Net book value as at 31/12/2006	34 945	48	-	-	34 993

AS Latvijas Kuģniecība

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.

14. Investment in subsidiaries and associate entities (cont'd)

AS Latvijas Kugnieciba profit for 2006 was LVL 18 894 thousands, equity as at 31 December 2006 was LVL 224 586 thousands and total assets as at 31 December 2006 was 356 767 LVL thousands. The share price in Riga's Stock Exchange was LVL 1.07 per share. Market value of AS Latvijas Kugnieciba shares owned by AS Ventspils Nafta as at 31 December 2006 was LVL 106 872 thousands.

In December 2006 the Company received part of the property of SIA Ventshoes under liquidation amounting to LVL 51 thousand and written off during the previous periods. SIA Ventshoes was removed from the Commercial Register on 12 January 2007.

15. Loans to related companies and receivables from related companies

	Maturity	Interest rate	31/12/2006	31/12/2005
Non-current loans:				
Receivable from SIA Ventspils nafta termināls for borrowed crude oil [a)]	28/02/2008	USD 2000 monthly	676	-
Receivable from SIA Ventspils nafta termināls for purchase of assets	31/12/2007	6 m USD LIBOR + 1.9%	-	1 201
		TOTAL:	676	1 201
Current loans:				
Receivable from SIA Ventspils nafta termināls for borrowed crude oil [a)]	28/02/2008	USD 2000 monthly	-	1 335
Receivable from SIA Ventspils nafta termināls for purchase of assets	31/12/2007	6 m USD LIBOR + 1.9%	1 182	1 061
Loan to SIA Rīgas Līcis VN	On demand	6%	435	435
Other receivables from related companies:				
Receivable from SIA Namserviss VN for development compensation	-	-	62	-
Receivable from SIA Rīgas Līcis VN in relation to loan interest payments	On demand	-	30	6
		TOTAL:	1 709	2 837

a) On 17 June 2004, the Company lent to subsidiary SIA Ventspils nafta terminals 25 thousand metric tons of crude oil which were later sold for cash. The amount owed to AS Ventspils nafta is presented as USD 1 189 thousand according to the oil price of USD 169.84 per metric ton. The borrowing bears monthly interest of USD 2 000 and is repayable by 31 December 2007.

16. Inventories

	31/12/2006	31/12/2005
Oil and oil products	1 578	3 044
TOTAL:	1 578	3 044

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 Company's subsidiary SIA Ventspils nafta termināls, used to ensure oil and oil product transportation process.

17. Other receivables

		31/12/2006	31/12/2005
VAT receivable (Note 22)		39	40
Statutory social insurance contributions		17	-
Advances for services to be provided		4	9
Deferred VAT		-	12
Other receivables		3	-
	TOTAL:	63	61

18. Prepaid expense

		31/12/2006	31/12/2005
Insurance		60	24
Other prepaid expense		12	11
	TOTAL:	72	35

19. Shares

		31/12/2006	31/12/2005
Other shares		51	51
	TOTAL:	51	51

20. Cash and cash equivalents

		31/12/2006	31/12/2005
Current bank accounts		382	1 697
Term deposits		-	-
	TOTAL:	382	1 697

21. Share capital, reserves and earnings per share

Movements in share capital and number of shares among shareholders may be specified as follows:

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

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 Company.

Earnings per share for the Company are calculated by dividing the net result for the year of LVL 114 thousand (for 2005: loss of LVL 35 358 thousand) by weighted average number of shares during the year of 104 479 thousand (2005: 104 479 thousand).

The nominal value of each share is LVL 1.

22. Taxes overpaid/ (payable)

	31/12/2006	(Calculated)	Paid	(Refunded)/ transferred	31/12/2005
Statutory social insurance contributions	17	(219)	164	78	(6)
Personal income tax	3	(215)	158	74	(14)
Corporate income tax [a)]	225	-	208	(248)	265
Value added tax	39	151	-	(152)	40
Real estate tax	-	(79)	79	-	-
TOTAL:	284	(363)	610	(248)	285
TOTAL PAYABLE:	-				(20)
TOTAL RECEIVABLE:	284				305

[a)] Under the effective tax legislation of the Republic of Latvia, corporate income tax calculated in accordance with the specific methodology has to be paid advance. After the end of the reporting year, when the actual income tax charge has been calculated, the amount of the tax payable or receivable is established.

23. Other liabilities

	31/12/2006	31/12/2005
Remuneration for work	27	31
Other liabilities	-	-
TOTAL:	27	31

24. Accrued liabilities

	31/12/2006	31/12/2005
Accrued bonuses and related statutory social insurance contributions	88	81
Vacation pay reserve	38	33
Other accrued liabilities	80	65
TOTAL:	206	179

25. Related party transactions

Related party		Sales to related parties	Purchases from related parties	Receivables at year-end	Payables at year-end
SIA Ventspils nafta termināls	01/01/2006 – 31/12/2006	5 356	7 098	1 858	10
	01/01/2005 – 31/12/2005	4 855	6 525	3 598	8
SIA Nekustamie īpašumi VN	01/01/2006 – 31/12/2006	-	-	-	-
	01/01/2005 – 31/12/2005	-	-	-	1
SIA Ventspils Biznesa Centrs	01/01/2006 – 31/12/2006	-	-	-	-
	01/01/2005 – 31/12/2005	50	1	-	-
SIA Namserviss VN	01/01/2006 – 31/12/2006	233	392	62	-
	01/01/2005 – 31/12/2005	233	396	1	-
AS Preses nams	01/01/2006 – 31/12/2006	-	-	-	-
	01/01/2005 – 31/12/2005	-	1	-	-
SIA Rīgas Licis VN	01/01/2006 – 31/12/2006	26	-	465	-
	01/01/2005 – 31/12/2005	195	-	441	-
SIA Mediju nams	01/01/2006 – 31/12/2006	-	4	-	-
	01/01/2005 – 31/12/2005	-	4	-	-
TOTAL:	01/01/2006 – 31/12/2006	5 615	7 494	2 385	10
TOTAL:	01/01/2005 – 31/12/2005	5 333	6 926	4 040	9

26. Off balance sheet liabilities

On 28 March 2007 the Company provided a letter of financial support to its subsidiary AS Preses Nams to the extent that is required to meet its obligations as they fall due.

On 26 March 2007, the Company provided a letter of financial support to its subsidiary SIA Mediju Nams to ensure adequate financing for the subsidiary to continue operating as a going concern at least till 30 June 2008.

27. Financial instruments

The main financial instruments of the Company are issued/ received short-term loans, cash and short-term deposits, finance leases. The main purpose of these financial instruments is to ensure the financing of the operations of the Company. The Company 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 Company are credit risk, currency risk, interest rate risk and liquidity risk.

Credit risk

The Company is exposed to credit risk through its trade receivables, issued current loans, as well as cash and cash equivalents. The Company manages its 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 Company's exposure to bad debts is minimised.

Foreign currency risk

The Company's financial assets and liabilities exposed to foreign currency risk comprise cash and cash equivalents, trade receivables, short-term and long-term loans, trade payables.

A significant part of the revenues of sales of oil products 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 Company does not use any financial instruments to manage their exposure to foreign currency risk.

Interest rate risk

The Company is exposed to the interest rate risk mainly through loans to its subsidiaries.

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

Liquidity risk

The Company manages its liquidity risk by maintaining an adequate level of cash and cash equivalents.

Fair value

The carrying amounts of the Company'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.

28. Subsequent events

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.

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.