

**A/S VENTSPILS NAFTA**

(REGISTRATION NUMBER 000300309)

**ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2003**

**AND**

**CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2003**

PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS AND THE  
LAW ON THE FINANCIAL STATEMENTS OF COMPANIES OF THE REPUBLIC OF  
LATVIA

TOGETHER WITH THE REPORT OF  
THE INDEPENDENT PUBLIC ACCOUNTANTS

## AUDITORS' REPORT

To the shareholders of  
of a/s Ventspils nafta

We have audited the accompanying consolidated financial statements of a/s Ventspils nafta (a joint stock company registered in the Republic of Latvia) and its subsidiaries (the Group) for the year ended 31 December 2003. We have also audited the financial statements of a/s Ventspils nafta (the Parent company) for the year ended 31 December 2003. The financial statements, set out on pages 12 through 58, comprise the balance sheet, the statements of income, cash flows and changes in equity and the related notes. These financial statements are the responsibility of the Parent company's management. 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 issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of Group and Parent company as of 31 December 2003, and the results of the Group's and the Parent company's operations and cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Without qualifying our opinion, we draw your attention to the fact that a/s Ventspils nafta subsidiary SIA LatRosTrans since 2002 has incurred substantial physical losses of oil products. This may result in additional tax liabilities, as the Tax Authorities believes that the lost quantities have to be declared by SIA LatRosTrans as their own import. As further described in note 34, this issue is referred by court and the management and the council of SIA LatRosTrans as well as a/s Ventspils nafta strongly believes that the ruling will be in favour of SIA LatRosTrans and has therefore not recorded any provisions in SIA LatRosTrans financial statements in respect of such additional taxes.

Without qualifying our opinion, we draw your attention to the fact that a/s Ventspils nafta subsidiary SIA LatRosTrans in 2003 has incurred substantial losses due to physical losses of oil products as described above and due to the decision of Transneft to suspend transportation of crude oil to Ventspils terminal through SIA LatRosTrans pipeline as further described in note 13. The management and the council of SIA LatRosTrans and also a/s Ventspils nafta believe that the current situation is temporary and is taking actions aimed at renewing the delivery of crude oil to Ventspils terminal. Consequently, no adjustment for impairment of the above fixed assets has been recorded as of 31 December 2003. Should the current situation become permanent and alternative use of the pipeline can not be established, an impairment adjustment would have to be recorded in the future in the financial statements of SIA LatRosTrans.

Ernst & Young Baltic SIA  
License No. 17



Per Moller  
Personal ID code: 060567-14676  
Member of the Board



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

Rīga, 19 July 2004

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From 22 January 2004:  
Ostas street 23, LV-3600,  
Ventspils, Republic of Latvia

## Subsidiaries of a/s Ventspils nafta

SIA LatRosTrans (66%)  
7 Balvu street, LV-5043, Daugavpils

SIA Ventspils nafta termināls (100%)  
75 Talsu street, LV-3600, Ventspils

A/s Preses nams (92.61%)  
3 Balasta dambis, LV-1081, Riga

SIA under liquidation Nafta Holdings (98%)  
6 Doma square, C450, LV-1885, Riga

A/s Rietumu cauruļvadu sistēma (52.54%)  
22 Dzintaru iela, LV-3602, Ventspils

SIA Rīgas Līcis VN (100%)  
51 Dubultu prospekts, LV-2015, Jūrmala

SIA Mediju nams (99.28%)  
3 Balasta dambis, LV-1081, Riga

SIA Nekustamie Īpašumi VN (100%)  
3 Balasta dambis, LV-1081, Riga

## Associated entities of the Group

SIA Mediji un Poligrāfija (32.05%)  
3 Balasta dambis, LV-1081, Riga

SIA Ventshoses (21.01%)  
6 I. Mičurina iela, LV-3601, Ventspils

SIA Futbola klubs Ventspils (30%)

A/s Ventspils Nafta  
Address: 75 Talsu street LV-3600,  
Ventspils, Republic of Latvia  
Registration number: 000300309

Annual and consolidated annual report  
for the year ended 31 December 2003

Subsidiaries of SIA Nekustamie  
Īpašumi VN

SIA Darījumu centrs Daugava (100%)  
3 Balasta dambis, LV-1081, Rīga

SIA Namserviss VN (100%)  
3 Balasta dambis, LV-1081, Rīga

SIA Ventspils biznesa centrs (100%)  
3 Balasta dambis, LV-1081, Rīga

SIA Maikapara nams (100%)  
3 Balasta dambis, LV-1081, Rīga

SIA Lejastiežumi (100%)  
3 Balasta dambis, LV-1081, Rīga

SIA Pārventas sporta centrs (100%)  
3 Balasta dambis, LV-1081, Rīga

Finance year

1 January – 31 December 2003

Auditors

Diāna Krišjāne  
Sworn auditor  
Certificate Nr. 124

SIA Ernst & Young Baltic  
Kronvalda bulvāris 3 - 5, Rīga  
Latvia, LV – 1010  
License Nr. 17

### **Council of a/s Ventspils nafta as at the date of signing the opinion**

Chairman of the Council:

**Mamerts Vaivads**

Deputy Chairman of the Council:

**Jānis Blaževičs**

Deputy Chairman of the Council:

**Vladimirs Solomatins**

Members of the Council:

**Eižens Cepurnieks**

**Vladimirs Krastiņš**

**Uldis Pumpurs**

**Ansis Sormulis**

**Mārtiņš Jansons**

**Romāns Mežeckis**

**Ivars Pāže**

**Voldemārs Strīķis**

The changes in the Council during the period from 1 January 2003 to 19 July 2004 were as follows:

| <b>Elected</b> | <b>Dismissed</b> | <b>Name</b>              | <b>Position held</b>  |
|----------------|------------------|--------------------------|-----------------------|
|                | 31/07/2003       | Gints Laiviņš-Laivenieks | Member of the Council |
|                | 31/07/2003       | Juris Lorencs            | Member of the Council |
|                | 31/07/2003       | Oļegs Stepanovs          | Member of the Council |
|                | 31/07/2003       | Žoržs Tikmers            | Member of the Council |
|                | 31/07/2003       | Agris Eglītis            | Member of the Council |
| 01/08/2003     |                  | Mārtiņš Jansons          | Member of the Council |
| 01/08/2003     |                  | Romāns Mežeckis          | Member of the Council |
| 01/08/2003     |                  | Ivars Pāže               | Member of the Council |
| 01/08/2003     |                  | Vladimirs Solomatins     | Member of the Council |
| 01/08/2003     |                  | Voldemārs Strīķis        | Member of the Council |

## **Board of a/s Ventspils nafta as at the date of signing the opinion**

Chairman of the Board:

**Olga Pētersone**

Deputy chairman of the Board:

**Aldis Āķis**

Member of the Board:

**Ilva Purēna**

Member of the Board

**Guntis Tīrmanis**

The changes in the Board during the period from 1 January 2003 to 19 July 2004 were as follows:

| <b>Elected</b> | <b>Dismissed</b> | <b>Name</b>         | <b>Position held</b>         |
|----------------|------------------|---------------------|------------------------------|
|                | 13/09/2003       | Jānis Ādamsons      | Chairman of the Board        |
|                | 13/09/2003       | Ritvars Priekalns   | Deputy chairman of the Board |
|                | 31/08/2003       | Rolands Kalniņš     | Member of the Board          |
|                | 31/08/2003       | Aleksandrs Antipins | Member of the Board          |
| 01/09/2003     | 22/01/2004       | Renārs Urbanovičs   | Member of the Board          |
| 01/09/2003     |                  | Ilva Purēna         | Member of the Board          |
| 22/01/2004     |                  | Olga Pētersone      | Chairman of the Board        |
| 22/01/2004     |                  | Antons Petrovskis   | Member of the Board          |
| 22/01/2004     |                  | Guntis Tīrmanis     | Member of the Board          |
|                | 22/01/2004       | Renārs Urbanovičs   | Member of the Board          |
| 22/01/2004     | 23/02/2004       | Antons Petrovskis   | Member of the Board          |

### **The audit committee of a/s Ventspils Nafta**

According to the decision the shareholders from 30 July 2003, the Audit Committee has dismissed as the Council of the Company has reorganized the internal audit function in the Company.

The changes in the Audit Committee during the period from 1 January 2003 to 19 July 2004 were as follows:

| <b>Elected</b> | <b>Dismissed</b> | <b>Name</b>          | <b>Position held</b>            |
|----------------|------------------|----------------------|---------------------------------|
|                | 31/07/2003       | Vladimirs Solomatins | Chairman of the Audit Committee |
|                | 31/07/2003       | Dzintars Kašs        | Member of the Audit Committee   |
|                | 31/07/2003       | Eva Jurkevica        | Member of the Audit Committee   |
|                | 31/07/2003       | Ilona Pavāre         | Member of the Audit Committee   |
|                | 31/07/2003       | Dace Kaņepe          | Member of the Audit Committee   |

## Management and consolidated report

### Dear shareholders, clients and cooperation partners,

The most important event for the Joint Stock Company Ventspils nafta in 2003 undoubtedly was the improvement of a/s Ventspils nafta management system focused on a long-term future development perspective. It resulted in optimisation of a/s Ventspils nafta structure in line with the basic principles of a multi-branch group of companies, encompassing the segregation of the holding company's functions and dividing all the entities belonging to a/s Ventspils nafta group by their respective business segments.

The goal of the restructuring process commenced in the beginning of 2003 is to ensure the optimisation of the group's operations and investments, facilitate the successful development of industries involved, and, hence, also create an added value to each business entity and the Group in general. Thus, the Group will be able to increase the management capacity in each particular entity, improve the transparency of finance matters and efficient consumption of resources.

Although the core activity of a/s Ventspils nafta until recent time has been transshipment of oil and oil products imported from Russia in Ventspils port, for a few years already and following the recommendations of international auditors, the company has exercised an active political and economic risk diversification policy through acquiring the shareholdings in a number of companies non-related to transit business.

Thus a/s Ventspils nafta, which initially comprised only the oil and oil products terminal and one subsidiary – the owner and operator of the oil and oil products pipeline SIA LatRosTrans, now has grown into a group of companies operating in five different business areas: transit, printing, publishing, hotel services and real estate management.

In 2003, the terminal of a/s Ventspils nafta dealing with transshipment of oil and oil products worked stably, receiving railway cargoes and employing its high-level technological capacities and the favourable location of the ice-free port in Ventspils, despite of the administrative and political pressure which resulted in discontinuation of oil export from Russia via pipelines to Ventspils direction.

In 2003, the terminal of a/s Ventspils nafta transshipped in total 10.7 million tons of oil and oil products delivered by railway, thus the total amount of railway cargoes transshipped at the terminal, compared with 2002, has increased by 4.3 million tons or 68%. The terminal's share in the total transshipment of gas oil transported by railway from Russia and other CIS countries, in 2003 reached 22.2%, whereas in oil transshipment it reached 7.5 %.

The technical capacity and technological equipment of a/s Ventspils nafta in 2003 enabled the company to expand the range of transshipped products, and undertake transshipment of oil and low sulphur gas oil (0,035%) transported by railway. With maximum utilization of the terminal's capacities and planning to increase the number of railway cargoes, in 2003 the Company commenced construction of a railway rack that would meet the latest modern technology requirements.

The railway rack is expected to be launched in 2004, its capacity will be 4.5 million tons of oil or 5.5 million tons of gas oil per year. The new railway rack will be able to accept 66 railcars simultaneously, thus significantly expanding SIA Ventspils nafta terminals capacity of accepting and servicing the oil and oil product cargoes transported by railway. The investments in the construction of the railway rack are estimated at LVL 12 million.

### **Management and consolidated report (cont'd)**

On 1 October 2003, a new Group's subsidiary SIA Ventspils nafta termināls (100% owned by a/s Ventspils nafta) started its operations by taking over the oil and oil products transshipment functions from the Parent company a/s Ventspils nafta.

Due to the circumstances beyond the Company's control, i.e., decrease in Russia's oil and oil products export in Ventspils direction in the last months of 2003, the turnover in the reporting period (only a three-months period for SIA Ventspils nafta termināls) had a material impact on the financial results of SIA Ventspils nafta termināls, and on the results of the entire a/s Ventspils nafta Group.

Although in 2003 the artificial pressure posed by the Russian administrative and monopolistic structures and discontinuation of oil and oil piping in Ventspils direction had a material affect on the results of the Latvian – Russian joint-venture SIA LatRosTrans, the operator and owner of oil transportation pipelines in Latvia, due to a maximum utilization of gas oil transportation pipeline, the company's net turnover for the year reached LVL 13.5 million.

With the view of future increase of gas oil piping volumes, SIA LatRosTrans in 2003 invested LVL 15 million in modernization of the pipelines and pumping stations, as well as in increasing of oil products transportation capacities.

SIA LatRosTrans has taken appropriate steps in elimination of excessive oil product losses not only by its own resources, but also informing and involving the governmental bodies. SIA LatRosTrans has initiated the claim against collection of taxes in relation to the aforementioned oil product losses that have material impact on the company's results, and is convinced in a positive settlement of the matter.

Year 2003 has been successful also for a/s Preses nams, which focused on development of printing business. The company's profit for the reporting year amounted to LVL 0.7 million, whereas the net turnover for the period reached LVL 18.6 million. 70% of the high-quality printing services provided by a/s Preses nams were for the customers in Latvia, whereas 30% - the export production. The investment in upgrading and renovation of technical supply of a/s Preses nams in 2003 amounted to LVL 1.7 million.

In 2003, operations were commenced by SIA Mediju nams, a publishing company established in the result of the structural changes in a/s Preses nams. The new company continued the publishing of four newspapers and two magazines, as well as got actively involved in the development and implementation of new projects aimed at strengthening of the company's position in the market.

Risk diversification policy exercised by a/s Ventspils nafta over a past few years, has resulted in a number of liquid financial investments in several real estate objects in Riga (villa Maikapara nams, Preses nams building, the office building at Palasta Street in the Old town of Riga), Jūrmala (former health resort Rīgas Ilcis), Ventspils and other regions (conference and recreation centre Lejastiezumi near the Usmas lake). The favourable developments in the real estate market characterised by ongoing price rise over the previous years and the reporting period, have resulted in continuous growth of the market value of the real estate owned by a/s Ventspils nafta, thus ensuring a/s Ventspils nafta a stable return on investment, and hence, an additional income reserve.

The value of a short-term investment of a/s Ventspils nafta in the shares of a/s Latvijas kuģniecība (Latvian Shipping Company) has not decreased as a/s Latvijas kuģniecība ended the year with the profit of LVL 6.7 million.

Taking into account the above described operations and circumstances in 2003, which for SIA Ventspils nafta termināls and SIA LatRosTrans to a large extent were determined by external factors, and which were taken into account already when working out the budget forecasts for 2003, a/s Ventspils nafta net turnover for the reporting year amounts to LVL 18.2 million, whereas the company's net losses amount to LVL 9.3 million. The net turnover of a/s Ventspils nafta Group in 2003 was LVL 55.4 million, whereas the net losses of the Group amount to LVL 9.4 million.

**Management and consolidated report (cont'd)**

A/s Ventspils nafta faces the future with a reasonable hope. The financial results for the first three months of year 2004 demonstrate stability and profitability of a/s Ventspils nafta. Subsequent to the year-end, already since January 2004, the President of a/s Ventspils nafta is Olga Pētersone, who has an extensive experience in the management of large-scale companies. Her main objective is an ongoing increase of the value of a/s Ventspils nafta Group.

In 2004, all the companies of a/s Ventspils nafta Group will continue their operations and work on facilitation of the growth, development and improvement of financial results of each particular entity, as well as on the group level. A/s Ventspils nafta will continue analysing the options for appropriate and efficient investments in new business areas in compliance with the interests of a/s Ventspils nafta's shareholders.

19 July 2004



Vladimirs Solomatins  
Deputy Chairman of the Council




Olga Pētersone  
Chairman of the Board


The annual report approved in the shareholders' meeting of 30 July 2004.

## Income Statement

|  | Note | Group           |                | Parent company |               |
|--|------|-----------------|----------------|----------------|---------------|
|  |      | 2003            | 2002           | 2003           | 2002          |
|  |      | thous. of LVL   | thous. of LVL  | thous. of LVL  | thous. of LVL |
| Net sales  | 4    | 55,361          | 65,865         | 18,176         | 28,122        |
| Cost of sales  | 5,8  | (51,274)        | (52,850)       | (14,382)       | (18,537)      |
| <b>Gross profit</b>  |      | <b>4,087</b>    | <b>13,015</b>  | <b>3,794</b>   | <b>9,585</b>  |
| Sales and distribution expense                                 | 8    | (1,460)         | (452)          | -              | -             |
| General and administrative expense                             | 3,8  | (7,499)         | (10,162)       | (4,537)        | (7,477)       |
| Other operating income/ (expense), net                         | 7    | (983)           | (2,245)        | 3,135          | (236)         |
| <b>Result from operating activities</b>                        |      | <b>(5,855)</b>  | <b>156</b>     | <b>2,392</b>   | <b>1,872</b>  |
| Net result/(loss) in subsidiaries and associated entities, net | 16   | (52)            | (107)          | (7,437)        | 1,376         |
| Non-operating expense  | 9    | (368)           | (232)          | (368)          | (232)         |
| Financial income/ (expense), net                               | 10   | (1,729)         | (4,609)        | (362)          | (2,326)       |
| <b>Result before taxes</b>                                     |      | <b>(8,004)</b>  | <b>(4,792)</b> | <b>(5,775)</b> | <b>690</b>    |
| Corporate income tax   | 11   | (2,979)         | 5,015          | (2,652)        | 2,767         |
| Other taxes  | 33   | (1,331)         | (1,104)        | (843)          | (728)         |
| <b>Net result before minority interest</b>                     |      | <b>(12,314)</b> | <b>(881)</b>   | <b>(9,270)</b> | <b>2,729</b>  |
| Minority interest  |      | 2,872           | 214            | -              | -             |
| <b>Net result for the year</b>                                 |      | <b>(9,442)</b>  | <b>(667)</b>   | <b>(9,270)</b> | <b>2,729</b>  |
| <b>Earnings per share</b>                                      |      |                 |                |                |               |
| in lats per share  | 28   | <b>(0.090)</b>  | <b>(0.006)</b> | <b>(0.089)</b> | <b>0.026</b>  |
| <b>Diluted earnings per share</b>                              |      |                 |                |                |               |
| in lats per share  | 28   | <b>(0.090)</b>  | <b>(0.006)</b> | <b>(0.089)</b> | <b>0.026</b>  |

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


  
Vladimirs Solomatins  
Deputy Chairman of the Council


  
Olga Pētersone  
Chairman of the Board

## Balance sheet ASSETS

|   | Note  | Group                        |                              | Parent company               |                              |
|---|-------|------------------------------|------------------------------|------------------------------|------------------------------|
|   |       | 31.12.2003.<br>thous. of LVL | 31.12.2002.<br>thous. of LVL | 31.12.2003.<br>thous. of LVL | 31.12.2002.<br>thous. of LVL |
| <b>NON CURRENT ASSETS</b>                           |       |                              |                              |                              |                              |
| <b>Intangible assets</b>                            | 12    | <b>37,505</b>                | <b>39,654</b>                | -                            | <b>1,696</b>                 |
| <b>Property, plant and equipment</b>                |       |                              |                              |                              |                              |
| Land, buildings and networks                        | 13    | 110,506                      | 115,498                      | -                            | 70,580                       |
| Machinery and equipment                             | 13    | 43,070                       | 30,927                       | 105                          | 10,632                       |
| Other property, plant and equipment                 | 13    | 8,164                        | 10,024                       | 742                          | 8,248                        |
| Construction in progress                            | 13,14 | 12,554                       | 11,779                       | 164                          | 2,775                        |
| Prepayments for property, plant and equipment       | 14    | 4,003                        | 6,730                        | 1                            | 932                          |
| TOTAL   |       | <b>178,297</b>               | <b>174,958</b>               | <b>1,012</b>                 | <b>93,167</b>                |
| <b>Investment properties</b>                        | 15    | <b>2,612</b>                 | -                            | <b>5,868</b>                 | -                            |
| <b>Investments</b>                                  |       |                              |                              |                              |                              |
| Investments in subsidiaries and associated entities | 16    | 162                          | 249                          | 162,439                      | 104,518                      |
| Long-term loan to related parties                   | 17    | -                            | -                            | 4,755                        | 2,460                        |
| Other long-term loans to corporate entities         | 18    | 935                          | 894                          | -                            | 894                          |
| Other non-current financial investments             | 19    | -                            | 19                           | -                            | -                            |
| TOTAL   |       | <b>1,097</b>                 | <b>1,162</b>                 | <b>167,194</b>               | <b>107,872</b>               |
| <b>TOTAL NON CURRENT ASSETS</b>                     |       | <b>219,511</b>               | <b>215,774</b>               | <b>174,074</b>               | <b>202,735</b>               |
| <b>CURRENT ASSETS</b>                               |       |                              |                              |                              |                              |
| Inventory   | 20    | 10,026                       | 14,682                       | 2,520                        | 3,195                        |
| Fixed assets for sale                               | 21    | -                            | -                            | 21,713                       | -                            |
| Current portion of long-term receivables            | 17    | 140                          | 397                          | -                            | 397                          |
| Short-term loans to related parties                 | 17,25 | 5,733                        | 13,068                       | 787                          | -                            |
| Trade accounts receivable                           | 22    | 6,578                        | 6,110                        | -                            | 2,461                        |
| Accounts receivable from related party              | 17    | -                            | -                            | 1,229                        | 5                            |
| Corporate income tax receivable                     | 33    | 1,663                        | 7,831                        | -                            | 3,339                        |
| Other accounts receivable                           | 23    | 1,421                        | 4,131                        | 1,375                        | 430                          |
| Prepaid expense                                     | 24    | 1,675                        | 1,472                        | 103                          | 981                          |
| Own shares  | 28    | 90                           | 60                           | 90                           | 60                           |
| Accrued income                                      |       | 465                          | -                            | -                            | -                            |
| Trading investments                                 | 26    | 34,999                       | 35,016                       | 34,997                       | 34,997                       |
| Cash and cash equivalents                           | 27    | 8,330                        | 10,211                       | 460                          | 3,881                        |
| <b>TOTAL CURRENT ASSETS</b>                         |       | <b>71,120</b>                | <b>92,978</b>                | <b>63,274</b>                | <b>49,746</b>                |
| <b>TOTAL ASSETS</b>                                 |       | <b>290,631</b>               | <b>308,752</b>               | <b>237,348</b>               | <b>252,481</b>               |

The accompanying notes are an integral part of these financial statements.  
Off-balance sheet assets: see note 35.


  
Vladimirs Solomatins  
Deputy Chairman of the Council

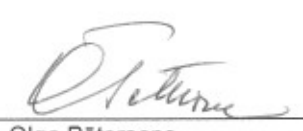
  
Olga Pētersone  
Chairman of the Board

## LIABILITIES AND SHAREHOLDERS' EQUITY

|   | Note  | Group          |                | Parent company |                |
|---|-------|----------------|----------------|----------------|----------------|
|   |       | 31.12.2003.    | 31.12.2002.    | 31.12.2003.    | 31.12.2002.    |
|   |       | thous. of LVL  | thous. of LVL  | thous. of LVL  | thous. of LVL  |
| <b>SHAREHOLDERS' EQUITY</b>                       |       |                |                |                |                |
| Share capital                                     | 28    | 104,479        | 104,479        | 104,479        | 104,479        |
| Share premium                                     |       | 42,343         | 42,343         | 42,343         | 42,343         |
| Long term assets revaluation reserve              |       | -              | -              | 712            | -              |
| Restricted reserves                               | 28    | 11,210         | 9,404          | 11,210         | 9,404          |
| Other reserves                                    | 28    | 81,221         | 84,738         | 84,617         | 84,738         |
| Current year unappropriated result                |       | (9,442)        | (667)          | (9,270)        | 2,729          |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 |       | <b>229,811</b> | <b>240,297</b> | <b>234,091</b> | <b>243,693</b> |
| <b>MINORITY INTEREST</b>                          |       | <b>45,318</b>  | <b>48,202</b>  | -              | -              |
| <b>PROVISIONS</b>                                 |       |                |                |                |                |
| Deferred corporate income tax                     | 11    | 3,852          | 2,749          | 2,216          | 1,441          |
| Other provisions                                  | 29    | 80             | 5,698          | -              | 3,607          |
| <b>KOPĀ UZKRĀJUMI</b>                             |       | <b>3,932</b>   | <b>8,447</b>   | <b>2,216</b>   | <b>5,048</b>   |
| <b>LIABILITIES</b>                                |       |                |                |                |                |
| <b>Long-term liabilities</b>                      |       |                |                |                |                |
| Long-term portion of financial lease liability    | 31    | 1,597          | 1,236          | -              | -              |
| Long-term loan from credit institution            | 30    | 90             | 451            | -              | -              |
| <b>TOTAL</b>                                      |       | <b>1,687</b>   | <b>1,687</b>   | -              | -              |
| <b>Current liabilities</b>                        |       |                |                |                |                |
| Short-term portion of long-term loan              | 30    | 2,004          | 1,713          | -              | -              |
| Financial lease liabilities                       | 31    | 990            | 786            | -              | -              |
| Advances from customers                           |       | 131            | 172            | 37             | 37             |
| Trade accounts payable                            |       | 3,791          | 4,221          | 55             | 2,188          |
| Accounts payable to related party                 |       | 2              | -              | 17             | 6              |
| Corporate income tax payable                      | 33    | 548            | -              | 548            | -              |
| Accrued liabilities                               | 32,33 | 1,769          | 3,199          | 384            | 1,499          |
| Other liabilities                                 |       | 401            | 17             | -              | 10             |
| Deferred income                                   |       | 247            | 11             | -              | -              |
| <b>TOTAL</b>                                      |       | <b>9,883</b>   | <b>10,119</b>  | <b>1,041</b>   | <b>3,740</b>   |
| <b>TOTAL LIABILITIES</b>                          |       | <b>11,570</b>  | <b>11,806</b>  | <b>1,041</b>   | <b>3,740</b>   |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |       | <b>290,631</b> | <b>308,752</b> | <b>237,348</b> | <b>252,481</b> |

The accompanying notes are an integral part of these financial statements.  
Off-balance sheet liabilities: see note 35.

  
Vladimirs Solomatins  
Deputy Chairman of the Council

  
Olga Pētersone  
Chairman of the Board

## Statement of cash flows

|  | Group                 |                       | Parent company        |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 2003<br>thous. of LVL | 2002<br>thous. of LVL | 2003<br>thous. of LVL | 2002<br>thous. of LVL |
| <b>Cash flow from/ (to) operating activities</b>                                 |                       |                       |                       |                       |
| Net result   | (9,442)               | (4,792)               | (9,270)               | 690                   |
| Adjustments  |                       |                       |                       |                       |
| (Profit)/ loss in subsidiaries and associated entities, net                      | -                     | 107                   | 7,437                 | (1,376)               |
| (Increase)/ decrease in provisions   | (5,350)               | 1,271                 | (3,665)               | (775)                 |
| Negative goodwill  | -                     | (216)                 | -                     | (216)                 |
| Adjustment to a/s Preses nams goodwill   | -                     | -                     | (60)                  | (99)                  |
| Amortisation and depreciaton   | 17,621                | 17,298                | 7,732                 | 8,530                 |
| Interest income  | (588)                 | (1,661)               | (101)                 | (246)                 |
| Impairment loss  | -                     | 109                   | -                     | -                     |
| Minority interest  | (2,872)               | 214                   | -                     | -                     |
| Interest expense   | 268                   | 391                   | 13                    | 36                    |
| Loss on disposals of tangible assets   | 521                   | 3,717                 | 68                    | 117                   |
| Fair value adjustments   | (46)                  | 275                   | -                     | 275                   |
| Other adjustments  | 102                   | (238)                 | -                     | -                     |
| <b>Operating profit/ (loss) before changes in current assets and liabilities</b> | <b>214</b>            | <b>16,475</b>         | <b>2,154</b>          | <b>6,936</b>          |
| Decrease/ (increase) in inventory  | 4,874                 | (554)                 | 861                   | (14)                  |
| Decrease/ (increase) in trade accounts receivable                                | (535)                 | 6,002                 | 2,461                 | 3,947                 |
| Decrease/ (increase) in other accounts receivable                                | 14,893                | (5,006)               | (1,821)               | (1,226)               |
| Increase/ (decrease) in current liabilities                                      | 2,543                 | 3,317                 | (241)                 | 89                    |
| <b>Net cash from/ (to) operating activities</b>                                  | <b>21,989</b>         | <b>20,234</b>         | <b>3,414</b>          | <b>9,732</b>          |
| Taxes paid   | 183                   | -6133                 | (2,193)               | (2,731)               |
| <b>Net cash from/ (to) operating activities</b>                                  | <b>22,172</b>         | <b>14,101</b>         | <b>1,221</b>          | <b>7,001</b>          |
| <b>Cash flow from/ (to) investment activities</b>                                |                       |                       |                       |                       |
| Purchase of fixed assets   | (21,950)              | (32,517)              | (2,382)               | (9,327)               |
| Income from proceeds from sale of fixed assets                                   | -                     | -                     | 7,646                 | -                     |
| Decrease/ (increase) in investments  | -                     | (180)                 | (8,920)               | (1,404)               |
| Interest received  | 588                   | 1,661                 | 101                   | 246                   |
| (Increase)/ decrease in trading investments                                      | -                     | (34,946)              | -                     | (34,946)              |
| Dividends (paid)/ received   | (1,044)               | (340)                 | (1,044)               | 660                   |
| <b>Net cash flow from/ (to) investment activities</b>                            | <b>(22,406)</b>       | <b>(66,322)</b>       | <b>(4,599)</b>        | <b>(44,771)</b>       |
| <b>Cash flow from/ (to) financing</b>  |                       |                       |                       |                       |
| Increase in own shares   | (30)                  | 91                    | (30)                  | 90                    |
| Finance lease payments   | (1,349)               | (1,992)               | -                     | -                     |
| Interest expense   | (268)                 | (391)                 | (13)                  | (36)                  |
| <b>Net cash from/ (to) investment activities</b>                                 | <b>(1,647)</b>        | <b>(2,292)</b>        | <b>(43)</b>           | <b>54</b>             |
| <b>Net increase in cash</b>  | <b>(1,881)</b>        | <b>(54,513)</b>       | <b>(3,421)</b>        | <b>(37,716)</b>       |
| <b>Cash at the beginning of the year</b>   | <b>10,211</b>         | <b>64,724</b>         | <b>3,881</b>          | <b>41,597</b>         |
| <b>Cash at the end of the year</b>   | <b>8,330</b>          | <b>10,211</b>         | <b>460</b>            | <b>3,881</b>          |

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

## Statement of changes in shareholders' equity

### Parent company

|                                       | Share capital  | Share premium | Long term assets revaluation reserve | Restricted reserves | Other reserves | Current year unappropriated result | Total          |
|---------------------------------------|----------------|---------------|--------------------------------------|---------------------|----------------|------------------------------------|----------------|
| <b>Balance as of 1 January 2002</b>   | 104,479        | 42,343        | -                                    | 4,595               | 64,831         | 24,716                             | <b>240,964</b> |
| Transfer of 2001 net result           | -              | -             | -                                    | 4,809               | 19,907         | (24,716)                           | -              |
| Current year profit                   | -              | -             | -                                    | -                   | -              | 2,729                              | 2,729          |
| <b>Balance as of 31 December 2002</b> | <b>104,479</b> | <b>42,343</b> | <b>-</b>                             | <b>9,404</b>        | <b>84,738</b>  | <b>2,729</b>                       | <b>243,693</b> |
| Transfer of 2002 net result           | -              | -             | -                                    | 1,806               | -              | (1,806)                            | -              |
| Distributed dividends                 | -              | -             | -                                    | -                   | (121)          | (923)                              | (1,044)        |
| Long-term assets revaluation          | -              | -             | 712                                  | -                   | -              | -                                  | 712            |
| Current year loss                     | -              | -             | -                                    | -                   | -              | (9,270)                            | (9,270)        |
| <b>Balance as of 31 December 2003</b> | <b>104,479</b> | <b>42,343</b> | <b>712</b>                           | <b>11,210</b>       | <b>84,617</b>  | <b>(9,270)</b>                     | <b>234,091</b> |

During the restructuring process the new company SIA Ventspils nafta termināls was established. (see also note 2 Group restructuring)  
The investment in SIA Ventspils nafta termināls is comprised of cash and fixed assets. The fixed assets were invested at fair value in the amount of LVL 53,918 thousand. The value of the invested fixed assets exceeded the net book value for LVL 712 thousand, that consequently is represented as long term assets revaluation reserve (see also Note 13 Property, plant and equipment).

### Group

|  | Share capital  | Share premium | Long-term asset revaluation reserve | Restricted reserves | Other reserves | Previous years unappropriated result | Current year unappropriated result | Total          |
|--|----------------|---------------|-------------------------------------|---------------------|----------------|--------------------------------------|------------------------------------|----------------|
| <b>Balance as of 1 January 2002</b>      | 104,479        | 42,343        | -                                   | 4,595               | 64,831         | -                                    | 24,716                             | <b>240,964</b> |
| Transfer of 2001 net result              | -              | -             | -                                   | 4,809               | 19,907         | -                                    | (24,716)                           | -              |
| Current year consolidated profit         | -              | -             | -                                   | -                   | -              | -                                    | (667)                              | (667)          |
| <b>Balance as of 31 January 2002</b>     | <b>104,479</b> | <b>42,343</b> | <b>-</b>                            | <b>9,404</b>        | <b>84,738</b>  | <b>-</b>                             | <b>(667)</b>                       | <b>240,297</b> |
| Transfer of 2002 net consolidated result | -              | -             | -                                   | -                   | -              | (667)                                | 667                                | -              |
| Transfer of 2002 net result of Parent    | -              | -             | -                                   | 1,806               | -              | (1,806)                              | -                                  | -              |
| Distributed dividends by Parent          | -              | -             | -                                   | -                   | (121)          | (923)                                | -                                  | (1,044)        |
| Current year consolidated profit         | -              | -             | -                                   | -                   | -              | -                                    | (9,442)                            | (9,442)        |
| <b>Balance as of 31 December 2003</b>    | <b>104,479</b> | <b>42,343</b> | <b>-</b>                            | <b>11,210</b>       | <b>84,617</b>  | <b>(3,396)</b>                       | <b>(9,442)</b>                     | <b>229,811</b> |

## Notes

### 1. Corporate information and significant accounting policies

The parent company a/s Ventspils nafta at the end of the year 2003 is operating as the holding company of a/s Ventspils nafta Group.

A/s Ventspils nafta Group is operating in the following industries:

- Oil and oil products reloading,
- Oil and oil product transporting via pipelines,
- Media & Publishing,
- Real estate,
- Shipping.

During the year 2003 the management and the council of the Company has decided to restructure a/s Ventspils nafta Group (see Note 2 Group restructuring).

The consolidated financial statements of the Ventspils nafta group were authorized for issue in accordance with resolution of the Board of directors on 19 June 2004.

A summary of the principal accounting policies all of which have been applied consistently (unless otherwise stated) throughout the years ended 31 December 2003 and 2002, 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 a/s Ventspils nafta and its subsidiaries SIA Ventspils nafta termināls, SIA LatRosTrans, a/s Preses nams, SIA Mediju nams, SIA Nafta Holdings, SIA Rīgas Līcis VN, SIA Darījumu centrs Daugava, SIA Nekustamie īpašumi VN and the indirectly controlled entity a/s Rietumu cauruļvadu sistēma are consolidated in the Group financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, unrealized 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 a/s Rietumu cauruļvadu sistēma are recognized based on the completed contract method, i.e., that revenues are recognized upon completion of each individual contract and related expenses are capitalized until completion of the contract, at which time expenses incurred are charged to cost of sales in the statement of income.

Interest income is recognized as the interest accrues.

Income from dividend is recognized when the shareholders' right to receive the payment is established.

#### **Accruals and deferrals**

Accruals and deferrals are recorded to recognize 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 recognized as trade accounts receivable and deferred income.

## 1. Corporate information and significant accounting policies (cont'd)

### 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.

|     | 31/12/2003 | 31/12/2002 | 31/12/2001 |
|-----|------------|------------|------------|
| USD | 0.541000   | 0.594000   | 0.638000   |
| DEM | -          | -          | 0.286761   |
| GBP | 0.960000   | 0.946000   | 0.924000   |
| EUR | 0.674000   | 0.610000   | 0.560856   |
| SEK | 0.074000   | 0.066800   | 0.059000   |

### 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 recognized on the acquisition of shares in subsidiaries are capitalized as intangible assets and amortized over 10 years using the straight-line method.

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

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

### Property, plant and equipment

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 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 capitalized 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.

SIA LatRosTrans property, plant and equipment are stated at contributed values as agreed by the subsidiary's founders in 1995, and subsequent additions are stated at cost.

The following depreciation rates have been used:

|                                     | %      |
|-------------------------------------|--------|
| Buildings and networks              | 1-10   |
| Machinery and equipment             | 8.3-50 |
| Other property, plant and equipment | 10-50  |

## 1. Corporate information and significant accounting policies (cont'd)

### **Investment properties**

Investment properties consist of investments in land and buildings that are held to earn rentals or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. Investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses.

### **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 and consolidation**

Investment assets 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/ 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 2003, a/s Ventspils nafta has investments in the following subsidiaries:

| <u>Subsidiary</u>                                       | <u>Ownership</u> |
|---|------------------|
| SIA Ventspils nafta termināls                           | 100.00%          |
| SIA LatRosTrans a limited liability company             | 66.00%           |
| A/s Rietumu cauruļvadu sistēma, a joint stock company * | 52.54%           |
| A/s Preses nams, a joint stock company                  | 92.61%           |
| SIA Nafta Holdings, a limited liability company         | 98.00%           |
| SIA Rīgas Līcis VN, a limited liability company         | 100.00%          |
| SIA Mediju nams **                                      | 99.28%           |
| SIA Nekustamie īpašumi VN                               | 100.00%          |
| SIA Darījumu centrs Daugava ***                         | 100.00%          |
| SIA Namserviss VN ***                                   | 100.00%          |
| SIA Ventspils biznesa centrs ***                        | 100.00%          |
| SIA Maikapara nams ***                                  | 100.00%          |
| SIA Lejastiežumi ***                                    | 100.00%          |
| SIA Pārventas sporta centrs ***                         | 100.00%          |

All subsidiaries are registered in the Republic of Latvia.

\* As of 31 December 2003, a/s Ventspils nafta has a 40% shareholding of a/s Rietumu cauruļvadu sistēma, a joint stock company registered in the Republic of Latvia. At the same time, SIA LatRosTrans owns 19% of the share capital of a/s Rietumu cauruļvadu sistēma. As such, the Group's ownership share is 52.54% and the financial statements of a/s Rietumu cauruļvadu sistēma are consolidated in the Group financial statements.

\*\* As of 31 December 2003, a/s Ventspils nafta has a 90.23% shareholding of SIA Mediju nams, a limited liability company registered in the Republic of Latvia. At the same time, a/s Preses nams owns 9.77% of the share capital of SIA Mediju nams. As such, the Group's ownership share is 99.28% and the financial statements of SIA Mediju nams are consolidated in the Group financial statements.

\*\*\* These companies are 100% subsidiaries of SIA Nekustamie īpašumi VN. According to Latvian legislation, SIA Nekustamie īpašumi VN issued consolidated annual report, which was further consolidated in the Group.

## 1. Corporate information and significant accounting policies (cont'd)

### ***Investments and consolidation (cont'd)***

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

SIA LatRosTrans – transporting oil and oil products via pipelines;

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

A/s Preses nams – providing printing services and publishing;

SIA 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;

SIA Rīgas Līcis VN – recreational centre;

A/s Rietumu cauruļvadu sistēma – project management;

SIA Darījumu centrs Daugava – real estate management;

SIA Nekustamie īpašumi VN – real estate management;

SIA Namserviss VN – real estate management;

SIA Ventspils biznesa centrs – real estate management;

SIA Maikapara nams – real estate management;

SIA Lejastieziņi – real estate management;

SIA Mediju nams – publishing;

SIA Pārventas sporta centrs – real estate management.

### **Other investments**

Investments of the Group 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 recognized in statement of income. Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized 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 recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized 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 realizable value where costs are based on the following principles:

#### **Oil and oil products**

Oil and oil products stocks in the Parent company 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 SIA LatRosTrans, used to ensure oil and oil product transportation process and not intended for sale.

## 1. Corporate information and significant accounting policies (cont'd)

### ***Inventory (cont'd)***

#### 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 unrealizable inventory and records a allowance 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 labor, energy, depreciation and other production costs.

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

### ***Accounts receivable***

A allowance has been made for potential losses on uncollectible and doubtful accounts receivable, based on an evaluation of individual receivable balances, to state the accounts receivable at their estimated net realizable 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.

### ***Taxes***

#### Corporate income tax

The Parent company and its subsidiaries are subject to 19% 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 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 realized. The principal temporary timing differences arise from differing rates and methods of accounting and tax depreciation on property, plant and equipment, allowances, provisions and accumulated tax losses.

#### VAT proportion

A part of revenues of the subsidiary a/s 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 tax 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. Before 1 October 2003, a/s Ventspils nafta was located in the territory of the free-port and had obtained the permit to perform its operations in Ventspils free-port, while starting from 1 October 2003, SIA Ventspils nafta termināls has obtained the permit for operation within Ventspils free-port.

## 1. Corporate information and significant accounting policies (cont'd)

### **Contingencies**

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources 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.

### **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.

## 2. Group restructuring

In 2002, the subsidiary a/s Preses nams commenced the optimization of organizational structure to focus on its core activity – printing. On 2 January 2003, the a/s Preses nams announced the decision of its Board of Directors to divest of its publishing operations. As at 31 December 2002, the carrying amount of the assets of publishing was LVL 140 thousand and there were no liabilities related to publishing. The separate operations are effective starting from 1 January 2003. As at 31 December 2003, the a/s Preses nams had no assets and liabilities related to publishing operations.

On 7 January 2003, it was publicized that real estate operations have been discontinued, too. On 12 December 2002, the a/s Preses nams signed a contract to sell real estate located on Balasta dambis 3, Riga to Group company SIA Darījumu centrs Daugava for LVL 6,600 thousand. There are no assets and liabilities related to the real estate operations as at year-end. The separate operations are effective starting from 1 January 2004.

During the year 2003 the management and the council of the Company decided to restructure a/s Ventspils nafta Group in order to improve the legal structure of the Group as well as to support the attraction of business partners for oil and oil products reloading business.

During the Group the restructuring the following businesses were separated from the parent company a/s Ventspils nafta:

*a. Oil and oil products reloading business*

The new company SIA Ventspils nafta termināls has been established with the share capital of LVL 30 thousand, which in October 2003 was increased to LVL 53,948 thousand.

*b. Real estate business*

The following companies were established:

SIA Darījumu centrs Daugava

SIA Ventspils biznesa centrs

SIA Maikapara nams

SIA Namserviss VN

SIA Pārventas sporta centrs

SIA Lejastiezumi

The aforementioned real estate management companies are consolidated in the a/s Ventspils nafta related company SIA Nekustamie īpašumi VN.

The restructuring process is still continuing as a/s Ventspils nafta during the year transferred the remaining oil and oil business related assets to SIA Ventspils nafta termināls and furthermore has intention to sell a/s Ventspils nafta owned real estates to real estate management companies. (see also note 21 Fixed assets for sale)

The parent company of the Group started to operate as a holding company from October 2003 as the majority of the restructuring related transactions were held during September 2003.

## 2. Group restructuring (cont'd)

The income statement for the year ended as of 31 December 2003 of a/s Ventspils nafta split by business activities can be presented as follows:

For the 9 month period with the core business of oil and oil product reloading discontinued and transferred to the newly established subsidiary SIA Ventspils nafta termināls as at 30 September 2003:

|  | Unaudited 9 month period ended as of 30<br>September 2003 |
|--|---|
| Net sales  | 18,176  |
| Cost of sales  | (13,747)  |
| <b>Gross profit</b>  | <b>4,429</b>  |
| General and administrative expense   | (4,277)   |
| Other operating income/ (expense), net                                       | 3,026   |
| <b>Result from operating activities</b>                                      | <b>3,178</b>  |
| Net result/(loss) in subsidiaries and associated entities, net <sup>a)</sup> | -   |
| Non-operating income/ (expense), net   | (526)   |
| Financial income/ (expense), net   | (297)   |
| <b>Result before taxes</b>   | <b>2,355</b>  |
| Corporate income tax <sup>b)</sup>   | (1,584)   |
| Other taxes  | (737)   |
| <b>Net result for 9 month period</b>   | <b>34</b>   |

For the 3 month period as holding company

|   | Unaudited 3 month period ended as of<br>31 December 2003 |
|---|--|
| Dividends and other operating income receivable         | -  |
| Administrative expenses                                 | (260)  |
| <b>Operating loss</b>                                   | <b>(260)</b>   |
| Financial income/ (expense), net                        | (65)   |
| Share of subsidiaries profits                           | (7,377)  |
| Other non-operating income/ (expenses) net              | (534)  |
| <b>Profit on ordinary activities before taxation</b>    | <b>(8,236)</b>   |
| Taxation on profit on ordinary activities <sup>b)</sup> | (1,068)  |
| <b>Net result for 3 month period</b>                    | <b>(9,304)</b>   |

a) The results of the subsidiaries were not accounted in the 9 month period accounts.

b) The corporate income tax calculated for 9 month period was based on the prepayment made to state authorities for that period.

### 3. Segment information

The Group has presented the information by each separate business segment.

The below table presents the breakdown of income statement item, as well as assets and liabilities by business segments:

|                                       | Oil and oil products |              | Publishing and printing |              | Real estate management |             | Other      |             | Consolidated   |                |
|---------------------------------------|----------------------|--------------|-------------------------|--------------|------------------------|-------------|------------|-------------|----------------|----------------|
|                                       | 2003                 | 2002         | 2003                    | 2002         | 2003                   | 2002        | 2003       | 2002        | 2003           | 2002           |
| Net sales                             | 35,269               | 47,385       | 19,949                  | 18,199       | 143                    | 281         | -          | -           | 55,361         | 65,865         |
| Cost of sales                         | (33,481)             | (34,981)     | (17,496)                | (17,591)     | (297)                  | (258)       | -          | (20)        | (51,274)       | (52,850)       |
| Sales and distribution expense        | -                    | -            | (1,460)                 | (452)        | -                      | -           | -          | -           | (1,460)        | (452)          |
| General and administrative expense    | (6,310)              | (9,035)      | (1,018)                 | (1,009)      | (169)                  | (108)       | (2)        | (10)        | (7,499)        | (10,162)       |
| Other operating income/ (expense)     | (1,068)              | (2,113)      | 66                      | (73)         | 18                     | (7)         | 1          | 3           | (983)          | (2,190)        |
| <b>Segment result</b>                 | <b>(5,588)</b>       | <b>1,256</b> | <b>41</b>               | <b>(926)</b> | <b>(305)</b>           | <b>(92)</b> | <b>(1)</b> | <b>(27)</b> | <b>(5,853)</b> | <b>211</b>     |
| Non-operating expense, net            |                      |              |                         |              |                        |             |            |             | (368)          | (287)          |
| Revaluation of investments            |                      |              |                         |              |                        |             |            |             | (52)           | (107)          |
| Financial income, net                 |                      |              |                         |              |                        |             |            |             | (1,729)        | (4,609)        |
| Corporate income tax                  |                      |              |                         |              |                        |             |            |             | (2,979)        | 5,015          |
| Real estate tax                       |                      |              |                         |              |                        |             |            |             | (1,331)        | (1,104)        |
| Minority interest                     |                      |              |                         |              |                        |             |            |             | 2,872          | 214            |
| <b>Net result</b>                     | <b>(5,588)</b>       | <b>1,256</b> | <b>41</b>               | <b>(926)</b> | <b>(305)</b>           | <b>(92)</b> | <b>(1)</b> | <b>(27)</b> | <b>(9,442)</b> | <b>(667)</b>   |
| Segment assets                        | 216,302              | 235,303      | 17,821                  | 16,450       | 16,167                 | 3,135       | 18         | 20          | 250,308        | 254,908        |
| Unallocated assets                    |                      |              |                         |              |                        |             |            |             | 41,035         | 53,844         |
| <b>Total consolidated assets</b>      |                      |              |                         |              |                        |             |            |             | <b>291,343</b> | <b>308,752</b> |
| Segment liabilities                   | 4,186                | 11,116       | 4,902                   | 2,561        | 467                    | 45          | 1          | 3           | 9,556          | 13,725         |
| Unallocated segment liabilities       |                      |              |                         |              |                        |             |            |             | 5,946          | 6,528          |
| <b>Total consolidated liabilities</b> |                      |              |                         |              |                        |             |            |             | <b>15,502</b>  | <b>20,253</b>  |
| Capital expenditure                   | 21,399               | 30,109       | 2,337                   | 633          | 918                    | 3,031       | -          | 1           | 24,654         | 33,774         |
| Amortization and depreciation         | 15,838               | 15,460       | 1,660                   | 1,816        | 123                    | 19          | -          | 3           | 17,621         | 17,298         |

### 3. Segment information (cont'd)

The management considers that the preparation of business segment cash flow is not practical.

Since all the operations as well as the all the material assets of the group are located in Latvia the management considers irrelevant to prepare the secondary segment reporting format according to geographical locations.

The descriptions of the segments:

#### Oil and oil products:

The revenues in oil and oil product business segment mainly come from the transporting, storage and reloading of oil and oil products in Latvia.

#### Publishing and printing:

The revenues in this business segment make charge for printing service to Latvian residents and non-residents, as well as, income from newspaper publishing and advertising services related to it.

#### Real estate management:

Collected rent charges and other income related to real estate management make the revenues in this business segment.

### 4. Net sales

|  | Group         |               | Parent company |               |
|--|---------------|---------------|----------------|---------------|
|  | 2003          | 2002          | 2003           | 2002          |
| Reloading the oil and oil products from the shore to ships <sup>a)</sup> | 21,737        | 28,065        | 18,116         | 28,065        |
| Printing services  | 16,535        | 14,844        | -              | -             |
| Transportation of oil <sup>b)</sup>                                      | 7,503         | 13,669        | -              | -             |
| Transportation of oil products   | 5,974         | 5,606         | -              | -             |
| Newspaper sales  | 1,975         | 1,776         | -              | -             |
| Advertisements   | 736           | 941           | -              | -             |
| Rental income  | 527           | 567           | -              | -             |
| Loading of rail and road tankers   | 43            | 38            | 43             | 38            |
| Other services related to reloading                                      | 10            | 7             | 15             | 19            |
| Hotel services   | 9             | 143           | -              | -             |
| Other  | 312           | 209           | 2              | -             |
| <b>TOTAL:</b>  | <b>55,361</b> | <b>65,865</b> | <b>18,176</b>  | <b>28,122</b> |

a) Net sales from reloading the oil products from the shore to ships in year 2003 for the parent company consist of the turnover for the 9 month period ended as of 30 September 2003. (See also Note 2 Group restructuring)

b) At the end of 2002, transportation of crude oil through the Company's pipeline in Ventspils direction was fully ceased by the Russian suppliers. As further described in Note 13 Property, plant and equipment the management and the Council of the Parent company and the subsidiary SIA LatRosTrans are working on plans how to resume oil transportation to the Ventspils direction.

## 5. Cost of sales

|  | Group         |               | Parent company |               |
|--|---------------|---------------|----------------|---------------|
|  | 2003          | 2002          | 2003           | 2002          |
| Amortization and depreciation                    | 16,494        | 16,085        | 5,659          | 7,441         |
| Raw materials                                    | 9,469         | 8,730         | -              | -             |
| Remuneration for work                            | 8,101         | 8,461         | 1,555          | 2,038         |
| Insurance expenses                               | 2,436         | 2,388         | 1,322          | 1,312         |
| Utilities  | 2,339         | 2,596         | 932            | 1,072         |
| Materials and spare parts                        | 1,744         | 1,707         | 445            | 831           |
| Social security contributions                    | 1,738         | 1,994         | 381            | 534           |
| Railway charges                                  | 1,512         | 656           | 1,356          | 656           |
| Transit development                              | 1,252         | 1,493         | -              | -             |
| Utilization of piers                             | 978           | 1,382         | 841            | 1,382         |
| Treatment of technological waste water           | 888           | 1,395         | 765            | 1,395         |
| Security   | 870           | 830           | -              | -             |
| Land rent  | 689           | 968           | 522            | 959           |
| Environment protection expense                   | 578           | 501           | 47             | 62            |
| Services received from other companies           | 431           | 904           | 272            | 295           |
| Repair works done by other companies             | 384           | 706           | 226            | 351           |
| Processing works                                 | 254           | 303           | -              | -             |
| Helicopter services                              | 239           | 247           | -              | -             |
| Communication expense                            | 214           | 270           | -              | -             |
| Non-deductible VAT                               | 136           | 456           | -              | -             |
| Changes in inventory                             | 13            | (130)         | 44             | (18)          |
| Allowance for obsolete and slow moving inventory | -             | 283           | -              | 186           |
| Other  | 515           | 625           | 15             | 41            |
| <b>TOTAL:</b>                                    | <b>51,274</b> | <b>52,850</b> | <b>14,382</b>  | <b>18,537</b> |

The costs of sales for the Parent company in year 2003 mainly consist of the costs for the 9 month period ended as of 30 September 2003. (See also Note 2 Group restructuring)

## 6. General and administrative expense

|   | Group        |               | Parent company |              |
|---|--------------|---------------|----------------|--------------|
|   | 2003         | 2002          | 2003           | 2002         |
| Remuneration for work                         | 3,265        | 3,812         | 1,984          | 2,755        |
| Amortization and depreciation                 | 686          | 713           | 580            | 601          |
| Social security contributions                 | 640          | 764           | 401            | 569          |
| Advertising and marketing                     | 527          | 772           | 400            | 600          |
| Research and development costs                | 416          | 87            | 416            | 75           |
| Professional charges and legal costs          | 338          | 392           | 108            | 232          |
| Allowance for doubtful and bad debts          | 254          | 387           | -              | -            |
| Insurance                                     | 185          | 644           | 178            | 631          |
| Communication expense                         | 152          | 207           | 117            | 161          |
| Business trips                                | 145          | 268           | 93             | 200          |
| Rent of premises                              | 125          | 162           | 169            | 162          |
| Other personnel expense                       | 120          | 341           | 64             | 258          |
| Vehicle maintenance expense                   | 118          | 155           | 106            | 147          |
| Bank charges                                  | 87           | 69            | 48             | 42           |
| Representation expense                        | 74           | 90            | 38             | 73           |
| Social infrastructure expense                 | 52           | -             | -              | -            |
| Security                                      | 39           | 112           | 17             | 90           |
| Conferences, seminars and training            | 37           | 133           | 25             | 124          |
| Fair value adjustment for long-term advance * | (46)         | 275           | (275)          | 275          |
| Prior years (income)/ expense, net            | (108)        | 231           | (108)          | 235          |
| Other expense                                 | 392          | 548           | 176            | 247          |
| <b>TOTAL:</b>                                 | <b>7,499</b> | <b>10,162</b> | <b>4,537</b>   | <b>7,477</b> |

The general and administrative costs for the parent company in year 2003 mainly consist of the costs for the 9 month period ended as of 30 September 2003. (See also Note 2 Group restructuring)

\* The reversal of fair value adjustment is the reversal for allowance for Parventas siltums. (See also note 18)

**7. Other operating income/ (expense), net**

|   | Group        |                | Parent company |              |
|---|--------------|----------------|----------------|--------------|
|   | 2003         | 2002           | 2003           | 2002         |
| Purification of piers <sup>a)</sup>                                   | 3,191        | -              | 3,353          | -            |
| Provision for oil products compensation to clients <sup>b)</sup>      | 2,091        | (2,091)        | -              | -            |
| Release of accrued expenses   | 364          | -              | 364            | -            |
| Income from rent of fixed assets                                      | 54           | -              | 1,289          | -            |
| Depreciation and insurance expense related to rented fixed assets     | -            | -              | (1,163)        | -            |
| Penalties received, net   | 20           | (15)           | 1              | (16)         |
| Release of allowances for doubtful and bad debt                       | 3            | 310            | 3              | 310          |
| Amortization of negative goodwill                                     | -            | 216            | -              | 216          |
| Negative goodwill of a/s Preses nams                                  | -            | -              | 60             | 99           |
| Depreciation  | (160)        | (225)          | (150)          | (213)        |
| Personnel expenses  | (191)        | (124)          | (82)           | (114)        |
| Payments to local municipality <sup>c)</sup>                          | (200)        | (303)          | (200)          | (303)        |
| Amortization of goodwill  | (271)        | (271)          | (271)          | (271)        |
| VAT and excise tax according to the ruling of the court <sup>d)</sup> | (1,208)      | -              | -              | -            |
| Oil product losses <sup>b)</sup>                                      | (4,645)      | -              | -              | -            |
| Other, net  | (31)         | 258            | (69)           | 56           |
| <b>TOTAL:</b>   | <b>(983)</b> | <b>(2,245)</b> | <b>3,135</b>   | <b>(236)</b> |

a) After the reorganization of the Company by transferring the oil and oil product reloading business to subsidiary SIA Ventspils nafta termināls, the Company released the remaining provision for purification of piers. The management of a/s Ventspils nafta believes that the majority of the needed purification work has been done and fatherly the Company will not need any further significant investments in purification works. (See also Note 29 Provisions).

b) In 2002, the subsidiary SIA LatRosTrans incurred losses of oil products, which exceeded the loss rate agreed with the clients (0.15% of total transported volume) by 15.3 thousand tons. The subsidiary SIA LatRosTrans established a provision of LVL 2,091 thousand for the aforementioned losses, calculated using the market price of oil products. In 2003, the management and the Council of the subsidiary SIA LatRosTrans has reviewed the treatment of such losses and determined that it is more appropriate to write off any excessive oil product losses from the subsidiary SIA LatRosTrans own oil products at the weighted average cost of oil products. Accordingly, the provision established in 2002 has been reversed and the 15.3 thousand tons excess losses for 2002 and 30.6 thousand tons for 2003 amounting to LVL 1,550 thousand and LVL 3,095 thousand respectively have been written off from the subsidiary's SIA LatRosTrans own oil product.

c) According to the agreement between a/s Ventspils nafta and Ventspils City Council, a/s Ventspils nafta pays annually not more than 10% of the Parent company's net result after tax adjusted for bonuses to Ventspils City Council for development of the social infrastructure of Ventspils City. According to the special agreement, it was agreed that for year 2003 the payment to Ventspils City Council for development of the social infrastructure of Ventspils City will be LVL 200 thousand.

## 7. Other operating income/ (expense), net (cont'd)

d) In 2002, the Customs Control Department performed an audit of the compliance of the transit procedure in the subsidiary SIA LatRosTrans for the years ended 31 December 2001 and 2000. As a result, the authorities imposed customs duties payable in respect of the excise tax in the amount of LVL 635 thousand and LVL 247 thousand, for 2001 and 2000 respectively, as well as in respect of value added tax in the amount of LVL 249 thousand and LVL 78 thousand, respectively. Therefore, the total customs duties claim for the year ended 31 December 2001 amounted to LVL 883 thousand and for the year ended 31 December 2000 – to LVL 325 thousand. The claims for additional tax payments were made in respect of oil product losses based on the assumption that oil products, that the subsidiary SIA LatRosTrans has accounted as lost, have to be treated as subsidiary's SIA LatRosTrans own import in accordance with the Law on Customs. The subsidiary SIA LatRosTrans settled the duties as described above and at the same time appealed against the State revenue service decisions in the court. The court ruling in relation to the year 2000 was completed by the highest court institution in Latvia and was unfavorable to the subsidiary SIA LatRosTrans. The verdict issued by the Senate is final and cannot be appealed. The subsidiary SIA LatRosTrans is expecting a court ruling in October 2004 to determine whether the Latvian Tax Authorities must cancel their claim for additional taxes related to 2001. This ruling can be used to determine the appropriate tax treatment of physical losses also for the years 2002 and 2003. The management and Council of the subsidiary SIA LatRosTrans strongly believes that the ruling will be in favor of the subsidiary SIA LatRosTrans and has therefore not recorded any provisions in these financial statements in respect of such additional taxes related to the years 2002 and 2003. The subsidiary SIA LatRosTrans has established a provision for the full amount of the claim in relation to the duties related to year 2000 and 2001 (see also Note 34)

## 8. Personnel expenses

|                             | Group |       | Parent company |      |
|-----------------------------|-------|-------|----------------|------|
|                             | 2003  | 2002  | 2003           | 2002 |
| Average number of employees | 2,932 | 2,447 | 593            | 828  |

### Remuneration for work and social security expense

|                               | Group  |        | Parent company |       |
|-------------------------------|--------|--------|----------------|-------|
|                               | 2003   | 2002   | 2003           | 2002  |
| Remuneration for work         | 10,641 | 11,259 | 3,041          | 4,115 |
| Social security contributions | 2,323  | 2,675  | 732            | 1,059 |
| Other expense                 | 150    | 290    | 66             | 215   |

#### Members of the Board of Directors

|                               |     |     |     |     |
|-------------------------------|-----|-----|-----|-----|
| Remuneration for work         | 473 | 493 | 308 | 447 |
| Social security contributions | 43  | 28  | 14  | 18  |
| Other expense                 | 27  | 85  | 23  | 85  |

#### Members of the Council

|                               |     |     |     |     |
|-------------------------------|-----|-----|-----|-----|
| Remuneration for work         | 518 | 620 | 237 | 322 |
| Social security contributions | 82  | 79  | 45  | 49  |
| Other expense                 | 10  | 12  | 9   | 7   |

|               |               |               |              |              |
|---------------|---------------|---------------|--------------|--------------|
| <b>TOTAL:</b> | <b>14,267</b> | <b>15,541</b> | <b>4,475</b> | <b>6,317</b> |
|---------------|---------------|---------------|--------------|--------------|

## 8. Personnel expenses (cont'd)

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

|                                     | Group         |               | Parent company |              |
|-------------------------------------|---------------|---------------|----------------|--------------|
|                                     | 2003          | 2002          | 2003           | 2002         |
| Cost of sales                       | 9,851         | 10,488        | 1,958          | 2,605        |
| Selling expenses                    | 215           | -             | -              | -            |
| General and administrative expenses | 3,947         | 4,928         | 2,426          | 3,597        |
| Other operating expenses            | 247           | 125           | 84             | 115          |
| Non-operating expenses              | 3             | -             | 3              | -            |
| Construction in progress            | 4             | -             | 4              | -            |
| <b>TOTAL:</b>                       | <b>14,267</b> | <b>15,541</b> | <b>4,475</b>   | <b>6,317</b> |

## 9. Non-operating expense

|                              | Group      |            | Parent company |            |
|------------------------------|------------|------------|----------------|------------|
|                              | 2003       | 2002       | 2003           | 2002       |
| Sponsorships                 | 364        | 223        | 364            | 223        |
| Other income/ (expense), net | 4          | 9          | 4              | 9          |
| <b>TOTAL:</b>                | <b>368</b> | <b>232</b> | <b>368</b>     | <b>232</b> |

## 10. Financial income/ (expense), net

|   | Group          |                | Parent company |                |
|---|----------------|----------------|----------------|----------------|
|   | 2003           | 2002           | 2003           | 2002           |
| Foreign currency exchange gain                          | 2,171          | 2,472          | 393            | 1,083          |
| Interest income on loans                                | 483            | 869            | 88             | 246            |
| Interest income from bank account balances and deposits | 105            | 792            | 13             | 488            |
| Income from trading investments                         | 34             | 2              | 2              | -              |
| Interest expense  | (268)          | (391)          | (13)           | (36)           |
| Foreign currency exchange loss                          | (4,254)        | (8,353)        | (845)          | (4,107)        |
| <b>TOTAL:</b>   | <b>(1,729)</b> | <b>(4,609)</b> | <b>(362)</b>   | <b>(2,326)</b> |

## 11. Corporate income tax

|  | Group        |                | Parent company |                |
|--|--------------|----------------|----------------|----------------|
|  | 2003         | 2002           | 2003           | 2002           |
| <b><u>Current income tax</u></b>   |              |                |                |                |
| Current income tax   | 1,878        | -              | 1,878          | -              |
| Income tax correction from previous year   | -            | (66)           | -              | 23             |
| <b><u>Deferred tax</u></b>   |              |                |                |                |
| Relating to origination and reversal of temporary differences  | 3,695        | (7,460)        | 3,095          | (5,590)        |
| Relating to change on the opening balance of the deferred income tax from used income tax rates in year 2003 | (1,729)      | -              | (1,729)        | -              |
| Relating to change in income tax rates   | (865)        | 2,511          | (591)          | 2,800          |
| <b>Income tax reported in income statement</b>   | <b>2,979</b> | <b>(5,015)</b> | <b>2,652</b>   | <b>(2,767)</b> |

### **Deferred corporate income tax:**

#### **Parent company:**

|  | Balance sheet |                | Income statement |                |
|--|---------------|----------------|------------------|----------------|
|  | 2003          | 2002           | 2003             | 2002           |
| <b><u>Deferred income tax liability</u></b>  |               |                |                  |                |
| Accelerated depreciation for tax purposes  | 2,216         | 8,727          | (3,826)          | 553            |
| Change on the opening balance of the deferred income tax from used income tax rates in year 2003 <sup>a)</sup> | -             | -              | (2,094)          | -              |
| (Gain)/Loss from change of income tax rates <sup>b)</sup>  | -             | -              | (591)            | 3,087          |
| <b>Gross deferred tax liability</b>  | <b>2,216</b>  | <b>8,727</b>   | <b>(6,511)</b>   | <b>3,640</b>   |
| <b><u>Deferred income tax asset</u></b>  |               |                |                  |                |
| Tax losses carried forward   | -             | (618)          | 436              | (618)          |
| Deferred tax assets related to other temporary differences   | -             | (902)          | 685              | 240            |
| (Gain)/ loss from change of income tax rates <sup>b)</sup>   | -             | -              | -                | (287)          |
| Change on the opening balance of the deferred income tax from used income tax rates <sup>a)</sup>              | -             | -              | 365              | -              |
| Other  | -             | -              | 34               | -              |
| Income tax discounts on investments in Ventspils free port <sup>a)</sup>                                       | -             | (5,766)        | 5,766            | (5,766)        |
| <b>Gross deferred tax asset</b>  | <b>-</b>      | <b>(7,286)</b> | <b>7,286</b>     | <b>(6,431)</b> |
| <b>Net deferred income tax liability</b>   | <b>2,216</b>  | <b>1,441</b>   | <b>775</b>       | <b>(2,791)</b> |

## 11. Corporate income tax (cont'd)

a) On 1 January 2002, the law on taxation in free ports and special economic zones came in force, as a result the Parent company applied 25% income tax rate, at the same time the Parent company receives income tax rebate on 80% of amount invested starting from the effective date of the law. Due to performed restructuring transactions in year 2003 the parent company a/s Ventspils nafta did not classify under the law on taxation in free ports and special economical zones thus the Company uses 19% corporate income tax rate for year 2003 and 15% starting from year 2004. Respectively the Company is not entitled on the tax discount on investments in Ventspils free port.

b) Due to changes in tax legislation that projected decrease of income taxes for the following years: 2002: 22%, 2003: 19% and starting from 2004 15%.

### Deferred corporate income tax:

#### Group:

|  | <b>Balance sheet</b> |                | <b>Income statement</b> |                |
|--|----------------------|----------------|-------------------------|----------------|
|  | 2003                 | 2002           | 2003                    | 2002           |
| <b>Deferred income tax liability</b>   |                      |                |                         |                |
| Accelerated depreciation for tax purposes  | 6,828                | 12,310         | (2,340)                 | 1,018          |
| Unrecorded release of deferred tax liability   | -                    | 65             | (65)                    | -              |
| Change on the opening balance of the deferred income tax from used income tax rates in year 2003 <sup>a)</sup> | -                    | -              | (2,094)                 |                |
| Deferred tax (income)/ loss due to change in tax rate  | -                    | -              | (1,048)                 | 2,798          |
| <b>Gross deferred tax liability</b>  | <b>6,828</b>         | <b>12,375</b>  | <b>(5,547)</b>          | <b>3,816</b>   |
| <b>Deferred income tax asset</b>   |                      |                |                         |                |
| Tax losses carried forward   | (1,041)              | (1,065)        | (1,478)                 | (804)          |
| Deferred tax assets related to other temporary differences   | (80)                 | (902)          | 661                     | 240            |
| Deferred tax income due to change in tax rate  | -                    | -              | 183                     | (287)          |
| Change on the opening balance of the deferred income tax from used income tax rates in year 2003 <sup>a)</sup> | -                    | -              | 365                     | -              |
| Income tax discounts on investments in Ventspils free port   | -                    | (5,766)        | 5,766                   | (5,766)        |
| Tax losses offset within the group   | -                    | -              | 1,073                   | -              |
| Other  | -                    | -              | 34                      | -              |
| Tax rebate on investment projects above LVL 10,000 thousand <sup>b)</sup>                                      | (4,166)              | (4,166)        | -                       | (2,149)        |
| Less valuation for allowance for tax asset   | 2,311                | 2,273          | 45                      | -              |
| <b>Gross deferred tax asset</b>  | <b>(2,976)</b>       | <b>(9,626)</b> | <b>6,649</b>            | <b>(8,766)</b> |
| <b>Net deferred income tax liability</b>   | <b>3,852</b>         | <b>2,749</b>   | <b>1,102</b>            | <b>(4,950)</b> |

See comment on Parent company's deferred corporate income tax disclosure.

According to the decision of the Cabinet of Ministers No. 613, dated 30 October 2002, subsidiary SIA LatRosTrans has been granted a tax rebate of 40% of the planned investment value or LVL 4,166 thousand to reduce corporate income tax for the purpose of supporting the investment projects amounting to LVL 10,415 thousand.

## 11. Corporate income tax (cont'd)

The subsidiary SIA LatRosTrans can use the rebate against future taxable profit, if it fulfils the above mentioned investment plan within the period 17 July 2000 through 31 December 2004. The management believes that the above mentioned investment plan will be fulfilled and tax asset will be utilized.

Group tax losses carried forward expire as follows:

|              |                           |
|--------------|---------------------------|
| Year 2006    | 252 thousand LVL          |
| Year 2007    | 1,241 thousand LVL        |
| Year 2008    | 6,602 thousand LVL        |
| <b>Total</b> | <b>8,095 thousand LVL</b> |

Effective tax rate:

|  | <b>Group</b>    |                | <b>Parent company</b> |                |
|--|-----------------|----------------|-----------------------|----------------|
|  | 2003            | 2002           | 2003                  | 2002           |
| Income/ (loss) before taxes  | (15,367)        | (4,792)        | (5,775)               | 690            |
| Real estate tax  | (1,331)         | (1,104)        | (843)                 | (728)          |
| <i>Profit/ (loss) before corporate income tax</i>  | <i>(16,698)</i> | <i>(5,896)</i> | <i>(6,618)</i>        | <i>(38)</i>    |
| Corporate income tax 19% (2002 – 22%)  | (3,166)         | (1,297)        | (1,257)               | (8)            |
| Increased corporate income tax applicable for the parent company (25%)                                       | -               | (2)            | -                     | (2)            |
| Decrease in corporate income tax applicable for the parent company <sup>a)</sup>                             | (1,729)         | -              | (1,729)               | -              |
| Permanent differences including the effect of intra-group transactions                                       | 1,627           | 2,262          | 320                   | 186            |
| Increase of income tax rate effect on the closing balance of the deferred income tax                         | 316             | 2,798          | 591                   | 2,800          |
| Tax losses offset within the group   | -               | -              | (1,073)               | -              |
| Income tax rate decrease and tax discount effect on the closing balance of deferred income tax <sup>a)</sup> | 5,766           | (10,219)       | 5,766                 | (5,766)        |
| Unrecognized tax losses  | 83              | 2,031          | -                     | -              |
| Utilized previously unrecognized tax losses  | -               | (597)          | -                     | -              |
| Other  | 87              | 76             | 34                    | -              |
|  | <b>2,979</b>    | <b>(4,949)</b> | <b>2,652</b>          | <b>(2,790)</b> |
| Adjustments of previous years  |                 | (66)           |                       | 23             |
| <b>Corporate income tax included in the income statement</b>   | <b>2,979</b>    | <b>(5,015)</b> | <b>2,652</b>          | <b>(2,767)</b> |

a) See Parent company's deferred income tax note.

## 12. Intangible assets

|  | Group           |              |                         |               | Parent company |
|--|-----------------|--------------|-------------------------|---------------|----------------|
|  | Land use rights | Goodwill     | Other intangible assets | Total         | Goodwill       |
| Cost value as at 01/01/2003              | 49,659          | 2,740        | 4                       | 52,403        | 2,713          |
| 2003 Additions                           | -               | -            | 23                      | 23            | -              |
| Transfers to assets for sale             | -               | -            | -                       | -             | (2,713)        |
| Cost value as at 31/12/2003              | 49,659          | 2,740        | 27                      | 52,426        | -              |
| Accumulated amortisation                 | 11,720          | 1,025        | 4                       | 12,749        | 1,017          |
| 2003 Amortisation for the year           | 1,897           | 273          | 2                       | 2,172         | 271            |
| Transfers to assets for sale             | -               | -            | -                       | -             | (1,288)        |
| Balance as at 31/12/2003                 | 13,617          | 1,298        | 6                       | 14,921        | -              |
| <b>Net book value 01/01/2003</b>         | <b>37,939</b>   | <b>1,715</b> | <b>-</b>                | <b>39,654</b> | <b>1,696</b>   |
| <b>Net book value 31/12/2003</b>         | <b>36,042</b>   | <b>1,442</b> | <b>21</b>               | <b>37,505</b> | <b>-</b>       |
| Amortisation rate (straight line method) | 4%              | 10%          | 10-35%                  |               | 10%            |

(a)

Management of SIA LatRosTrans and A/s Ventspils nafta has considered the need for a allowance for impairment of intangible fixed assets and decided that such allowance was not required using the same rationale as described in Note 13 Property, plant and equipment.

a) In connection with the subsidiary's SIA LatRosTrans foundation, the Republic of Latvia, represented by a/s LaSam, contributed use rights to the land, where the subsidiary's SIA LatRosTrans transmission pipelines are located at a value of LVL 49,659 thousand. The contribution value was agreed by the founders of the subsidiary SIA LatRosTrans according to agreement dated 29 September 1995.

The subsidiary's SIA LatRosTrans right to the contributed land use rights is based on Law On Restriction Zones dated 5 February 1997 and Latvian Civil Law, according to which subsidiary SIA LatRosTrans has use rights to the land where the subsidiary's SIA LatRosTrans existing pipelines are located. In case of repairs or similar activities on the pipelines, any damage to the land must be compensated to the owners. Further, use of land for new pipelines must be compensated to the owners, new pipelines being defined as pipelines being established after the law came into force.

The subsidiary SIA LatRosTrans has registered restriction zones on the land plots, where it has land use rights, in the Latvian Land Register.

Given that the ownership to the land use rights is granted to the existing pipelines only and given the level of competition in the industry in general, the subsidiary SIA LatRosTrans amortizes the value of the land use rights over the remaining lifetime of the existing pipelines estimated to be 25 years.

b) The goodwill in the Parent company's accounts was recognized during the transaction of the acquisition of a/s Naftas parks assets. The goodwill related to the oil and oil products reloading business therefore the Parent company has made agreement on the transfer of the asset to SIA Ventspils nafta termināls.

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

|                          | Group        |              | Parent company |            |
|--------------------------|--------------|--------------|----------------|------------|
|                          | 2003         | 2002         | 2003           | 2002       |
| Cost of sales            | 1,900        | 1,902        | -              | -          |
| Other operating expenses | 272          | 271          | 271            | 271        |
| <b>TOTAL:</b>            | <b>2,172</b> | <b>2,173</b> | <b>271</b>     | <b>271</b> |

### 13. Property, plant and equipment

#### Parent company

|  | Land <sup>c)</sup> ,<br>buildings and<br>networks | Machinery and<br>equipment | Other property,<br>plant and<br>equipment | Construction in<br>progress | Total, excluding<br>prepayments for<br>property, plant and<br>equipment |
|--|---|----------------------------|---|-----------------------------|---|
| Cost value as at 01/01/2003                        | 80,829  | 26,110                     | 20,341                                    | 2,775                       | 130,055   |
| Additions  | -   | 194                        | 86  | 3,033                       | 3,313   |
| Disposals <sup>a)</sup>                            | (58,675)  | (10,503)                   | (3,550)                                   | (2,247)                     | (74,975)  |
| 2003 Transfers                                     | 1,219   | 1,597                      | 581                                       | (3,397)                     | -   |
| Transferred to assets for sale <sup>b)</sup>       | (17,057)  | (17,126)                   | (15,727)                                  | -                           | (49,910)  |
| Transferred to investment properties <sup>d)</sup> | (6,316)   | -                          | -   | -                           | (6,316)   |
| Cost value as at 31/12/2003                        | -   | 272                        | 1,731                                     | 164                         | 2,167   |
| Accumulated depreciation as at 01/01/2003          | 10,249  | 15,478                     | 12,093                                    | -                           | 37,820  |
| Depreciation for the year                          | 2,009   | 2,456                      | 2,996                                     | -                           | 7,461   |
| Disposals  | (8,010)   | (4,495)                    | (1,550)                                   | -                           | (14,055)  |
| 2003 Transfers                                     | (3,800)   | (13,272)                   | (12,550)                                  | -                           | (29,622)  |
| Transferred to investment properties <sup>d)</sup> | (448)   | -                          | -   | -                           | (448)   |
| Accumulated depreciation as at 31/12/2003          | -   | 167                        | 989                                       | -                           | 1,156   |
| <b>Net book value as at 01/01/2003</b>             | <b>70,580</b>                                     | <b>10,632</b>              | <b>8,248</b>                              | <b>2,775</b>                | <b>92,235</b>   |
| <b>Net book value as at 31/12/2003</b>             | <b>-</b>  | <b>105</b>                 | <b>742</b>                                | <b>164</b>                  | <b>1,011</b>  |
| Depreciation rate (straight-line)                  | 1-10%   | 10-33%                     | 10-50%                                    |                             |   |

a) Disposals includes fixed assets transferred to subsidiaries SIA Rīgas Līcis VN, SIA Ventspils nafta termināls and SIA Ventspils biznesa centrs with the book values of LVL 2,136 thousand, LVL 53,206 thousand and LVL 3,825 thousand, respectively, as well as assets sold to subsidiary SIA Ventspils nafta termināls with the book value of LVL 1,685 thousand.

b) According to the restructuring process the Parent company had remaining assets related to oil and oil product reloading business. As mentioned in the Note 39 Subsequent events, at the beginning of 2004, the Parent Company sold to subsidiary SIA Ventspils nafta termināls fixed assets, with the net book value at 31 December 2003 of LVL 20,288 thousand. The payment for the assets is fatherly intended to additionally capitalize in SIA Ventspils nafta termināls. Accordingly for the stand alone Parent company financial statements the assets are disclosed as current, however in the Group financial statements the assets are treated as non-current. (see also Note 21 Fixed assets for sale and Note 2 Group restructuring).

c) The Parent company owns plots of land in Kuldīga district and two in Rīga. The cadastral value of land as of 31 December 2003 amounts to LVL 17 thousand, LVL 112 thousand and LVL 105 thousand, respectively.

d) As at the end of 2003, part of the real estate owned by a/s Ventspils nafta is recognised as investment properties. (See also Note 15. Investment properties)

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

#### Group

|   | Land, buildings<br>and networks | Machinery and<br>equipment | Other property,<br>plant and<br>equipment | Construction in<br>progress | Total, excluding<br>prepayments for<br>property, plant and<br>equipment |
|---|---------------------------------|----------------------------|---|-----------------------------|---|
| Cost value as at 01/01/2003               | 213,479                         | 58,177                     | 26,371                                    | 11,779                      | 309,806   |
| Additions                                 | 475                             | 2,309                      | 1,312                                     | 20,558                      | 24,654  |
| Disposals                                 | (564)                           | (1,598)                    | (701)                                     | (12)                        | (2,875)   |
| Transfers                                 | 3,945                           | 15,190                     | 570                                       | (19,771)                    | (66)  |
| Transferred to investment properties      | (2,718)                         | -                          | -   | -                           | (2,718)   |
| Cost value as at 31/12/2003               | 214,617                         | 74,078                     | 27,552                                    | 12,554                      | 328,801   |
| Accumulated depreciation as at 01/01/2003 | 97,981                          | 27,250                     | 16,347                                    | -                           | 141,578   |
| Depreciation for the year                 | 6,359                           | 5,330                      | 3,760                                     | -                           | 15,449  |
| Disposals                                 | (123)                           | (1,572)                    | (659)                                     | -                           | (2,354)   |
| Transfers                                 | -                               | -                          | (60)                                      | -                           | (60)  |
| Transferred to investment properties      | (106)                           | -                          | -   | -                           | (106)   |
| Accumulated depreciation as at 31/12/2003 | 104,111                         | 31,008                     | 19,388                                    | -                           | 154,507   |
| <b>Net book value as at 01/01/2003</b>    | <b>115,498</b>                  | <b>30,927</b>              | <b>10,024</b>                             | <b>11,779</b>               | <b>168,228</b>  |
| <b>Net book value as at 31/12/2003</b>    | <b>110,506</b>                  | <b>43,070</b>              | <b>8,164</b>                              | <b>12,554</b>               | <b>174,294</b>  |
| Depreciation rate (straight-line)         | 1-10%                           | 8.3-50%                    | 10-50%                                    |                             |   |

All fixed assets invested in subsidiary SIA Ventspils nafta termināls with the net book value of LVL 53,206 thousand as at 1 October 2003 were revaluated for the purpose of in-kind investment before the transaction. The valuation was done by SIA Ernst & Young Baltic, Reg. No. 000359345 and technological experts a/s Izstrādājumu bīstamības novērtēšanas aģentūra (IBNA) Reg.No. 000313042 and SIA Firma L4, Reg. No. 000323600 The value for the purpose of in-kind investment was assessed as LVL 53,918 thousand as at 1 September 2003.

In 2002 transportation of crude oil through the subsidiary's SIA LatRosTrans pipeline to Ventspils direction was fully ceased (see also Note 4 Net sales). The Parent company's and the subsidiary's SIA LatRosTrans management is in the process of negotiations with various parties aimed at restoring the flow of crude oil to the Ventspils direction. Currently the Parent company's and the subsidiary's SIA LatRosTrans management and the Council strongly believes and is working on two possible scenarios how to resume crude oil transportation in Ventspils direction. Therefore, also taking in to account developments in relation to the global oil market, the management and the Council of the the Parent company and the subsidiary SIA LatRosTrans believes that the current situation is temporary and that the transportation of crude oil will resume in the foreseeable future. The aggregate net book value of tangible and intangible fixed assets related to crude oil transportation in Ventspils direction approximates LVL 16 million.

As further described in Note 34 the subsidiary SIA LatRosTrans since 2002 has incurred substantial physical losses of oil products. This may result in additional tax liabilities and penalties, which may lead to a negative cash flow related to oil product transportation in the Ventspils direction. The subsidiary SIA LatRosTrans is expecting a court ruling in October 2004 to determine whether the Latvian Tax Authorities must cancel their claim for additional taxes related to 2001. This ruling can be used to determine the appropriate tax treatment of physical losses also for the years 2002 and 2003. The management of the the Parent company and the subsidiary SIA LatRosTrans strongly believes that the ruling will be in favor of the subsidiary SIA LatRosTrans. In addition the Council of the subsidiary SIA LatRosTrans has created working group consisting of shareholder representatives and various other parties in order to work out a positive solution in relation to the reduction of oil product losses and related tax consequences. The management and the Council of the Parent company and the subsidiary SIA LatRosTrans believe that these issues will be resolved by the end of year 2004. The aggregate net book value of tangible and intangible fixed assets related to the oil product transportation in Ventspils direction approximates LVL 60 million.

Due to the factors described above, the management and the Council of the Parent company and the subsidiary SIA LatRosTrans strongly believe that no adjustment for impairment of the above fixed assets related to crude oil and oil product transportation in the Ventspils direction amounting to approximately LVL 76 million should be recorded as of 31 December 2003. If the current situation will become permanent and alternative use of the pipeline will not be established and oil product losses and related tax consequences will not be reduced, an impairment adjustment will be recorded in the future in the financial statements of the subsidiary SIA LatRosTrans.

As of 31 December 2003, the cadastral value of the land owned by the subsidiary SIA Preses nams is LVL 132 thousand (2002: LVL 123 thousand).

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

As of 31 December 2003, the subsidiary a/s Preses nams had pledged its real estate in Cesis and production equipment acquired under financial lease contracts with the total net book value of LVL 3,680 thousand (2002: LVL 4,092 thousand) in order to secure credit facilities from a/s Latvijas Unibanka. (See Note 30 Long term loans from credit institutions)

As of 31 December 2002, the net book value of property, plant and equipment acquired by the subsidiary a/s Preses nams under financial lease contracts amounted to LVL 4,737 thousand (2002: LVL 4,462 thousand), but cost value amounted to LVL 4,462 thousand.

As at 31 December 2003 the cadastral value of land owned by the subsidiary SIA Rīgas Līcis VN is LVL 812 thousand.

During 2003 the subsidiary SIA Rīgas Līcis VN has temporarily ceased the construction works for the planned hospitality building in Jurmala. It is the intention to continue these works at later stage, and therefore the unfinished building under reconstruction has been classified as construction in progress in these financial statements (see also Note 34 Contingent liabilities).

As at 31 December 2003 the cadastral value of land and buildings owned by the subsidiary SIA Nekustamie Īpašumi VN and its subsidiaries is LVL 4,565 thousand and LVL 1,867.

During the reporting year, the building of the Group's subsidiary SIA Darījumu centrs Daugava at Balasta dambis 3, Riga and the adjacent land plot was held as an investment property of SIA Darījumu centrs Daugava for the purposes of generating the rental income. On 21 February 2004, independent realty appraisers performed the evaluation of the property to state the fair value of the land plot. The evaluation was performed on the assumption that the building is demolished and that the said land plot is a vacant site. The fair value of the land plot as stated by the independent appraiser amounts to LVL 4.97 million, which approximates the book value of the land plot.

During the reporting year, the building of the Group's subsidiary SIA Ventspils biznesa centrs at Ostas iela 23, Ventspils and the adjacent land plot was held as an investment property of SIA Ventspils biznesa centrs for the purposes of generating the rental income. On 3 March 2004, independent realty appraisers performed the evaluation of the property to state the fair value of the business centre buildings and the land plot. The fair value of the building and the land plot as stated by the independent appraiser as at 3 March 2003 amounts to LVL 3.34 million, which approximates the book value of the land plot and the buildings.

As disclosed in Note 30 Long term loans from credit institutions, all tangible fixed assets of the subsidiary SIA Ventspils nafta termināls with book value of LVL 57,687 thousand as at 31 December 2003 are pledged as security for credit lines granted by a/s Hansabanka and a/s Latvijas Unibanka.

The cadastral value of the subsidiary's SIA Ventspils nafta termināls real estate located at Talsu iela 75, Ventspils, as at 31 December 2003 amounted to LVL 38 thousand.

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

|                                     | Group         |               | Parent company |              |
|-------------------------------------|---------------|---------------|----------------|--------------|
|                                     | 2003          | 2002          | 2003           | 2002         |
| Cost of sales                       | 14,594        | 14,183        | 5,659          | 7,441        |
| Selling expenses                    | 10            | -             | -              | -            |
| General and administrative expenses | 686           | 713           | 580            | 601          |
| Other operating expenses            | 159           | 225           | 1,222          | 213          |
| Non-operating expenses              | -             | 4             | -              | 4            |
| <b>TOTAL:</b>                       | <b>15,449</b> | <b>15,125</b> | <b>7,461</b>   | <b>8,259</b> |

#### 14. Construction in progress and prepayments for property, plant and equipment

|  | Group         |               | Parent company |              |
|--|---------------|---------------|----------------|--------------|
|  | 31/12/2003    | 31/12/2002    | 31/12/2003     | 31/12/2002   |
| Communication system reconstruction                            | 4,188         | 1,751         | -              | -            |
| Projection and construction of lopping                         | 1,972         | -             | -              | -            |
| Construction of new pipeline corridor                          | 1,876         | 1,290         | -              | 1,290        |
| Reconstruction of real estate Rīgas Līcis in Jūrmala           | 1,769         | -             | 160            | -            |
| Construction of railway tank filling/reloading platform Nr. 4  | 1,485         | 176           | -              | 176          |
| Reconstruction of tank filling platform Nr. 1                  | 410           | 410           | -              | 410          |
| Projection of main pump station at Ilūkste                     | 281           | -             | -              | -            |
| Technology modernization                                       | -             | 4,182         | -              | -            |
| Construction of pump station in Džūkste                        | -             | 1,268         | -              | -            |
| Reconstruction of automation system in Skrudaliena and Džūkste | -             | 1,164         | -              | -            |
| Construction of pump station                                   | -             | 886           | -              | 886          |
| Other objects  | 573           | 652           | 4              | 13           |
| <b>TOTAL:</b>  | <b>12,554</b> | <b>11,779</b> | <b>164</b>     | <b>2,775</b> |

Please see Note 34 Contingent liabilities for commitments for capital expenditure.

As of 31 December 2003 the main part of prepayments for tangible fixed assets relates to the subsidiary's SIA LatRosTrans payments to the construction company SIA Baltijas Inženierbūve for construction of oil product looping and to construction company SIA Olimps for montage of an oil product accounting system amounting to LVL 1,273 thousand and LVL 729 thousand respectively.

Prepayments for tangible fixed assets as of 31 December 2003 also includes the subsidiary's SIA Ventspils nafta termināls payments to a/s Venceb for development and implementation of the technical construction project of railway tank filling/ reloading platform No. 4, amounting to LVL 1,488 thousand.

#### 15. Investment properties

|  | Group        | Parent company | Fair value   | Valuation date |
|--|--------------|----------------|--------------|----------------|
|  | 31/12/2003   | 31/12/2003     |              |                |
| Conference and recreation centre on Lake Usma, Lejastiezumi, Kuldigas district, Latvia | -            | 2,366          | 2,095        | 03/04/2004     |
| Representation house, Briāna street 3, Riga, Latvia                                    | 1,978        | 1,978          | 2,336        | 03/04/2004     |
| Sports centre, Talsu street 75, Ventspils, Latvia                                      | -            | 880            | 822          | 03/03/2004     |
| Office building, Palasta street 10, Riga, Latvia                                       | 634          | 634            | 1,340        | 22/03/2004     |
| Other  | -            | 10             |              |                |
| <b>TOTAL:</b>  | <b>2,612</b> | <b>5,868</b>   | <b>6,593</b> |                |

Investment properties belonging to the Parent company was valued at market value by SIA Biznesa Konsultantu Grupa, Reg. No. 40003394250.

The real estate Office building at Palasta street 10 is managed by the subsidiary SIA Nafta holdings.

As a part of Group restructuring, on 1 October 2003 real estate Lejastiezumi at Kuldigas district was transferred under the management of the subsidiary SIA Rīgas Līcis VN, but real estate Sports centre at Talsu iela 75, Ventspils and Representation house at Briāna iela 3, Riga was transferred under the management of SIA Namserviss VN, a subsidiary of SIA Nekustamie Īpašumi VN.

## 15. Investment properties (cont'd)

As providing of hotel, conference and recreations service is a core business of the subsidiary SIA Rīgas Līcis VN, the real estate is not considered as an investment property for the Group as at 31 December 2003.

During the year 2003, the real estate Sports centre at Talsu iela 75, Ventspils was mostly rented to the subsidiary SIA Ventspils nafta termināls, accordingly it not considered as an investment property for the Group as at 31 December 2003.

## 16. Investments in subsidiaries and associated entities

The following table summarizes ownership of the Parent company and the Group in subsidiaries and associated entities:

| Ownership (%)                                    | Group      |            | Parent company |            | Legal address                                   |
|--|------------|------------|----------------|------------|---|
|  | 31/12/2003 | 31/12/2002 | 31/12/2003     | 31/12/2002 |   |
| <u>Subsidiaries</u>                              |            |            |                |            |   |
| SIA LatRosTrans                                  | 66.00      | 66.00      | 66.00          | 66.00      | Balvu street 7, LV-5043, Daugavpils, Latvia     |
| A/s Preses nams                                  | 92.61      | 92.20      | 92.61          | 92.20      | Balasta dambis 3, LV-1081, Rīga, Latvia         |
| SIA under liquidation Nafta Holdings             | 98.00      | 98.00      | 98.00          | 98.00      | Doma laukums 6, C450, LV-1885, Rīga, Latvia     |
| A/s Rietumu cauruļvadu sistēma                   | 52.54      | 52.54      | 40.00          | 40.00      | Dzintaru street 22, LV-3602, Ventspils, Latvia  |
| SIA Rīgas Līcis VN                               | 100.00     | 100.00     | 100.00         | 100.00     | Dubultu prospekts 51, LV-2015, Jūrmala, Latvia  |
| SIA Nekustamie Īpašumi VN                        | 100.00     | 100.00     | 100.00         | 100.00     | Balasta dambis 3, LV-1081, Rīga, Latvija        |
| SIA Mediju nams                                  | 99.28      | 92.20      | 90.23          | -          | Balasta dambis 3, LV-1081, Rīga, Latvija        |
| SIA Ventspils nafta termināls                    | 100.00     | -          | 100.00         | -          | Talsu street 75, LV-3602, Ventspils, Latvija    |
| <u>Associated entities</u>                       |            |            |                |            |   |
| SIA Mediji un Poligrāfija                        | 32.05      | 32.05      | -              | -          | Balasta dambis 3, LV-1081, Rīga, Latvia         |
| SIA Ventshoes                                    | 21.01      | 21.01      | -              | -          | I. Mičurina iela 6, LV-3601, Ventspils, Latvia  |
| SIA Futbola klubs Ventspils                      | 30.00      | 30.00      | 30.00          | 30.00      | Dzintaru street 20a, LV-3602, Ventspils, Latvia |
| <u>Subsidiaries of SIA Nekustamie Īpašumi VN</u> |            |            |                |            |   |
| SIA Darījumu centrs Daugava                      | 100.00     | 100.00     | -              | 100.00     | Balasta dambis 3, LV-1081, Rīga, Latvija        |
| SIA Ventspils biznesa centrs                     | 100.00     | -          | -              | -          | Balasta dambis 3, LV-1081, Rīga, Latvija        |
| SIA Namserviss VN                                | 100.00     | -          | -              | -          | Balasta dambis 3, LV-1081, Rīga, Latvija        |
| SIA Maikapara nams                               | 100.00     | -          | -              | -          | Balasta dambis 3, LV-1081, Rīga, Latvija        |
| SIA Lejastiežumi                                 | 100.00     | -          | -              | -          | Balasta dambis 3, LV-1081, Rīga, Latvija        |
| SIA Pārventas sporta centrs                      | 100.00     | -          | -              | -          | Balasta dambis 3, LV-1081, Rīga, Latvija        |

# 16. Investments in subsidiaries and associated entities (cont'd)

The following table presents investments in subsidiaries and associated entities:

|  | Group      |            | Parent company |                |
|--|------------|------------|----------------|----------------|
|  | 31/12/2003 | 31/12/2002 | 31/12/2003     | 31/12/2002     |
| <i>Subsidiaries</i>                    |            |            |                |                |
| SIA LatRosTrans                        | -          | -          | 86,577         | 92,138         |
| SIA Ventspils nafta termināls          | -          | -          | 52,822         | -              |
| A/s Preses nams                        | -          | -          | 12,660         | 11,950         |
| SIA Rīgas Līcis VN                     | -          | -          | 2,304          | 81             |
| SIA Nekustamie īpašumi VN              | -          | -          | 7,685          | 19             |
| SIA under liquidation Nafta Holdings * | -          | -          | 289            | 323            |
| A/s Rietumu cauruļvadu sistēma         | -          | -          | 7              | 7              |
| SIA Mediju nams                        | -          | 34         | 95             | -              |
| SIA Darījumu centrs Daugava            | -          | -          | -              | -              |
| <i>Associated entities</i>             |            |            |                |                |
| SIA Mediji un Poligrāfija              | 66         | 78         | -              | -              |
| SIA Ventshoes                          | 96         | 137        | -              | -              |
| SIA Futbola klubs Ventspils            | -          | -          | -              | -              |
| <b>TOTAL:</b>                          | <b>162</b> | <b>249</b> | <b>162,439</b> | <b>104,518</b> |

\* The company under liquidation - SIA Nafta holdings is consolidated and treated as non-current asset, given that as stated in Note 30 Events after balance sheet date, all assets of SIA Nafta holdings under liquidation in 2004 will be assigned to a/s Ventspils nafta.

# 16. Investments in subsidiaries and associated entities (cont'd)

|  | <b>Group</b> |            | <b>Parent company</b> |                |
|--|--------------|------------|-----------------------|----------------|
|  | 31/12/2003   | 31/12/2002 | 31/12/2003            | 31/12/2002     |
| Balance at the beginning of the year               | 249          | 76         | 104,518               | 102,299        |
| <u>Acquisitions</u>                                |              |            |                       |                |
| SIA Ventspils nafta termināls                      | -            | -          | 53,948                | -              |
| SIA Nekustamie īpašumi VN                          | -            | -          | 7,795                 | 20             |
| SIA Rīgas Līcis VN                                 | -            | -          | 2,340                 | 200            |
| SIA Mediju nams                                    | -            | 36         | 1,200                 | -              |
| A/s Preses nams                                    | -            | -          | 15                    | 1,182          |
| SIA Darījumu centrs Daugava                        | -            | -          | -                     | 2              |
| SIA Ventshoes                                      | -            | 140        | -                     | -              |
| SIA Mediji un Poligrāfija                          | -            | 8          | -                     | -              |
| <i>Total acquisitions:</i>                         | -            | 184        | 65,298                | 1,404          |
| <u>Revaluation and dividends received</u>          |              |            |                       |                |
| Negative goodwill of a/s Preses nams               | -            | -          | 60                    | 99             |
| Dividends from SIA LatRosTrans                     | -            | -          | -                     | (660)          |
| <i>Total revaluation and dividends received:</i>   | -            | -          | 60                    | (561)          |
| <u>Proportional share of profit/ (loss)</u>        |              |            |                       |                |
| SIA LatRosTrans                                    | -            | -          | (5,561)               | (143)          |
| A/s Preses nams                                    | -            | -          | 635                   | 1,806          |
| SIA under liquidation Nafta Holdings               | -            | -          | (34)                  | (116)          |
| A/s Rietumu cauruļvadu sistēma                     | -            | -          | -                     | (2)            |
| SIA Rīgas Līcis VN                                 | -            | -          | (117)                 | (166)          |
| SIA Nekustamie īpašumi VN consolidated             | -            | -          | (129)                 | (2)            |
| SIA Darījumu centrs Daugava                        | -            | -          | -                     | (1)            |
| SIA Mediju nams                                    | (34)         | (2)        | (1,105)               | -              |
| SIA Mediji un Poligrāfija                          | (12)         | (6)        | -                     | -              |
| SIA Ventshoes                                      | (41)         | (3)        | -                     | -              |
| SIA Ventspils nafta termināls                      | -            | -          | (1,126)               | -              |
| <i>Total proportional share of profit/ (loss):</i> | (87)         | (11)       | (7,437)               | 1,376          |
| <b>Balance at the end of year</b>                  | <b>162</b>   | <b>249</b> | <b>162,439</b>        | <b>104,518</b> |

A proportional share of the profit/(loss) in subsidiaries and associated entities has been included in the result from subsidiaries and associated entities caption in the Group's and the Parent company's statements of income for 2003 and 2002.

## 17. Long-term loans to related parties

|   | Group      |            | Parent company |              |
|---|------------|------------|----------------|--------------|
|   | 31/12/2003 | 31/12/2002 | 31/12/2003     | 31/12/2002   |
| <b>Loan subsidiary SIA Nekustamie īpašumi VN <sup>a)</sup></b>                          | -          | -          | 111            | 2,460        |
| Less current portion  | -          | -          | (111)          | -            |
| Long term portion   | -          | -          | -              | 2,460        |
| <b>Loan to subsidiary SIA Ventspils nafta termināls <sup>b)</sup></b>                   | -          | -          | 676            | -            |
| Less current portion  | -          | -          | (676)          | -            |
| Long term portion   | -          | -          | -              | -            |
| <b>Long-term receivable from subsidiary SIA Ventspils nafta termināls <sup>c)</sup></b> | -          | -          | 4,755          | -            |
| <b>TOTAL:</b>   | <b>-</b>   | <b>-</b>   | <b>4,755</b>   | <b>2,460</b> |

a) On 15 September 2002 the parent company concluded loan agreement with subsidiary SIA Nekustamie īpašumi VN for LVL 6,630 thousand. In accordance to the agreement the loan is issued gradually starting from 18 December 2002 till 20 September 2004. The interest on the loan is 7% per annum and the maturity date is 31 December 2004. During year 2004 the long term loan to Nekustamie īpašumu VN was capitalized.

b) In accordance with the loan agreement with a/s Ventspils nafta, dated 26 September 2003, the subsidiary SIA Ventspils nafta termināls may use a credit facility in the amount of LVL 1,000 thousand, which is fully repayable by 31 January 2004. As agreed by the parties on 27 November 2003, the loan has been disbursed in USD. As at 31 December 2003 the outstanding amount of loan was USD 1,250 thousand.

c) Receivable from subsidiary SIA Ventspils nafta termināls includes the following:

|                                    | Maturity   | Total<br>31/12/2003 | Long-term    | Short-term   |
|------------------------------------|------------|---------------------|--------------|--------------|
| For purchase of assets             | 31/12/2007 | 2,350               | 2,350        | -            |
| For transferred advances paid      | 31/03/2014 | 2,094               | 2,094        | -            |
| For lease of tangible fixed assets | 30/06/2005 | 1,357               | 311          | 1,046        |
| For other goods and services       | 31/12/2003 | 49                  | -            | 49           |
| <b>TOTAL:</b>                      |            | <b>5,850</b>        | <b>4,755</b> | <b>1,095</b> |

Receivable from subsidiary SIA Ventspils nafta termināls includes receivable for the purchase of assets in the total amount of LVL 2,350 thousand. Under the additional agreement, dated 26 May 2004, the above amount is repayable by 31 December 2007 and the repayment shall be commenced on 10 January 2006. The interest will be calculated as 6 months USD LIBOR + 1.9% as of 30 June 2004

In accordance with the decision of the subsidiary's SIA Ventspils nafta termināls Board, dated 10 June 2004, on increase of the share capital by capitalizing a part of the payable to a/s Ventspils nafta, including the compensation for transferred advances amounting to EUR 378 thousand and LVL 1,833 thousand (in total LVL 2,094 thousand as at 31/12/2003), this payable as at 31 December 2003 is included in the subsidiary's SIA Ventspils nafta termināls balance sheet under long term liabilities.

Receivable from subsidiary SIA Ventspils nafta termināls also include receivable for the lease of tangible fixed assets amounting to LVL 1,357 thousand. On 26 May 2004, the agreement was reached on the payment schedule, where LVL 1,046 thousand should be paid during the year 2004.

## 18. Other long-term loans to corporate entities

|  | Group      |            | Parent company |            |
|--|------------|------------|----------------|------------|
|  | 31/12/2003 | 31/12/2002 | 31/12/2003     | 31/12/2002 |
| <b>SIA Pārventas Siltums <sup>a)</sup></b> | 1,214      | 1,309      | -              | 1,309      |
| Adjustment to fair value                   | (229)      | (275)      | -              | (275)      |
| Less current portion                       | (140)      | (140)      | -              | (140)      |
| Long term portion                          | 845        | 894        | -              | 894        |
| <b>Ventspils Free Port</b>                 | -          | 257        | -              | 257        |
| Less current portion                       | -          | (257)      | -              | (257)      |
| Long term portion                          | -          | -          | -              | -          |
| Other receivables                          | 90         | -          | -              | -          |
| <b>TOTAL:</b>                              | <b>935</b> | <b>894</b> | <b>-</b>       | <b>894</b> |

a) This caption includes the outstanding long-term advance to SIA Pārventas siltums in the amount of LVL 1,309 thousand. This amount is repaid by SIA Pārventas siltums by supplying heat thus erasing the outstanding amount at the rate of 3.65 LVL/Mwh. The current portion of this loan is estimated in the amount of LVL 140 thousand.

The advance payment is stated at fair value revaluating its amortized cost applying 6% discount rate.

Since the Parent company during the restructuring process has intended to transfer the amount to its subsidiary SIA Ventspils nafta termināls the amount has been accounted as current (see Note 23 Other accounts receivable) and no fair value adjustment has been made in the Parent Company's books.

## 19. Other investments

|                              | Group      |            | Parent company |            |
|------------------------------|------------|------------|----------------|------------|
|                              | 31/12/2003 | 31/12/2002 | 31/12/2003     | 31/12/2002 |
| Investments held to maturity |            |            |                |            |
| A/s Venttopaz (13.05%)       | 359        | 359        | -              | -          |
| Impairment loss              | (359)      | (359)      | -              | -          |
| A/s Lauma (0.09%)            | -          | 19         | -              | -          |
| <b>TOTAL</b>                 | <b>-</b>   | <b>19</b>  | <b>-</b>       | <b>-</b>   |

During year 2003, there were no changes in the shareholding percentage of equity investments made by the subsidiary SIA Naftas Holdings.

On 16 December 2002 share holders of a/s Venttopaz decided on the liquidation of the company. Therefore the subsidiary SIA Naftas Holdings made impairment write-off of all of the carrying value of this investment

## 20. Inventory

|   | Group                |                      | Parent company      |                     |
|---|----------------------|----------------------|---------------------|---------------------|
|   | 31/12/2003           | 31/12/2002           | 31/12/2003          | 31/12/2002          |
| Materials:  |                      |                      |                     |                     |
| Materials, spare parts and low value items          | 1,352                | 1,929                | 11                  | 934                 |
| Raw materials                                       | 1,797                | 1,326                | -                   | -                   |
| Other   | 1                    | 6                    | 1                   | 6                   |
|   | <u>3,150</u>         | <u>3,261</u>         | <u>12</u>           | <u>940</u>          |
| Oil and oil products <sup>a)</sup>                  | 6,742                | 11,275               | 2,508               | 2,440               |
| Finished inventory and goods for sale               | 311                  | 626                  | -                   | -                   |
| Unfinished inventory                                | 153                  | 118                  | -                   | -                   |
| Prepayments for materials                           | 162                  | 112                  | -                   | 1                   |
| Allowance for obsolete materials and finished goods | (492)                | (710)                | -                   | (186)               |
| <b>TOTAL:</b>                                       | <b><u>10,026</u></b> | <b><u>14,682</u></b> | <b><u>2,520</u></b> | <b><u>3,195</u></b> |

As mentioned in Note 30 Long-term loans from credit institutions, all inventories of the subsidiary SIA Ventspils nafta termināls amounting to LVL 806 thousand as at 31 December 2003 have been pledged as a security for the credit line granted by a/s Hansabanka. In 2004, the loan was repaid and the pledge released.

The value of oil and oil products included in the inventory caption represents the oil and oil products held in the technological facilities and pipeline of the Parent company and its subsidiaries SIA Ventspils nafta termināls and SIA LatRosTrans, used to ensure oil and oil product transportation process and not intended for sale.

a) The subsidiary's SIA LatRosTrans management has decided to write off excess losses of oil product incurred during the years 2002 and 2003 from the Company's inventory at the weighted average cost of oil products (see also Note 7 Other operating income and expenses, net).

The subsidiary SIA LatRosTrans has calculated, that the minimum technological reserve of oil products needed for the oil product transportation network amounts to 87,400 tons. As of December 2003 the subsidiary SIA LatRosTrans owns 41,449 tons of oil product. Thus, currently products owned by its clients are used as a remaining part of minimum technological reserve of oil products needed for the transportation network amounting to 45,951 tons. The approximate cost of restoring the minimal reserve of oil products used as technological reserve for the oil product transportation network entirely on the own resources is estimated in the amount of LVL 7,849 thousand using an average market price of LVL 170.8/ ton (USD 313.4/ ton) effective as at 7 June 2004.

## 21. Fixed assets for sale

According to the restructuring process the Parent company had remaining the property, plant and equipment and goodwill related to oil and oil product reloading business. As mentioned in the Note 39 Subsequent events, at the beginning of 2004, the Parent company sold to subsidiary SIA Ventspils nafta termināls fixed assets, with the net book value at 31 December 2003 of LVL 20,288 thousand and goodwill for LVL 1,425 thousand respectively. The payment for the property, plant and equipment is intended to additionally capitalize in SIA Ventspils nafta termināls. Accordingly for stand alone Parent company financial statements the assets are disclosed as current, however for Group financial statements the assets are treated as non-current. (see also Note 12 Intangible assets, Note 13 Property, plant and equipment and Note 2 Group restructuring).

## 22. Trade accounts receivable

|  | Group        |              | Parent company |              |
|--|--------------|--------------|----------------|--------------|
|  | 31/12/2003   | 31/12/2002   | 31/12/2003     | 31/12/2002   |
| For printing services                    | 3,607        | 2,400        | -              | -            |
| For reloading services                   | 1,900        | 1,736        | -              | 1,639        |
| For transporting of oil and oil products | 1,029        | 1,673        | -              | 822          |
| For other services                       | 42           | 301          | -              | -            |
| Doubtful debts                           | 1,397        | 1,355        | 234            | 261          |
| Allowance for doubtful debts             | (1,397)      | (1,355)      | (234)          | (261)        |
| <b>TOTAL:</b>                            | <b>6,578</b> | <b>6,110</b> | <b>-</b>       | <b>2,461</b> |

Trade account receivables of subsidiary a/s Preses nams have been pledged to a/s Latvijas Unibanka to secure a loan in the amount of LVL 165 thousand and a credit line in the amount of LVL 1,700 thousand received from the bank.

## 23. Other accounts receivable

|   | Group        |              | Parent company |            |
|---|--------------|--------------|----------------|------------|
|   | 31/12/2003   | 31/12/2002   | 31/12/2003     | 31/12/2002 |
| VAT and excise tax due from state <sup>a)</sup>               | 1,208        | 1,208        | -              | -          |
| Provision for VAT and excise tax due from state <sup>a)</sup> | (1,208)      | -            | -              | -          |
| VAT receivable (Note 33)                                      | 718          | 1,232        | -              | 275        |
| Deferred VAT  | 482          | 801          | 16             | 80         |
| Personal income tax   | 52           | 208          | -              | -          |
| Advances for services to be provided                          | 44           | 44           | 44             | 58         |
| Real estate tax (Note 33)                                     | 4            | 4            | 4              | -          |
| Social security contributions                                 | -            | 227          | -              | -          |
| Other accounts receivable <sup>b)</sup>                       | 24           | 407          | 1,311          | 17         |
| Doubtful debts  | 6,207        | 6,364        | 961            | 1,221      |
| Allowances for doubtful debts                                 | (6,110)      | (6,364)      | (961)          | (1,221)    |
| <b>TOTAL:</b>   | <b>1,421</b> | <b>4,131</b> | <b>1,375</b>   | <b>430</b> |

a) The subsidiary SIA LatRosTrans made a provision for VAT and excise tax calculated by tax authorities in relation to oil product losses previously stated as accounts receivable from tax authorities. The respective provision is made due to the Supreme Court ruling (see also Note 7).

b) Other accounts receivable of the Parent Company includes LVL 1,304 thousand representing a sum of advances paid for fixed assets and goods and receivable from SIA Pārventas Siltums, which were transferred to the subsidiary SIA Ventspils nafta termināls subsequently to year end.

A significant part of deferred VAT relates to VAT receivable on advance payment for construction works made by the subsidiary SIA LatRosTrans.

## 24. Prepaid expense

|                                       | Group        |              | Parent company |            |
|---------------------------------------|--------------|--------------|----------------|------------|
|                                       | 31/12/2003   | 31/12/2002   | 31/12/2003     | 31/12/2002 |
| Insurance                             | 1,457        | 1,262        | 98             | 854        |
| Overpayment to Ventspils Municipality | -            | 122          | -              | 122        |
| Other prepaid expense                 | 218          | 88           | 5              | 5          |
| <b>TOTAL:</b>                         | <b>1,675</b> | <b>1,472</b> | <b>103</b>     | <b>981</b> |

## 25. Short-term loan

|                                      |        |         |    |            | Group         |               |
|--------------------------------------|--------|---------|----|------------|---------------|---------------|
|                                      |        |         |    |            | 31/12/2003    | 31/12/2002    |
|                                      |        |         |    |            | Interest rate | Maturity      |
| Loan to a/s Latvijas Naftas Tranzīts | 10,596 | USD 000 | 5% | 31/12/2004 | 5,733         | 13,068        |
| <b>TOTAL:</b>                        |        |         |    |            | <b>5,733</b>  | <b>13,068</b> |

On 16 March 1998 the subsidiary SIA LatRosTrans issued a short-term loan of USD 17,000 thousand to a significant shareholder of its parent company. The loan, which matured on 16 March 1999, was secured by 6,000 thousand shares of a/s Ventspils nafta. The above shares, with nominal value of LVL 1 each, are closed issue shares (i.e. are not publicly traded). The pledge agreement also stipulated that the number of shares pledged might be changed if the market price of the respective shares significantly changes.

The above-mentioned loan and related collateral agreement were prolonged several times in 2000, 2001, 2002 and 2003 for one more year on the same terms whereas the collateral amount was increased. According to the respective loan agreement, the loan does not have a fixed repayment schedule and it bears an interest rate of 5% (changed in 2002) per annum payable quarterly.

As of 31 December 2003 the balance outstanding in respect of the above loan was USD 10,596 thousand (LVL equivalent 5,733 thousand) (2002: USD 22 000 thousand (LVL equivalent 13 068 thousand)). During 2002, the pledge amount has been increased to 31,200 thousand shares of a/s Ventspils nafta. The pledge is registered with the Latvian Enterprise Register.

As further disclosed in the Note 39, on 29 January 2004 and 28 April 2004 a/s Latvijas Naftas Tranzīts has partly repaid the loan by installments amounting to USD 1,754 thousand and USD 1,404 thousand, respectively.

## 26. Trading investments

|   | Group         |               | Parent company |               |
|---|---------------|---------------|----------------|---------------|
|   | 31/12/2003    | 31/12/2002.   | 31/12/2003.    | 31/12/2002    |
| Shares and GDR of JSC Latvijas kuģniecība (62.5 million shares and 1.5 million GDR) | 34,946        | 34,946        | 34,946         | 34,946        |
| Other shares  | 53            | 70            | 51             | 51            |
| <b>TOTAL:</b>   | <b>34,999</b> | <b>35,016</b> | <b>34,997</b>  | <b>34,997</b> |

The management of the Parent company considers that the shares of the joint stock company Latvian shipping company are traded in small volumes relative to the number of the trading units at the Parent company's possession, therefore the quoted market prices are not indicative of the fair value of the investment, therefore it was decided to carry the investment at cost value as at acquisition date.

The management of the Company is holding the negotiations regarding the possible trade of the investments.

## 27. Cash and cash equivalents

|                             | Group        |               | Parent company |              |
|-----------------------------|--------------|---------------|----------------|--------------|
|                             | 31/12/2003   | 31/12/2002    | 31/12/2003     | 31/12/2002   |
| Term deposits <sup>a)</sup> | 7,101        | 8,672         | 247            | 2,941        |
| Current bank accounts       | 1,169        | 1,392         | 213            | 814          |
| Accrued interest on deposit | 27           | 123           | -              | 123          |
| Cash on hand                | 33           | 24            | -              | 3            |
| <b>TOTAL:</b>               | <b>8,330</b> | <b>10,211</b> | <b>460</b>     | <b>3,881</b> |

a) The interest on bank account balances is accrued on the basis of floating rates established by respective banks. Short-term deposits are made for various periods ranging from one day to one month, depending on the Company's cash requirements. Interest on short-term deposits is calculated on the basis of the respective interest rates applicable to short-term deposits.

|                       |       |             |                | Effective interest rate (%)            | Maturity | 31/12/2003   |
|-----------------------|-------|-------------|----------------|--|----------|--------------|
| A/s Latvijas Unibanka | 8 010 | Thous., USD | 1,02% to 1,55% | 5 January 2004 through 30 January 2004 |          | 4 334        |
| A/s Latvijas Unibanka |       | Thous., LVL | 3,60% to 3,62% | 8 January 2004 through 14 January 2004 |          | 2 500        |
| A/s Hansabanka        |       |             | 0.25%          | Overnight deposits                     |          | 247          |
| Other                 |       |             |                |  |          | 20           |
| <b>TOTAL:</b>         |       |             |                |  |          | <b>7,101</b> |

## 28. Share capital, reserves and earnings per share

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

| In thousands   | Closed emission shares |                                     |                            |            | Public offering shares | Total          |
|--|------------------------|-------------------------------------|----------------------------|------------|------------------------|----------------|
|  | State shares           | A/s Latvijas naftas tranzīts shares | Board of Directors' shares | Own shares |                        |                |
| December 31, 2001  | 5,224                  | 38,657                              | 150                        | 150        | 60,298                 | <b>104,479</b> |
| Shares purchased by the Board members                                | -                      | -                                   | 90                         | (90)       | -                      | -              |
| December 31, 2002  | 5,224                  | 38,657                              | 240                        | 60         | 60,298                 | <b>104,479</b> |
| State shares purchased by a/s Latvijas Naftas tranzīts <sup>a)</sup> | (5,224)                | 5,224                               | -                          | -          | -                      | -              |
| Shares purchased from the former Board members                       | -                      | -                                   | (90)                       | 90         | -                      | -              |
| Shares purchased by the Board members                                | -                      | -                                   | 60                         | (60)       | -                      | -              |
| December 31, 2003  | -                      | 43,881                              | 210                        | 90         | 60,298                 | <b>104,479</b> |
| 31.12.2001.  | 5.00%                  | 37.00%                              | 0.145%                     | 0.145%     | 57.71%                 | <b>100.0%</b>  |
| 31.12.2002.  | 5.00%                  | 37.00%                              | 0.230%                     | 0.060%     | 57.71%                 | <b>100.0%</b>  |
| 31.12.2003.  | -                      | 42.00%                              | 0.201%                     | 0.086%     | 57.71%                 | <b>100.0%</b>  |

a) According to the letter dated 16 July 2003, a/s Latvijas Naftas Tranzīts informed the Parent Company on 5,224 thousand share transfer from the Republic of Latvia, represented by Latvian Privatization Agency, to a/s Latvijas Naftas Tranzīts according to the inseparable share package instalment purchase agreement dated 16 July 2003.

A/s Ventspils nafta possesses own ordinary shares without voting rights that should be acquired by the members of the Board of Directors.

All shares are authorized, issued and fully paid.

Earnings per share are calculated by dividing the net result for the period of LVL (9,270) thousand (2002: LVL 2,729 thousand) by weighted average number of shares during the year, adjusted by own shares, of 104,329 thousand (2002: 104,329 thousand).

According to the decision of the shareholders of a/s Ventspils nafta dated 30 July 2003, it has been decided to divide the 2002 net result of LVL 2,729 thousand as follows:

- transfer to restricted reserves LVL 1,806 thousand;
- remaining LVL 923 thousand distribute to dividends;
- in order to ensure, that there is paid dividend of LVL 0.01 per share, additionally distribute LVL 121 thousand in dividends from other reserves.

According to Latvian Law On Financial Statements of Companies, if the revaluation of investment in the subsidiary exceeds the paid dividends, the difference should be transferred to restricted reserve.

Net result after restricted reserves and dividends is allocated to other reserves and used for further development of the Company.

The nominal value of each share is LVL 1.

## 29. Provisions

|   | Group      |              | Parent company |              |
|---|------------|--------------|----------------|--------------|
|   | 31/12/2003 | 31/12/2002   | 31/12/2003     | 31/12/2002   |
| Balance at the beginning of the year:   | 5,698      | 4,568        | 3,607          | 4,568        |
| (Decrease) of provisions for completed treatment works <sup>a)</sup>          | (336)      | (961)        | (254)          | (961)        |
| Release of the provision for pier purification <sup>a)</sup>                  | (3,353)    | -            | (3,353)        | -            |
| Increase of the provision for piers purification <sup>a)</sup>                | 162        | -            | -              | -            |
| Increase in provisions for oil products compensation to clients <sup>b)</sup> | -          | 2,091        | -              | -            |
| Release of provisions for oil products compensation to clients <sup>b)</sup>  | (2,091)    | -            | -              | -            |
| Balance at the end of year:   | <b>80</b>  | <b>5,698</b> | <b>-</b>       | <b>3,607</b> |

a) Till 1 October 2004 the Parent company and after the date of restructuring the subsidiary SIA Ventspils nafta termināls performs the treatment of piers for purification from oil and oil products pollution at Ventspils port. After the reorganization, the Parent company released the remaining balance of the provision. Given that during the previous years the oil and oil products have accumulated at the piers and the subsidiary SIA Ventspils nafta termināls has taken over the function of oil and oil product reloading terminal from a/s Ventspils nafta, thus the provision needed for purification works has been established in SIA Ventspils nafta terminals accounts under the caption other operating expense.

b) Please see Note 7 Other operating income/ (expense), net.

### 30. Long-term loans from credit institutions

| <b>Current portion:</b>              | <i>Loan amount<br/>(thou )</i> | <i>Effective interest<br/>rate (%)</i> | <i>Maturity</i> | 31/12/2003   | 31/12/2002   |
|--------------------------------------|--------------------------------|--|-----------------|--------------|--------------|
| <u>A/s Preses nams</u>               |                                |  |                 |              |              |
| Loan from a/s Latvijas Unibanka      | LVL 1,985                      | 3 months Unibor<br>+ 2.3%              | 01.05.2004.     | 715          | 1,273        |
| Loan from a/s Latvijas Unibanka      | LVL 1,643                      | 3 months Unibor<br>+ 2.4%              | 28.02.2005.     | 361          | 361          |
| Loan from a/s Latvijas Unibanka      | LVL 165                        | 3 months Unibor<br>+ 3.0%              | 02.05.2003.     | -            | 79           |
| <u>SIA Ventspils nafta termināls</u> |                                |  |                 |              |              |
| A/s Latvijas Unibanka credit line    | USD 1,715                      | 1.90%                                  | 17.12.2004.     | 928          | -            |
| <b>TOTAL:</b>                        |                                |  |                 | <b>2,004</b> | <b>1,713</b> |

| <b>Non-current:</b>             | <i>Loan amount<br/>(thou.)</i> | <i>Effective interest<br/>rate (%)</i> | <i>Maturity</i> | 31/12/2003 | 31/12/2002 |
|---------------------------------|--------------------------------|--|-----------------|------------|------------|
| <u>A/s Preses nams</u>          |                                |  |                 |            |            |
| Loan from a/s Latvijas Unibanka | LVL 1,643                      | 3 months Unibor<br>+ 2.4%              | 28.02.2005.     | 90         | 451        |
| <b>TOTAL:</b>                   |                                |  |                 | <b>90</b>  | <b>451</b> |

To secure the loans received, the subsidiary a/s Preses nams has pledged the following assets:

- the loan in the amount of LVL 1,643 thousand has been secured by a mortgage of the subsidiary's a/s Preses nams real estate in Cēsis and pledge of production equipment purchased under the finance lease with the total net book value of LVL 3,287 thousand (2002: LVL 3,628 thousand) as at 31 December 2003;
- the credit line in the amount of LVL 1,985 thousand has been secured by pledging all trade accounts receivable and inventory.

Under the Agreement with a/s Unibanka, dated 18 December 2003, the bank has granted the subsidiary SIA Ventspils nafta termināls a credit line with the total limit of USD 3,600 thousand. As a security for the aforementioned credit line, the subsidiary SIA Ventspils nafta termināls has mortgaged its real estate located at Talsu iela 75, Ventspils.

Under the Agreement signed with a/s Hansabanka on 14 November 2003, the bank has granted the subsidiary SIA Ventspils nafta termināls a credit line with the total limit of USD 1,800 thousand. As a security for the aforementioned credit line, the subsidiary SIA Ventspils nafta termināls has pledged all of its fixed assets, except for the real estate, as well as all accounts receivable and inventories for the total amount of LVL 2,117 thousand.

### 31. Financial lease liabilities

|                           | Date of maturity | Lease amount (thou.) | Effective interest rate (%) | Non-current portion (thou LVL.) | Current portion (thou. LVL) | Net book value of lease items (thou. LVL) |
|---------------------------|------------------|----------------------|-----------------------------|---------------------------------|-----------------------------|---|
|                           |                  |                      | 3 months                    |                                 |                             |   |
| SIA Unifizings            | 15/01/2007       | 1,354 LVL            | Unibor + 1.95%              | 488                             | 235                         | 1,249                                     |
|                           |                  |                      | 3 months                    |                                 |                             |   |
| SIA Unifizings            | 25/08/2008       | 693 LVL              | Unibor + 1.95%              | 439                             | 119                         | 669                                       |
|                           |                  |                      | 3 months                    |                                 |                             |   |
| SIA Unifizings            | 25/08/2008       | 487 LVL              | Unibor + 1.95%              | 309                             | 84                          | 462                                       |
|                           |                  |                      | 3 months                    |                                 |                             |   |
| SIA Unifizings            | 25/07/2006       | 485 LVL              | Unibor + 1.95%              | 202                             | 133                         | 471                                       |
|                           |                  |                      | 3 months                    |                                 |                             |   |
| SIA Unifizings            | 25/06/2005       | 1,034 LVL            | Unibor + 3.0%               | 88                              | 177                         | 758                                       |
|                           |                  |                      | 3 months Rigibor            |                                 |                             |   |
| SIA Vereins Leasing       | 01/08/2005       | 158 LVL              | + 1.95%                     | 43                              | 43                          | 149                                       |
|                           |                  |                      | 3 months Rigibor            |                                 |                             |   |
| SIA Vereins Leasing       | 01/12/2005       | 87 LVL               | + 1.95%                     | 23                              | 23                          | 21  |
|                           |                  |                      | 3 months Rigibor            |                                 |                             |   |
| SIA Nordea Finance Latvia | 30/11/2006       | 21 LVL               | + 1.75%                     | 5                               | 3                           | 8   |
|                           |                  |                      | 6 months                    |                                 |                             |   |
| SIA Hansa LIZings         | 15/07/2004       | 3,225 EUR            | Eurobir + 2.9%              | -                               | 128                         | 687                                       |
|                           |                  |                      | 3 months                    |                                 |                             |   |
| SIA Unifizings            | 10/08/2004       | 263 LVL              | Unibor + 3.0%               | -                               | 45                          | 263                                       |
| <b>Total 31/12/2003</b>   |                  |                      |                             | <b>1,597</b>                    | <b>990</b>                  | <b>4,737</b>                              |
| <b>Total 31/12/2002</b>   |                  |                      |                             | <b>1,236</b>                    | <b>786</b>                  | <b>4,462</b>                              |

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

|  | Non-current portion (thousand) | Current portion (thousand) |
|--|--------------------------------|----------------------------|
| Total minimum lease payments                   | 1,728                          | 1,106                      |
| Less amounts representing finance charge       | (131)                          | (116)                      |
| <b>Present value of minimum lease payments</b> | <b>1,597</b>                   | <b>990</b>                 |

All lease agreements are with maturity date within five years' period.

### 32. Accrued liabilities

|   | Group        |              | Parent company |              |
|---|--------------|--------------|----------------|--------------|
|   | 31/12/2003   | 31/12/2002   | 31/12/2003     | 31/12/2002   |
| Accrued vacation pay reserve                              | 328          | 426          | 25             | 174          |
| Accrued expenses for transit development                  | 249          | -            | -              | -            |
| Social security contributions (Note 33)                   | 194          | 227          | 10             | 116          |
| VAT payable (Note 33)                                     | 181          | 110          | 167            | -            |
| Remuneration for work                                     | 139          | 919          | 35             | 567          |
| Personal income tax (Note 33)                             | 130          | 201          | 13             | 114          |
| Accrued insurance expense for former members of the Board | 77           | 380          | 77             | 380          |
| Accrued bonuses and related social security contributions | 72           | 122          | 3              | 81           |
| Accrued electricity expenses                              | 61           | -            | -              | -            |
| Accrued Rīgas Līcis reconstruction expenses               | 32           | -            | -              | -            |
| Real estate tax (Note 33)                                 | 25           | 8            | -              | 3            |
| Natural resources tax (Note 33)                           | 2            | 3            | -              | 2            |
| Accrued expense for pipeline diagnostics                  | -            | 237          | -              | -            |
| Other accrued liabilities                                 | 279          | 566          | 54             | 62           |
| <b>TOTAL:</b>   | <b>1,769</b> | <b>3,199</b> | <b>384</b>     | <b>1,499</b> |

### 33. Taxes

| Parent company                     | 31/12/2003   | Calculated     | Paid         | (Refunded)     | 31/12/2002   |
|------------------------------------|--------------|----------------|--------------|----------------|--------------|
| Social security contributions      | (10)         | (1,205)        | 1,365        | (54)           | (116)        |
| Personal income tax                | (13)         | (916)          | 1,017        | -              | (114)        |
| Corporate income tax <sup>a)</sup> | (548)        | (1,891)        | 1,343        | (3,339)        | 3,339        |
| Value added tax                    | (167)        | (342)          | 629          | (729)          | 275          |
| Real estate tax                    | 4            | (843)          | 850          | -              | (3)          |
| Nature resource tax                | -            | (10)           | 12           | -              | (2)          |
| <b>TOTAL:</b>                      | <b>(734)</b> | <b>(5,207)</b> | <b>5,216</b> | <b>(4,122)</b> | <b>3,379</b> |

a) The calculated and paid amount includes LVL 13 thousand withholding tax.

Due to the effective Latvian tax legislation, the corporate income tax according to a specific calculation is paid in advance. After the year end, when the actual tax has been calculated, corporate income tax payable or overpayment is determined.

The movement of taxes calculated/paid is prepared in accordance to Latvian legislation and the disclosure of tax movement form the Group is not relevant.

### 34. Contingent liabilities

#### **Customs and value added tax payable**

As described in Note 7, in 2002, the Customs Control Department performed an audit of the compliance of the transit procedure in the subsidiary SIA LatRosTrans for the years ended 31 December 2001 and 2000. As a result, the authorities imposed customs duties payable in respect of the excise tax and value added tax for the year ended 31 December 2001 amounted to LVL 883 thousand and for the year ended 31 December 2000 – to LVL 325 thousand. The claims for additional tax payments were made in respect of oil product losses based on the assumption that oil products, that the subsidiary SIA LatRosTrans has accounted as lost, have to be treated as subsidiary's SIA LatRosTrans own import of oil products released for free circulation in accordance with Law on Customs. In accordance with the prudence principle, the subsidiary SIA LatRosTrans has established a provision for the full amount of the claim in relation to the duties related to year 2000 and 2001.

The subsidiary SIA LatRosTrans settled the duties as described above and at the same time challenged State revenue service decisions in court. The court verdict in relation to the year 2000 was completed by the highest court institution in Latvia and was unfavorable to the subsidiary SIA LatRosTrans. The verdict issued by the Senate is final and cannot be appealed. The subsidiary SIA LatRosTrans is expecting a court ruling in October 2004 to determine whether the Latvian Tax Authorities must cancel their claim for additional taxes related to 2001. This ruling can be used to determine the appropriate tax treatment of physical losses also for the years 2002 and 2003. The management and the Council of a/s Ventspils nafta and the subsidiary SIA LatRosTrans strongly believes that the ruling will be in favor of the subsidiary SIA LatRosTrans and has therefore not recorded any provisions in these financial statements in respect of such additional taxes related to year 2002 and 2003.

Subsequently to the year end the Customs Control Department performed an audit of the compliance of the transit procedure in the subsidiary SIA LatRosTrans for the year ended 31 December 2002. As a result, the authorities imposed customs duties payable in respect of the excise tax and value added tax for the year ended 31 December 2002 amounted to LVL 757 thousand and LVL 305 thousand respectively and 100% penalties amounting to LVL 1,062 thousand. The subsidiary SIA LatRosTrans settled the duties and related penalties as described above and at the same time has submitted claim to the State revenue service for appeal. In case if the decision made by State revenue service will be negative to the subsidiary SIA LatRosTrans, the subsidiary SIA LatRosTrans will initiate the court case against State revenue service.

However, if the Supreme Court Senate ruling is unfavorable for the subsidiary SIA LatRosTrans, the subsidiary SIA LatRosTrans is subject to liability in respect of excise tax and value added tax arising from the losses of oil products during all years following 2001. During the years 2002 and 2003, the actual oil product losses amounted to 22 and 37 thousand tons, respectively. Accordingly, as at 31 December 2003, the potential additional tax liability (including 100% tax penalties) is estimated to be approximately LVL 17 million. As described above the management and the Council of a/s Ventspils nafta and the subsidiary SIA LatRosTrans strongly believes that the court ruling in relation to year 2001 will be in favor of the subsidiary SIA LatRosTrans and as such the positive outcome in relation to year 2001 is sufficient not to incur tax duties related to subsequent years. Therefore the subsidiary SIA LatRosTrans has not recorded any provisions in these financial statements in respect of such additional taxes related to year 2002 and 2003.

#### **Commitments for capital expenditure**

As at 31 December 2003, the subsidiary SIA LatRosTrans had entered into general agreements on construction works amounting to LVL 73,784 thousand, providing that the construction works will be carried out in several stages. The subsidiary SIA LatRosTrans is entitled to renounce the agreement prior to the commencement of the next construction stage.

Total commitments for capital expenditure under contracts in the Group as of 31 December 2003 are LVL 8,992 thousand (2002: LVL 17,746 thousand).

|                     | Group        |               | Parent company |              |
|---------------------|--------------|---------------|----------------|--------------|
|                     | 31/12/2003   | 31/12/2002    | 31/12/2003     | 31/12/2002   |
| Concludes contracts | 19,806       | 43,991        | -              | 10,867       |
| Prepayments made    | (5,154)      | (12,301)      | -              | -            |
| Finished works      | (5,660)      | (13,944)      | -              | (7,231)      |
| <b>TOTAL:</b>       | <b>8,992</b> | <b>17,746</b> | <b>-</b>       | <b>3,636</b> |

The above general agreements comprise commitments in the amount of 29,475 to SIA Baltijas Inženierbūve for the design and construction of a pipeline looping. The construction is planned to be carried out in several stages, and the costs for 2004 are planned for the amount of LVL 2,866 thousand.

### 34. Contingent liabilities (cont'd)

According to the Council decision as of 30 June 2004 in the nearest future the subsidiary SIA LatRosTrans will revise its long term investment plans so that it would be able to full fill cash outflow obligations related to the consequences in relation to excessive oil product losses, if any.

On 13 August 2003 the subsidiary SIA Rīgas Līcis VN has signed an agreement with SIA Skonto Būve on the reconstruction works for hospitality building in Jurmala. According to the agreement the total value of reconstruction works amounted to LVL 3.9 million. The agreement provides for 10% from contract value penalties payable to construction company in case of termination of the agreement. At the end of 2003 reconstruction works have been temporary ceased with the approximate value of unfinished construction works of LVL 3.4 million. The subsidiary SIA Rīgas Līcis VN has reached an agreement with SIA Skonto Būve that no penalties are due till 1 January 2005, at which date either reconstruction works should continue or new agreement with SIA Skonto Būve should be reached.

### Payments to local authorities

Under the agreement between SIA Ventspils nafta termināls and Ventspils City Council dated 19 September 2003, on transportation of oil and oil products via Ventspils city, and supplementary agreement thereto, dated 8 December 2003, SIA Ventspils nafta termināls undertakes to transfer the following amounts to Ventspils City Council to satisfaction of the city's social infrastructure needs:

In 2004 - LVL 800 thousand plus the amount not exceeding 1% of the forecasted net turnover of SIA Ventspils nafta termināls for the current year;

In years 2005, 2006 and 2007: LVL 700 thousand each year, plus the not exceeding 1% of the forecasted net turnover of SIA Ventspils nafta termināls for the current year;

Prior to the date of signing these financial statements, SIA Ventspils nafta termināls has executed payments for the year 2004, in total amounting to LVL 400 thousand.

### Litigation

The subsidiary SIA Mediju nams is involved in several litigation processes regarding slander admitted in its publications. The major are the claim of Arnolds Laksa amounting to LVL 100 thousand and the claim of Andris Mitkus where the claimed compensation amounts to LVL 150 thousand. The total amount of the rest of the claims is LVL 28 672.

### 35. Off balance sheet assets

#### Oil and oil products

Basing on the physical inventory counts of oil and oil products the company has 31 thousand tons of oil and 11 thousand tons of oil products not accounted on the Company's balance sheet. Currently the company is clarifying the legal aspects for recognizing the assets in its balance sheet. The approximate market value of the not accounted assets based on the average market prices on 11 July 2004 (356\$/ton for oil products and 273\$/ton for oil) is LVL 10.9 million.

#### A/s Ventspils nafta shares

As of the date of signing this annual report the subsidiary SIA LatRosTrans held 31,200 thousand shares of a/s Ventspils nafta as security for the loan issued to a significant shareholder of the Parent company. The above shares, with a nominal value of LVL 1 each, are closed issue shares (i.e., are not publicly traded). The pledge is registered with the Latvian Enterprise Register (see also Note 25).

#### Tax rebate

According to the decision of the Cabinet of Ministers No. 613, dated 30 October 2002, the subsidiary SIA LatRosTrans has been granted a tax rebate of 40% of the planned investment value or LVL 4,166 thousand to reduce corporate income tax for the purpose of supporting the investment projects amounting to LVL 10,415 thousand. The subsidiary SIA LatRosTrans can use the rebate against future taxable profit, if it fulfils the above mentioned investment plan within the period 17 July 2000 through 31 December 2004. By the end of year 2003 the Company has completed investments according to the business plan submitted to the government institutions.

### 36. Political risks

In 2003, a/s Ventspils nafta and SIA Ventspils nafta termināls have operated under continuous impact of adverse external pressure, mainly imposed by the administrative resolutions of the Russian oil piping monopoly Transneftj and the Russian Federal Energy Commission. The aforementioned resolutions were aimed at not allowing Russian oil exports via Ventspils transit corridor and directing of as much exports as possible via Primorsk oil terminal owned by AK Transneftj. Due to the aforementioned reasons no oil transportation via pipelines has been preformed in the last year.

### 37. Related party transactions

In providing and receiving the services from the related parties the pricing policy of the Group is the same as the transactions would have been performed with third parties.

For the purpose of these financial statements, the entities that are part of the a/s Ventspils nafta Group, i.e., SIA Ventspils nafta termināls, SIA LatRosTrans, a/s Preses nams, SIA Mediju nams, SIA Rīgas Līcis VN, a/s Rietumu cauruļvadu sistēma, SIA under liquidation Nafta Holdings and its associated companies SIA Mediji un Poligrāfija and SIA Ventshoes, SIA Nekustamie īpašumi VN and its subsidiaries SIA Darījumu centrs Daugava, SIA Namserviss VN, SIA Ventspils Biznesa Centrs, SIA Maikapara nams, SIA Pārventas Sporta Centrs and SIA Lejastiežumi, are considered to be related entities of the Parent company. In addition, significant shareholders of a/s Ventspils nafta i.e. a/s Latvijas naftas tranzīts and its significant shareholder a/s Ventbunkers, including its subsidiaries and associated entities, and the state of Latvia are considered related parties to the Group.

As is described in Note 25, the subsidiary SIA LatRosTrans has issued a loan to a major shareholder of a/s Ventspils nafta – a/s Latvijas naftas tranzīts. During the reporting the subsidiary SIA LatRosTrans has recorded interest income for the a/s Latvijas naftas tranzīts loan in the amount of LVL 483 thousand (2002: LVL 784 thousand).

Based on a co-operation agreement concluded between a/s Ventspils nafta, a/s Ventbunkers and SIA LatRosTrans, a/s Ventspils nafta on reloading diesel fuel, revenues were generated for a/s Ventspils nafta in the amount of LVL 675 thousand (2002: LVL 143 thousand). After restructuring on 1 October 2003, the above mentioned agreement was signed by subsidiary SIA Ventspils nafta termināls, which generated revenue in the amount of LVL 250 thousand for the last quarter of 2003.

During the reporting year a/s Ventspils nafta has been charged LVL 765 thousand (2002: LVL 1,362 thousand) by a/s Ventbunkers for treatment of technological waste water. After restructuring on 1 October 2003, the subsidiary SIA Ventspils nafta termināls has been charged LVL 136 thousand by a/s Ventbunkers for treatment of technological waste water.

During the reporting period a/s Ventspils nafta has been charged LVL 841 thousand (2002: LVL 1,382 thousand) by a/s Ventbunkers for utilisation of piers rented by a/s Ventbunkers. After restructuring on 1 October 2003, the subsidiary SIA Ventspils nafta termināls has been charged LVL 137 thousand by a/s Ventbunkers for utilisation of piers rented by a/s Ventbunkers.

During the year ks Ventbunkers loģistika k/s charged a/s Ventspils nafta for railway and information services in aggregate amount of LVL 1,352 thousand (2002: LVL 509 thousand). After restructuring on 1 October 2003, ks Ventbunkers loģistika k/s charged the subsidiary SIA Ventspils nafta termināls for railway and information services in aggregate amount of LVL 156 thousand. Accounts payable to ks Ventbunkers loģistika k/s per subsidiary's SIA Ventspils nafta termināls accounts as of 31 December 2003 amounted to LVL 67 thousand.

During the year a/s Ventspils nafta has charged ks Ventspils ekspedīcija loģistika KS for reserving, transporting and reloading of oil and oil products for the amount of LVL 13,390 thousand (2002: LVL 1,150 thousand). Subsequent to the restructuring of 1 October 2003, the above agreement has been novated by SIA Ventspils nafta termināls, and for the 4<sup>th</sup> quarter of year 2003 SIA Ventspils nafta termināls invoiced the limited partnership Ventspils ekspedīcija loģistika KS for the storage, transportation and reloading of oil and oil products for the amount of LVL 1,445 thousand.

During the year a/s Ventspils nafta has been charged LVL 375 thousand (2002: LVL 451 thousand) by SIA Vats for electricity. After restructuring on 1 October 2003, the subsidiary SIA Ventspils nafta termināls has been charged LVL 94 thousand by SIA Vats for electricity. Accounts payable to SIA Vats per subsidiary's SIA Ventspils nafta termināls accounts as of 31 December 2003 amounted to LVL 30 thousand.

During the year a/s Ventspils nafta has been acting as intermediary between SIA Ventspils Ekspedīcija, that is a related party to a/s Ventbunkers and one of Parent company's major clients Transoilsystems (UK) Ltd. for transportation of oil by pipeline from Polocka to Mažeiki. The total amount of invoices received from SIA Ventspils Ekspedīcija and re-charged to Transoilsystems (UK) Ltd. for 2003 amounted to LVL 5,029 (2002: LVL 5,068). The intermediary transaction is not included in the Group's turnover. After restructuring on 1 October 2003, the subsidiary SIA Ventspils nafta termināls took over the intermediary functions and the total amount of invoices received from SIA Ventspils Ekspedīcija and re-charged to Transoilsystems (UK) Ltd. for last quarter of 2003 amounted to LVL 1,038 thousand. Accounts payable to SIA Ventspils Ekspedīcija per subsidiary's SIA Ventspils nafta termināls accounts as of 31 December 2003 amounted to LVL 560 thousand.

During the reporting year the subsidiary SIA LatRosTrans has performed transactions with SIA Ventspils ekspedīcija that was a major customer of the subsidiary SIA LatRosTrans. Accounts receivable from SIA Ventspils ekspedīcija per the subsidiary SIA LatRosTrans accounts as of 31 December 2003 amounted to LVL 1,026 thousand (2002: LVL 929 thousand). The total turnover with SIA Ventspils ekspedīcija during the reporting year was LVL 12,932 thousand (2002: LVL 16,751 thousand).

Based on the security agreement concluded between the subsidiary SIA LatRosTrans and SIA Venta (a subsidiary of a/s Ventbunkers), the subsidiary SIA LatRosTrans has been charged for security services rendered by SIA Venta in the amount of LVL 850 thousand in 2003 (2002: LVL 800 thousand).

### **38. Financial instruments**

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

#### ***Credit risk***

The Parent company and the Group is exposed to credit risk through trade receivables, long-term and short-term loans and cash and cash equivalent. The Group's cash equivalents have been invested in highly secure financial institutions. Accounts receivable of the Parent company and the Group are stated net of the allowances for doubtful debts.

As of 31 December 2003, the subsidiary SIA Ventspils nafta termināls credit risk concentration to a single customer amounted to 76% of total trade receivables.

As of 31 December 2003, the subsidiary's SIA LatRosTrans credit risk concentration to a single customer amounted to 99.7% of total trade receivables (2002: 91%).

The subsidiaries a/s Preses nams and SIA Mediju nams 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 subsidiary's a/s Preses nams and SIA Mediju nams exposure to bad debts is minimised. The subsidiary a/s Preses nams and SIA Mediju nams has no significant concentration of credit risk with any single customer or group of customers having similar characteristics.

#### ***Foreign currency risk***

The Group's financial assets and liabilities exposed to foreign currency risk comprise cash and cash equivalents, trade receivables, prepayments for construction, short-term loans, trade payables, long term loans payable to financial institutions and leasing companies.

The Parent company financial assets and liabilities exposed to foreign currency risk comprise of cash and cash equivalents, trade receivables and prepayments for construction. The Parent company is mainly exposed to foreign currency risk of U.S. dollars.

The subsidiary SIA LatRosTrans's financial assets and liabilities exposed to foreign currency risk comprise of cash and cash equivalents, trade receivables, prepayments for construction, short-term loans and trade payables. The subsidiary is mainly exposed to foreign currency risk of U.S. dollars.

The Parent company and subsidiaries do not use any financial instruments to manage their exposure to foreign currency risk.

#### ***Interest rate risk***

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

Management believes that the exposure to interest rate risk of financial assets and liabilities as of 31 December 2002 was minimal as their deviation from their respective fair values was not significant.

#### ***Liquidity risk***

As of 31 December 2003, the Group does not have significant liquidity risk, except for as described in the Note 40.

#### ***Fair value***

The carrying amounts of 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.

### 39. Subsequent events

In the period from February to May 2004, the subsidiary SIA Ventspils nafta termināls has purchased from a/s Ventspils nafta real estate and other fixed assets, which previously have been rented and for which rent agreement matured on 31 March 2004. The following agreements have been signed:

- On 27 February 2004 for purchase of the real estate located at Sūņu iela 3, Ventspils at the price of LVL 39;
- On 31 March 2004 for purchase of real estate located at Dzintaru iela 90E, Ventspils for the price of LVL 35 thousand;
- On 25 May 2004 for purchase of real estate located at Talsu 75E, Ventspils for the price of LVL 6,247 thousand;
- On 25 May 2004 for purchase of fixed assets for the total price of LVL 13,742 thousand.

According to the above mentioned agreements, dated 25 May 2004, for the total amount of LVL 19,989 thousand, the payments should be started on 10 January 2006, and are repayable by 31 March 2014.

In accordance with the agreement with a/s Ventspils nafta, dated 26 May 2004, the subsidiary SIA Ventspils nafta termināls will also have to compensate the additional advances paid transferred to the balance sheet of the subsidiary's SIA Ventspils nafta termināls, amounting to LVL 1 523 thousand, including VAT. The payments should be started on 10 January 2006 and are repayable by 31 March 2014.

On 1 July 2004, the Council of a/s Ventspils nafta passes the resolution on increase of the share capital of subsidiary SIA Ventspils nafta termināls by LVL 23,369 thousand, or 233,694 shares through capitalisation of the debt for the sale of fixed assets and paid advances to SIA Ventspils nafta termināls.

On 29 January 2004 and 28 April 2004 a/s Latvijas Naftas Transīts has partly repaid the loan to the subsidiary a/s LatRosTrans by installments amounting to USD 1,754 thousand and USD 1,404 thousand, respectively.

Subsequently to the year end the Customs Control Department performed an audit of the compliance of the transit procedure in the subsidiary a/s LatRosTrans for the year ended 31 December 2002. As a result, the authorities imposed customs duties payable in respect of the excise tax and value added tax for the year ended 31 December 2002 amounted to LVL 757 thousand and LVL 305 thousand respectively and 100% penalties amounting to LVL 1 062 thousand. The subsidiary a/s LatRosTrans settled the duties and related penalties as described above and at the same time has submitted claim to the State revenue service for the appeal. In case if the decision made by State revenue service will be negative to the subsidiary a/s LatRosTrans, the subsidiary a/s LatRosTrans will initiate the court case against State revenue service (see also Note 34).

On 14 July 2004 the Company received the notification from Customs Control Department on the inspection of transit procedure compliance for year 2003.

In the period from 1 January 2004 to 30 June 2004, the subsidiary a/s LatRosTrans incurred losses of oil products, which exceeded the rate for wastages agreed with the clients (0.15% of total transported volume) by approximately 11 thousand tons.

On 1 October 2003, the Group company SIA Ventspils Biznesa centrs purchased the real estate at 23 Ostas iela, Ventspils. As a result of the real estate purchase, the SIA Ventspils Biznesa centrs had value added tax receivable in the amount of LVL 671 thousand. As at 31 December 2003, the Company had recovered LVL 488 thousand of the above receivable. The outstanding amount of LVL 183 thousand was recovered on 13 April 2004.

In 2004, SIA Mediju names discontinued the issue of the newspaper Vecherniaya Riga, and sold the copyrights thereto.

Due to the restructuring of the Group which took place at the end of 2003, the functions of SIA Nafta holdings under liquidation were taken over by a/s Ventspils nafta. On 3 November 2003, the board of a/s Ventspils nafta resolved to exercise the pre-emptive rights of the company and to purchase the 2% of shares held in SIA nafta holdings by Ventspils City Council, and thus becoming the sole shareholder of the said company, to start its liquidation process. On 6 February 2004, a/s Ventspils nafta was registered with the Commercial Register as a sole shareholder of SIA Nafta holdings, and on 13 February 2004 passed the resolution on commencement of SIA Nafta holdings liquidation, which was accordingly registered with the Commercial Register on 20 February 2004. In its letter dated 22 June 2004, a/s Ventspils nafta has confirmed that after the liquidation of SIA Nafta holdings, during 2004, it will take over the investments of SIA Nafta holdings in the associated companies SIA Mediji un Poligrāfija and SIA Ventshoes at their audited book value of LVL 66 thousand and 96 thousand, respectively, as at 31 December 2003.

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.

#### 40. Going concern of the subsidiaries

SIA Mediju nams closed the year 2003 with the loss of LVL 1,222 thousand, and had negative cash flows from the operating activities. Substantial losses are as well budgeted for the year 2004. In order to provide the required financing for SIA Mēdiju nams operations, the said company in March and April 2004 entered the loan agreement with its major shareholder a/s Ventspils nafta for the total amount of LVL 300 thousand. The management of SIA Mediju nams believes that with continuation of its operations, development of the existing and establishment of new publishing issues, the cash flow in 2004 can be improved. However, the above mentioned factors require additional sources of financing. According to the estimates of SIA Mediju nams management, the company would require additional financing for its further operations. A/s Ventspils nafta, the sole shareholder of SIA Mediju nams, has confirmed in its letter of support, that it will provide the adequate financing to SIA Mediju nams to ensure continuation of its operations at least until 31 December 2004.

The subsidiary's SIA Ventspils nafta termināls shareholder a/s Ventspils nafta has provided a letter of financial support dated 10 June 2004, confirming that where the subsidiary SIA Ventspils nafta termināls is not able to make payments for the lease of tangible fixed assets according to the agreed schedule, a/s Ventspils nafta will extend the payment term according to the situation, in order not to cause financial liquidity issues to the subsidiary SIA Ventspils nafta termināls. A/s Ventspils nafta has also confirmed that it will provide the subsidiary SIA Ventspils nafta termināls with additional financing for continuing its operations in the foreseeable future, if necessary.

As described before the subsidiary a/s LatRosTrans in 2003 has incurred substantial losses due to physical losses of oil products and due to the decision of AK Transneft to suspend transportation of crude oil to Ventspils terminal through the subsidiary's a/s LatRosTrans pipeline. The management and the Council of the subsidiary a/s LatRosTrans believes that the current situation is temporary and is taking actions aimed at renewing the delivery of crude oil to Ventspils terminal and also to reduce excessive oil product losses and related tax consequences. Should the current situation become permanent and oil product losses cannot be prevented financial support for the subsidiary a/s LatRosTrans might be needed. The subsidiary a/s LatRosTrans has obtained a guarantee from its majority shareholder a/s Ventspils nafta dated as of 30 June 2004 should financial support be needed for the subsidiary a/s LatRosTrans to meet its financial obligations as they fall due.