

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

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 shares in a public auction while using the modern commercial infrastructure of the Riga Stock Exchange ensured total transparency and equal conditions for all participants. As a result 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 of 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 Īcis 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 Kīpsala 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

	2006	2005
	EUR thousand	EUR thousand
Net sales	6 254	5 664
Cost of sales	(3 845)	(3 736)
Gross profit	2 409	1 928
Sales and distribution expense	(2 999)	(3 155)
Other operating income	3 021	751
Other operating expense	(2 379)	(454)
Result from operating activities	52	(930)
Gain in associated entities	73	-
Impairment loss	-	(49 892)
Financial income/ (expense), net	175	635
Result before taxes	300	(50 187)
Corporate income tax	(26)	(9)
Other taxes	(112)	(114)
Net result	162	(50 310)

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

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

	31/12/2006	31/12/2005
	EUR thousand	EUR thousand
NON CURRENT ASSETS		
Property, plant and equipment		
Land, buildings and networks	6 961	7 124
Machinery and equipment	40	70
Other property, plant and equipment	721	613
Construction in progress	-	228
Prepayments for property, plant and equipment	-	102
TOTAL	7 722	8 137
Investment properties	875	884
Investments		
Investments in subsidiaries and associated entities	264 379	260 309
Loan to related companies	962	1 709
TOTAL	265 341	262 018
TOTAL NON CURRENT ASSETS	273 938	271 039
CURRENT ASSETS		
Inventories	2 245	4 331
Account receivable		
Loans to related companies	2 301	4 027
Trade receivables	2 892	-
Receivables from related companies	131	9
Corporate income tax receivable	320	377
Other receivables	90	87
Prepaid expense	102	50
Shares	73	73
Cash and cash equivalents	544	2 415
TOTAL CURRENT ASSETS	8 698	11 369
TOTAL ASSETS	282 636	282 408

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

On behalf of the Council:

On behalf of the Board:

 Vladimirs Solomatins
 Deputy Chairman of the Council

 Olga Pētersone
 Chairperson of the Board

Balance sheet

LIABILITIES AND SHAREHOLDERS' EQUITY

	31/12/2006	31/12/2005
	EUR thousand	EUR thousand
SHAREHOLDERS' EQUITY		
Share capital	148 660	148 660
Share premium	60 249	60 249
Other reserves	72 618	122 928
Current year unappropriated result	162	(50 310)
TOTAL SHAREHOLDERS' EQUITY	281 689	281 527
LIABILITIES		
Long-term liabilities		
Deferred corporate income tax	481	457
TOTAL	481	457
Current liabilities		
Trade payables	121	84
Payables to related companies	14	13
Taxes payable	-	28
Other liabilities	38	44
Accrued liabilities	293	255
TOTAL	466	424
TOTAL LIABILITIES	947	881
TOTAL EQUITY AND LIABILITIES	282 636	282 408

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

On behalf of the Council:

On behalf of the Board:

 Vladimirs Solomatins
 Deputy Chairman of the Council

 Olga Pētersone
 Chairperson of the Board

Cash flow statement

	2006 EUR thousand	2005 EUR thousand
Cash flow from/ (to) operating activities		
Result before taxes	300	(50 188)
Adjustments		
Impairment loss	-	49 892
Disposal of shares	-	11
Amortisation and depreciatlon	421	465
Interest income	(263)	(222)
Interest expense	1	9
(Gain)/ loss on disposals of tangible assets	248	4
Proceeds from recovery of investments written off in previous periods	(73)	-
<i>Operating profit before changes in current assets and liabilities</i>	<i>634</i>	<i>(29)</i>
Decrease in inventory	2 086	1 861
(Increase)/ decrease in trade receivables	(195)	2 382
Increase/ (decrease) in current liabilities	61	(262)
<i>Net cash from/ (to) operating activities</i>	<i>2 586</i>	<i>3 952</i>
Taxes paid	(411)	(512)
<i>Cash flows before extraordinary items</i>	<i>2 175</i>	<i>3 440</i>
Net cash from/ (to) operating activities	2 175	3 440
Cash flow from/ (to) investment activities		
Purchase of tangible and intangible assets	(245)	(118)
Proceeds from recovery of investments written off in previous periods	73	-
Investment in subsidiaries	(4 071)	(1 233)
Interest received	198	223
Net cash flow from/ (to) investment activities	(4 045)	(1 128)
Cash flow from/ (to) financing activities		
Interest payments	(1)	(9)
Net cash from/ (to) investment activities	(1)	(9)
Net increase/ (decrease) in cash	(1 871)	2 303
Cash at the beginning of the year	2 415	112
Cash at the end of the year	544	2 415

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

Statement of changes in shareholders' equity

EUR thousand

	Share capital	Share premium	Other reserves	Current years unappropriated result	Total
Balance as of 31 December 2004	148 660	60 249	117 593	5 334	331 837
Transfer of 2004 net result	-	-	5 334	(5 334)	-
Current year result	-	-	-	(50 310)	(50 310)
Balance as of 31 December 2005	148 660	60 249	122 928	(50 310)	281 527
Transfer of 2005 net result	-	-	(50 310)	50 310	-
Current year result	-	-	-	162	162
Balance as of 31 December 2006	148 660	60 249	72 618	162	281 689

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