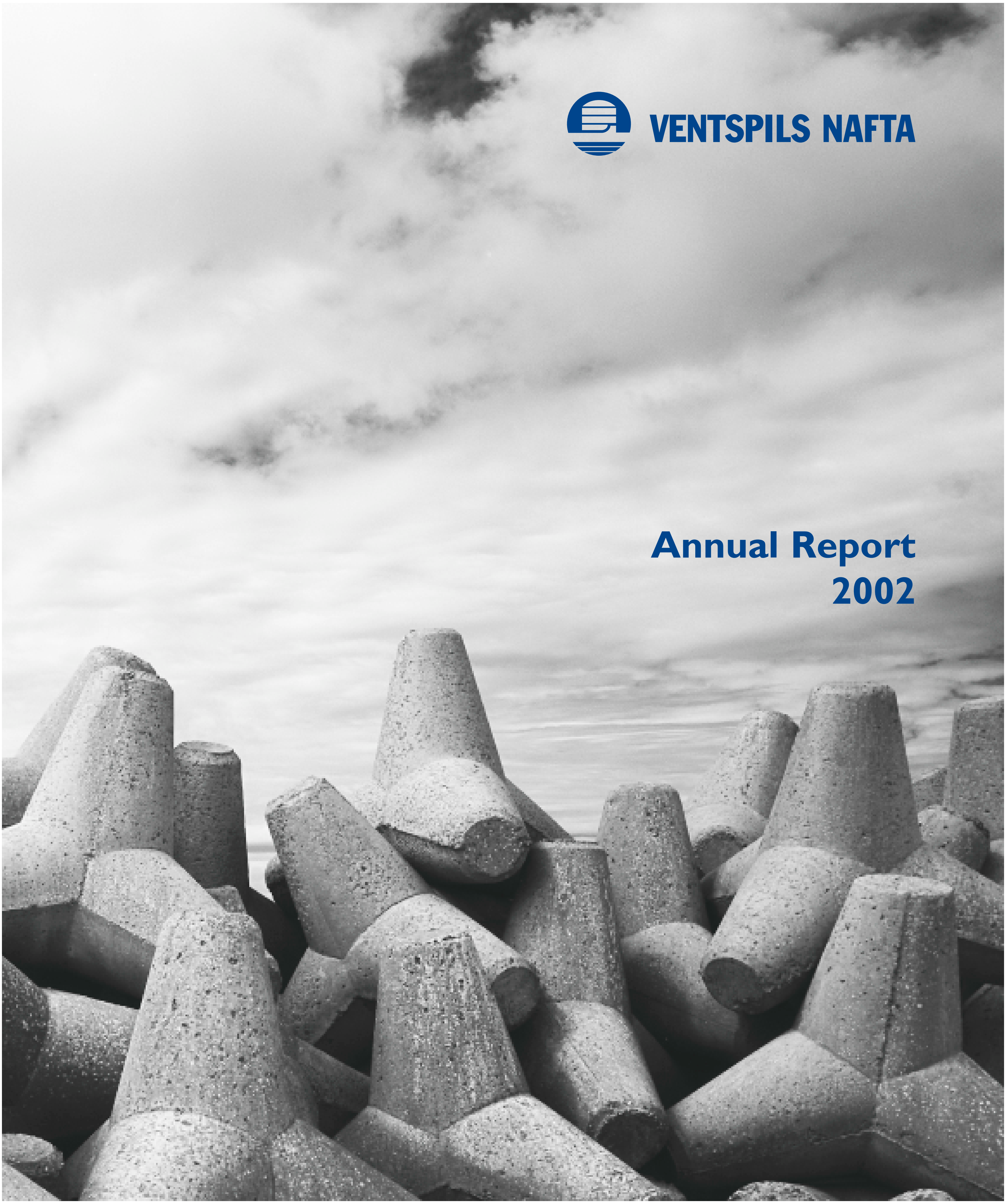

VENTSPILS NAFTA

Annual Report 2002

• In 2002 the company celebrated its 41st anniversary of successful business operations.

• JSC Ventspils Nafta shoretank park capacity to date is 1,195,000 m^3, being the largest among oil terminals in the Baltic Sea.

• The technological and ecological safety of the company's operations is confirmed by ISO 9002 and ISO 14001 certificates.

• The company handles tankers of 120,000 DWT, these being the largest vessels ever calling at the ports of the Baltic Sea.

The force to halt the waves is made by our hands

JSC Ventspils Nafta, registration No. 000300309
Enterprise Register, Riga,
the Republic of Latvia
May 9, 1991

Registered share capital:
LVL 104,479,519

The company's objectives:
performance of efficient entrepreneurship in the sphere of oil and oil products transit as well as other industries.

Main business activities:
• transshipment of oil and oil products;
• acceptance, storage and reloading of oil and oil products;
• trading in oil and oil products (purchases and sales);
• production and refining of oil.

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**JSC Ventspils Nafta has published an abridged annual report in this document. The complete version is available at the main office of the company at 75 Talsu Street in Ventspils.*

Management and Consolidated Report of JSC Ventspils Nafta

Jānis Ādamsons,
Chairman of the Board, President

Mamerts Vaivads,
Chairman of the Council

To our shareholders, customers and business partners!

The year 2002 undeniably was one of the most complicated periods in the history of joint stock company Ventspils Nafta, leaving a material impact on the financial results of the oil and oil products loading terminal, the oil and oil products piping company LLC LatRosTrans and the whole group in general. However, despite of the adverse impact of external political and economic factors on the operation of JSC Ventspils Nafta, the year 2002 proved the expediency of the risk management measures commenced in previous years. Despite of the trends unfavourable to the development of the basic business of the group, JSC Ventspils Nafta managed to ensure stable operation and the financial position of the Company in 2002; preserving a business risk management policy in other business areas in accordance with the group development plan.

JSC Ventspils Nafta operated under the continuous impact of adverse external pressure in 2002, mainly as a result of the administrative resolutions of the Russian oil pipeline monopoly Transneft and the Russian Federal Energy Commission. These resolutions were aimed at not allowing Russian oil exports via the Ventspils transit corridor and directing as many exports as possible via the Primorsk oil terminal owned by Transneft. As a result of this, the main services provided by JSC Ventspils Nafta – the loading of crude oil – decreased by half, compared to that of 2001.

Facing the discriminatory pressure imposed by Russia, the Management of JSC Ventspils nafta actively sought new possibilities to attract customers and varied the range of services offered by the Company. As a result of these initiatives and the extensive investment programme of renovation and modernisation of the terminal implemented by the shareholders and Management in the recent past, the Company managed to maintain the oil and oil products transshipment level above 10 million tons, reloading 13.8 million tons of oil and oil products in total, including 7.5 million tons of crude oil, 5 million tons of gasoil and 1.3 million tons of gasoline.

The total oil and oil products loading output has decreased by 8.5 million tons compared to 2001, significantly affecting the financial results of the Company for 2002. During the reporting period, the net turnover of JSC Ventspils Nafta was LVL 28.1 million and the net profit amounted to LVL 2.7 million. The net turnover of JSC Ventspils nafta group for the same period was LVL 65.9 million.

The changes during the reporting period also impacted on the management structure of JSC Ventspils Nafta, when the general meeting of shareholders approved a new executive body of the company Board and several previous management members resigned from their positions. As of 2002 the President and Chairman of the Board of JSC Ventspils Nafta is Jānis Ādamsons, the Deputy Chairman and Vice President is Ritvars Priekalns, the Chief Financial Officer is Aldis Āķis, the Technical Director is Rolands Kalniņš and the Commercial Director is Aleksandrs Antipins.

In 2002, JSC Ventspils Nafta proceeded with measures for strengthening its competitiveness and business risk management, simultaneously providing for the optimisation of operations and expenses, and the improvement of service levels in other companies of the group.

The restrictions on oil transportation via the pipeline to Ventspils, artificially created by the Russian authorities, materially impacted the financial results of the owner of the oil and oil products pipelines – a Latvian-Russian joint venture LLC LatRosTrans. The net turnover of LLC LatRosTrans during the reporting year was LVL 19.3 million and loss amounted to LVL 0.2 million. Despite these adverse external factors LLC LatRosTrans materially boosted its competitiveness and technical capacities in 2002 by investing considerable financial resources – over 19 million lats – in the reconstruction and modernisation of the main pipelines and pumping stations.

During the reporting period, JSC Ventspils Nafta was involved in the sale of JSC Latvijas Kuģniecība (Latvian Shipping Company) shares. As a result, JSC Ventspils Nafta acquired a significant proportion of the shares in JSC Latvian Shipping Company – 49.94% of equity.

During the reporting year, JSC Ventspils Nafta commenced the process of optimisation of the real estate management of the group by establishing subsidiary – LLC Nekustamie Īpašumi VN – with the purpose of consolidating the development and management of all JSC Ventspils Nafta real estate into a unified structure. By segregating the printing and publishing business from real estate area, a new company – LLC Darījumu Centrs Daugava – has been established within JSC Preses Nams.

The results for 2002 have been significantly improved by JSC Preses nams, which considerably strengthened its market position in printing and publishing. Improving the internal structure, defining the areas of specialisation and optimising the technological processes, the publishing business has been formed into a separate business area, resulting in the establishment of a subsidiary.

In 2002, JSC Preses Nams took a leading position in the Latvian printing market – the variety of services offered by the Company have been used by more than 25% of the Latvian printing market and exports comprised 27% of total printing services offered by JSC Preses Nams.

Continuing to publish four newspapers and two magazines, the publishing complex of JSC Preses Nams closed the reporting period with increase in readership and advertising market share and better results compared to 2001. Revenues from advertising during the period grew by 15%. During the reporting period JSC Preses Nams succeeded in achieving a net profit of LVL 2 million and net turnover of LVL 14.8 million.

JSC Ventspils Nafta and other companies of the group will continue to focus on their future development prospects and improvement and modernisation projects in 2003.

We do not exclude the possibility that the Russian authorities may proceed with their pressure policy, which is now being felt by Ventspils Nafta in 2003, after the period end. Therefore, JSC Ventspils Nafta has set a goal – to cover more and more business areas, expand its range of services and to stabilise the position of the Company. The consistent solution of these issues is a current priority of JSC Ventspils Nafta. The Management is and will be actively working on this.

Jānis Ādamsons
Chairman of the Board of Directors, President

Mamerts Vaivads
Chairman of the Council

9 June 2003


ПРИПИСАН
ТО 407
09 97
КР 84

Results of Business Activities

Fig. 1. Dynamics of transshipment of crude oil and oil products by JSC Ventspils Nafta 1961 – 2002

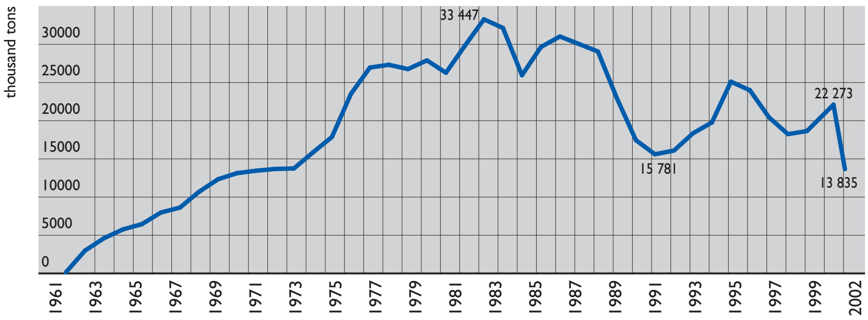


Fig. 2. Dynamics of monthly transshipment of crude oil and oil products by JSC Ventspils Nafta 2001 – 2002

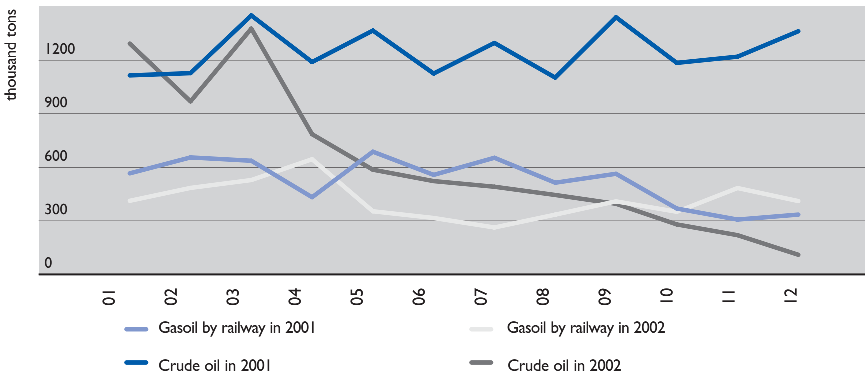
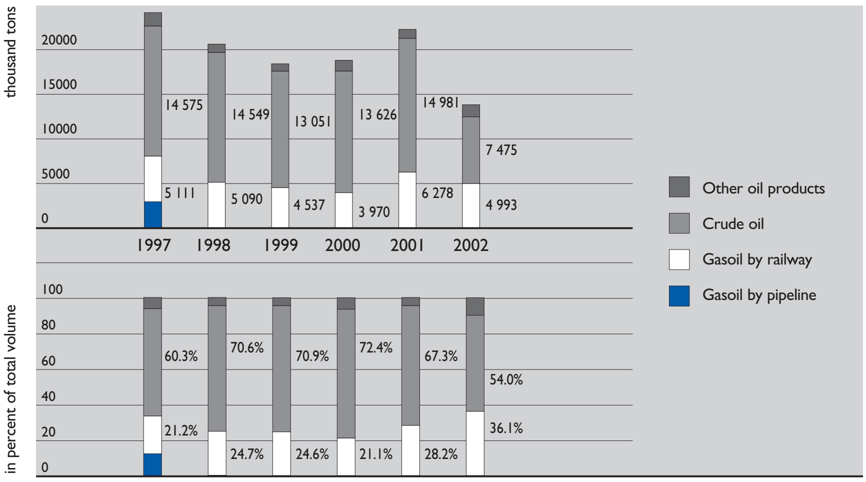


Fig. 3. JSC Ventspils Nafta dynamics of transshipment structure and proportion of crude oil and oil products 1997 – 2002



2002 will go down in the history of JSC Ventspils Nafta as the beginning of difficult times. With an increased volume of exported crude oil through the pipeline at the Primorsk terminal and having taken over the Butinge terminal, the Russian political/economic powers had the chance to realize their long-held dream of reaching their aims through long-term pressure.

In 2002, the total volume of oil and oil products loaded by JSC Ventspils Nafta was 13.8 million tons (see Figure 1). In comparison with last year, the volume of loaded oil and oil products has decreased by 8.4 million tons. For the reasons stated, the total volume of oil and oil products loaded was negatively influenced by a decreased volume of crude oil transported by pipeline. The negative influence continued because the Russian Federation lowered rail tariffs for internal transportation from August, 2001, putting Russian ports in a much better position. As a result, the transportation of export cargoes to the Russian ports is three times cheaper than to other countries.

Comparing the proportions of oil and oil products loaded in 2001 and 2002, it is evident that volumes of crude oil have decreased as well as volumes of gasoil. However, there has been growth in other oil products, mainly gasoline (see Fig. 3). Therefore, the proportion of transshipped oil and oil products has changed. The amount of transshipped crude oil has decreased by 13.3% but the amount of gasoil has increased by 7.9%. The amount of other oil products has increased twofold – to 9.9%.

The most popular service of the company until April 2002 was the transportation of crude oil via a pipeline. The total volume of transshipped crude oil was 7.5 million tons in 2002. That is two times less than in the previous year (see Fig. 3). It is evident that since the 2nd quarter of 2002, the transshipment volumes of crude oil have gradually decreased. The transshipped volume in March was 1.4 million tons, and in December it was only 0.1 million tons (see Fig. 2).

Gasoil for export through the terminal of the company is delivered to Ventspils by rail. In 2002, 5.0 million tons of gasoil was transshipped. It is 1.3 million tons or 21% less than in the previous year (see Fig. 3).

Reviewing the volumes of transshipped gasoil on a monthly basis, it is evident that the transshipment volume in 2002 was completely different from 2001. There were months with high transshipment volumes in 2001, while in the 2002 accounting period the opposite was true (see Fig. 2).

The reason for the low transshipment volume from May to September 2002 was a rapid increase in the price of oil and oil products in the 2nd and 3rd quarters in Russian and Ukrainian internal markets. In terms of financial profitability ranging from the least cost-effective to the most cost-effective, the transportation of gasoil to various markets was as follows:
1) export through Russian ports (Tuapse, St. Petersburg); 2) sale in the Russian market; 3) sale in the Ukrainian market; 4) export through other ports.

There was a large increase in the loaded volume of other oil products, namely, gasoline in 2002. It reached the highest level for the last five years. Compared with 2001, it increased by 0.4 million tons or 35% (see Fig. 3 and 4). The transshipped volume of gasoline 76 increased in particular by 345 thousand tons or 78%.

One way to decrease the transportation costs of 1 ton of oil or oil products is to load it into a tanker with the highest possible capacity. After completing the deepening of the channel of the Ventspils Port, JSC Ventspils Nafta is now capable of loading up to 120 thousand tons of oil or oil products per tanker (see Fig. 5). As the total loading volume has decreased, so has the number of loaded and unloaded tankers. In 2002, the number of tankers loaded with 100 thousand tons or more, from 40-60 thousand tons and from 20-40 thousand tons has stabilised.

Fig. 4. Dynamics of transshipment volumes of other oil products transshipped by JSC Ventspils Nafta 1997–2002

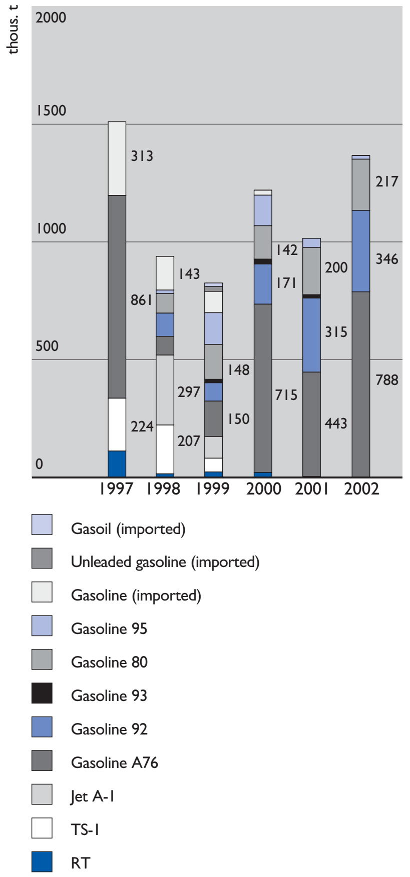
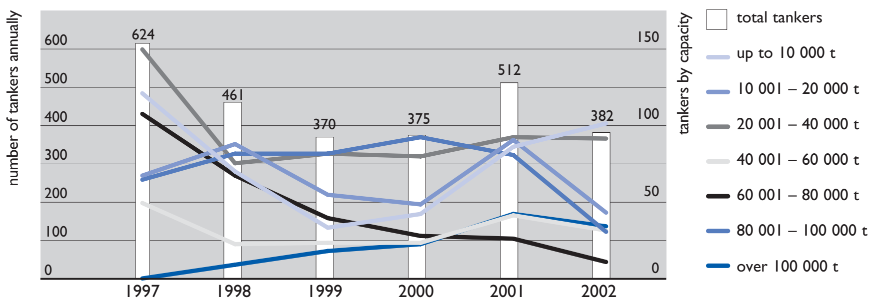


Fig. 5. Dynamics of the number of tankers loaded and unloaded by JSC Ventspils Nafta in terms of oil and oil products volume transshipped in 1997–2002



Shoretank turnover rates have decreased considerably for almost all product groups in 2002. An exception is the shoretank group of gasoline and jet fuels. These turnover ratios have increased six times (see Fig. 6). Crude oil shoretank turnover rates have decreased significantly. The rate was half of what it was in the previous year, as was the decrease of transshipped crude oil by pipeline.

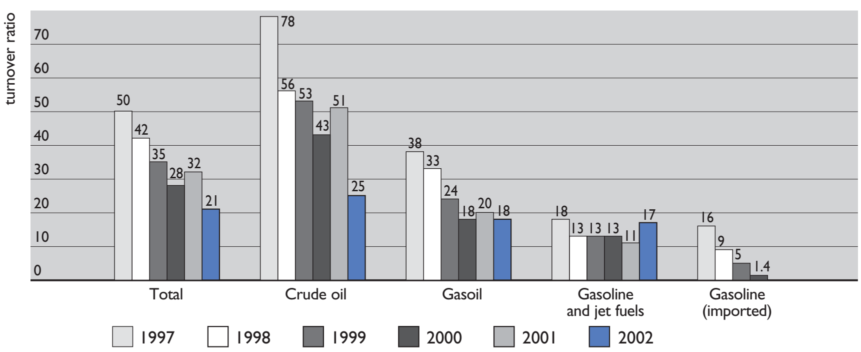
Judging by the current situation in 2003, the leadership of the company is going to continue to work actively with customers and undertake the provision of new services clients that require, in order, to maximize the potential and efficiency of the terminal.

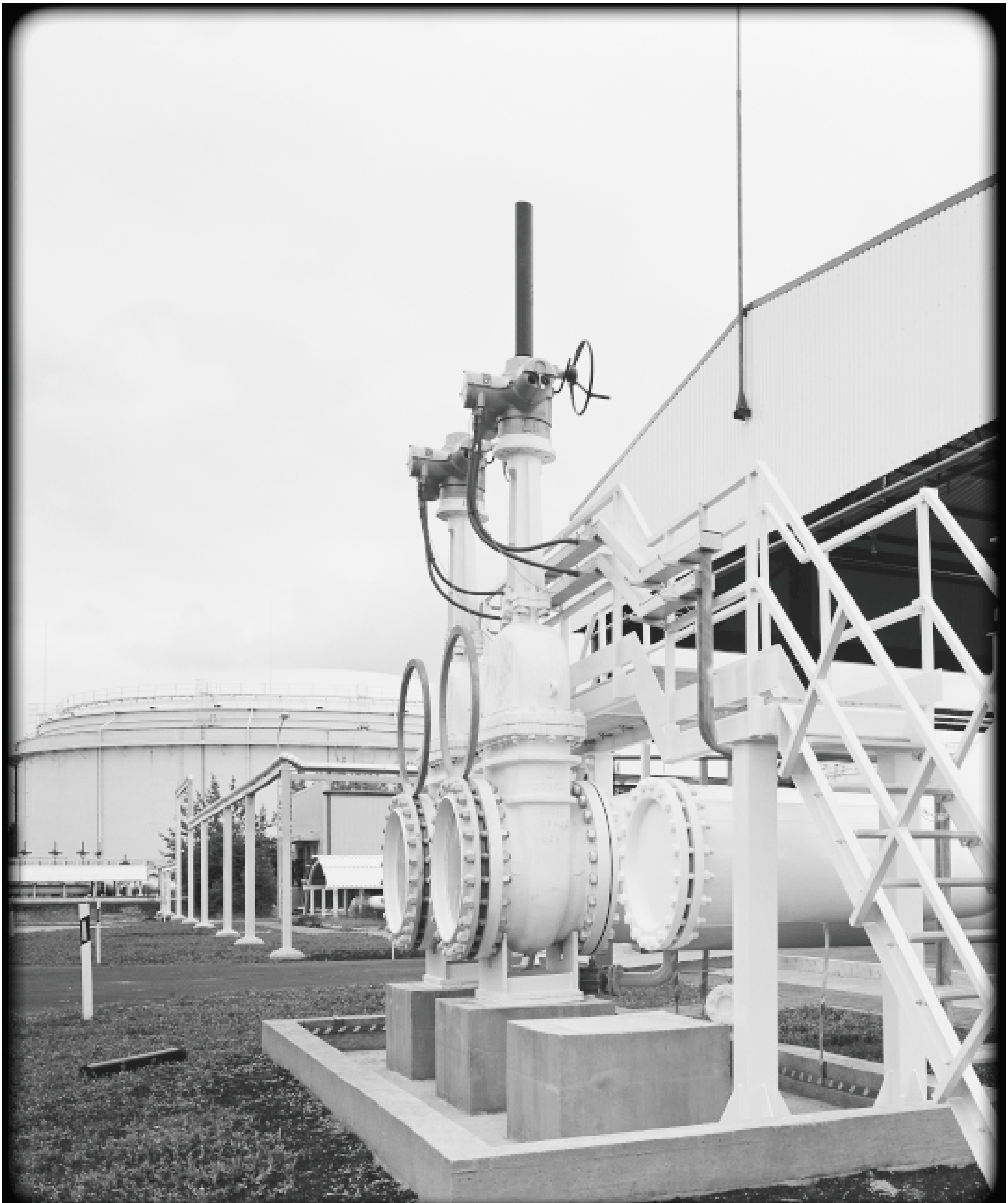
Since the end of 2002, JSC Ventspils Nafta has been accepting crude oil by rail. At the moment, demand for this service is high, and the terminal is functioning at full capacity to meet this demand. Another new service is the transshipment of gasoil with a low level of sulphur (0.035%) and technological gasoline transported by rail.

Our partners in Russia are dependent upon the changing Russian policy in the oil business and administrative decisions. As competition in oil transit in the Baltic region grows, there still is the risk of making a significant investment to increase the power of the terminal. The aim of JSC Ventspils Nafta in the immediate future is to stabilize its workload capacity in order to achieve maximum fiscal return. Therefore, an increase in the provision of one particular service in the future will be possible if there is insufficient demand for other services. If the situation with oil supply by pipeline does not improve then the company anticipates increasing the capacity of transshipment of oil and oil products transported by rail to 14 million tons in 2004, by building a new rail tankcar facility and launching it in six months time. The total capacity of all rail tankcar facilities would be 17 million tons per year with the new facility operating full-time in 2005. In 2006, one more rail tankcar facility would be completed. In 2007, when the first out-of- date facility would be dismantled, the total capacity of JSC Ventspils Nafta rail way facilities would be 19 million tons per year.

Such an increase in capacity in oil and oil product shipment by rail would require co-ordination of the capacity of joint-stock company Latvijas dzelzcels (Latvian Railway) and the evaluation of how it complies with the development plans of JSC Ventspils Nafta. In 2003, according to our information, the load borne by JSC Latvijas Dzelzcels in the Jelgava-Tukums route is 22.4 million tons per year, in Rezekne–Krustpils it is 20.6 million tons per year and in Daugavpils-Krustpils the capacity is 20.4 million tons. However, the total amount of transported loads to and from Ventspils in January of 2003 was 24.4 million tons per year (extrapolating for the entire year). This exceeds the capacity of the railway. It is evident that the railway would have to increase its capacity to accommodate the anticipated increased cargo shipments for Ventspils Nafta.

Fig. 6. Dynamics of the crude oil and oil products shoretank turnover ratio in 1997 – 2002





Business Environment

Fig. 1. Gross Domestic Product (GDP) Dynamics in Latvia 1999 – 2002 in comparable prices

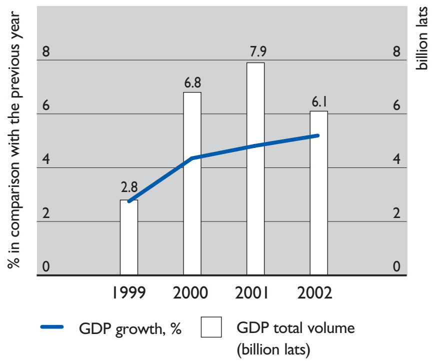


Fig. 2. Dynamics of consumer price index in Latvia 1998 – 2002

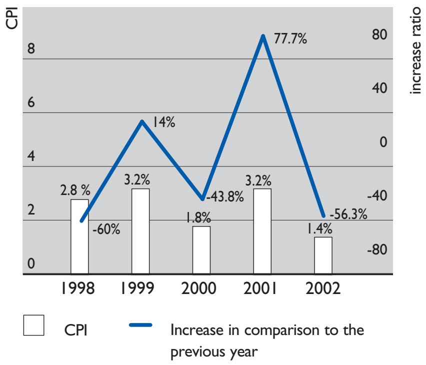


Fig. 3. Dynamics of the trade balance of Latvia – 1998 – 2002

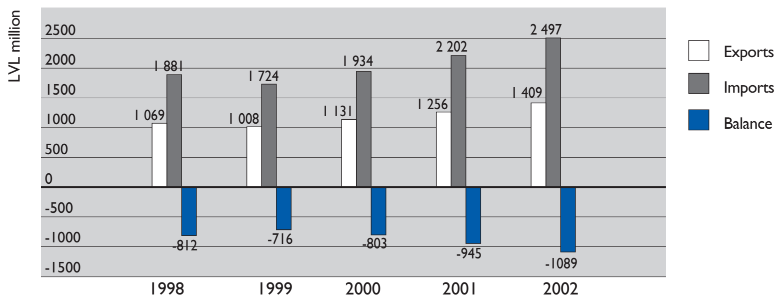
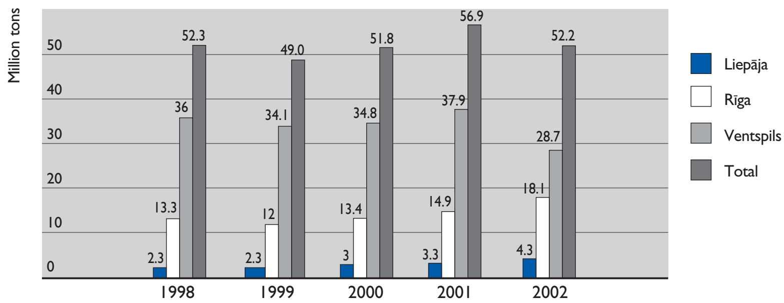


Fig. 4. Cargo turnover in the ports of Latvia in 1998–2002



Macroeconomic situation in Latvia

The Latvian national economy developed in 2002. This was reflected in such macroeconomic indicators as gross domestic product (GDP), inflation and the level of unemployment.

Analysts predicted growth in GDP between 5.7% and 6.5% in 2002. The growth is better than could be hoped, taking into consideration the economic stagnation in developed countries of the world and problems with oil transit in Latvia. The decrease of business activity of Latvia in the markets of the EU was compensated by activity in the markets in the Baltics, Central Europe, Russia, CIS, USA and others. Latvia has been the most rapidly developing economy in Europe and the Baltics for several years. Since 1997, GDP has increased by almost 30%. However, Latvia still has one of the lowest GDPs among all candidate countries of the EU.

The level of inflation, 1.4%, is low enough to provide for the development of the state economy.

According to the data of the Department of Central Statistics, in 2002 GDP increased by 6.1% in comparison with 2001. An increase of 8.3% was recorded in the 4th quarter of 2002, (see Fig. 1). Growth in volume was fostered by both services and industry. The increase in trade was 12.7%, in building 10.8%, 7.2% in the manufacturing industry and 5.7% in financial services. In 2002, GDP decreased by 1.8%, compared to 2001. In 2002 the total volume of GDP in actual prices was 5.19 billion lats. Recalculating the GDP of 2002 in the comparative prices of 2000, it was 4.98 billion lats. The average spending of a consumer in actual prices was 2223 lats (in 2001 – 2016 lats). This is a very low index compared to EU countries.

The level of unemployment decreased by 0.1%, and at the end of the accounting period, it was 7.6% among economically active inhabitants. The highest level of unemployment was in the regions of Rezekne – 26.2%, Balvi – 20.8%, Ludza – 20.2% and Kraslava – 19.2%. It should be mentioned that the level of unemployment in both Kraslava and Balvi has decreased by about 0.8% compared to 2001. In Ludza it increased by 0.3%.

The consumer price index or inflation was 1.4% in 2002, by 56.3% less than in 2001 (see Fig. 2). The main increase in consumer prices food – 0.7%, fuel – 9%, automobiles – 12.6% and medicine and health care – 3.8%. However, the level of prices in communications decreased by 7.1%.

The external trade volume of Latvia increased to 3906 million lats in 2002. Export increased by 152.4 million lats (12.1%), and imports increased by 295.8 million lats or 13.4% (see Fig. 3).

The gap between the total volume of export and import is still increasing. In 2001, imports exceeded exports by 75.2%, but in 2002 the difference was already 77.3%. The trade balance was negative, as in previous years, and in comparison with 2001 it decreased by 15.2%, reaching a level of LVL 1088.6 million lats.

The volume of export to the EU was 60% (61.2% in 2001) of the total exports of Latvia and the volume of import's was 53.0% (52.6% in 2001).

Exported goods to the CIS comprised 10.0% (10.02%, in 2001) from total exports, and the volume of imports from the CIS decreased to 13.1% (14.8% in 2001). The difference between exports and imports with CIS countries has decreased. In 2002, the average exchange rate of the national currency – the lat – against the USD increased and was LVL 0.618 against the American dollar (0.628 in 2001). The average monthly exchange rate gradually increased from LVL 0.642 to LVL 0.598 against the American dollar. In February, the average exchange rate of 1 LVL reached the lowest level of the year: LVL 0.642 against American dollar.

As we can see from analysis of the main macroeconomic indicators in 2002, economic development is positive. If the level of the inflation had been a little higher, economic growth would have been greater.

The Components and Development of Latvia's transit corridor
(without JSC Ventspils Nafta)

The oil transit corridor of Latvia is a multi-modal corridor and comprises the following transport systems: main pipeline systems and rail network, oil and oil product transshipment terminals and ports. The multi-modal transit corridor can function efficiently as a system of integrated elements only on the basis of constantly coordinated cooperation among all of its elements.

The Druzhba oil pipeline

The long-distance pipeline system, overseen by the Latvia-Russia joint venture LLC LatRosTrans, is the main component of the oil transit corridor of Latvia. The joint venture owns the Druzhba pipeline in the territory of Latvia and the gasoil Polotsk–Ventspils pipeline.

The Druzhba oil pipeline is a part of Russia's Transneft pipeline system which transports oil from the Volga, Urals and Priob oil well regions to Ventspils. The anticipated capacity of the Polotsk–Birzai–Ventspils branch of the Druzhba oil pipeline is 16 million tons annually.

2002 was a very important year, with serious changes in export of crude oil transported by pipeline. Firstly, the activity was started by the Baltic Pipeline System and the Primorsk oil terminal with a capacity of 12 million tons per year. Secondly, the Russian oil company Yukos became the owner of a majority share in the Lithuanian concern Mazeikiai Nafta, including the oil terminal of Butinge, the Mazeikiai oil refinery and the oil pipeline Polotsk–Birzai–Mazeikiai, managed by Naftotiekis. As a result of their monopoly, the Transneft company had the chance to send crude oil to Primorsk and Butinge but not to Ventspils. However, the volume of exports was the same. Since April of 2002, export through Ventspils has gradually decreased. The reason was the unprofitability and insufficient pipeline capacity of the Ventspils route in Russian territory. It is evident that the decrease of oil transit through Ventspils to the point of a complete standstill has no economic basis. The reason is not a decrease in the competitiveness of Ventspils. Rather it is the political interests unknown to us within the Russian pipeline operator Transneft and the Russian government is to blame. As a result, JSC Ventspils Nafta cannot base its future strategy in the transshipment of oil and oil products on a clear financal evaluations of the market and plan its activity in circumstances of free competition. The quality of the relationship between Latvia and Russia can seriously influence the future activity of the company. It is very important for there to be solid cooperation between Latvian and Russian companies, which is in competence of the Latvian government and JSC Ventspils Nafta shareholders.

Polotsk–Ventspils oil pruduct pipeline

The length of the Polotsk–Ventspils oil product pipeline is 506 km. In the territory of Latvia, its length is 329 km. Anticipated capacity of the pipeline is 5 million tons annually. After an inactive period of two years, hydraulic testing of the pipeline was carried out in 1994. According to the results, the pipeline capacity was limited to 4.03 million tons annually. The main obstacle to increasing gasoil transportation volume is the limited capacity of the Unecha–Polotsk pipeline – 250 thousand tons per month. But after the increase in pipeline capacity, it will be possible to transship 5.7 million tons of gasoil in 2003, 6 million tons in 2004, and 8 million tons in 2005. Since January 1, 1998, according to the contract among the companies located in Ventspils – JSC Ventspils Nafta, JSC Ventbunkers and the oil and the LLC LatRosTrans oil product pipeline joint venture – all their shoretanks work in a unified technological system securing continuous receipt of gasoil from the pipeline.

Oil product transportation by rail

Rail is the only means of transportation for many kinds of oil products, including gasoline, jet fuel and heavy oil. Gasoil also is transported by rail, but the costs of rail transportation are higher than by pipeline.

Thus, gasoil transported by rail causes a higher volume of total cost.

In 2002, oil product transshipment by rail was also negatively influenced by the Railway Ministry of the Russian Federation. Changes to railway tariffs made in August 2001 were favourable for Russian ports because transportation to them was at least three times cheaper than to the ports of other countries.

As a result of the gradual decrease in oil delivery by pipeline to Ventspils, JSC Ventspils Nafta began a new service at the end of 2002: delivery of crude oil by rail to avoid idle capacity. A new rail facility and shore tank of 240 thousand m^3 were launched for the transshipment of oil. Although transshipment costs by rail are higher than by pipeline, this type of export is profitable, provided the prices of crude oil in world markets are high. Since the beginning of 2003 all JSC Ventspils Nafta rail tankcar facilities have been working at full capacity.

The Baltic Region Competitive Environment and its Development

Competition in the oil transit sphere is developing rapidly, placing still-higher demands on service suppliers. Companies with business connected to oil and oil-product transit have to provide deliveries of products according to a contract with clients at a place and time that is most convenient for the customer.

Bearing in mind the political changes in the Baltic region at the beginning of the 1990's, competition for the leading position among the ports of Russia (St. Petersburg), Latvia (Ventspils, Riga), Estonia (Tallinn), Lithuania (Klaipeda) and Finland (Kotka, Porvo) has intensified. In 2000, the Butinge oil transshipment terminal in Lithuania joined these ports. Towards the end of 2001, the Primorsk oil transshipment terminal in Russia also, began business activities.

The Largest Ports in Latvia

There are three large ports in Latvia – Ventspils, Riga and Liepaja, through which oil and oil products are transshipped. According to the data of the Ministry of Transportation, 52.2 million tons of cargo were transported through Latvian ports in 2002, 8.4% less than in 2001 (see Fig. 4). Cargo turnover in Riga grew by 21.7% and in Liepaja by 32.4% in 2002. In Ventspils, however, it has decreased by 24.3%. The biggest proportion of cargo turnover through Latvian ports still belongs to the Ventspils port. In 2002, it was 55%, 11% less than in 2001 (see Fig. 4). Cargo turnover in Riga has increased from 8.6% up to 34.7%, but in Liepaja the change is from 2.6% to 8.3%. In other small ports the increase is from 0.5% to 2%.

Ventspils Port

In terms of volume of cargo turnover, Ventspils lost its leading position among Baltic sea ports in 2002. It was third after St. Petersburg and Tallinn. The route through Ventspils is one of the shortest transit routes from Russia to the European markets and it is not influenced by seasonal factors because Ventspils is an ice-free port. Ventspils port is the most universal transshipment point of oil and oil products in the Baltics. This is not only because of its geographical location, but also because of its technology.

On January 1, 1997, the port of Ventspils was declared a free economic zone. The total area of the free-port is approximately 1614 ha, including 266 ha covered by piers. There are eleven terminals and stevedore companies as well as 14 shipping agencies in the port. The total length of the quays at the free-port is 11,012 metres. In 2000, the deepening of the port channel and the pre-port was finished, resulting in a depth clearance of 17.5 metres. As a result, the port of Ventspils can accommodate tankers with a capacity of 100-120 thousand tons, the biggest tankers that can enter the Baltic sea. The capacity of the port is 80 million tons annually. The total volume of various transshipped cargoes was 28.7 million tons in 2002, of which 7.5 million tons were oil, 12.6 million tons were oil products, 4.7 million tons were fertilizer and 1.4 million tons were coal. The largest companies in the port of Ventspils are JSC Ventspils Nafta, JSC Ventbunkers, JSC Ventamonjaks, JSC Kalija parks and JSC Ventspils Commercial Port (Ventspils tirdzniecibas osta) .

Financial report 2002

Statement of Income

for the years ended December 31, 2002 and 2001 (thousand, LVL)

	Group		Parent company	
	2002	2001	2002	2001
Net sales	65,865	92,617	28,122	46,676
Cost of sales	(52,850)	(55,239)	(18,537)	(20,436)
Gross profit	13,015	37,378	9,585	26,240
Sales and distribution expense	(452)	(377)	-	-
General and administrative expense	(10,162)	(10,856)	(7,477)	(7,273)
Other operating income/ (expense), net	(2,190)	(3,040)	(181)	(2,351)
Result from operating activities	211	23,105	1,927	16,616
Net result/ (loss) in subsidiaries and associated entities, net	(107)	(345)	1,376	3,110
Non-operating income/ (expense), net	(287)	(863)	(287)	(1,130)
Financial income/ (expense), net	(4,609)	9,186	(2. 326)	5,974
Result before taxes	**(4,792)**	**31,083**	**690**	**24,570**
Corporate income tax	5,015	(2,843)	2,767	771
Other taxes	(1,104)	(1,048)	(728)	(625)
Net result before minority interest	(881)	27,192	2,729	24,716
Minority interest	214	(2,476)	-	-
Net result for the year	(667)	24,716	2,729	24,716
Earnings per share in lats per share	(0.006)	0.237	0.026	0.237
Diluted earnings per share in lats per share	(0.006)	0.237	0.026	0.237

Jānis Ādamsons,
Chairman of the Board of Directors

Mamerts Vaivads,
Chairman of the Council

9 June 2003

Assets

for the years ended December 31, 2002 and 2001 (thousand, LVL)

	Group		Parent company	
	31/12/02	31/12/01	31/12/02	31/12/01
Non current assets				
Intangible assets	39,654	41,876	1,696	1,967
Property, plant and equipment:				
Land, buildings and networks	115,498	101,307	70,580	66,459
Machinery and equipment	30,927	26,361	10,632	12,054
Other property, plant and equipment	10,024	11,787	8,248	9,984
Construction in progress	11,779	13,997	2,775	3,345
Prepayments for property, plant and equipment	6,730	7,988	932	374
Total property, plant and equipment	174,958	161,440	93,167	92,216
Investments				
Investments in subsidiaries and associated entities	112	76	104,518	102,299
Long-term loan to related party	-	-	2,460	-
Other long-term loans	894	1,668	894	1,668
Other investments	156	119	-	-
Total investments	1,162	1,863	107,872	103,967
Total non current assets	215,774	205,179	202,735	198,150
Current assets				
Inventory	14,682	14,468	3,195	3,367
Current portion of long-term loan to related party	-	-	-	2,200
Current portion of other long-term loans	397	1,051	397	1,051
Short-term loan	13,068	14,036	-	-
Trade accounts receivable	6,110	11,913	2,461	6,408
Accounts receivable from related party	-	-	5	2
Other accounts receivable	11,962	5,062	3,769	1,847
Prepaid expense	1,472	1,245	981	787
Own shares	60	151	60	150
Trading investments	35,016	70	34,997	51
Cash and cash equivalents	10,211	64,724	3,881	41,597
Total current assets	92,978	112,720	49,746	57,460
Total assets	**308,752**	**317,899**	**252,481**	**255,610**

Jānis Ādamsons,
Chairman of the Board of Directors

Mamerts Vaivads,
Chairman of the Council

9 June 2003

Liabilities and Equity of Shareholders

for the years ended December 31, 2002 and 2001 (thousand, LVL)

	Group		Parent company	
	31/12/02	31/12/01	31/12/02	31/12/01
Shareholder's equity				
Share capital	104,479	104,479	104,479	104,479
Share premium	42,343	42,343	42,343	42,343
Restricted reserves	9,404	4,595	9,404	4,595
Other reserves	84,738	64,831	84,738	64,831
Current year unappropriated result	(667)	24,716	2,729	24,716
Total shareholders' equity	240,297	240,964	243,693	240,964
Minority interest	48,202	48,876	-	-
Deferred corporate income tax	2,749	7,699	1,441	4,232
Provisions	5,698	4,568	3,607	4,568
Negative goodwill	-	216	-	216
Long-term liabilities				
Long-term portion of financial lease liability	1,236	2,295	-	-
Long-term loan from credit institution	451	894	-	-
	1,687	3,189	-	-
Current liabilities				
Short-term portion of long-term loan	1,713	1,890	-	-
Financial lease liabilities	786	902	-	-
Advances from customers	172	185	37	45
Trade accounts payable	4,221	4,969	2,188	3,341
Accounts payable to related party	-	-	6	154
Accrued liabilities	3,199	4,021	1,499	2,084
Other liabilities	17	196	10	6
Deferred income	11	224	-	-
Total current liabilities	10,119	12,387	3,740	5,630
Total liabilities and shareholders' equity	308,752	317,899	252,481	255,610

Jānis Ādamsons,
Chairman of the Board of Directors

Mamerts Vaivads,
Chairman of the Council

9 June 2003

Statement of Changes in Shareholders' Equity

for the years ended December 31, 2002 and 2001 (thousand, LVL)

PARENT COMPANY

	Share capital	Share premium	Restricted reserves	Other reserves	Current year unap-propriated result	Total
Balance as of December 31, 2000	104,479	42,343	2,147	54,000	13,279	216,248
Transfer of 2000 net result	-	-	2,448	10,831	(13,279)	-
Net result for 2001	-	-	-	-	24,716	24,716
Balance as of December 31, 2001	104,479	42,343	4,595	64,831	24,716	240,964
Transfer of 2001 net result (Note 23)	-	-	4,809	19,907	(24,716)	-
Net result for 2002	-	-	-	-	2,729	2,729
Balance as of December 31, 2002	104,479	42,343	9,404	84,738	2,729	243,693

GROUP

	Share capital	Share premium	Restricted reserves	Other reserves	Current year unap-propriated result	Total
Balance as of December 31, 2000	104,479	42,343	2,147	54,000	13,279	216,248
Transfer of 2000 net result	-	-	2,448	10,831	(13,279)	-
Net result for 2001	-	-	-	-	24,716	24,716
Balance as of December 31, 2001	104,479	42,343	4,595	64,831	24,716	240,964
Transfer of 2001 net result (Note 23)	-	-	4,809	19,907	(24,716)	-
Net result for 2002	-	-	-	-	(667)	(667)
Balance as of December 31, 2002	104,479	42,343	9,404	84,738	(667)	240,297

Jānis Ādamsons,
Chairman of the Board of Directors

Mamerts Vaivads,
Chairman of the Council

9 June 2003

Statements of Cash Flow

for the years ended December 31, 2002 and 2001 (thousand, LVL)

	Group		Parent company	
	2002	2001	2002	2001
Cash flow from/ (to) operating activities:				
Net result	(4,792)	31,083	690	24,570
Adjustments to reconcile net result				
to net cash provided by operating activities:				
(Result)/ loss in subsidiaries and associated entities, net	107	87	(1,376)	(3,110)
Established provisions, net	1,271	(1,878)	(775)	(2,090)
Negative goodwill	(216)	(273)	(216)	(273)
Adjustment to a/s Preses nams goodwill	-	(845)	(99)	(845)
Amortisation and depreciation	17,298	17,261	8,530	8,332
Interest income	(1,661)	(3,689)	(246)	(1,825)
Impairment loss	109	1,165	-	-
Minority interest	214	(2,476)	-	-
Interest expense	391	495	36	-
Loss on disposals of tangible asset	3.717	-	117	-
Unrealised foreign exchange currency loss	-	126	-	126
Fair value adjustments	275	-	275	-
Other adjustments	(238)	1,667	-	-
	16,475	42,723	6,936	24,885
Changes in current assets and current liabilities:				
Increase in accounts receivable	6,002	(1,496)	3,947	(686)
(Increase)/ decrease in inventory	(554)	133	(14)	99
(Increase)/ decrease in other accounts receivable	(5,006)	(422)	(1,226)	569
Increase in current liabilities	3,317	3,026	89	3,044
Net cash from operating activities	20,234	43,838	9,732	27,911
Taxes (paid)	(6,133)	(9,385)	(2,731)	(4,643)
Cash flow from/ (to) investment activities:				
(Purchase) of intangible and property, plant and equipment, net	(32,517)	(23,244)	(9,327)	(11,291)
Decrease/ (increase) in investments	(180)	2,445	(1,404)	254
Interest received	1,661	1,864	246	-
Dividends (paid)/ received	(340)	(340)	660	660
(Increase)/ decrease in trading investments	(34,946)	2. 573	(34,946)	2,563
Net cash (to) investment activities	(66,322)	(16,702)	(44,771)	(7,814)
Cash flow from/ (to) financing:				
Increase in own shares	91	-	90	-
Finance lease payments	(1,992)	(1,096)	-	-
Interest expense	(391)	(495)	(36)	-
Net cash from/ (to) financing activities	(2,292)	(1,591)	54	660
Net increase in cash and cash equivalents	**(54,513)**	**16,286**	**(37,716)**	**15,328**
Net foreign exchange difference	**-**	**(126)**	**-**	**(126)**
Cash and cash equivalents at the beginning of the year	**64,724**	**48,564**	**41,597**	**26,269**
Cash and cash equivalents at the end of the year	**10,211**	**64,724**	**3,881**	**41,597**

Corporate information and significant accounting policies

The consolidated financial statements of the Ventspils Nafta group were authorised for issue in accordance with resolution of the Board of directors on 9 June 2003.

A summary of the principal accounting policies all of which have been applied consistently (unless otherwise stated) throughout the years ended 31 December, 2002 and 2001, is set out below:

Reporting currency and units of measurement

The accompanying financial statements are reported in thousands of lats (LVL 000's), unless otherwise stated.

Form and contents of the financial statements

The Parent company and the Group's financial statements are prepared in accordance with law of the Republic of Latvia On Financial Statements of Companies and On Consolidated Financial Statements, and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

Basis of consolidation

The financial statements of JSC Ventspils Nafta and its subsidiaries
LLC LatRosTrans, JSC Preses Nams, LLC Nafta Holdings, LLC Rigas Licis VN, LLC Darijumu Centrs Daugava. LLC Nekustamie Ipasumi VN and the indirectly controlled entity JSC Western Pipeline System are consolidated in the Group financial statements on a line by line basis by adding together respective items of assets and liabilities as well as income and expenses. For the purposes of consolidation, unrealised internal profit, inter-group balances, internal shareholdings, internal dividends and other internal transactions are eliminated in the Group's financial statements.

Revenue recognition

Revenues represent the total invoiced value of goods and services supplied, excluding sales discounts and other granted discounts, VAT and other taxes directly related to the sales. Revenues of the subsidiary JSC Western Pipeline System are recognised based on the completed contract method, i.e., that revenues are recognised upon completion of each individual contract and related expenses are capitalised until completion of the contract, at which time expenses incurred are charged to cost of sales in the statement of income.

Accruals and deferrals

Accruals and deferrals are recorded to recognise revenues and expenses as they are earned or incurred.

The amount billed by the newspaper distributors in relation to the subscription of the newspapers not delivered during the reporting period has been recognised as trade accounts receivable and deferred income.

Foreign currency transactions

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

Goods and services invoiced or payable in foreign currencies are recorded at the official exchange rate applicable at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are stated at the official currency exchange rate set by the Bank of Latvia at year-end. Any gain or loss resulting from a change in the currency rates of exchange is included in the statements of income.

	31/12/02	31/12/01	31/12/00
USD	0.594000	0.638000	0.613000
DEM	-	0.286761	0.291458
GBP	0.946000	0.924000	0.917000
EUR	0.610000	0.560856	0.570042
SEK	0.066800	0.059000	0.064200

Intangible assets

Intangible assets consist of goodwill, land use rights and other intangible assets related to the business of the Parent company and its subsidiaries.

Goodwill recognised on the acquisition of shares in subsidiaries are capitalised as intangible assets and amortised over 10 years using the straight-line method.

Land use rights are stated at contributed value as agreed by the subsidiary's founders, and amortised over 25 years using straight-line method.

Other intangible assets are stated at cost value and amortised over their useful life using the straight-line method.
Amortisation rates for intangible fixed assets vary between 10% and 35% per annum.

Property, plant and equipment

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. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to statement of income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

The Group estimates the recoverable amount of an asset whenever there is an indication that the asset may be impaired. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

Construction in progress represents assets under construction and is stated at historical cost. This includes the cost of construction and other direct costs. Construction in progress is not depreciated as long as the respective assets are not completed and put into operational use.

LLC 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 following depreciation rates have been used:

	%
Buildings and networks	1–10
Machinery and equipment	8,3–50
Other property, plant and equipment	10–50

Finance lease

Assets held under finance lease are initially recorded at the fair value of the asset, with an equivalent liability under long- and short-term liabilities. The assets are depreciated over their estimated useful life. Rentals are apportioned between finance charges and reduction of the liability. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance, and included in financial expenses in the statements of income.

Investments

Investments represent investments in subsidiaries, associated entities and other investments.

Investments in subsidiaries and associated entities

Investments in subsidiaries (i.e. where the Parent company holds more than 50% interest of the share capital or otherwise controls the company) and associated entities (i.e. where the Parent company or the Group holds 20 to 50% interest of the share capital of the entity) are stated in accordance with the equity method, so that the Parent company / 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 subsidiaries is adjusted for the Parent company's proportionate share of post-acquisition movements in the subsidiary's equity by a charge to the Parent company's equity. As a result, the recorded value of the investment corresponds to the Parent company's proportionate share of the equity of the subsidiaries, and the consolidated net result and equity correspond to those of the Parent company.

As of 31 December, 2002, JSC Ventspils nafta has investments in the following subsidiaries:

Subsidiary	**Ownership**
LLC "LatRosTrans"	66%
JSC Western Pipeline System*	52,54%
JSC "Preses Nams"	92,20%
LLC "Nafta Holdings"	98%
LLC "Rigas Licis VN"	100%
LLC "Nekustamie Ipasumi VN"	100%
LLC "Darijumu Centrs Daugava"	100%

All subsidiaries are registered in the Republic of Latvia.

*As of 31 December, 2002, JSC Ventspils Nafta has a 40% shareholding of JSC Western Pipeline System, a joint stock company registered in the Republic of Latvia. At the same time, LLC LatRosTrans owns 19% of the share capital of JSC Western Pipeline System. As such, the Group's ownership share is 52.54% and the financial statements of JSC Western Pipeline System are consolidated in the Group financial statements.

The main activities carried out by other companies within the Group:

LLC LatRosTrans – transporting oil and oil products via pipelines;
JSC Preses Nams – providing printing services and publishing;
LLC Nafta Holdings – investment management and control of the Parent company (in areas other than oil and oil products), performing feasibility studies for new investments, project analysis;
LLC Rigas Licis VN – recreational centre;
JSC Western Pipeline System – project management;
LLC Darijumu Centrs Daugava – real estate management;
LLC Nekustamie Ipasumi VN – real estate management.

Other investments

The Group adopted IAS 39 on 2001. Accordingly, investments are classified into the following categories: held-to-maturity, trading and available-for-sale.

Investments with fixed or determinable payments and fixed maturity that the company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity investments.

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date.

Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. Investments held for trading are included in current assets.

All other investments, other than loans and receivables originated by the company, are classified as available-for-sale. Available-for-sale investments are classified as current assets if management intends to realize them in the near future.

All purchases and sales of investments are recognized on the trade date. Investments are initially measured at cost, which is the fair value of the consideration given for them. Trading investments are subsequently carried at fair value without any deduction for transaction costs. The fair value of trading investments is based on quoted market prices at the balance sheet date. Changes in the fair values of trading investments are included in financial expense. Held-to-maturity investments are carried at amortized cost. Other investments are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in statement of income. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exists or has decreased. The reversal is recorded as income. The increased carrying amount of an asset due to the reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

The investments for which the fair value cannot be determined are carried at cost value.

Inventory

Inventories are stated at the lower of cost and net realisable value where costs are based on the following principles:

Oil and oil products
Oil and oil products stock in the Parent company and its subsidiaries are stated using the weighted average cost method.

The value of oil products included in inventory caption represents the oil and oil products held in the technological facilities and pipeline of the Parent company and subsidiary LLC LatRosTrans, used to ensure oil and oil product transportation process and not intended for sale.

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 company writes off unrealisable inventory and records a provision for obsolete inventory as such items are identified.

Unfinished inventory
Unfinished inventory is stated at direct cost, including raw materials and remuneration for work.

Finished inventory
Finished inventory is stated at direct cost with addition of indirect costs related to production. Indirect production costs consist of labour, energy, depreciation and other production costs.

Finished inventory is stated at the lower of cost or net realisable value. Provisions for slow moving items are established on the basis of individual evaluation of each inventory item.

Accounts receivable
A provision has been made for potential losses on uncollectable and doubtful accounts receivable, based on an evaluation of individual receivable balances, to state the accounts receivable at their estimated net realisable value.

Cash and cash equivalents
Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Taxation
Corporate income tax
The Parent company and its subsidiaries are subject to 22% corporate income tax on taxable income reported for the taxation period in accordance with Latvian tax legislation.

Deferred corporate income tax
Corporate income tax is calculated at the rate defined in accordance with Latvian tax regulations and is based on the taxable income reported for the taxation year. The standard Latvian corporate income tax in accordance with Latvian tax regulations may be specified as follows:
until 1 January, 2002 – 25%;
until 1 January, 2003 – 22%;
until 1 January, 2004 – 19%;
starting from 1 January, 2004 – 15%.

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 taxation liability is determined based on the tax rates expected when the asset is to be realised. The principal temporary timing differences arise from differing rates and methods of accounting and tax depreciation on property, plant and equipment, provisions and accumulated tax losses.

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

Ventspils Free Port
On 19 December, 1996, the Latvian Parliament passed the Law On Ventspils Free Port that came into force on 1 January, 1997 and provides VAT and excise tax exemptions for the companies that perform business activities in Ventspils port. The Parent company is located in the territory of the Free Port and has received a permit for its activities in Ventspils port.

Contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embody economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Use of estimates
The preparation of financial statements in conformity with International Financial Statement Reporting Standards (IFRS) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Segment information
The Group presents segment information separating it by business lines.

Subsequent events
Post-year-end events that provide additional information about the Group's 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.

Earnings per share
Earnings per share are calculated by dividing the net result after taxation for the year 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.

Auditors' report

Ernst & Young Baltic SIA
License No. 17
11. novembra krastmala 23
Riga, LV-1050
Latvia
Phone: +371 7043801
Fax: +371 7043802

To the shareholders of JSC Ventspils Nafta

We have audited the consolidated financial statements of JSC Ventspils Nafta (a company registered in the Republic of Latvia) and its subsidiaries (hereinafter – Group) for the year ended 31 December 2002. We have also audited the financial statements of JSC Ventspils Nafta for the year ended 31 December 2002 from which the condensed financial statements of JSC Ventspils Nafta set out on pages 16 through 23 were derived. In our report dated 9 June 2003 we expressed an unqualified opinion on the consolidated financial statements of the Group and financial statements of JSC Ventspils Nafta for the year ended 31 December 2002.

In our opinion, the aforementioned condensed financial statements are consistent, in all material respects, with the consolidated financial statements of the Group and the financial statements of JSC Ventspils Nafta for the year ended 31 December 2002.

For a better understanding of the Group and JSC Ventspils Nafta financial position as of 31 December 2002 and the results of their operations for the year then ended and of the scope of our audit, the accompanying condensed financial statements should be read in conjunction with the consolidated financial statements of the Group and the financial statements of JSC Ventspils Nafta for the year ended 31 December 2002.

Neil Jennings
Personal ID code: 240165-14652
Member of the Board

Diāna Krišjāne
Personal ID code: 250873-12964
Latvian Sworn Auditor
Certificate No. 124

Riga
9 June 2003

JSC Ventspils Nafta Management

Council of JSC Ventspils Nafta

Mamerts Vaivads –
Chairman of the Council
Jānis Blaževičs –
Deputy Chairman of the Council
Gints Laiviņš – Laivenieks
Uldis Pumpurs
Vladimirs Krastiņš
Oļegs Stepanovs
Ansis Sormulis
Normunds Lakučs
Juris Lorencs
Žoržs Tikmers
Eižens Cepurnieks

Movements during the year:

Normunds Lakučs
resigned, 24.10.2002.

Agris Eglītis
appointed, 24.10.2002.

The Board of Directors of JSC Ventspils Nafta

Igors Skoks –
Chairman of the Board of Directors
Olafs Berķis –
Deputy Chairman of the Board of Directors
Jeļena Biktaševa
Ritvars Priekalns
Jānis Ādamsons

Movements during the year:

Igors Skoks
resigned, 26.07.2002.

Olafs Berķis
resigned, 26.07.02.
Jeļena Biktaševa
resigned, 26.07.2002.

Jānis Ādamsons –
Chairman of the Board of Directors, president
appointed, 26.07.2002.

Ritvars Priekalns –
Deputy Chairman of the Board of Directors, vice-president
appointed, 26.07.2002.

Aldis Āķis
appointed, 26.07.2002.

Rolands Kalniņš
appointed, 26.07.2002.

Aleksandrs Antipins
appointed, 26.07.2002.

The Audit Committee of JSC Ventspils Nafta

Vladimirs Solomatins –
Chairman of the Audit Committee
Eva Jurkevica
Dace Kaņepe (Muižniece)
Dzintars Kašs
Ilona Pavāre

JSC Ventspils nafta
75 Talsu Str., Ventspils
LV-3600, Latvia

Phone: +371 36 64090
Fax: +371 36 24341
E-mail: isn@vn.vot.lv
www.vnafta.lv